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Ceylon Banking
Commission

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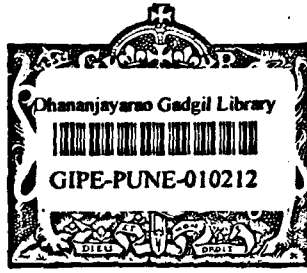
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CEYLON.



SESSIONAL PAPER XXII.—1934.

Ceylon Banking Commission.

VOLUME I.

REPORT.

DECEMBER, 1934.

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1934.

PART I.

THE COMMISSION.

In the Name of His Majesty GEORGE THE FIFTH, by the Grace of God of Great Britain, Ireland and the British Dominions beyond the Seas King, Defender of the Faith, Emperor of India.

By His Excellency Sir REGINALD EDWARD STUBBS, Knight Grand Cross of the Most Distinguished Order of Saint Michael and Saint George, Governor and Commander-in-Chief in and over the Island of Ceylon and its Dependencies.



R. E. STUBBS.

To:—

Sorabji Nusserwanji Pochkhanawala, Esquire,
Sir Hilarion Marcus Fernando, M.D.,
Dr. Samuel Chelliah Paul, F.R.C.S.

GREETING.

WHEREAS We deem it expedient that a Commission should issue to inquire into and report upon the existing conditions of banking and credit in Ceylon and to consider the steps, if any, that are feasible and desirable in respect of the provision of banking and credit facilities for—

- (a) Agriculture,
- (b) Industry,
- (c) Trade,

and also to make recommendations regarding the desirability of establishing a State-aided Bank and sound local banks.

NOW know Ye that We, the said Governor, reposing great trust and confidence in your prudence, ability, and fidelity, have, in pursuance of the powers in Us vested by the Ordinance No. 9 of 1872, and by Article 93 of the Ceylon (State Council) Order in Council, 1931, nominated, constituted, and appointed, and by these Presents do nominate, constitute and appoint you Sorabji Nusserwanji Pochkhanawala, Hilarion Marcus Fernando, and Samuel Chelliah Paul to be Our Commissioners for the purposes aforesaid, with authority to exercise all the powers which Commissioners appointed under the said Ordinance may lawfully use and exercise.

And We do hereby nominate, constitute and appoint you, Sorabji Nusserwanji Pochkhanawala to be the Chairman of the said Commission.

And We do further hereby authorize and empower you, Our said Commissioners, to make all necessary inquiries in the said matter, and to report to Us under your hands, as early as possible, upon the matters referred to you as aforesaid.

And We request and require all public officers and other persons to whom you may apply for such information or advice as may properly be given to be assistant to you in your inquiries.

Given at Nuwara Eliya, under the Seal of this Island, this Twenty-fourth day of April, in the year of Our Lord, One thousand Nine hundred and Thirty-four.

By His Excellency's command.

C. C. WOOLLEY,
Secretary to the Governor.

REPORT OF THE CEYLON BANKING COMMISSION.

To:—

His Excellency Sir REGINALD EDWARD STUBBS, Knight Grand Cross of the Most Distinguished Order of Saint Michael and Saint George, Governor and Commander-in-Chief in and over the Island of Ceylon and its Dependencies.

MAY IT PLEASE YOUR EXCELLENCY

We, the Commissioners appointed by Your Excellency to inquire into and report upon the existing conditions of banking and credit in Ceylon, have the honour to submit our report.

We started our work on Monday, April 30, 1934, and have held 56 meetings. Representatives of Government, public bodies, associations, and individuals were invited to appear before us, and in the course of the hearings much valuable information was obtained. A record of the evidence is given in Volume II. of our report and the Memoranda from several organizations and persons interested in trade, industry, and agriculture received by us are also included in the same volume.

We are glad to state that we are unanimous in our findings and our recommendations.

REPORT OF THE CEYLON BANKING COMMISSION.

CHAPTER I.

HISTORY OF THE INQUIRY.

THE social and economic conditions of a progressive community constantly alter and develop; and its banking system, which forms an essential part of the economic structure of the country, must continually adjust itself to the changing conditions. The ability of the banking system to achieve such adjustments depends partly upon the elasticity of its structure and partly upon the rate of change in the economic environments. Whenever the banking system is unable, for some reason or the other, to adapt itself to progressive conditions, discontent prevails in the country, and this generally results in a demand for a public inquiry regarding the adequacy or otherwise of the existing banking system.

Changing conditions necessitate inquiry into methods of adjustment.

2. Up to the close of the last century, the banking and credit facilities in Ceylon available to the public, which were directly a product of a financial structure evolved to suit the conditions of a pioneer agricultural country dependent upon non-indigenous capital, were reasonably satisfactory. In the following decade, however, while capital development in the major industries grew apace, the need for better agencies for rural credit began to be felt. It was during this period that the first attempts were made to institute agricultural banks, now better described as Co-operative Credit Societies.

Origin of banking inquiry.

3. The next decade was an era of rapid changes in the economic sphere. The upheaval of the war disturbed the balance of economic power as between the various industries, and revealed the inherent weakness of the economic structure of a country whose material prosperity depended on the welfare of a few staple agricultural industries catering entirely for an export market. At the same time, a public, buoyed by the acquisition of a measure of political power, aspired to achieve a similar measure of freedom in the economic sphere.

Rapid changes and acquisition of political power stimulate desire for economic freedom.

4. It was considered essential for the attainment of this goal of economic freedom that the public should have adequate financial assistance, so as to enable indigenous capital and enterprise to participate more actively in the trade and industries of the country, and, in particular, to cultivate and expand the home market in preference to the export markets. The prevailing banking system primarily designed to foster economic development by requisitioning the aid of non-indigenous capital and enterprise proved to be ill-adapted, by the very nature of its structure, to offer such facilities.

Existing financial system ill-adapted to indigenous economic development.

5. The analysis of the then existing economic situation by the Committee of 1920, which was appointed to consider and report on the desirability and feasibility of establishing State Banks for financing agriculturists and cultivators, is so important as to deserve reproduction (Sessional Paper III. of 1920)—

Committee of 1920.

“Agriculturists in Ceylon, as in all other countries, are in need of credit. They have the greater part of their capital locked up in their land and often have not sufficient spare capital with which to effect development, erect buildings and purchase stock. The Ceylon agriculturists may be classified for convenience into three classes; (1) the large estate owner; (2) the small owner; (3) the village cultivator.”

Financial position of the agriculturists.

"The large estate owner is usually well to do, and can readily secure private mortgages against his properties. He is rarely interested in the production of foodstuffs, except on a small scale for his labour force or upon ancestral lands by the aid of, and for the use of, his tenants. Evidence shows that the large estate owner is in need of greater banking facilities. At present banking transactions are limited to a few centres, and he or his agent has to make long journeys to those centres to secure cash with which to make his payments. Every important agricultural district requires a local bank. Such banks will, in our opinion, afford opportunities for profitable business."

"The small owner may be an individual who is endeavouring to develop an estate in tea, rubber, coconuts or tobacco with food crops, as intercrops or catch crops, or he may be an individual who has acquired areas of paddy lands which he is endeavouring to develop either with hired labour or more usually upon the share system. He requires credit for two purposes; long credit for the purpose of enabling him to tide over the years of development and of constructing residences and other buildings; and short credit for his maintenance or the maintenance of his labourers during the time that crops are growing. The small owner deserves every encouragement, particularly as it is one of the surest means of aiding the economic development of the colony and of reducing the struggle for existence in the towns and cities already becoming noticeable. At present this class of landowner has to resort to the private money-lender, and not infrequently to the usurer. He has to pay high rates of interest upon his loans, in addition to comparatively high charges, if the loan is a small one for investigation, preparation of deeds and stamp duty. His requirements are easier means of securing credit, lower rates of interest and terms which are equitable to the nature of the enterprise."

"The village cultivator requires small short period loans for current needs and sometimes, but more rarely, long term loans for permanent improvements. The first necessity is cheap credit for current transactions. His assets are his lands and the value of his labour. He requires facilities to secure loans which shall be repayable when the crops—the products of his labours—have been reaped. The loans required by the village cultivator for current requirements range from Rs. 50 to Rs. 100 whilst requirements for investments are for frequent small sums spread over a series of years. If formalities and inquiries for drawing up individual mortgage bonds were to be necessary in the case of loans to village cultivators, the expenses would be too high in relation to the rate of interest on the loan. The time occupied with the inquiries would likewise defeat the whole object of the loan. It, therefore, seems to be most desirable that the formation of credit societies or loan associations should be encouraged amongst village cultivators in all districts as far as possible."

Conclusions of
Committee of 1920.

Scope for Private
Banking
Institutions with
numerous Branches.

6. The Committee after mature consideration arrived at the following conclusions:—

- (1) "One Central State Bank dealing in mortgages and other business pertaining to a land bank would be unable to meet the requirements of the whole Island. (It would require a very large staff and would not be able to get into sufficiently close touch with the

borrower throughout the country without expensive inquiries. In the absence of any such organization, it is, however, desirable to provide for a central supervising organization over loans from State funds.) On the other hand there appears to be scope for a private banking institution with numerous branches which would carry on the work of a land bank, as well as perform ordinary banking business in the rural districts."

- (2) "The ordinary banking facilities in the colony need to be greatly increased and much more widely distributed. The economic development of the Colony must depend to a very considerable extent upon the development of banking facilities and without these facilities progress cannot be as rapid as could be hoped for. These banking agencies would be required for ordinary banking business as well as for loans on mortgage and against standing crops. As this will involve the locking up of capital, it is suggested that if such a bank be organized, Government might, in addition to providing direct loans to agriculturists, aid such a bank by depositing funds with it and by appointing Government representatives to its directorate. An ordinary bank would be in a position to afford assistance for short term credits, but without Government assistance would be unable to afford much assistance to agriculturists for credit spread over lengthy periods."
- (3) "The small owner is in need of capital for the development of his properties, and the State can materially assist his operations if it can place funds at his disposal at reasonable rates of interest with repayment spread over fairly considerable periods. The transactions should be on a purely business footing. The terms should be liberal. Most progressive countries desirous of assisting agricultural development are making provision for loans on mortgage security to agriculturists. The terms differ in detail. Some make the loan direct to the people while others make them only through associations or societies. It is now recognized that the development of agricultural resources, if it is to be hastened, demands the locking up of capital in land and improvements and that the State is capable of providing, when adequate safeguards are taken, such capital. Most countries have funds for investment and it appears to this Committee that it is important that the Colony should invest its funds in the development of its land and its agriculture."
- (4) "The small village cultivator through Co-operative Credit Societies requires encouragement and financial education and assistance. The present financial assistance to Co-operative Credit Societies from the State is equal to the paid-up capital of the society, but, judging from the reports from other countries, it is desirable that greater financial assistance be given."
- (5) "In some localities loans are required by fishers, weavers, &c., who at present do not receive the full value of their labours. The formation of societies for these workers is necessary."

Banking facilities
to be increased and
widely distributed.

State to assist
small owner.

Co-operative Credit
Societies to provide
financial education
and assistance.

7. To meet the situation described by the Committee they recommended State assistance in the shape of direct State loans.

Demands for adjustments in the Banking System.

8. The post-war boom temporarily postponed the general demand for wider banking and credit facilities but the recession in trade which followed the boom and culminated in the world depression of recent years was the occasion for a renewed and more vigorous agitation for a public inquiry into the banking and credit conditions. Never before was the vulnerability of the economic structure of Ceylon more forcibly revealed than during this period. The three major products, namely, (tea, rubber, and coconut,) which between them account for (over 90 per cent. of the wealth of the country,) suffered seriously during the depression. The creed of economic self-sufficiency which became an article of faith in the economic policies of other countries spread to Ceylon as well. To assist the transition to a more self-contained economic system, particularly in the sphere of agriculture and industry, and to alleviate the economic distress fostered by intense depression, demands were made for adjustments in the banking system so that it could provide resources of a kind which it had hitherto not provided or was unable or reluctant to grant, and this meant that it should adapt itself to new economic environments.

Views of Committee on the State Mortgage Bank.

9. Referring to the gaps in the existing financial structure, the Committee on the State Mortgage Bank stated in their report (Sessional Paper—XXI. of 1929):—

“ The financing of trade must be undertaken by an entirely separate institution. We realize that there is a distinct need in Colombo for such an institution and that this need weighed heavily with many who supported the scheme of a State Mortgage Bank, thinking such a bank would supply the need of certain classes of merchants and traders. We much regret that such expectations must be disappointed. We recommend, however, that definite steps be taken at once to explore the possibilities of encouraging the establishment of a Co-operative Town Bank.”

10. In a rider to the report one of the members of the Committee emphasized the deficiencies in the banking system in the following terms:—

Help to Merchants.

“ I may at once point out that when I supported the scheme for the establishment of a State Mortgage Bank, one of my cherished objects was to better the plight of the middle class business men who through want of capital are being victimized by the Indian money-lenders and gradually ousted from the arena of business by non-Ceylonese capitalists I am, however, of opinion that Government should without any further delay move in the matter to lend a helping hand to that class of merchants, traders, and industrialists who undoubtedly deserve our sympathy.”

Mr. George E. de Silva's resolution for inquiry into system of Commerce, Banking and Insurance.

11. To come to events immediately preceding the appointment of the present Commission, the question of providing increased credit facilities in Ceylon was already before the Executive Committee of Labour, Industry and Commerce, when Mr. George E. de Silva, Member of the State Council for Kandy, moved in the Council in November, 1932, that “ A Commission should be appointed to go into the system of commerce, banking, and insurance of this Island.” The motion was referred to the Executive Committee of Labour, Industry and Commerce which

reported in favour of the acceptance of the motion but pointed out that an inquiry by Commission into all the subjects mentioned in the motion would involve considerable delay and suggested that, in the first instance, a Commission might be appointed to investigate the question of banking and credit in all its principal aspects, with special reference to the needs of internal trade, local industries, and agriculture.

12. The State Council accepted the report of the Executive Committee of Labour, Industry and Commerce in July, 1933. In their application to the State Council for financial provision for the appointment of the Banking Commission, the Executive Committee made the following observations:—

Executive Committee's views on the need for adjustments in the Banking System.

"The Executive Committee feels that it would be well worth the cost, if, as a result of such expert advice (by a paid expert Commission) a permanent foundation for the material progress and welfare was laid. For it is a truism that the economic advancement of a country depends largely on a sound banking system and it is desirable to know what the defects, if any, of the existing system are, and which of the many banking systems could be adopted to suit the genius and the necessities of Ceylon."

"The need for similar inquiry has also been felt in other parts of the world. It is now recognized that the banking system, playing as it does a fundamental part in the development of a country, must be adapted to suit its changing economic conditions. Even in England, it was felt necessary to provide adequate credit facilities for the farmer by passing the Agricultural Credits Act and a Bankers' Development Fund was formed to place British industry on a surer footing. In India, with the growing demand by nationals for a large share in Indian trade and industry, it was considered necessary to appoint a Banking Commission to make recommendations to meet the altered conditions. Further, the world-wide depression has induced many countries to examine critically their banking systems and to devise ways and means of escaping the worst effects of the crisis and saving themselves from ruin. In England a Committee of Finance and Trade was appointed and in Germany and Canada, to mention a few instances, inquiries into banking conditions have been instituted. In Ceylon, where the depression has been very severe and when efforts are being made to increase her trade and industry and agriculture, an investigation of the banking and credit facilities is indeed very essential and it would be a dereliction of duty to omit to take similar steps with a view to maintaining the stability and promoting the welfare of Ceylon trade internally and externally."

13. This Commission was accordingly appointed in April, 1934, to inquire into and report upon the existing conditions of banking and credit in Ceylon and to consider the steps, if any, that are feasible and desirable in respect of the provision of banking and credit facilities for—

Appointment of the present Commission.

- (a) agriculture,
- (b) industry,
- (c) trade,

and also to make recommendations regarding the desirability of establishing a State-aided Bank and sound local banks."

14. A Questionnaire was issued to the public on June 11 which is reproduced in Appendix 1 of the report. Chapters VII to IX of the Questionnaire dealing with rural credit and

Questionnaire and Memoranda.

finance for small industries and retail trade were translated into the vernaculars and made available to the public a fortnight later. The public were requested to send in their replies before August 15. Ample time was thus given to all interested parties to submit their views to the Commission.

15. In all 20,000 copies of the English version of the Questionnaire, 14,000 copies of the Sinhalese, and 4,000 copies of the Tamil versions were distributed. Altogether 275 replies and memoranda were received from members of the public, commercial associations, and Heads of Government departments. The Commission desire to place on record their appreciation of the valuable testimony received from those who answered the Questionnaire or in other ways helped them in the execution of their task. They wish to mention particularly the assistance rendered by the Associated Newspapers of Ceylon, Ltd., who, by kindly consenting to include the English and the Vernacular versions of the Questionnaire as supplements to the Ceylon Daily News, Dinamina, and Thinakaran, respectively, gave it a wider circulation than could have been secured through the medium of the Post Office.

Places visited.

16. The Commission visited the following places for the purpose of studying local economic and credit conditions and of recording evidence:—

Negombo	Chilaw	Galle
Ratnapura	Puttalam	Matara
Badulla	Anuradhapura	Hambantota
Batticaloa	Jaffna	Kurunegala
Trincomalee	Kandy	
Polonnaruwa	Kalutara	

In all 284 witnesses were examined. We take this opportunity of thanking them all for their co-operation in placing before us their valuable knowledge and experience.

Absence of statistics and economic survey handicap.

17. We may mention that our work has been greatly handicapped by the lack of local economic and banking statistics and literature dealing with these subjects. There has been no economic survey which clears the field for the application of principles of credit. Such material would have not only facilitated our task but would have enabled us to give numerical bases of the different financial problems confronting the Island. We are offering in the body of the report some suggestions for improvement in the spread of economic knowledge and in the compilation of economic statistics, but wish to emphasize here the urgency of the matter and trust that Government would give their early attention thereto.

CHAPTER II.

THE SALIENT FEATURES OF CEYLON.

18. We give below some of the salient features of Ceylon, knowledge of which will add interest to the subject matter of our inquiry.

Geographical position.

19. Ceylon is a pear-shaped Island in the Indian Ocean, situated to the South-East of India (of which it originally formed part), almost midway between the Red Sea on the West and the Straits of Malacca on the East, and almost midway between the Southern Continents, South Africa and Australia. It lies between 5°.55' and 9°.50' North latitude and 79°.42' and 81°.53' East longitude. Owing to its position on the map, it is

a natural halting place for ships from Arabia and Persia on the one hand and China or Burma on the other; it is also the half-way house between Europe and Australia and port of call for coaling ships. It has so long been a central market for traders as to have acquired a legendary interest; it is known as Taprobane in Biblical history, and as Serendib to the Arabs; to the Brahmans it was Lanka, the shining land; to the Siamese Tewa Lanka, Lanka divine; to the Indian Buddhist, pearl on the brow of India; other poetical names besides have graced it. Our present concern, however, is with the economical and commercial advantages derived from its favourable geographical position. Its area is about 25,000 square miles.

20. Colombo is the capital of the Island and is situated on the western coast. It is to-day a commercial and strategic centre of more than ordinary importance. It is the seat of the Government and the headquarters of the chief mercantile firms in Ceylon. It is the most westernized of all the towns of Ceylon, boasting nearly every refinement of modern civilization, and is the distributing centre of the Island's foreign trade. Colombo.

21. The other important towns of the Island are Kandy, Jaffna, Galle, Batticaloa, Kurunegala, Chilaw, Negombo, Matara, Nuwara Eliya, &c. Important towns.

22. The Island is divided into nine Provinces known as Western, Central, Southern, Northern, Eastern, North-Western, North-Central, Uva, and Sabaragamuwa.

23. The climate conditions of the Island exhibit a healthy variety, enabling the resident to enjoy a change from the warmth of the seaside to the temperate atmosphere of the hills and *vice versa*. The area enclosed between the coast line from Chilaw to Tangalla and the imaginary line connecting these two points to the hilly centre embraces a considerable part of the wet zone. There are two monsoons—north-east from October to January and south-west from May to September. The average annual rainfall varies from about 35 inches in the north-west and south-east to over 200 inches in some of the hilly parts of the Island. Climatic conditions.

24. The natural beauty of Ceylon affords a permanent attraction to tourists and globetrotters and the historical remains provide ample material for the antiquarian and man of letters. Kandy and Nuwara Eliya in particular are a source of inspiration to the artistic mind, and to the more robust traveller the forests and game sanctuary of the Hambantota District satisfy the thirst for adventure and sport which are regarded by Westerners as indispensable to life. Thanks to a well-balanced rainfall the fertility and luxuriousness of the soil have become proverbial and the Island unlike other tropical countries is seldom subject to drought. Natural beauty of Ceylon.

25. There has been very close connection between India and Ceylon from ancient days. In one of the ancient Indian classical epics, Ramayana, the Island is referred to by the name of " Lanka ". The early kings of Ceylon came from India. In 1506 the first European settlers, the Portuguese, formed settlements on the coasts of the Island. About a century and a half later they were dispossessed of their settlements by the Dutch. Then came the British who are its present rulers. The year 1815, in which the king of Kandy capitulated and the Island was annexed by Great Britain, marked the termination of the Sinhalese rule which had been maintained for over 2,350 years. Historical background.

- Languages.** 26. Sinhalese and Tamil are the two chief languages of the Island. English is in general use among the people of the upper and middle classes of all communities.
- Population.** 27. The population of the Island according to the last census in 1931 was 5,312,548. During the last 40 years there has been an increase of over two million in this figure. The estimated population of the Island in 1827 was under 900,000.
- High density of of population.** 28. According to the last census the density of population is 210 persons per square mile and is above that of India, France, and Denmark, but somewhat below that of Japan. The problem of improving the productivity of the Island to maintain the steadily growing population is becoming both urgent and difficult day by day. It may be noted here that 64.4 per cent. of the people mainly depend upon agriculture for their maintenance.
- Racial distribution.** 29. The population of the Island does not consist of one uniform race. The low-country Sinhalese and Kandyan account for 3/5ths of the people. Ceylon Tamils compose about 10 per cent. of the population. Indians number over 800,000. Appendix No. 4 to this Report gives the distribution of the people according to race.
- Floating population.** 30. A large number of floating population constantly comes in and goes out of Ceylon. In 1933 the total number of immigrants to the Island was 136,057. About 89 per cent. of this came from India. There were nearly 32,900 estate labourers among the immigrants.
- Government.** 31. Before 1931 Ceylon was governed under a Crown Colony constitution. The new reforms have considerably modified the old administrative and legislative machineries. The people have now greater voice in the management of their affairs.
- Board of Ministers.** 32. The administrative powers are vested in a Board of Ministers consisting of three Officers of the State and seven Ministers. The latter are representatives of the people.
- Provincial administration.** 33. The general administration of the Provinces is entrusted to officers known as Government Agents. Their offices are known as Kachcheries. They are also Provincial Treasuries. Assistant Government Agents are placed in charge of districts. Under them there are chief headmen who are styled differently in different parts of the Island. Lastly comes the village headman who is in charge of one or more villages as can be conveniently grouped into an administrative unit.
- State, Revenue and Expenditure.** 34. The totals of revenue and expenditure during the financial year 1932-33 were Rs. 106.1 million and Rs. 92.7 million respectively. The chief sources of revenue and their contribution during the last year were as under:—

Customs .. .. .	..	..	43.8 million
Licences, Excise, &c. .. .. .	..	..	22 ..
Income tax* .. .. .	..	..	8.6 ..
Posts and Telegraphs .. .. .	..	..	6 ..

The principal items of expenditure and the amounts absorbed by them during the same period were as under:—

Personal emoluments .. .. .	..	..	38.4 million
Pensions .. .. .	..	..	10.4 ..
Other charges .. .. .	..	..	22.8 ..
Public debt .. .. .	..	..	12.5 ..
Public Works including Irrigation and Electric Works .. .. .	..	..	5.3 ..

* Income tax was introduced in the Island for the first time in 1932.

35. The Indian silver rupee is the legal tender in the Island. Currency. The Government also issue their own notes expressed as payable in rupees. These notes are, however, the liability of the Government of Ceylon and have no connection with the notes issued by the Government of India. The total number of notes outstanding on September 30, 1933, was Rs. 42,029,944. Against this the Government of Ceylon held investments in Government securities of the face value of Rs. 33,731,733 (market value Rs. 37,403,998) and Rs. 13,852,132 in Indian silver coins.

36. Attendance at school between the ages of six and fourteen Education. is compulsory, subject to a few exceptions. There are 292 English schools with an attendance of 49,008 male and 18,230 female pupils, and 3,723 vernacular schools having 305,188 male and 201,545 female pupils. In the year 1932-33 Rs. 13 million were spent on education.

37. Ceylon is adequately equipped with railway and road Communications. communications. The importance of this in cheapening cost of moving goods from place to place should be obvious.

38. The railway in Ceylon is owned by Government. Railways. There are 951 miles of railway tracts. The total capital invested in railways was Rs. 226.4 million at the end of September, 1933. The gross earnings of the year ended September 30, 1933, amounted to Rs. 19.7 million. Taking into account interest payable on capital the working showed a deficit of 5.8 million.

39. There are over 16,500 miles of roads and cart tracts. Roads. Out of these, 4,200 miles are metalled and motorable. Commercial towns, villages, and planting districts are generally accessible by motor car.

40. Posts, telegraphs, and telephones are exclusively worked Posts, Telegraphs, and Telephones. by Government.

41. The generation and supply of electricity is mostly done Electric power. by Government, who own the generating and distributing plants in Colombo, Nuwara Eliya and some other towns of the country. In district and town areas this work is generally done by the Urban District Councils.

42. The following table gives the acreage under principal Agricultural crops:—
acreage.

Nature of Crop.	Estimated Acres under Crop.
Coconuts ..	.. 1,100,000
Rice ..	.. 850,000
Tea ..	.. 557,000
Rubber ..	.. 607,000
Chenas, vegetable, and other dry crops ..	.. 140,000
Arecanuts ..	.. 69,000
Palmyra ..	.. 50,000
Cacao ..	.. 34,000
Citronella ..	.. 33,000
Cinnamon ..	.. 26,000
Tobacco ..	.. 14,000
Cardamoms ..	.. 6,000
Total ..	.. 3,486,000

CHAPTER III.

ECONOMIC BACKGROUND.

Predominance of agriculture.

43. Broadly speaking, the most salient feature in the economic life of Ceylon is the predominance of agriculture. The bulk of the population is engaged directly or indirectly in agricultural pursuits. In the census of 1921, the last in respect of which occupational statistics for the whole Island are available, 1,406,000 persons, representing 64.4 per cent. of the total engaged in gainful occupations, were returned as employed in agriculture.

Reasons for predominance of agriculture.

44. Many causes have contributed to make agriculture the principal industry of Ceylon. In the first place, the country is without the basic minerals essential for the maintenance of industries. Coal and iron are not existent, nor are there other raw materials which can support industries. Hydro-energy, though available, has not yet been tapped for industrial use, and the absence of cheap means of motive power has proved an obstacle to the establishment of manufacturing industries even on a moderate scale. Secondly, capitalistic enterprise was initially directed to agricultural industries, which until recently yielded such substantially high returns that other undertakings had comparatively little attraction.

Main agricultural industries.

45. The main agricultural industries are tea, rubber, and coconut. In point of extent, rice cultivation too can be placed in this category, although in point of value it is less significant. Paddy industry apart, the other three agricultural industries are practically perennial. Unlike other countries, Ceylon is not subject to the alternations of extreme seasonal activity, as, with the exception of paddy, the other three industries are unintermitted. There is uniformity in the production of wealth and hence in the movement of crops; the complications arising from seasonal demand and stringency typical of many agricultural countries are not experienced.

Absence of seasonal variations in financial requirements.

46. Seasonal production imposes a heavy strain on the credit structure of a country. Larger facilities are required to finance busy seasons when crops are being prepared or harvested. The demand becomes smaller during slack periods when crops are growing or maturing. In order to meet these variations the financial system must be correspondingly elastic and responsive. In Ceylon, with the yield of crops almost uniform throughout the year, there is less need for elasticity in the supply of credit, and the machinery of credit is consequently less complex.

Production mainly for export.

47. Another notable feature in the economic life of the Island is that almost all the entire resources of the country are directed towards the preparation of products for an export market situated abroad and outside the control of the country. Paddy is the only major agricultural product for which there can be said to be a local market exclusively; otherwise, practically the whole output of tea, except for the insignificant quantity retained for home consumption; the entire production of rubber and nearly 60 per cent. of coconut find a market outside Ceylon. As these products are neither the monopolies nor the specialities of Ceylon, there is no exclusive market for them in the world, and Ceylon has frequently to adapt herself to world conditions governed by factors over which she individually can have little or no control.

Risk of dependence on external markets.

48. The present tendency towards economic nationalism must injure a country whose economic welfare primarily depends upon the existence of foreign markets for her products. The device of tariffs, quotas, and preference has been used by various countries as instruments of national policy to promote or support

particular industries essential for their economic or national well-being. With several other countries Ceylon has had to suffer recently from such measures. For instance, the steps taken by many of the Continental countries, which previously were her chief customers, to foster indigenous oil industries have been detrimental to her coconut industry.

49. The exceedingly small range of the principal economic products is another feature of the economic conditions prevailing in Ceylon. No statistics of the national wealth of the Island are available, but so long as the greater part of what is produced is exported, the trade statistics afford a fairly close estimate of the aggregate wealth produced as well as the relative importance of the various industries. For example, in 1933, tea, rubber, and coconut were responsible for 92 per cent. of the total export trade valued at Rs. 180,000,000. The balance was accounted for by the minor agricultural products which even collectively have not been able to attain in recent times a fraction of the importance claimed by any of the major industries.

50. Tea is the mainstay of Ceylon agriculture and has to its credit the largest share of the export trade, the proportion being as much as 66 per cent. Rubber comes next in order, but owing to the extreme price variations experienced by this produce, its share in the export trade has fluctuated from 30 per cent. to 8 per cent. and amounted to 13 per cent. in 1933. The coconut industry, with its three main products of copra, coconut-oil, and desiccated coconut, takes almost equal place with rubber. Owing to frequent price changes its share too has not been steady and has fluctuated from 20 per cent. to 13 per cent., the latter being the proportion for 1933.

51. Almost all the commodities exported from Ceylon belong to the category of raw materials. Tea is the only commodity produced locally in a form ready for the final consumer; but being an article of drink, it does not come within the class of manufactures in the accepted sense of the term. On the other hand, the processes in rubber, copra, coconut oil and other products exported do not reach beyond the semi-crude stage. It is now generally acknowledged that during the course of cyclical price fluctuations, raw materials tend to move over a wider range of prices than manufactured goods, and that the further any article is removed from its raw stage the less is the fluctuation in its price. While industries producing such raw materials are undoubtedly excellent speculative counters, their predominance in the economic life of a country is not conducive to its stability but renders it liable to extremes of want and plenty. The truth of this situation was brought home to the people during the recent economic depression.

52. Another characteristic of the economic conditions of Ceylon is her dependence on external sources for her food supply generally, and for her clothing and other manufactured goods entirely. Local food production is insufficient to maintain the entire population who have to depend on imports for a large part of their requirements in rice, curry-stuffs and other articles of food including fish. For rice alone the import bill in prosperous years amounted to over Rs. 100 million. In 1933, owing to a severe fall in price, it came down to Rs. 45 million, while other articles of food and drink absorbed Rs. 41 million, and manufactured goods accounted for Rs. 64 million. They included some at least that can be profitably turned out locally from available material.

Unstable economic equilibrium.

53. We shall have occasion to refer again in a subsequent section to the character of the import trade, when we consider the scope for the industrialization of Ceylon. At this stage it would be sufficient to emphasize the fact that the economic equilibrium of a country whose prosperity is essentially determined by a paucity of agricultural industries is far from stable. The experience of the recent depression when the prices of tea, rubber, and coconut fell sharply, causing a sudden and severe contraction of the national purchasing power, has strikingly demonstrated the danger of relying solely on a few industries and has clearly exposed the inherent weakness of the economic structure of the country. The present difficulties of debtors and creditors alike are traceable to this crisis. The institution of a system of international regulation of supplies in the case of tea and rubber has vastly improved the prospects of these industries compared to what they were during the height of the depression, and has relieved the situation to a considerable degree. Nevertheless, the existence of these artificial measures is a reminder of the temporary nature of the relief, for restriction at best is nothing but a palliative and it should not be forgotten that a repetition of the recent experience would entail much suffering in the future.

Danger to primary production from science.

54. In a scientific age, raw materials of the kind produced in Ceylon have to face competition not only from rival natural substitutes but also from the artificial creations of the chemical laboratory. Synthetic rubber, though a reality, is not yet a commercial proposition, while the competition from an ever-increasing number of rival oils and oil seeds, vegetable and animal, natural and artificial, is said to be responsible for the acute depression in the coconut industry. There is no question that the dangers of disastrous competition from natural and artificial sources, though not imminent, are yet latent, and should this prospect at any time be realized, the consequent reactions would violently disturb the economic fabric of the country.

Dissatisfaction about existing economic conditions.

55. Partly on account of these apprehensions, there is a growing feeling of dissatisfaction among the local intelligentsia about the existing economic conditions of Ceylon. There is a general recognition of the fact that if some measure of stability is to be preserved, the economic life of the people should be more diversified. It is being now realized that it is no longer sufficient to allow national resources to flow along old productive channels. The most urgent problem is the opening up of new industries, both agricultural and manufacturing, with the main object of catering primarily for the home market and thereby rendering the country less susceptible to the vagaries of markets abroad. The prohibition of fresh plantations in tea and rubber under the Restrictions Schemes has closed the most favourite avenues of new investment at least for some length of time; and the need for alternative channels of investment has, therefore, become more pressing.

Lack of enterprise of indigenous population.

56. It is a widespread complaint that the indigenous population has been too slow to take to industry and trade, an apathy attributed to lack of enterprise on the part of the community. This defection has been suggested as one of the reasons why the indigenous members of the country do not obtain sufficient facilities from the existing credit agencies. There is a marked and apparent paucity of the Ceylonese participating in trade and industry. The glamour of the professions or of Government service has proved till recently an irresistible magnet attracting

the educated and the best youth of the country. It must be admitted that, generally speaking, the average youth who has hitherto taken to a business career has done so more by necessity than by choice. In these circumstances it is small wonder that failures in business have outnumbered the successes. ^

57. Very little has been said by a section of the witnesses about the financial handicaps of the Ceylonese merchants, traders, and cultivators, but a good deal about the inability of the people to carry on any kind of business, their inefficiency in cultivation, their incapacity to take part in trade and industries, and their inclination to join Government service or to enter the legal and medical professions. It is said that a Ceylonese has no confidence in himself, much less in others, including his own countrymen. He has been accused of dishonesty owing to his inability to meet his financial engagements on due dates, and his failure to meet his liabilities due to circumstances beyond his control has been construed by his creditors as wilful neglect and as a dishonest endeavour on his part to avoid his liabilities. His endeavours to pay his creditors in the past at considerably high rates of interest appear to have been forgotten and few of the witnesses have narrated the handicaps under which a Ceylonese suffers.

Some characteristics of Ceylonese as described by some witnesses.

58. It is true that owing to his extravagant mode of living he has not saved anything during prosperous times for the future. It is equally true that he has not been able to meet his financial engagements owing to the unexpected depression and the low prices of his produce. It is, however, not denied that in the past he has discharged his obligations at very high rates of interest. Banking institutions, Chettiars and others have admitted that until the depression there was hardly any occasion to drag their debtors to court for the recovery of dues. Banks till then had hardly any law suits, and were, therefore, unaware of the defects existing in the Ceylonese law and worked their business successfully for more than fifty years in spite of the defective law of which they now complain so bitterly.

Some of his relieving characteristics.

59. If nature has gone against the interests of the Ceylonese agriculturist and trader, if the world depression has lowered the prices of his produce and decreased his income, and if smaller returns from consuming countries have been the cause of his misery and his consequent inability to maintain himself and to meet his engagements, he cannot altogether be exonerated from blame for creating a position that has caused distrust among his creditors and brought him a bad name. As in the case of other countries so in the case of Ceylon, traders in difficulty have resorted to unfair means. The slump in the rubber industry in past years has made its victims too weak to bear their financial burden and with the slump in coconut prices almost 90 per cent. of the landowners have been seriously affected and rendered incapable to bear the heavy incubus of interest on their borrowings.

The causes of his difficulties.

60. This is the position of the Ceylonese community whether engaged in agriculture, business or professions. Very few non-Ceylonese witnesses have acknowledged the handicaps suffered by the Ceylonese in trade and commerce, agriculture and industry, education and opportunities. It is no exaggeration to state that 80 per cent. of the Ceylonese population holds land and is dependent partly or wholly on income from the produce of the land for his maintenance. We would, therefore, before going into

The handicaps that a Ceylonese labours under.

the question of supplying him with financial aid and credit facilities, explain the handicaps under which the Ceylonese community suffers, so that the remedies which we suggest hereafter might be considered in the light of conditions as we see them.

Foreign control
over industries.

61. The history of Ceylon records the exploitation of its commerce by the Portuguese, the Dutch, the British, and the Indians for over three hundred years. Even at present its entire trade is being run by foreigners, with foreign capital, foreign labour, and foreign brains. The non-Ceylonese element has kept a strong hold on the business, trade, and industries of the country, and few opportunities have been allowed to the average Ceylonese to engage in trade and industries either by Government or by business firms. With the spread of education, a good many of them have obtained academic qualifications, and have made a name as successful doctors or lawyers, but these professions are now over-crowded and leave hardly any field for men of average ability, whose attention now appears to be drawn to trade and industry. They seem anxious, if opportunities are given to them, of acquiring knowledge and experience but success in trade and industry cannot be achieved through a mere study of theory. This requires practical knowledge and experience, besides capital and credit facilities, which appear to have been so far denied to them, more or less through their own neglect. The result is that, except for a few Ceylonese who have had an opportunity to get experience in these lines, a good many of them, due to want of requisite knowledge and experience, have stood aloof. A few, however, who have reluctantly joined trade and industry without previous practical knowledge and experience, have failed in their endeavours and have offered an object of mockery to those who always speak of the incapacity and ineptitude of the Ceylonese for business and industries. One of the accepted axioms of business is: to be first in the field is to win half the battle; and those who join later must run the gauntlet of organized competition from entrenched interests. The people of Ceylon labour under the same handicap by coming into a field already occupied by others. They find the points of vantage already secured; and even where the field is still open, limited though it be, lack of capital and absence of training act as serious impediments in their way. The importance of capital in business needs no emphasis; but training is, in a sense, even more essential. It must, therefore, be admitted that so long as adequate capital, credit facilities, and proper training, factors complementary to business enterprise, are not available to the Ceylonese, the charge of want of private enterprise cannot be laid at their door. Our principal task is to deal with one of these essential factors, namely, the provision of finance, but finance alone would offer no solution to the legitimate aspirations of the Ceylonese for a larger share in the commercial and industrial life of the country. In order, therefore, to render our recommendations sufficiently comprehensive, we deal separately with the vitally important question of affording adequate commercial as well as industrial training to the indigenous population.

Agricultural land
the least desirable
type of security.

62. The basis of commercial credit is security; but the problem of procuring adequate credit, difficult as it is, is rendered more complex in a country like Ceylon where land alone constitutes the most valuable and ready form of security at the disposal of the community. Agricultural land, as is well

known, is the least desirable type of security for commercial banks. Land is not a liquid asset; it cannot be readily realized by sale; and loans given on the security of land, even for short periods in order to meet current expenses of production, generally get "frozen". There is also another formidable objection. A loan transaction on landed security is too cumbersome a process. Examination of titles to land and the legal formalities necessary to effect a mortgage entail much loss of time. This difficulty is one of the most important drawbacks hindering at present the provision of more liberal credit to trade and industry. Until this difficulty is overcome even the most perfectly conceived financial system will not be helpful. We shall turn to this subject in a subsequent chapter, where we deal with our recommendations regarding clarification of titles to land, and the prevention of fragmentation.

CHAPTER IV.

EXISTING BANKING AND CREDIT AGENCIES.

63. A brief review of the early beginning of banking in Ceylon may well precede the section on the existing banking and credit facilities in the Island. Before the foreign money-lenders came from India and Europe and opened their business relations with Ceylon, the old system of bartering appears to have been in vogue to a very great extent. Early History of Banking in Ceylon

64. The first banking institution established in the country was the Bank of Ceylon. Its prospectus was issued in 1839. Ceylon was then giving promise of becoming a centre of commercial importance and the Government of the day promptly accepted the recommendations of Mr. (afterwards Sir) Charles Travelian, the Secretary of the Treasury, to grant a Royal Charter to the Bank of Ceylon. The bank commenced business in Colombo in 1841 with a capital of £125,000, which was mostly subscribed from outside the Island, and opened a branch at Kandy in 1843. Bank of Ceylon.

65. In October, 1843, the Western Bank of India, whose headquarters were at Bombay, commenced business in Ceylon, opening branches simultaneously at Colombo and Kandy, much to the satisfaction of the planters and merchants, but says Ferguson's Ceylon Directory, "to the dismay of Governor Campbell, who became apprehensive of the power of the two banking institutions and occasion a run on the Treasury to cash the Government notes in circulation." Western Bank of India.

66. The subsequent history of banking in Ceylon is related in the same Directory as follows: "In 1844 a Bill was passed extending to private bankers in Ceylon the privilege of issuing paper money on terms which were certainly unduly liberal towards the Banks and unjustly unfavourable towards the Government and the public." Privilege of issuing paper money to private bankers.

67. "The Ordinance No. 23 of 1844 imposed a composition duty of seven shillings for every £100 in circulation on bank-notes of £2 and upwards and required banks not possessing a Charter to take out annual licences on a £20 stamp on each place up to three in the Colony in which they might establish themselves. Chartered bankers got the licences free. It was stipulated that specie equal to one-third of the circulation must be kept in reserve." Conditions of Note Issue.

- Advances on "block" debts irretrievably involve the Bank of Ceylon. 68. "The Bank of Ceylon was prohibited by its rules from advancing money to planters on 'block' debts or otherwise than on crops, but notwithstanding the presence of a local Board of Directors, this rule was broken through by one or more of the Managers and when the crash of 1847 came on the coffee planters it found the bank irretrievably involved, £60,000 being ultimately lost."
- Oriental Banking Corporation. 69. "At this juncture the Western Bank of India, now changed to the happier title of the Oriental Bank, stepped forward and in return for the Royal Charter of the Bank of Ceylon took over its business and liabilities advancing a sum of money to the shareholders in lieu of their bank's outstanding securities which it undertook to realize. In 1851 the two banks were formally amalgamated, and the 'Oriental Banking Corporation' under a Royal Charter commenced its career in Ceylon and India."
- Mercantile Bank. 70. "Early in 1854 branches of the Mercantile Bank of India, London, and China, were opened in Colombo and Kandy and in 1858 this bank obtained a Charter."
- Government Notes withdrawn in favour of those of banks. 71. "On January 1, 1856, the Government finally withdrew its notes in favour of the banks and after that the advances in paper issue went on at a wonderful rate. The Ordinance No. 2 of 1861 raised the composition to one per cent. on the average circulation and restricted the issue of notes to banks having a Royal Charter or being authorized by a local Ordinance, such banks to fulfil the condition of keeping bullion equal to one-third of their issues in reserve, &c. The Government received £84,604 in 23 years ending 1884 from banks with powers of note issue."
- Asiatic Bank. 72. In 1865 a branch of the Asiatic Bank commenced operations in Ceylon but was closed in October, 1866.
- Bank of Hindustan. 73. The Bank of Hindustan opened a branch in Ceylon on July 4, 1864, and stopped on November 25, 1866.
- Royal Bank of India. 74. The Royal Bank of India commenced business in Colombo on March 13, 1865, and closed with the last day of 1866.
- Bank of Madras and Imperial Bank. 75. The Bank of Madras established a branch at Colombo on July 9, 1867, and opened an agency in Kandy in 1868. It was merged into the Imperial Bank of India in 1921.
- Comptoir D'Escompte de Paris. 76. The Comptoir D'Escompte de Paris opened a branch in Colombo in 1877 but was closed in 1879.
- National Bank of India. 77. The National Bank of India commenced operations in 1881.
- Banking crisis, 1884, and stoppage of the Oriental Banking Corporation. 78. On May 3, 1884, came the greatest crash in the history of Ceylon and perhaps of Eastern Banks, in the stoppage of the Oriental Banking Corporation. Government came to the rescue and guaranteed its notes. In 1885, however, the power of the banks to issue notes was withdrawn and Government issued their own notes, which now bring in a profit of over Rs. 2 million a year.
- New Oriental Bank. 79. Following on the old Oriental Bank came the New Oriental Bank which closed its doors in 1892.
- Mercantile Bank of India. 80. Next came the voluntary winding up and reconstruction of the Chartered Mercantile Bank, changing its name into the Mercantile Bank of India, Ltd., from February 1, 1893.
- Hongkong and Shanghai Banking Corporation and Chartered Bank. 81. The Hongkong and Shanghai Banking Corporation and the Chartered Bank of India, Australia, and China opened their branches in 1892.

82. The Eastern Bank and the P. & O. Bank opened their branches in Colombo in 1921 and 1922, respectively. Eastern and P. & O. Banks.

83. The Bank of Colombo was started in Colombo on January 8, 1917, as an indigenous bank with local capital and under indigenous management. It had a capital of Rs. 5 lakhs divided into 500 shares of Rs. 1,000 each. It, however, closed its doors in 1921. The Bank of Colombo.

84. We give below a summary of the causes which led to its failure and brought about its downfall, based on the evidence given before the Commission by Mr. O. B. Wijeyesekera, the late Managing Director of the bank: Causes of its failure.

- (1) The capital of the bank was subscribed on the understanding that the bank would advance on the security of its own shares.
- (2) Absence of experience and banking knowledge in those entrusted with its management.
- (3) Loans to shareholders against bank's own shares.
- (4) Four-fifths of the capital and 50 per cent. of the deposits were lent to Directors against the bank's shares and immovable properties.
- (5) Malicious propaganda.
- (6) Want of confidence in the bank on the part of the public.

85. We are constrained to notice that the failure of this small indigenous bank, managed by persons without banking experience, and constituted contrary to safe and sound principles of banking, is often cited as an instance of the ineptitude and inability of the Ceylonese in the commercial and banking line. We have very carefully examined the history of this bank but have discovered nothing strange or remarkable in its failure, except what has been the experience of almost all the countries of the world in the primary stages of indigenous banking. Failure, the result of banking inexperience.

EXISTING CREDIT AGENCIES.

86. There are a number of institutions in the Island whose business is to deal in credit. These might be classified as under in accordance with the principle nature of their operations:— Existing credit agencies classified.

- (a) Commercial Banks,
- (b) Lending agencies against immovable properties:
 - (i.) Private and public companies, (ii.) State Mortgage Bank, (iii.) Loan Board, and (iv.) Ceylon Savings Bank.
- (c) Chettiars,
- (d) Minor credit agencies, and
- (e) Co-operative Credit Societies.

87. Section (a) will embrace the Exchange Banks, the Imperial Bank of India, Indian Joint Stock Banks, and Local Joint Stock Banks.

88. Under section (b) we shall describe the part played by Agencies, such as insurance companies, private capitalists, the State Mortgage Bank, the Loan Board in providing funds against immovable properties. We shall deal with the Ceylon Savings Bank in the chapter on Investments and Savings.

89. In section (c) we shall describe the lending business of the Chettiars and the great part they have played in the economic progress and development of Ceylon by supplying the country with capital and other resources.

90. In section (d) we shall deal with the pawnbrokers, boutique-keepers, cheetus, Afghans and other similar sources for the provision of funds for the middle and poor classes of the community.

91. To section (e) we shall devote a separate chapter describing the whole system of the co-operative movement.

Method of approach.

92. When describing any particular institution or organization we shall discuss in detail the character of its business and the extent to which it meets financial demands of various kinds. We shall also deal with its methods of work, the shape in which credit is given, the purpose it serves in the economic life of the country, the broad outlines of its policy and indicate any modifications that may be necessary. Finally, we shall suggest whether any new financial institutions should be established to supply the deficiencies in the existing credit system of the country.

COMMERCIAL BANKS.

The supply of credit.

93. Upon the existing big banks in Colombo falls the main burden of supplying the credit wants of the country. Not only do they finance trade, which is their principal business, but they also assist industry and agriculture. Being commercial banks, they prefer dealing in short-term credit.

94. In the absence, however, of organizations specializing in long-term finance, until very lately, they have also accommodated borrowers to a large extent on mortgages. The Exchange Banks are meant to finance foreign trade, but they also make advances for internal trade purposes. In advancing loans to the Chettiers they indirectly finance a substantial portion of the country's economic activity, both rural and urban.

Operated through Colombo.

95. Commercial banking in Ceylon is mainly operated through Colombo. All the principal banks have their local head offices in this city. Two Exchange Banks have branches in Kandy and Nuwara Eliya and Kandy and Galle. None of the others has any branches. It would not be, however, correct to say that their activities are only confined to Colombo. The tea and rubber industries all over the Island have been liberally accommodated, although the major part of this assistance is given to European planters.

Commercial banks in Ceylon.

96. The commercial banks in Ceylon are (1) the Exchange Banks, (2) the Imperial Bank of India, (3) Indian Joint Stock Banks, and (4) Local Joint Stock Banks.

(1) Exchange Banks.

Names of Exchange Banks.

97. There are six Exchange Banks in Colombo. Their names and the respective years in which they opened their branches in Colombo are as under:—

(1) The Mercantile Bank of India, Ltd.	..	1854
(2) The National Bank of India, Ltd.	..	1881
(3) The Chartered Bank of India, Australia, and China	..	1892
(4) The Hong Kong and Shanghai Banking Corporation	..	1892
(5) The Eastern Bank, Ltd.	..	1920
(6) The P. & O. Banking Corporation, Ltd.	..	1922

98. Messrs. Thomas Cook & Son (Bankers), Ltd., and the American Express Co., Ltd., do also banking and exchange business, but they are principally engaged in tourist traffic.

The Mercantile Bank of India.

99. The Mercantile Bank of India is the oldest Exchange Bank working in the country. Besides its principle office in Colombo, it has branches in Kandy and Galle which were opened as far back as 1854 and 1860 respectively.

National, Chartered and Hongkong Banks.

100. The opening of the branch of the National Bank of India in 1881 seems to have coincided, in point of time, with the beginning of the tea industry. Besides fixed capital, there was need for financial facilities for working the industry and for the movement of tea to the consuming centres abroad. Banks were

needed to supply the credit wants of the great trade that was fast developing. Similar reasons account for the opening of the branches of the Chartered and Hongkong Banks. The year 1892 in which they opened their offices brought added importance to the country not only because tea was still expanding but because rubber had come to acquire a new significance. There was a rush for investment in rubber and coconut lands and the prospects for trade and banking business were bright.

101. In the years 1920-22 there was a general boom throughout the world. The then existing banks perhaps could not meet the demand for further credit, or probably became more selective in their credit policy and restricted their advances, and two more Exchange Banks opened their branches in these years. Two more
Exchange Banks.

102. The Exchange Banks in Ceylon have an association of their own, known as the Colombo Exchange Banks' Association. It is a deliberative body meant to secure as far as possible uniformity of banking business conditions. For example, there is an understanding between the members about the maximum rates of interest to be paid on deposits, the fixation of Bills for collection rate, penalties for non-fulfilment of sterling contracts, and so on. What the nature of understanding in regard to the deposit rates is we are not told, but the President says that such rates are based on the rates ruling in India. The association also usually make joint representations in regard to matters of common interest. Colombo Exchange
Banks
Association.

103. To understand the full significance of the Exchange Banks in the credit organization of the Island it would be necessary to describe the nature and volume of their business. We endeavoured to get authentic figures of business of each of these banks, but have not succeeded in getting them. They, however, agreed to supply individual statements to the Hon. the Financial Secretary with a request that the consolidated figures of their business and that of the Imperial Bank should be given to us. According to the consolidated statement the total public deposits with the seven Commercial Banks on December 31, 1933, were Rs. 122 million of which of about 35 per cent. was at the credit of the Ceylonese. In point of number the percentage of Ceylonese depositors was over 50 per cent. The total Government deposits on the same day amounted to over Rs. 17 million. We are unable to give further figures regarding their business, as they were given to us in confidence. By restricting our discretion to use the figures for the report the banks have in a way done injustice to themselves, because we might have been able to dispel much of the general unfavourable impression that prevails in regard to their working. Nature and volume
of business.

104. Every one of these banks keeps current accounts and accepts time deposits, discounts bills and makes advances, and does every other kind of commercial banking business. The rates of interest that they pay are more or less the same. All of them pay 1 per cent. per annum on current accounts on minimum monthly balances. There are only two banks that maintain savings accounts and their rates are 2½ and 3 per cent., respectively. It may be incidentally mentioned that the Post Office Savings Bank and Ceylon Savings Bank pay 2.4 per cent. per annum and 3-3½* per cent. per annum, respectively. For twelve-month deposits the rates vary from 2 per cent. to 2½ per cent. Deposit accounts
and rates of
interest.

* 3½ per cent. on accounts of Rs. 1,000 and under, 3 per cent. on accounts of over Rs. 1,000.

Advances to
Chettiairs.

105. The Exchange Banks used to make large advances to the Chettiar community. With some of the banks this formed a subsidiary branch of activity to utilize their surplus funds when there was no other scope to employ them for short periods. The total of these loans, as we understand from private inquiries, could not have exceeded Rs. 20 million at any time. They charged the "Chetty" rate of interest, *i.e.*, the rate at which the Imperial Bank lent to Chettiairs which was $\frac{2}{3}$ per cent. above the official bank rate. Owing to the dislocation of the Chettiairs' own business, there is more or less complete stoppage of this channel of credit distribution.

Advances on
immovable
properties.

106. Although it is not usually within the province of Exchange Banks to make advances against immovable properties, in the absence of other agencies to give such facilities they have shouldered this responsibility to a large extent. It would be impossible for them to meet every demand for this type of credit, which can best be supplied through means of debentures or long-period deposits, and they naturally have to be very cautious and discriminating in the proposals they accept. Mere market value of a security is no criterion of its acceptability as a cover for credit. Banks would be entitled to ascertain for themselves that the properties are kept in good preservation and not allowed to deteriorate. Then there is the question of income. However valuable a property may be to the owner, the banker has to look to the net return it gives and its relationship to the interest charge. Finally he has to judge the capacity of the borrower to repay according to stipulation.

Different modes of
advances.

107. Banks advance money in various ways. They give loans, allow overdrafts and cash credits and purchase bills. The accommodation may be on a personal liability of one or more parties or backed by shipping lien over goods, hypothecation of stocks and movable property. When they discount inland usance bills there is generally no security other than that of the signatories to the bills. The amount of this business, however, is not large, because the bill habit is not common here. When banks negotiate demand bills, say in India or any other country, they may be clean or documentary. In the first case the banker would look to the respectability of the drawer and the transaction would represent movement of funds. The goods represented by the bill of lading which is attached to the bill of exchange form its security in the second case.

Treatment received
by Ceylonese
constituents.

108. A large number of Ceylonese witnesses have complained to us that the existing banks do not treat them fairly. In some instances we have been shown the correspondence that has passed between them and the banks, and in some cases we do feel that great injustice has been done in the distribution of credit facilities. Some of them have vehemently protested against the discrimination which these banks are alleged to have been making between their European and Ceylonese clients. Some have gone so far as to say that the average Ceylonese is not even allowed to see the bank Manager. Specific instances of such treatment have been placed before us. We sought information on the subject from the representatives of the Exchange Banks and the Imperial Bank and they strongly asserted that credit proposals were decided only on the "merits of the case". As the witnesses had requested us not to communicate the examples quoted by them to the banks concerned, we could get no more light on this question.

Dissatisfaction due
to ignorance.

109. In several cases dissatisfaction against the existing banks seems to be based on ignorance of the principles which govern

advances by commercial banks. The most important consideration that weighs with a banker when deciding any proposal is the measure of the proposer's means from which the loan would be paid. Financial solvency, business integrity and reputation, availability of resources to repay and ability to command credit in other quarters are some of the most important points to which a banker pays attention when dealing with a credit question. It is possible that because Europeans are well equipped with these qualities and capabilities they find ready response to their requests for accommodation. They have been long before the Ceylonese in trade and industry. They know the "rules of the game" and have built up a reputation for reliability, and they could show their audited balance sheets made up-to-date to their bankers whenever required to do so. Ceylonese witnesses have themselves confessed to us that the people of the country are deficient in business habits and methods. If owing to such business methods they receive no encouragement, the fault is not that of the banks.

110. There are, however, a few facts connected with the conduct of banking business in Ceylon which tend to the belief that the people of the Island do not get the same treatment as the European residents. The management of banks being in the hands of Europeans, it has fuller knowledge of the people of its own country, if for no other reason, on account of close association and intimate contact, and reliable knowledge is of the utmost importance in the determination of credit. Their ways and habits of living are different from those of the local population and consequently points of contact are few and far between. An ordinary Ceylonese has no opportunity to meet a European bank Manager, or even a junior officer, in his daily life, but a European merchant can almost daily meet his banker in the club or on the sports field.

Reasons for belief in discriminatory treatment by banks. European management.

111. In the case of Ceylonese clients, however, the bank Managers have usually to seek information from banks' shroffs, who thus form the medium of communication between the indigenous Ceylonese and the European banker. Several witnesses have spoken in no uncertain terms about the great power which these functionaries wield in the disposal of their cases. The banks' customers are required to pay to the shroffs a minimum commission of 1.2 per cent. per annum, which is said to have official sanction behind it. It is reported to us that the shroff also charges his bank some commission, usually 1/10th of the interest received by the bank. These payments are said to be in lieu of the guarantee which the shroff gives for every Ceylonese business introduced or accepted by him. Even the Chettiar must pay this levy. Several letters were produced before us in which shroffs had reminded bank borrowers that the commission had not been settled and was overdue. In some cases commission was demanded even for temporary credit, such as advances on trust receipts or D.P. to D.A. conversion facilities.

Shroff system.

112. The bank Managers who appeared before us informed us that the system varied with banks, that whatever might have been the position in the past, things had been considerably modified of late and that the shroff was no longer regarded by all banks as the general guarantor of indigenous business. It was, however, confirmed that commission was paid both by banks and their clients for Chettiar advances. In justification of this payment it was urged that the business was introduced by the shroff and guaranteed by him. When questioned whether such payment was ever made in Madras or Rangoon, where banks did

Explanation of bank Managers.

big Chettiar business, and whether the shroff's guarantee was not more or less nominal, because his means as compared to the resources of the borrower and the aggregate liability incurred by the former was insufficient, they agreed that it was so.

Shroff system resembles the "batta" system of East India Company.

113. Banks have every right to make such inquiries as they consider necessary and through whomsoever they appoint, concerning their clients but when it degenerates into vesting of large powers into the hands of an official, on the basis of commission, the position is likely to lead to abuse of authority. There would be ever that temptation to insist on greater and greater commission and illicit gratification would be a *sine qua non*. In our opinion the shroff system on this basis resembles more or less the "batta" system of Clive in the days of the East India Company. Its corrupt and vicious reactions are facts of history, and the shroff system of banks, if it be anything like what was described to us by witnesses, could not be less intolerable or derogatory. If it has now been modified, as the bank Managers have told us, it is only a step in the right direction, and we trust that banks will take measures for its abolition without further delay.

Shroff system leads to higher interest charge.

114. Because the banks had to pay commission to their shroffs for indigenous and Indian business, it is but natural that they should charge a higher rate of interest than that charged in the case of Europeans. In point of fact, however, much higher interest than what was necessary to cover the payment of the shroff's commission appears to have been charged to the Ceylonese. What with the high rate of interest and what with the shroff's exactions, both authorized and unauthorized, it is no wonder that the men of the Island find the cost of credit higher than their non-European competitors in business.

Shroff's guarantee even for secured advances.

115. The shroff's responsibility for an unsecured advance is perhaps understandable; but when his guarantee is demanded even where there is ample security, it becomes superfluous, and we are told that such is the practice where Ceylonese, leaving aside a few in the higher classes, are concerned. The shroff's charges must be paid, security or no security.

Complications and abuses of shroff system.

116. Several cases have been communicated to us where the shroff would refuse to accept a proposal backed by good security unless his price was paid. Should the borrower happen to incur the shroff's displeasure, the screw would be tightened immediately and demand made for the adjustment of his account. When a shroff dies or retires his successor may not be willing to carry on the account on his responsibility. These sudden and unforeseen demands for payment not only put borrowers to difficulties, but at the same time give the bank a bad name. Occasions like these may not have their origin in the weakness of the debtor, but might be traceable to the avaricious nature of the shroff. Where a borrower is in urgent need of money he may demand far too great a commission than his agreement would allow, and yet he would probably get it. Occasionally on the inducement of large commission he may ignore the principle of safety and recommend an unsound proposal. There have been such cases in the past, when banks have realized how elusive the shroff's responsibility, after all, is. If the proposal is sound, there is no need for the shroff's intervention, and if it is bad, it deserves to be rejected, whether the shroff accepts its liability or not.

Arguments favouring shroff system examined.

117. If it is regarded that, in view of changes, sometimes frequent, in the managerial staff a local officer is necessary to

investigate the borrowers' position and to watch accounts, arrangement in this behalf should certainly be made. What we object to is the system of temptation to which the shroff is subject. If the banks had Ceylonese in responsible positions, trained to do their duty, there would be no need of a special intermediary.

118. Looking to the conditions connected with the grant of bank credit to Ceylonese, and reading between the lines of evidence given by banks and their clients, we can come to only one conclusion. That is that although the bank Managers may not be deliberately discriminating between their European and non-European clients, in actual practice, inequality of treatment does exist. The real head of the banking branch does not possess those opportunities to know his man and he has, so to say, divested himself of the powers of discretion in favour of his shroff, who, either through the conditions of his service or the traditions of his post, is tempted to give preponderating attention to personal aggrandizement and to that extent only is capable of looking into things in their proper perspective. It is indeed singular that the shroff system should exist only in the Ceylonese branches of the Exchange Banks and not in their Indian and other Eastern branches.

Finding on
complaint of
discrimination.

119. To summarise the several complaints against the existing banks made to us by a good many Ceylonese merchants, we can do nothing better than quote below from one of the memoranda submitted to us, which expresses the general opinion of a large number of Ceylonese witnesses before us:—

What do the
Ceylonese complain
about?

“ European Banks here have an avowed object of financing their countrymen, their trade and commerce. And if they include Ceylonese among the circle of the select, such inclusions are granted only on very strict conditions, conditions that are not extracted from the Europeans. Personality of a European ensures him a steady overdraft, whereas the Ceylonese have seldom any personality apart from their possessions, as the banks know their personalities very little. Ceylonese have to undergo humiliations of mortgage and give similar collateral securities to obtain overdrafts. Even the few Ceylonese left untouched by the repacious policies of Indian money-lenders, have stupendous troubles and difficulties to obtain credit from banks. Banks' objections are of course based on inadequate securities, dishonesty and crookedness of the borrowers as they have been represented by the middleman. There is very little of contact between bankers and their Ceylonese clients. Result, ignorance and misunderstanding. The shroffs play havoc in their interference. They look only to their profits and enormous profits they make to the ruin of the trade and industry that had the temerity to borrow money from banks through the shroffs. Shroffs are pernicious individuals and should be scrapped. Losses incurred by banks through their Ceylonese clients are few and far between. Only in abnormal times, such as the prevailing depression, the banks lose anything at all. They are well secured, and their borrowers, owing to a lower rate of interest, will do their utmost to maintain banks' goodwill and deal with them honestly, so as to ensure reciprocity in such honest treatment in return. Ceylonese have a mania for bank accounts and very few would dare to forfeit the privileges involved in such accounts if they could help. But in the case of Chetties they have lost enormously during these days, but

seldom in days of plenty, and prosperity. That is inevitable. The Chettiars have in most cases killed the goose that lay the golden eggs."

(2) *Imperial Bank.*

Imperial Bank of
India.
Bank of Madras.

120. In 1867 the Bank of Madras, one of the three Presidency Banks in India, opened its office in Colombo. On the amalgamation of the Presidency Banks with the Imperial Bank of India in 1921, this branch assumed its present name. The bank accepts deposits and makes advances including discounting of bills. It does banking business of the Government of India and has the monopoly of the deposit of the State funds in the country of its birth. Under its Charter, however, its operations are subject to certain restrictions. The bank is not incorporated under a General Act of the Indian Legislature but under a special Act known as the Imperial Bank of India Act. Its predecessors, the Presidency Banks, were also constituted under special Acts, with a view to ensuring the liquidity of its funds and avoiding risks incidental to fluctuations in foreign currencies. It is not allowed to lend against its own shares or on the original security of immovable properties. The period for which an advance can be left outstanding is limited to six months. It cannot discount bills for or lend to an individual or firm a sum exceeding at any one time Rs. 20 lakhs, except on the security of trustee stocks, funds and securities, and the amount of unsecured overdrafts is limited to Rs. 1 lac in each case.

Colombo branch
of the Imperial
Bank and the
statutory
obligations.

121. In spite of these handicaps the Colombo branch of the Imperial Bank has sympathetically treated applications for credit and wherever possible stretched a point in favour of the borrowers. For example, it cannot lend on the security of landed property but whenever respectable parties, otherwise financially sound, have approached the bank it has lent them six-monthly loans on joint signatures and accepted the properties as collateral security.

Advances to
Chettiars.

122. Until recently the bank used to do large business in Chettiar advances. Owing to the general depression and loss of confidence and the difficulties which Chettiars experience in realizing their loans, the bank's advances to this community have greatly decreased, but at one time its advances to these people are reported to have exceeded Rs. 20 million.

Discretion and
limits for Chetty
business.

123. The bank's Manager has the discretion to entertain or refuse applications for financial accommodation by Chettiars. Beyond certain limits he refers the matter to his office in Madras. Limits for Chettiar advances are invariably fixed by the headquarters of the bank. This is as it ought to be, because these people take advances from the bank at its Indian offices as well, and the bank should determine the total risk it should take on each individual party. It has been reported to us that, although the European clients of the bank may approach the Manager direct, the Ceylonese and Indians, with perhaps a few exceptions, have to apply through the shroff. Even Chettiars are required to go through this channel. From evidence placed before us it appears that, although the shroff is not asked to guarantee advances recommended by him, he carries considerable responsibility in that behalf, and in the event of any shortfall pressure is brought to bear upon him to make good the loss, which he generally does.

Rate of interest on
advances.

124. The Imperial Bank in India advances at what is known as the bank rate on first class bills and against trustee

securities. It has been represented to us that although Europeans in Ceylon can, as a rule, borrow at this rate, Ceylonese and Indians have to pay the "Chetty rate", that is, the rate at which advances are made to the Chettiars, which is 2/3 per cent. higher than the official bank rate. While we recognize that the rates of interest on advances vary according to the nature of the security, this difference appears to be rather high.

125. It is worth noting that the bank pays interest on current accounts in Ceylon, whereas it does not pay anything on such current accounts in India.

126. Unlike the Indian branches, the Colombo branch does not keep savings bank accounts. No savings accounts.

127. The Imperial Bank's nominal rate for buying and selling demand drafts is 1/4 per cent., but in actual practice it is much less. In the case of sales it may even do the business at par. Ceylon always needs funds to finance her exports and sales on India are the most convenient form in which to get money. Remittance rates.

128. The Government of Ceylon keep their principal current account with the Imperial Bank of India and also place large sums as fixed deposits. Ceylon Government accounts with the bank.

129. During its existence of nearly seven decades in the Island, it has no doubt assisted directly as well as indirectly the growth of economic prosperity of Ceylon. The tea, rubber, and coconut industries have all developed to their present status during this period and the assistance of the Imperial Bank in the building up of these three industries of paramount importance must have been no doubt substantial. Bank's assistance in the growth of economic prosperity.

(3) Indian Banks.

130. A few Indian Joint Stock Banks have also branches in Ceylon. They are:— Names of Indian Joint Stock Banks.

- (1) The Indian Bank, Ltd., having its Head Office in Madras;
- (2) The Calicut Bank, Ltd., with its Head Office in Calicut; and
- (3) The Bank of Chettinad, Ltd., with its Head Office in Madras.

131. The first two are public joint stock companies; the third is a private limited company. Nature of constitution.

132. Their business is principally with the Indian people in Ceylon; and in the matter of financing foreign trade their activities are limited to participation in credit connected with the Indo-Ceylonese imports and exports. The total figures of these banks would be found in their balance sheets, but they do not give any idea of their local activities. They do the same kind of work as the Exchange Banks except credit operations connected with the foreign trade of the Island other than what passes between India and Ceylon. It is not possible for us to say what the size of their business is but it is very limited. Nature of business.

133. The Bank of Chettinad, Ltd., we understand, has a number of estates under its ownership. It also deals in merchandise in addition to banking. Being a private company, it need not publish its balance sheets, but under section 136 of the Indian The Bank of Chettinad, Ltd.

Companies' Act it must exhibit a statement of important figures in its place of business. It is practically a family concern of a big Chettiar in India. The conversion of this private banking firm into a limited company is remarkable, as marking the beginning of a new era in which practices and prejudices of centuries are overcome in favour of modernism, progress, and efficiency.

Indian banks not indigenous institutions.

134. All the above-mentioned banks are as foreign to Ceylon as any of those we have dealt with before.

(4) *Indigenous Joint Stock Banks.*

Number and name 135. There are only two small banks registered under the Banking Ordinance of Ceylon. They are the Bank of Uva, Ltd., and the Hatton Bank, Ltd. Both the banks have one office each: none of them has opened any branches.

The Bank of Uva. 136. The Bank of Uva was established in 1884. According to its balance sheet for the year ended December 31, 1933, its paid-up capital is Rs. 210,000 and the reserve fund Rs. 100,000. Its deposits on the same day amounted to Rs. 213,000. On the assets side cash in hand and with banks was Rs. 221,000, advances Rs. 198,000 and investments in Indian Government paper Rs. 99,000. The working expenses for the year amounted to Rs. 26,000 and the net profit for the same period was Rs. 13,600.

The Hatton Bank. 137. The business figures of the Hatton Bank, Ltd., under the principal heads, according to its balance sheet as at the same date were:—*Liabilities*: Paid-up capital Rs. 90,000; balance due to customers Rs. 188,000. *Assets*: Cash in hand and at banks Rs. 88,000; advances Rs. 112,000; land and buildings Rs. 73,000. Balance at credit of profit and loss account was Rs. 6,600.

Remarks on business figures.

138. A scrutiny of these figures reveals the following special features:—

- (a) The business in deposits and loans is small despite the fact that these institutions have been in existence for a long time.
- (b) There has been no geographical expansion.
- (c) Cash balances are far in excess of what would be regarded as sufficient on the basis of deposits.
- (d) Working expenses are large, about 5 per cent. per annum in the case of the Bank of Uva.
- (e) In spite of heavy expenditure, the banks show a net profit of over 6 per cent.

139. Under normal banking conditions such high rates of expenditure and profits would be inexplicable except on the score of usurious rates of interest on lending, but the explanation lies in the special nature of the business of these banks. They are primarily interested as carriers of funds from Colombo to certain estates up-country with which they are associated, and pure banking business is of secondary importance. A commission of 1 per cent. is about the general rate on the supply of remittances. The usual method is that a supplier first provides cash from his own means to the estates and in return gets a cheque payable at Colombo. This price of investment of money for a day or

two is certainly very attractive, even when the fact of physical movement of money, in the absence of usual remittance arrangement, is taken into account.

140. The significance of these indigenous credit institutions, purely from a banking point of view, is not great. They are European concerns.

LENDING AGENCIES AGAINST IMMOVABLE PROPERTY.

141. Before the depression, Ceylon was considered a safe and profitable place for lending moneys on immovable properties. Private capitalists from centres outside Ceylon and foreign insurance companies doing business in Ceylon used to lend moneys on movable and immovable securities and earned a good average rate of interest on such investments. Two years ago, there was no tax on income earned in Ceylon and this was also a further attraction, particularly for big insurance companies for investment of surplus funds on mortgage of immovable properties. As Ceylon offered a good form of security in the shape of tea, rubber, and coconut lands, a large amount was invested in such mortgages. The death duty recently paid by the executors of the late Lord Inchcape amounting to Rs. 8,179,984 gives some idea of the large volume of foreign capital invested in Ceylon. The various firms of proctors holding powers of attorney from their foreign clients and dealing with the investment of foreign capital of their clients in mortgages of properties are also an indication of the huge amount of foreign capital invested in the country. The income tax figures of 1933 show that a sum of over Rs. 5½ million was recovered as a tax on income on foreign capital earned in Ceylon. This includes interest on their investments in tea and rubber companies' shares, as well as interest on properties mortgaged with them. If only a part of this income remained in the country for investment purposes, if local people were not so much in debt, and if they were able to save a part of their income for being utilized in the trade and industries of the country, conditions in Ceylon would be quite different from what they are to-day. A few years ago all the conditions were favourable to the foreign capitalist. He earned good interest on moneys invested, had not to pay income tax and had good security offered to him. The credit facilities provided by banks, insurance companies, and foreign capitalists encouraged the public to go in for more lands and for the improvement of old lands. Because they found ready lenders against their immovable properties, they went on incurring more debts. As the depression in tea and rubber did not affect them much, and their interest in these two industries being much less than that of the European community, they never anticipated the consequences of such a severe depression in coconut industry and such a heavy fall in prices. It is estimated that about 60 per cent. of coconut land owned by the Ceylonese is under mortgage and that more than 75 per cent. of the Ceylonese landowners are in debt.

142. In response to public demand to have an organized credit institution to supply long-term credits to agriculturists the Government of Ceylon appointed in 1927 a special Committee to report on the question. On the recommendation of this Committee the State Mortgage Bank was established in 1932. It is incorporated under a special Ordinance, Ordinance No. 16 of 1931. The bank has no capital of its own. It does not accept deposits. Its resources are derived from debentures which it issues on the security of mortgage loans, which are further guaranteed by Government

Advances against immovable properties.

The State Mortgage Bank.

both as regards principal and interest. The general supervision, control, and administration of the bank's working is vested in a Board of Directors consisting of "five fit and proper persons" appointed by the Governor. All rules made by the Directors are required to be published in the *Gazette*, but they should be consistent with the provisions of the Ordinance. For certain purposes the approval of the Governor is necessary before the rules framed in that behalf can become operative. The accounts of the bank are subject to Government audit.

Loans on properties.

143. The bank supplies a real need in the credit system of the Island. Its beneficial effects, however, have reached only a very small fraction of the people in need of mortgage credit. To a small extent this may be due to the fact that it came into existence only two years ago, but the main difficulty seems to be due to the confusion in titles to land. The bank obviously cannot lend unless a clear title is available. We shall deal with difficulties with regard to title in a subsequent chapter, but would emphasize that complaints about the bank not lending liberally should be directed not against its management or constitution, but against the age-long defective system of documents evidencing ownership in land. No instances have been brought to our notice where an application for credit against Crown title was unreasonably rejected.

Hindrance to bank's business.

144. The concentration of the bank's work in Colombo and the limit of Rs. 5,000 under which it cannot make advances restrict, to a certain extent, the availability of its resources to many sections of the population. Some of the Government Agents have informed us in the course of their evidence that a large percentage of titles in the Eastern Province is usually clear. If this be correct, it is not clear to us why every application to the State Mortgage Bank by residents in that part of the Island was refused. Had the bank closer touch with the people all over the country, perhaps a more correct view of the financial position of the customers would have been taken. As regards the minimum laid down for advances, we need hardly point out that it deprives a very large number of men of small means of the facilities given by the bank and compels them to pay usurious interest to other lending agencies. If it is intended that the bank's working should not be burdened by a large number of small accounts it is necessary that some other agency to fill in this gap should be provided. Our recommendations in this behalf will be found in later sections of our report.

Bank's debentures as trustee securities.

145. The debentures of the bank, because of the State guarantee behind them, are a valuable form of investment and are now classed as "trustee" securities. Some of the witnesses represented to us that, as the law stands at present, State guarantee for the debentures would be of no avail if the amount of debentures floated or outstanding exceeded the value of mortgages. The public, they urge, have no means to ascertain the exact state of affairs and that there is, therefore, a feeling of nervousness amongst some of the debenture-holders that they may, in case of any such discrepancy, lose the benefit of the Government security. It is satisfactory to note that this matter has already engaged the attention of Government who propose to undertake the necessary legislation to protect the debenture-holders against the contravention of the relative section of the Ordinance by those in charge of the bank's administration.

146. Until September 30, 1933, the bank had made mortgage loans aggregating Rs. 1,188,671. Out of this about Rs. 7,000 had been repaid and were to be utilized for redemption of debentures. The total amount of debentures issued up to the same date was Rs. 982,400. Out of this debentures worth Rs. 1,450 had been redeemed and the balance outstanding on September 30, 1933, was Rs. 980,950. The bank lends at 6½ per cent. and pays 4½ per cent. on its debentures. The working of the bank from the beginning to the end of September last year covering a period of two years discloses a loss of Rs. 26,587. This would disappear with an increase in the bank's business. The main source of its income is the difference between the lending and borrowing rates, and the income from such difference should enlarge with the volume of transactions. Expenses, on the other hand, are likely to remain constant, and even if they did rise the increase would not be in the same proportion, because overhead charges would be stationary for a greater range of business. This is further clear from the fact that the loss at the end of the first year of working was Rs. 21,521, but that for the second year it came down to Rs. 5,066 only. We suggest that the Directors of the bank should volunteer to serve the bank without receiving any fees till the bank is in a position to meet its own expenses. It is also desirable, having regard to the small volume of business transacted by the bank, that there should be some retrenchment in the establishment charges. Bank's income and expenditure.

147. As regards the nature of business and the authority vested in the bank to entertain such business under the present Ordinance, we are of opinion that the existing arrangements call for a revision. The first and foremost aim of such an institution, with Government guarantee, should be to reduce short-term mortgages against agricultural lands running at high rates of interest and to convert them into long-term mortgages at low rates of interest. The object of establishing this bank cannot be anything else than to relieve the owners of agricultural lands already mortgaged from heavy interest burden and to give them an opportunity to redeem their mortgages by small instalments out of the land's income and to enable them to free themselves from debts within 15 to 20 years. We are afraid, this object is not fulfilled under the present organization. Need for revision of bank's policy.

148. Of the loans granted by the State Mortgage Bank Rs. 473,000* have been loaned against town properties, whereas the Ordinance contemplates such advances for "agricultural land", "redemption of debt", "purchase of raw agricultural land", &c. It is doubtful if advances are really applied to these purposes. The funds of this bank should not, in our opinion, be available, except for releasing a running mortgage against agricultural land. If the security of such land be insufficient for the amount of the loan required, and if no more agricultural land can be offered, land or property, in town should be accepted by the bank as additional security only. In all cases agricultural land should provide the bulk of securities against loans and not land in town. The State Mortgage Bank was established with the sole idea of giving relief to agriculturists against their existing creditors, by extending to them long-term credit at low rates of interest and owners of land in towns have no claim on such facilities as there are already a number of institutions, banks, insurance companies, the Ceylon Savings Bank, the Loan Board, Bank's advances.

* Up to September 30, 1934. The total of all mortgage loans outstanding on that date was Rs. 1,648,000.

and private money-lenders to cater to their wants. If the bank is allowed to run under its present constitution, we do not think that it will be able to render any appreciable service to the agriculturists and agricultural landowners of the country. The security of town land would admittedly be preferable to agricultural land, the title to town land being generally more clear and acceptable than to agricultural land, but this would be no excuse for not adhering to the primary idea for which such an organization is established. An institution lending moneys against town lands for the purposes of buying land or for other business purposes, in our opinion, deserves no help from the State.

Losses met from public funds.

149. The losses incurred in connection with the working of the State Mortgage Bank are met from public funds and, in practice, this amounts to a grant of Government subsidy. Under the Agricultural Credit Act of 1928 the British Treasury contributes £10,000 every year to the working cost of the Agricultural Mortgage Corporation, Ltd., and it is but proper that institutions in Ceylon providing long-term credit for agriculturists and endeavouring to save them from the heavy burden of interest on their indebtedness should receive support from Government during the early stage.

150. We deal with the State Mortgage Bank more exhaustively in the Chapter on Agricultural Finance.

Loan Board.

151. The Loan Board is constituted under Ordinance No. 4 of 1865. Its principal function is to receive and invest moneys deposited in the Supreme and District Courts by suitors, and to relieve the Judges from the responsibility of the management thereof. Funds belonging to trustees, tutors, curators, guardians, executors, administrators, receivers, minors, insane persons, deceased persons, and insolvent and trust estates can also be administered by the Board. Funds administered by Weeskamer and Boedekamer in the time of the Dutch Government are also looked after by the Board.

Its constitution.

152. The powers of the Board are vested in three or more Commissioners who are nominated, from time to time, as occasion may require, by the Governor, subject to the pleasure of His Majesty the King. One of these Commissioners is designated the Chief Commissioner who is the Chairman of the Board. They can lend out all or any portion of such money at interest, subject to rules framed in that behalf by themselves and approved by the Governor.

153. An institution of this nature provides expert financial management of funds which temporarily come into the hands of the judiciary and officials closely allied with its work.

Assets and liabilities.

154. As will be seen from the following statement of the assets and liabilities of the Board, the major portion of its funds, about Rs. 5.4 million, is utilized as loans on house properties. These advances are for long and medium terms. To this extent the Board serves a useful purpose in the credit scheme of the Island. About Rs. 2.2 million are invested in Dominion, Colonial, and Indian stocks. If there were scope for such types of investments in the country, there is no reason why all this money should be employed outside. If more loans of the Government of Ceylon and debentures of the State Mortgage Bank become available, a portion at least of external securities could be converted into domestic bonds. The present investments, in so far as they are not expressed as payable in rupees, carry a

certain amount of risk of loss in exchange, and are, therefore, in no way superior to the obligations of the Government of the country itself. The assets and liabilities on September 30, 1933, were as below:—

LIABILITIES.	Rs. (1,000)	ASSETS.	Rs. (1,000)
District and Supreme Court suits	7,793	Loans on house properties .	5,427
Reserve and Depreciation Fund	452	Investment in Dominion and Colonial stocks ..	1,401
Interest on loans and invest- ments	330	Investment in India Govern- ment loan ..	857
Due to Government Agents and their Assistants ..	54	Investment in Ceylon Gov- ernment stock ..	388
		Investment in debentures of State Mortgage Bank. .	105
		Fixed deposits in local banks	137
		Recoverable advances on loans	10
		Balance in Treasurer's hands	304
	8,629		8,629

155. The accounts of the Board are audited by the Auditor-General. In the case of the Loan Board and the Ceylon Savings Bank, money is advanced against immovable property. We would suggest that a Valuation Report of such properties should be made by competent valuers every five years.

156. No fixed interest is payable on deposits lodged with the Board, but dividends out of profits made on loans and invest-
Interest and other charges.
ments are declared from time to time. No person entitled to receive interest on any money in deposit in the Loan Board is, however, entitled to receive as interest a larger amount than the principal, if at the time of payment the interest unpaid and arrears exceed the principal. One-fifth of the interest income or the actual expenses incurred by the Government in the management of the work of the Board, whichever is higher, is payable to the exchequer.

157. If any money deposited with the Board is for some reason
Forfeiture of unclaimed funds
not claimed by a person having a just and lawful right thereto for the period of one-third of a century from the date of such deposit, or having been claimed, such claim shall have been abandoned, withdrawn or not prosecuted within one year from the date of the claim, or if such claim has been set aside, it lapses to the Crown and the Commissioners are required to pay that amount to the public revenue, but to be appropriated for such purpose cognate to or connected with the administration of justice. If any money remains similarly unclaimed or unpaid for a period of ten years, but less than 33½ years, the Commissioners are required to pay it similarly to the public revenue to be used for the purposes aforesaid, but in that case the rightful person can receive it, together with the interest due thereon, from the public revenue, within a third of a century from the date of deposit on his successfully establishing his claim thereto in a competent court. The reason for forfeiture is said to be the inconvenience which results from the retention of such accounts in the books and accounts of the Board.

158. It is, in our opinion, desirable that instead of ear-mark-
Application of forfeited amounts.
ing the lapsed amounts for purposes cognate to or connected with the administration of justice, it should be left to the discretion of the Legislature to determine how and for what purposes such money should be utilized. We are opposed to such money being

used for ordinary expenditure of the Government; but it should be possible for the State to spend it on useful public and economic objects.

CHETTIARS.

Chettians, foremost private financiers.

159. Among private financiers the place of pride must be given to the class of bankers and money-lenders popularly known as Chetties or Chettians. While walking through the streets of Colombo, Negombo, Kandy or any other big town in the Island, one cannot fail to be attracted by the name-board of a Chettiar with various letters of the alphabet preceding his surname. Their business in money is so well-known and vast that their name is synonymous with private banking.

Their connection with the Island.

160. The connection of the Chettians with the Island dates back to remote times when they appear to have migrated to Ceylon from Chettinad, a barren and waterless region in Southern India. Their activities are not, however, confined to Ceylon alone. They do business in the Madras Presidency, Burma, Federated Malay States, Straits Settlements, and Cochin-China; Siam, Java, Sumatra, and Mauritius. Thus the community is mobile in its operations and locale, and its business has combined banking with trading, changing from trade to money-lending or one business or another, and moving from place to place, whichever offers better chances of profit.

Lucrative credit transactions.

161. The importance of their intrusion in the economic life of the Island dates back to more than 150 years. With the opening up of the country there came opportunities for lucrative employment of capital in credit transactions. Not only did they advance from their own resources but they took loans and deposits to supplement their means. Their borrowing was not confined to Ceylon but extended to India, Burma, and other places wherever that was possible; nor was it only restricted to friends, relatives, private parties. We have shown in an earlier section of the report how the community formed a distinct link between the banks and the public, freeing the former in a considerable measure from the risk in direct lending and working as a medium between the suppliers and seekers of credit.

Chettians' share in the building up of Ceylon.

162. It must be said to their credit that in moving surplus capital from places, both internal and external to the points of requirements, they have contributed in no small measure to the economic development of the Island. European enterprises relied upon English funds to acquire lands and develop them into flourishing estates. The Ceylonese had no such external support or own savings to help them. They turned to the Chettiar and found a ready response. It is gratifying to note that several of the witnesses have paid an ungrudging tribute to the Chettiar's share in the building up of Ceylon, in the absence of which foreign penetration might have been greater and more serious.

What they think of themselves.

163. It is interesting to know what the Chettians themselves think of the part they play in the economic life of the country. We give below an extract from their written memorandum, wherein they speak about their contribution "in the development of the agriculture, industries, and commerce of Ceylon"—

"A few words may not be out of place in this connection in regard to the part that the Nattukottai Chettiar community has played in the development of the agriculture,

industries, and commerce of Ceylon. With the exception of a few Ceylonese who had facilities for obtaining credit from the local banks, the bulk of the Ceylonese had to resort to the Chettiar money-lender in order to be financed in their various undertakings. The Chettiar went forward boldly to the rescue of the Ceylonese applicants for loans of money. He lent both on mortgages as well as otherwise. In view of the admitted fact that the law of title to land in Ceylon is highly complicated, it is really commendable that the Chettiars invested so freely on the mortgage of Ceylon lands. Large acreages of Ceylon jungle and waste lands have been opened up and cultivated with coconut with the aid of money borrowed from the Chettiar community. Several industrial and commercial undertakings have been freely financed by them and the petty trader and retailer had to depend entirely upon the Chettiar for financial assistance. A noteworthy feature of all these transactions is that money became available to the Ceylonese borrower at a moment's notice in any part of the day or night, without his being obliged to go through the formalities which a borrower had to experience elsewhere."

164. They, indeed, "went forward boldly" with much greater intrepidity than it was good for them or their debtors.

165. We are obliged to the Nattukottai Chettiars' Association for the figures of their business in Ceylon supplied by them. The membership of this body is open to the Nattukottai Chettiars only, *i.e.*, those who came from Chettinad in India, and all such Chettiars in the Island are actually its members. It must be explained here that there are other Chettiars also who have come from other parts of South India, but those people are engaged more in trade than in finance. About 100 of such Chettiars are said to be working as oil mongers, and their activities are, therefore, not material to our inquiry. It is the Nattukottai Chettiar who is the banker and with whom we are principally concerned. The association was started about 7 years back. It is strange that the formation of an organization like this should have been so late in coming. Perhaps it was the approaching depression that combined them to view together their common problems and decide on a united policy and action. They determine from time to time problems concerning their business and the minimum rate of interest to be charged to their borrowers, but even when there was no such formal adhesive institution, they generally consulted among themselves in regard to rates of interest and charges.

166. According to the memorandum of the Chettiars' Association, published in Volume II. of the Report, there are about 556 Chettiar firms in the Island, 450 of them being principal and the rest additional offices. Most of them have their local headquarters in Colombo. Before the depression their number was 50 per cent. greater. In the generality of cases their business is money lending but a large number of them also work as pawnbrokers, piece goods merchants, importers of rice, estate suppliers, estate owners, retail shopkeepers, grocers, millowners, &c. About 100 of them do purely pawnbroking. This formidable catalogue of their occupations need cause no surprise, because according to their evidence it was only about 8 or 9 years ago that they changed their principal calling from trading to banking.

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167. Their memorandum also gives rough figures of their business. Their total investment in the Island is Rs. 10 crores, classified as under—

	Rs. (1,000)	Rs. (1,000)
" A " In Business and Properties—		
(1) About 50,000 acres of agricultural land and estates (approximate distribution in various kinds of estates and lands being 70 per cent. coconut, 15 per cent. rubber, and 15 per cent. tea, cacao, &c.)	30,000	
(2) In purchasing house properties in principal towns ..	6,000	
(3) As business capital in retail shops, estate supplies, rice-trade, import business, &c. ..	10,000	
	<hr/>	46,000
" B " In Lendings—		
(4) In pawnbroking advances ..	4,000	
(5) In mortgages ..	20,000	
(6) In other advances, <i>i.e.</i> , on promissory notes, &c. ..	25,000	
(7) In deposit with banks ..	5,000	
	<hr/>	54,000
Total ..		<hr/> 100,000 <hr/>

168. The whole of the investment is not financed from their own capital. Some of it is borrowed. According to the memorandum the sources of their funds are as under—

	Approximate Rs. (1,000).
(1) Their total capital ..	85,000
(2) Borrowed from relations in India ..	14,000
(3) Borrowed from local banks ..	1,000 . . .
Total ..	<hr/> 100,000 <hr/>

Business
outstandings.

169. Before the recent depression the value of their business in Ceylon was estimated at Rs. 150 million. The excess of their investments then over their own capital, *viz.*, Rs. 65 million, was obtained by borrowing Rs. 40 million from friends and relatives in India and Rs. 25 million from local banks. They have been able to collect Rs. 50 million of their debts during the last 8 to 9 years which have been utilized in repaying Rs. 24 million to banks and the rest has been repatriated to India. The community is very pessimistic about the full recovery of their loans or the book value of their investments. They estimate that if the present conditions continue, they would lose about Rs. 40 million or 40 per cent. of their total investment in Ceylon.

Figures not
authentic.

170. We have merely reproduced the figures given in the Chettiars' memorandum. It is difficult to say if these figures are correct, as there are no reliable data to test them. Some of the witnesses have told us that the Chettiars' interest in the Island is not less than Rs. 500 million; others are more modest in their estimate and place the figure at Rs. 250 million. There are no data behind their calculations and their answers are no more valuable than mere conjectures. In the absence of statistical material, the figures of the association cannot be lightly refuted. If, however, one attempts to reconcile their estimate of business with the reports of general indebtedness, and the fact that the Chettiars are the principal lenders to the indigenous population, one must admit that there is a wide gulf.

171. We can, therefore, do nothing more than leave the ^{Recommendation} problem with our recommendation to Government to take up the ^{to help} question of agricultural indebtedness and to ascertain the real ^{agriculturalists.} position so as to find means to help owners of agricultural land. Whatever may be the position in the past, the future of the Chettians in the economics of the Island is a question of paramount importance.

172. There is no doubt that there is considerable shrinkage in ^{Shrinkage of} their activities. Their memorandum shows that they are them- ^{Chettian business.} selves hesitant about their future policy. In support of their reluctance "to extend, nay even continue, their money-lending business in the Island" they give certain reasons which may be summarized as under:—

- (1) The nervousness of banks in times of crisis and their wholesale calling back of advances put a very heavy strain on the Chettian lending machinery which it cannot bear at all times and in all circumstances;
- (2) In order to meet bank demands they have in turn to call upon their borrowers to pay up, which gives them a bad name as well as results in loss, as is usually the case in forced liquidations;
- (3) Although they recognize and fulfil their obligations to pay banks, even if necessary, by incurring heavy sacrifice involved in turning their assets into cash, they do not experience the same treatment at the hands of their debtors;
- (4) The losses incurred during the present crisis make them doubt whether it is worth while continuing lending operations; and they think that perhaps trade and industry offer better scope and security;
- (5) The introduction of income tax discourages foreign investments in the Island, particularly, at the time of dwindling incomes;
- (6) "The talk now and again of a moratorium" (reference is to the Judgment Debtors' Bill) makes the Chettian nervous and suspicious.

173. The reasons adduced by the Chettians' Association for ^{Short period} restricting their activities cannot be lightly brushed aside. In ^{borrowings for} view of their experience they would not be human if they were ^{long-term credits.} not cautious. There are, moreover, other factors militating against the continuance of their money lending operations on the same scale as in the past. There is a rude awakening of both the banks and the Chettians to the fact that it is basically wrong to finance long-term activities, or where the prospect of repayment within a reasonable time is uncertain or remote, out of short period borrowings. The system must break down under the slightest pressure. Their mutual dealings, even if they recommence, will be very much restricted. It is immaterial to our question whether the curtailment occurs through the unwillingness of the banker to lend or that of the Chettian to borrow. The result in both cases is the same—shrinkage in resources and reduced loan policy. To this must be added the increased desire on the part of the people to have their own credit institutions.

174. There now remains to consider the criticism levelled ^{Is the Chettian a} against the Chettian. We need not pay any heed to vague and ^{"blood sucker"} abusive epithets like "blood sucker" and "Shylock", which ^{and a "Shylock"?}

some of the people hurl at him. Such criticism is generally found to be the result of sentimentalism and impudent improvidence. Barring these fanatical attacks, the complaints against this community of bankers can be summarized as under:—

- (1) In order to overcome the stipulations of interest in the Money-lenders' Ordinance, which must apply to the Chettiar and every professional money-lender, he is resorting to the practice of compelling the borrower to make fictitious entries in the promissory notes and other documents of debt, so that on the face of it the transaction may appear to be within the four corners of the law but in reality he may have greater return of interest.
- (2) Many a business is said to have failed because of the Chettiar's prohibitive interest charge.
- (3) His deducting interest in advance and recovering by instalments without rebate of interest amounts to a considerable increase in the amount of real interest paid.
- (4) The rates of interest charged by him, even where no malpractices of the above nature are alleged, are high.
- (5) Liquidation of debt by acquisition of borrower's properties through the execution of writ has led to the transfer of lands and buildings from the indigenous people to the non-Ceylonese.
- (6) Many borrowers whose lands and estates are sold in satisfaction of debt are deprived of their hearth and home and means of living.
- (7) There is a drain of wealth from Ceylon to India in respect of the Chettiar's profits on his business.

Reasons for high rates charged. 175. Charges (1) to (4) are of a general character and could hold good in the case of almost every money-lender. We shall discuss them in common with other similar cases when considering the position of professional money-lenders and the Money-lenders' Ordinance. It should, however, be said in fairness to the Chettiar that his actions are cleaner than those of the ordinary class of money-lenders. Except perhaps with the object of getting more interest than what the law allows him he does not obtain fictitious documents. Nor does he resort to the practice of making false entries in promissory notes or accounts, commonly found in the lower types of money-lenders. Usually his rates are under the limits sanctioned by legislation. It is only in exceptional cases where the risk is great that he may try to evade the law, and that too would perhaps be attempted by the lower class of Chetties. Their own comment on this accusation of high interest given in their memorandum is:—

“ Leaving aside the case of the petty lenders it is correct to state that the average rate of interest charged by a Chettiar firm from his customer is 13½ per cent. per annum. If the Chettiar had to borrow this money from the bank he would have to pay at an average rate of 9 per cent. per annum plus an average commission of 1½ per cent. per annum. We submit that the difference of 3½ per cent. is hardly sufficient to cover the extraordinary risk which a Chettiar money-lender takes in his transactions.”

176. Every one of our witnesses, and there were many proctors and advocates amongst them, who was asked about the cares exercised by the Chettiar in selecting his securities told us that he was not at all particular. Many a title has been accepted by him which no bank would care to look at. The rigidity with which the State Mortgage Bank examines security is becoming proverbial. It may be that having the benefit of personal knowledge derived from close contact with the borrower, he knew that the risk pointed out by his lawyer was not of much consequence in practice, but that should not alter the possibility of a serious predicament in the event of recovery being the subject matter of a suit or his assumption of onerous burden of legal proofs and incurring legal and "extra-legal" costs when applying or appealing to law. When allowance is made for the irrevocable expenditure that he is put to in such cases and the loss that he suffers, and there cannot be much doubt that in terms of their legal or contractual claims they stand to lose heavily on the present day prices of their securities, we do not think that the margin of $3\frac{1}{2}$ per cent. per annum is usurious, because the loss has to be regarded as being recouped from earnings from interest. This would be apparent if compared with profits available in trade and industry.

Slackness in the selection of securities.

177. The accusation of acquiring the borrower's properties in satisfaction of debt has to be viewed from two different and opposite view points. Does the Chettiar desire to exchange his mantle of banker for that of the landlord? Or does he do so as a matter of necessity to protect himself against deterioration in debt? There is a considerable amount of unanimity in evidence and we can safely say that he is not at all anxious to own properties; his business is to deal in cash and money obligations. It is against the very essence of his calling to lock up funds in lands and buildings and prevent their being turned over and over again. Whatever estates he has bought he is prepared to hand back even at a lesser price than the one he has paid. The conclusion that he is being forced to take over properties in the interests of preservation of his assets seems to be irresistible.

Acquisition of borrower's properties.

178. When the amount of debt becomes more than the value of security, the borrower takes little interest in its upkeep. He tries to take out as much as he can regardless of the consequences. He neglects to pay interest and allows his indebtedness to mount up. He evades his creditor instead of coming to some reasonable understanding. At times he adopts a threatening attitude defying the creditor to do his worst. It is of the essence of banking to cut short losses by realizing securities and not allowing values to slide down in the vain hope that one day things would brighten up.

Borrower's lack of interest in property.

179. It is unfortunate that foreclosure deprives many a debtor of his well-cherished home, but that is scarcely any fault of the Chettiar. If he had not advanced, perhaps someone else would have done so and at a much higher price, in which case the borrower would have been dispossessed of his property earlier.

Foreclosure.

180. One might expect that the creditor should allow the unlucky owner to work as a tenant or labourer on the field after the loss of his land. We tried to ascertain why it was not usually done. The explanation we got appears reasonable. When the debtor through his indifference has brought himself to that pass, he is not likely to be particularly careful when there is no incentive for retaining ownership. To keep him longer on the property would lead to further depreciation in the asset.

Owner as tenant.

Chettiar's gain.

181. The complaint that there is drain of wealth in the form of the Chettiar's gain requires some qualification before it can be accepted. If they had a continuous run of good luck, and did not reinvest their profits in the country, we would say that it was so, but their losses through depression, and buying of properties considerably modify that case. Instead of their taking out, on balance, it may turn out to be the question of bringing in money. Even if we omit these mitigating conditions, they are no more to blame than any other foreigners working in Ceylon.

Principal defect in the Chettiar system.

182. The greatest defect of the Chettiar system, in our opinion, is that the credit allowed by it being too facile, it harms both the borrower and the lender. The debtor is deprived of the opportunities of devising ways of self-help or using his initiative and powers in overcoming difficulties. Easy credit gives him a wrong notion of values in general and lulls him into a false sense of security. If the borrower in Ceylon has failed to develop that keen sense of punctuality in meeting his obligations, the behaviour of the Chettiar has in no small way contributed to the development of that situation. If he had been strict in lending, if he had refused to ignore the legal defects in title or at least scrutinized them more fully, and if he had insisted on payment at maturity, much of the unnecessary and reckless borrowing would have been avoided and the misery of debt both to the debtor and the creditor would not be as we find it to-day. Perhaps it was the prosperity shouldered by bountiful nature in Ceylon that made them blind to the economic realities of debts.

MINOR CREDIT AGENCIES.

(1) Pawnbrokers.

Their place in credit institutions.

183. Among minor credit institutions the pawnbrokers occupy a prominent place. They are available to every one who can offer acceptable security. In the Eastern countries women folk keep a portion of their savings in ornaments which form a suitable basis for raising credit for the family in times of need. Loans against jewellery from neighbours, friends, and private lenders have been raised for ages. In pawnbrokers we find specialization and extension of this method of financial accommodation.

Who are pawnbrokers?

184. Pawnbroking is done in Ceylon by the Ceylonese as well as by the Chettians. The business of a pawnbroker may not be large, and the amount of his dealings is always small, but the aggregate business of the whole class is certainly not insignificant. We have not been able to ascertain the number of pawnbrokers or the volume of their transactions, but some idea of their activity can be obtained from the figures supplied to us by the Ceylon Nattukottai Chettians' Association. According to their memorandum published in Volume II. of the Report, about 100 Nattukottai Chettians do pawnbroking either as a business in itself or as a side line. The amount invested by these 100 firms in pawnbroking is said to be Rs. 4 million. Some people estimate the total credit granted by all the pawnbrokers in the Island at Rs. 10 million.

Ordinance No. 8 of 1893.

185. The activities of pawnbrokers in Ceylon are governed by Ordinance No. 8 of 1893 as amended from time to time. But there is no such regulation in areas where the Ordinance is not proclaimed. Further, this Ordinance applies only in cases in which the sum lent by a pawnbroker at any one time does not exceed Rs. 500.

Legal restraints on pawnbroker.

186. Every pawnbroker is required to take out a yearly licence from the Government Agent or his assistant, under whose

territorial jurisdiction he resides. No auctioneer can be a pawnbroker. Unless there is something discreditable or dishonest about a man the licence would not be refused. A copy of each licence is given to the police. A pawnbroker is required to keep accounts and records of pledges in prescribed forms and to submit them for the examination of a Police Magistrate whenever called upon to do so and to give inspection of such books, documents, papers, and pawns to a Police Officer, not below the rank of Inspector, whenever such officer visits his place of business for such purpose.

187. Every pledge is redeemable within twelve months. If the amount of advance is Rs. 5 or less and the article in pawn is not redeemed within a year and seven days of grace, it becomes the pawnbroker's absolute property. For higher amounts goods pledged can only be disposed of by sale by public auction. Both the pawnbroker and the auctioneer are required to observe certain formalities and to keep notes of the auction in prescribed forms, but there is no restriction upon the pawnbroker in bidding publicly at such auctions. Sale of pawns.

188. He is required to give inspection of the sale entry to the pawner and to pay to him, on demand, the excess of sale proceeds over the amount of loan, interest, and auction expenses, provided such inspection of excess is asked for within two years from the date of sale. Obligation to give inspection.

189. Rates of interest charged by the pawnbroker are also controlled by this legislation. If the amount of loan is Rs. 20 or under, he cannot claim more than 2 cents per rupee per month, but when the amount is more, the rate is reduced to 2 cents for every sum of one rupee and 25 cents. In addition to interest he can charge 4 cents for a pawn ticket, which is reduced to 2 cents when the loan is for Rs. 5 and under. The pawnbroker is required to exhibit this information in English, Sinhalese, and Tamil in a conspicuous part of his shop. Rate of interest.

190. Violation of the Pawnbrokers' Ordinance is punishable with a fine or imprisonment, *e.g.*, if a person acts as a pawnbroker without a licence he becomes liable to a fine up to Rs. 100 or imprisonment for six months for every such act. Punishments for violation.

191. Complaints were made to us in the course of inquiry about the malpractices of the pawnbrokers. They are of the following nature:— Complaints.

- (1) A smaller sum is advanced than that shown on the pawn ticket;
- (2) An unauthorized deduction is made so as to get higher interest than what is permissible under the law;
- (3) Bogus auctions are arranged and the pledges are purchased by the pawnbroker either directly or indirectly through nominees for much less than their real values;
- (4) The authorized rates of interest are high.
- (5) There are many unlicensed pawnbrokers.

192. It may be true that grievances (1) to (3) are general, but it is impossible to suggest any remedy unless the pawner himself co-operates. The Ordinance gives him sufficient protection and if he fails to take advantage of it, the fault is entirely his. Legislation can never help the reckless and improvident. In our opinion, sufficient penalties are already provided to check the dishonesty of the pledgees and there is no room to introduce any further legal measures. Complaints (1) to (3) examined.

Complaint (4)
examined.

193. With regard to complaint (4) we have to view the problem not merely as representing the cost for the use of money, but in conjunction with the working expenses of the pawnbroker and his responsibilities. In law he is liable for the value of the pledge if it is lost, stolen, or destroyed by fire and for damages if there is depreciation in value due to his neglect. There is also the possibility of the pledged article turning out to be stolen property, in which case he would be deprived of the security and saddled with the loss of the advance. His rate of interest must include price for compensation of such risk or insurance premium in case he elects to cover it with a third party. In the case of bulky articles, such as furniture, there are factors of rent and damage by white-ants to be taken into consideration. The amount of these loans is small so that the actual interest received is never large. If deductions are made for reasonable interest and insurance premium, or a charge in lieu of it, the balance will not be found too high for the safe custody and management of the loan. The utmost that he can take for a loan of Rs. 2 for 12 months is 50 cents. Even if we consider 15 per cent. per annum as the reasonable charge for interest and insurance, which is not excessive looking to the fact that the legalized rate of interest is 20 per cent., he has hardly 20 cents left for his working expenses, rent and safe custody charges. This is by no means excessive.

Complaint (5)
examined.

194. Complaint (5) can be removed by the promulgation of the Ordinance in the areas to which it has not been extended so far. If the complaints exist in notified areas it can be removed by the added vigilance of the Police and the public. Heavy penalty is prescribed for not taking out licences. It must, however, be pointed out that every one advancing on the pledges of goods is not a pawnbroker. It is only when he keeps a place of business for such a purpose that he comes under the law. We approve of this distinction between professional and non-professional lending on the security of goods.

New agencies
suggested.

195. The removal of the evils of the present system of pawnbroking does not lie in further legislation but in the introduction of public-spirited and honest agencies. If Municipalities and Urban District Councils open pawnbroking departments or if limited liability companies are started for this purpose by respectable people of a village or town, the business will be purged of its present abuses. It does not require much capital which will be beyond the means of such institutions and gentry to provide. An expert shroff or merchant can be associated with the business to assess the value of the pledges offered. He may be made manager of the concern. At any rate the nature of the undertaking is not difficult or complicated. Gold and silver ornaments, silver plate and other articles of value and usefulness would be brought as security and every well-to-do person is generally in a position to more or less correctly appraise their value and quality. Intricate cases may not be accepted until the management has gained detailed knowledge and experience of the craft or guarantee of some respectable local party may be taken in addition to the pledge. On account of the absolute safety of the advances and fair return the movement should well spread once its profitability and suitability are demonstrated. It would of course be necessary to keep the working expenses under check. Where the amount and turnover of business are not large enough to warrant engaging whole-time staff,

pawnbroking would have to be carried on as a side line. The work can be done by paying small extra allowances to the already existing staff.

196. There is, however, one serious defect in the present Ordinance to which little public attention seems to have been given. We refer to section 14 of the Ordinance. The surplus on the sale of a pledge remains with the pawnbroker and if not claimed within two years lapses to him. If the business of the pawnbroker fails during this period, the pawner will be entitled to only *pro rata* distribution and may lose a part of his money. The question arises: Why should he forfeit his amount if the pledger fails to make a claim within two years? Why should it accrue to the pawnbroker? The relation between the pledger and the pledgee should, in our opinion, continue to be the same after the sale, and the pledgee should not cease to be a trustee for the pledger's property. We suggest that the pawnbroker should be required to deposit all such surplus, as soon as available, in a special account in his name in the Post Office Savings Bank, giving full details in each entry and specifying that no withdrawals should be allowed from it unless the withdrawal form is in favour of the particular pawner entitled to it and is further supported by the relative pawn-ticket. The amount standing to the credit of this account should be regarded as trust money, solely for payment to those who are entitled to it, and not available for the general creditors of the pawnbroker. To compensate the Savings Bank for additional work no interest need be paid on this account. If any amount remains unclaimed for a period of three years from the date of deposit, it should lapse to the State and be utilized for public purposes. We have purposely suggested the name of the Post Office Savings Bank instead of any other financial institution because of its easy accessibility in every part of the Island.

197. Another improvement in the law can also be made. In order to get a reliable idea of the financial business of this class of lenders, they should be required to submit every year, on a stated date, the figures of their business. Returns submitted by the licensed individuals should be grouped together in the State Statistical Department and the total figures published for the public information. Submission of these statements should be a condition for the grant of licence and its non-observance should be punishable with a fine and forfeiture of the rights to do pawnbroking business. The following particulars should be asked for in these returns:—

Statistics of business to be asked for.

- (1) Number of borrowers on books at the end of the year.
- (2) The total of loans outstanding at the end of the year.
- (3) The distribution and the number and amounts of these advances according to the nature of the pledge.
- (4) The number and amount of advances made during the preceding year.
- (5) Number and amount of pledges redeemed by pledgers during the year.
- (6) Number and total amount of advances of Rs. 5 or less adjusted through the automatic acquisition of pawned articles under section 10 of the Ordinance.
- (7) Number of auctions held and the amount realized thereat.
- (8) Number and amount of advances repaid through sales.
- (9) The number of cases in which auctions resulted in surplus and the total of such surpluses.

- (10) The number of cases in which auctions resulted in deficit and the total of such deficiency.
- (11) The number of persons and the total surplus deposited on their behalf with the Post Office.
- (12) The number of cases and the total amount which has lapsed to the Government on the expiry of three years.

(2) *Boutique-keepers.*

Business.

198. Scattered throughout the countryside are the boutique-keepers, the village traders and financiers. It is to them that the cultivators must go for their seed paddy, food-stuffs and curry-stuffs, and it is to them that the crops must be taken for sale. Likewise the labourers on the estates and the rural folk must resort to the boutique-keeper for petty loans and to buy on credit necessities of life, to be repaid when they get their pay or produce. There is no taking of bonds or promissory notes and the credit is based on the personal knowledge of the borrower. Very rarely is there deliberate default in spite of want of borrower's signature.

Credit operations.

199. The method of business of the boutique-keeper is usually to debit his clients in their running accounts with what they lend or sell and to credit them with the price of goods they bring to him. It is left to him at what rate to sell. The village buyer has no option in the matter, because there is no one else who will sell him on credit. Where no cash is advanced, no interest may be charged, but he has the upper hand in determining the price at which to buy his debtor's crop; and this is so fixed as to compensate him for his trouble and loss of interest. The practice, however, varies with different boutique-keepers and local custom and usage. In some cases when seed paddy is advanced, the boutique-keeper stipulates that one and a half would be returned at the harvest time for every amunam given. It takes about six months for paddy to mature, so that the excess actually works out at 100 per cent. per annum. If through misfortune and bad weather the crop fails and the payment is postponed for another year, two amunams must be paid instead of one and a half and a fresh loan of paddy would also be needed to sow the next year's crop. When the loan is returned at the end of the next year's crop, the price paid for its use works out to 66 $\frac{2}{3}$ per cent. It is curious that the interest when equated to time of advance should be less for the longer period. Is it so because the creditor being a practical man takes a realistic view of the debtor's enfeebled position? In other parts of the Island where weather is always an uncertain factor two amunams are required to repay one amunam even if repaid at the next harvest. This is to compensate him for increased losses due to greater probability of failure of crops.

Advantages of loans in kind.

200. The practice of loans in kind have one great advantage about it. There is no variation in the burden of debt due to changes in commodity prices. The agriculturist in other countries has been ruined by the present depression on account of increase in the weight of monetary obligation due to fall in the price of primary produce. Here in Ceylon the village cultivator is left practically unscathed. The severity of the fall has affected his creditor.

Credit on running account.

201. Sometimes the practice is to debit the borrower with the value of seed and other supplies including petty cash and to

charge him interest on the running account. Various figures were given to us of the rate at which interest is claimed. The average, however, appears to be 18 to 24 per cent.

202. Emphasis was laid by several witnesses on the high rate of interest which the boutique-keeper charges to his clients and the dictatorial manner in which he fixes prices both when selling and buying. No doubt there is some substance in these accusations. But it would be unfair to ignore the peculiarities of the situation and condemn him wholesale. There are mitigating circumstances to be taken into consideration. In advancing to persons with slender and precarious means who are unable to offer any tangible security and to whom no one else would lend anything, the financier takes very great risk. The business both in money and kind that he does with an individual villager is small. The margin between buying and selling is, therefore, kept high in this type of trade. His turnover being poor, he does not himself get the benefit of most favourable prices which are usually available to a large dealer.

203. The boutique-keeper is also a debtor to a Chettiar, or some other financier, and he pays not less than 12 to 15 per cent. for the credit facilities he receives. Add to these facts the losses that he suffers and we have a true picture of his business and what it costs him to run it. His gain is nothing like what appears at first sight from the rates of interest and what the popular mind usually associates with his calling. If he could borrow at cheaper rates from some credit agency, he would be able to reduce the rate of interest that he now charges to his clients.

204. In spite of all that may be said against him, there is no doubt that this village money-lender fills an important place in rural economics and he cannot easily be displaced. We have been told in evidence that members of Co-operative Societies also resort to him for help. Some of the estate labourers, even where they have estate caddies and their own thrift societies and co-operative stores, resort to the boutique. They ask for credit on the strength of the balances in their savings accounts. It is difficult to account for this friendliness in spite of cheaper agencies being available elsewhere, unless it can be explained by the personal factor that predominates in his dealings and the facile nature of his credit.

205. Boutiques are generally owned by the Moors. The Sinhalese are also gradually taking to them and their number is increasing. There is very little difference between their methods of working.

206. We tried to frame an estimate of the number of boutiques and the size of their business. Beyond expressions of personal opinion of witnesses we have been unable to get any reliable data. An average boutique has perhaps invested only a thousand or two, half of which is said to be borrowed. But there is no doubt that the totality of their trade cum financial lendings for the Island is considerable. Some estimate that their total investment in trade and loans is Rs. 5 million, half of which is borrowed.

(3) Money-lenders.

207. Money lending differs from banking in the nature of resources from which loans are made. In the case of the latter it is borrowed money in the shape of deposits that is mostly utilized in lending, but, in the former, advances are made from

one's own means. From the borrowers' point, other things being equal, it is a matter of indifference whence the credit that they get is ultimately derived.

Main divisions of money-lenders.

208. There are a number of people carrying on the business of money lending in Ceylon. They can be broadly divided into two sections: (1) private or amateur money-lenders and (2) professional money-lenders.

Private money-lenders.

209. To give the whole catalogue of their names or the size of their lending is impossible. When a clerk gives Rs. 10 or Rs. 20 to his colleague until the next pay-day, he is a lender; and there will be innumerable such cases. Even if we exclude these instances where assistance is the motive of lending, and confine our search to those in which gain by way of interest is the object, the task is not in any way simplified. All that we can do is to indicate the broad groups or classes of people who usually loan out their savings whenever they get a chance to employ them profitably. As security for debt they take either a simple promissory note or a mortgage of property.

Retired officials—well-to-do persons.

210. A large number of officials after retiring from Government and private commercial service are said to be utilizing a portion of their accumulated savings in advances. Advances on the mortgage of the borrower's property is the usual method of lending. In several cases the ultimate purpose behind the transaction may be the acquisition of the debtor's building or land. Every one having spare money generally likes to interest himself in mortgage finance. We are told a good many proctors and advocates do money lending. Being experienced lawyers, they secure themselves fully.

Landowners.

211. What we have said above applies equally to landholders and estate owners who want to increase their holdings. Of all the types of lenders the land-hungry is the worst.

Credit to tenants.

212. The landlord carries his financial activities in another direction too. He depends for cultivation upon his tenants and labourers. He leases out his land to them in parcels, and the arrangement is to divide the crop in a certain proportion. But the farmers have no money of their own to maintain them until the next harvest, or to buy seed or bullocks. The landowner supplies the necessary cash to enable them to buy implements of their calling and foodstuffs. He either charges interest on his money or, as is generally the case, stipulates for increased share in the crop over and above what would be due to him as the lessor.

Amateur creditor not controlled by money lending Ordinance.

213. Unlike the professional money-lender whose dealings are controlled by the Money-lenders' Ordinance, the relationship between an amateur creditor and his debtor is governed by the terms of their contract. Ordinary law applies to the determination of their disputes.

Petty lenders.

214. Farmers, labourers, clerks and other people with small means also lend on a petty scale. They, however, reach a class of people who perhaps would be unable to get credit elsewhere, or, if they do would be asked to pay a much higher price. A number of Jaffna labourers who work in the Federated Malay States send their savings home which their relations try to loan out remuneratively. During our visit to Jaffna we learnt that the local credit resources had undergone shrinkage, and on investigation learnt that it was partly due to decrease or stoppage of remittances from the Federated Malay States because the demand

for labour there, on account of the depression, had gone down. An example such as this forcefully reminds one that even small savings are significant in the national credit scheme.

215. We understand that the Incorporated Trustees of the Church of England in Ceylon have large investments in mortgages. Sundry loans are also made by other private trusts. They are distinct from professional lenders as their primary object is the profitable employment of trust funds and not lending as an occupation or business. Other private credit agencies.

216. The name of the Charity Commissioner must also be included in the list of credit suppliers. He gives loans to very deserving cases and helps the small man to get out of the clutches of the Afghan or some other similar heartless money-lender. His work being humanitarian, he is all the more deserving of recognition and grateful acknowledgment. It is a pity that his funds are limited and his helping hand cannot reach all who need his succour. We can only hope that other philanthropists would emulate him in the spread of financial aid to release the small debtor from the clutches of the extortionate money-lender. Charity Commissioner.

217. Under the title, professional money-lenders, fall all those who have adopted lending as their occupation. We have already dealt with the Chettiar, the boutique-keeper, pawnbroker, and the Afghans are also being treated separately. Professional money-lenders.

218. Ordinance No. 2 of 1918 is designed for the better regulation of money lending transactions. The burden of proof whether a person comes under the operation of this Ordinance rests with the party alleging it, except in the case of a person of the class commonly known in Ceylon as " Afghans," who is presumed to be a money-lender unless the contrary is proved to the satisfaction of the court. In the Ordinance there is no definition of the expression " money-lender " and whether one would be regarded in law as such or not would rest upon the facts of each case. Money-lenders' Ordinance.

219. The money lending legislation is calculated to protect the borrower from the malpractices and exorbitant charges of his creditor. Every money-lender is required to keep regular accounts and to supply his borrowers, on payment of a reasonable sum for expenses, a certified copy of his loan account and to permit his borrower to compare such copy with the original in his books. Every promissory note taken as security has to be in a special form (Appendix No. 5) and if it does not conform to it, it cannot be enforced. Severe penalties are prescribed if wrong information or fictitious figures are entered in a promissory note, or if it is obtained in blank. Non-observance of the other provisions of the Ordinance also make the lender liable to punishment of fine and/or imprisonment. Object of " money lending " legislation.

220. Complaints were made to us that most of the money-lenders were generally violating the provisions of the Ordinance in the following respects:— Complaints against money-lenders.

- (1) Blank promissory notes are taken.
- (2) Incorrect or fictitious figures are entered in the promissory notes.
- (3) Where interest is deducted in advance and repayment is arranged by instalments, the rates of interest although under the limits given in the Ordinance actually work out to be much higher.
- (4) The limits of interest given in the Ordinance are too high.

Complaints (1) and (2) examined. 221. Although it is difficult for us to get proof of abuses (1) and (2) we have no doubt that they do exist in some cases. But the law is already sufficiently rigorous in these respects. If it is unable to check them fully that only shows its limitation. After all law can only lay down what should be done or not done. At the most it can punish on evidence of violation. But when the parties concerned conspire to remove all traces of evidence, the law becomes helpless. This is what actually happens when a borrower, instead of recording true facts of the transaction, gives false documents under confusion. Salvation from these evils lies not in legislation but in minimizing the need for such impecunious or helpless borrowing by increasing the economic productivity of the people and their consciousness through education and by providing more respectable and honest credit agencies to help the genuine cases.

Complaint (3) examined. 222. Complaint (3) is genuine. If lower limits were prescribed in such cases or the incidence of interest were taken into account on the earlier instalments, the creditor would rightly urge that the possibilities of remunerative employment of petty instalments are not the same as of the lump sum that he originally advanced and that the working expenses are also higher because of the increased trouble of watching, handling, and accounting of the periodic amounts. He has perhaps to go to the debtor's place to collect his instalment and there is the cost of the journey to and fro. He also would compare his operation to that of a loan repaid by sinking fund, where the interest calculated for accumulating the sinking fund is always lower than the interest on the debt. We are, therefore, not inclined to recommend any change in law for such cases. If the borrower finds it more convenient to repay by bits, there is no need to prevent this being done.

Complaint (4) examined. 223. With regard to the complaint about the maximum rates of interest, it is true that looking to the present monetary conditions they are high. The Ordinance was framed at a time when 9 per cent. was a normal rate for the banks to charge and there was nothing unreasonable if the retail financier were allowed to increase it by 100 per cent. Do we not find similar margin in many of the shops? The retailer lives by his trade and unless he keeps a big difference between his buying and selling he would not have enough for his maintenance. In big business where there is an enormous turnover, even a small margin of profit is sufficient. But the retailer's trade is very limited and he is to be judged differently.

Discretion vested in Judges to reduce interest. 224. It is not known how long the present easy financial conditions will continue. The law is framed with regard to its permanency in application and suitability for all times. Viewing from this angle, we are not prepared to recommend any change at this stage, specially when there is already a provision in the law whereby relief in legitimate cases can be given. Section 4, sub-section (2) of the Money-lenders' Ordinance has a proviso which gives power to the court to reduce the interest even where the limits are not exceeded. We recommend that this discretion be freely used by the Judiciary. During the course of our inquiry we were told by some Judges that they were taking advantage of this authority to help genuine and deserving cases. It is but fair that when considering the reduction in the contracted rate of interest, account should be taken among other things of the price the creditor is paying himself on his borrowing.

225. There is, however, one direction in which we desire to suggest a change, though none of the witnesses appears to have drawn our attention to it. We refer to there being no distinction in regard to rates of interest on secured and unsecured loans. In the latter case the possibility of total or partial loss is much greater and higher interest has to be allowed to cover the increased risk. Conversely, rates for secured advances should be lower. Although discretion has been given to Judges to interpret reasonableness of interest in relation to the special circumstances of each case, which includes consideration of risk and security, we are of opinion that the limits given in the Ordinance should be specifically lowered by 6 per cent. for cases where the creditor takes enough security, which through its sale can liquidate the debt.

Necessity for difference in interest rates on secured and unsecured advances.

(4) *The Cheetus.*

226. Several offices have been opened in Ceylon during the last two or three years for working the business of "Cheetus". To attract business they advertise widely. A "Cheetu" is a transaction by which a person, known as the foreman or manager, enters into an agreement with a number of persons with the intent that every one of the contracting parties shall subscribe a certain amount of money by periodical instalments for a definite period. The foreman or manager usually* appropriates the first instalment for himself for the services he renders to the subscribers and office and other expenses incurred on their behalf. He is also entitled to subscribe for one ticket in the cheetu, but unlike the other subscribers he is not allowed to bid at the auction. He is further entitled to a commission† as fixed under his agreement with the subscribers.

Several offices. Nature of cheetu business.

227. The foreman or manager collects the subscriptions every month or at fixed periods and on a certain day of the month which he previously announces to the subscribers, auctions the aggregate amount among those who have not already made a purchase at a previous auction. Only those members who have regularly paid their instalments and are not in arrear are allowed to bid at such auction; and the one whose offer for discount is the highest, meaning the largest amount of interest offered in the shape of discount, gets the pool money, less the discount, which is distributed sometimes amongst all the subscribers and sometimes among those subscribers who may have so far not purchased cheetus in auctions, according to the arrangement previously entered into with the foreman of the cheetu. The subscriber who gets the pool money at the auction, less the discount offered by him, has to furnish satisfactory security to the foreman for the regular payment of instalments. The foreman is personally responsible to the other subscribers for such instalments, and he takes good care to get proper security before the successful bidder has paid the full amount of the cheetu auction money.

Monthly collections and disbursements.

228. If an ordinary subscriber ceases to be a member after paying a certain number of instalments, he forfeits his right to the first instalment and is repaid the balance only after the termination of the full scheme. In the place of a member thus retiring the foreman has the right to introduce a new subscriber to reduce the scheme proportionately.

Procedure in case members stop subscriptions.

* In certain types of cheetus the foreman does not take the first instalment but waits up to the end.
 † In some mutual auction cheetus, 10 per cent. is charged on the net amount payable to a member and 12½ per cent. as the discount.

Usefulness of
auction cheetus if
properly conducted.

229. There are many other kinds of cheetus spread all over Ceylon, but the auction scheme is the only scheme allowed to work under the law. The British and Indian administrations in India have allowed auction cheetu business on the above-mentioned lines in their territories under certain regulations, and if this business is allowed to be conducted in Ceylon under proper safeguards it may benefit a certain class* of people who are in a position to redeem their indebtedness by payment of monthly instalments and who do not mind paying high rates of interest to respectable creditors, provided such advances are not likely to be called up before the time agreed upon. Such schemes may help debtors in meeting unusual expenditure or in paying off their unscrupulous creditors and liberating themselves from the clutches of Afghans and other rapacious money-lenders. It may also help some to redeem their mortgages. No doubt, there are many grave objections to this kind of business being done in the country without proper supervision. There would be many malpractices if the business is prompted by unscrupulous persons. At the same time, it is possible that if worked under special Ordinances safeguarding the interests of those concerned, such schemes may play a useful part in the financial structure of the country.

History of cheetus
in Travancore.

230. Travancore is regarded as the birth-place of the modern cheetu business where it is known as "Chitties". At the beginning people engaged in this business suffered heavily, owing to the dishonesty and fraudulent practices of those responsible for its inauguration. The Government of Travancore was thereupon forced to pass Ordinances for the protection of those engaged in this kind of business, and we are told that this class of business still thrives in Travancore and other districts of Southern India and is instrumental in keeping the average man "out of the grips of rapacious money-lenders". The cheetus in this part of India are, we understand, conducted and controlled by different co-operative societies in terms of their bye-laws, the societies acting as the foremen.

Known by different
names in India.

231. The cheetu is known by different names in different parts of India. It is called "Chittie" in Travancore, "Kuri" in North Malabar, and "Nidhi" in Madras.

Cheetu operations
explained in detail.

232. To understand this interesting system of borrowing and lending it is necessary to explain it at some length. The manager or foreman of this business get round a number of persons, say 24, who agree among themselves to start a cheetu and subscribe, say Rs. 40 every month for 25 months. Every month a sum of Rs. 1,000 is collected. The first month's collection is appropriated by the foreman towards expenses and for his labour in getting together the subscribers. From the second month, the collections of Rs. 1,000 are auctioned among the subscribers and paid to the bidder who offers the highest discount. If A offers to pay Rs. 1,000 for every Rs. 700 he receives at the auction and B is content to receive Rs. 650 only, B gets Rs. 650 from the foreman and the balance of Rs. 350, less a certain agreed commission to the foreman, is distributed among the other subscribers as per arrangement. The net result of this transaction is that B gets a loan of Rs. 1,000 but receives in cash only Rs. 650 (after the deduction of the discount of Rs. 350). This advance of Rs. 1,000 he has to repay by monthly instalments

* It was revealed in evidence that clerks in Government and mercantile offices and petty traders usually resort to cheetus as means of borrowing money.

of Rs. 40. The previous instalments, paid by him before his bid, are also taken into consideration and are deducted in repayment of the loan. B is further required to offer satisfactory security for the repayment of Rs. 1,000 in regular instalments; and the foreman is responsible to the other subscribers for these instalments. Such auctions take place every month for 25 months.

233. The net result of this system of borrowing and lending is that the early purchaser of these cheetus gets money on which he pays interest at the rate of 20 to 35 per cent., which varies according to the discount paid at each cheetu sale. The chief advantage under the scheme is the repayment of the loan by instalment and without the fear of its being called up before the due date. Those who buy the cheetus at later dates at the auction get the advantage of compulsory monthly savings and earn 10 to 15 per cent. interest from the distribution of discounts every month after auction days, provided everything goes on well with the foreman and the auctions. The foreman takes his 10 to 15 per cent. on each cheetu business in addition to the 100 per cent. which he appropriates at the first auction. Besides earning in the shape of discount, profits are also derived from heavy penalties imposed for delay in payments by subscribers.

Medium of credit
and savings.

234. There are two kinds of auction cheetus now run in Ceylon—

Two kinds of
auction cheetus.

- (1) Cheetus in which all discounts are divided among all the subscribers, including the persons who buy cheetus at the monthly auction; and
- (2) Cheetus in which discounts are distributed among the unsuccessful bidders only at each auction.

235. The first kind of cheetus is more popular among the masses, as the successful bidders at the auctions also get the advantage of the distribution of discounts from the beginning to the end—a fact which goes to reduce considerably the discounts paid at the auction sales. The foreman, however, stands to make more money under the second scheme, as he always is one of the few subscribers entitled to the distribution of discounts throughout.

Their relative
merits.

236. This cheetu system, if honestly carried out and organized on sound financial basis, would assist a certain section of borrowers. If they are in a position to offer adequate securities and are able to pay regular monthly instalments, they would find great relief in joining well-regulated cheetu clubs.

Advantages of
cheetus.

237. If the promoter of a cheetu is dishonest or slack in the selection of the sureties or security, the subscribers of a cheetu organization are sure to lose their savings.

Danger of cheetu
business.

238. If cheetu business is allowed to run without any control or regulation, it is liable to degenerate into a risky instrument of depriving people of their savings. Its usefulness can only be preserved if adequate security is demanded by the State under a special Ordinance from those responsible for its management.

Need for regulations
and special
Ordinance.

239. The cheetu clubs have themselves acknowledged the serious risks to which their subscribers are exposed. The Ceylon Benefit Co., Ltd., has made the following suggestions for

Even cheetu clubs
conscious of serious
risks.

minimizing such risks and it has asked Government to incorporate in the necessary legislation the proposals put forward by them:—

Safeguards suggested by a Cheetu Company.
Bye-laws to be field.

Supply of bye-laws to subscribers.

Minutes of auction.

Applications in duplicate.

Account books to be maintained and audited.

Cheetu amounts to be paid or deposited.

Proper provision for periodic auctions.

Inspection by Government.

Inspection by public.

Views of Travancore High Court on regulation.

- (a) " No one should start cheetus without giving security to Government either in cash or in the shape of property.
- (b) Every cheetu shall be registered with Government on payment of a reasonable fee, the bye-laws pertaining to the cheetu also being filed with such registering officer.
- (c) It should be made compulsory for each cheetu to supply every subscriber with a copy of the bye-laws forming the basis of the contract between the foreman and the subscribers.
- (d) A copy of the minutes of every auction shall be forwarded to the registering officer within three days from the day of auction.
- (e) Every subscriber shall sign applications in duplicate, one copy to be filed with the registering officer and the other to be retained by the foreman.
- (f) The foreman shall be compelled to maintain proper books of account, subject to periodical audits by public auditors.
- (g) The foreman shall be compelled to pay the cheetu amounts on or before the due dates. If, however, the foreman is not satisfied with the security offered for the cheetu amount, it shall be obligatory on the part of the foreman to deposit the money in a recognized bank.
- (h) At present there is no provision as to how and when a cheetu can be deemed to have ended, except in the case of maturity. There are cheetu concerns that carry on auctions for a few months and then there are no auctions for some months; there are also instances of cheetus being terminated at the will and convenience of the foreman, at considerable loss to the subscribers. Proper provision, therefore, should be made in this regard.
- (i) Provision should be made for the inspection of books of account of cheetu organizations by officers of Government as well as for the furnishing of a list of subscribers to any of the subscribers on demand.
- (j) Provision should be made for any person to inspect the documents relating to the cheetus at the office of the registering officer on payment of a reasonable fee."

240. The Ceylon Benefit Co., Ltd., also calls attention to the following passage containing the views of the High Court of Travancore on Ordinances on the cheetu business:—

" It " (Regulation (3) of 1918) " has operated as an effective check in the starting of cheetus by men without sufficient means."

" It has terminated the vagaries of unscrupulous foremen, and has safeguarded the interests of the subscribers. The chances of collapse of cheetus have been reduced. And the contentions in cheetu suits have been minimized owing to the existence of and the supply to the subscribers of the bye-laws, the keeping of proper accounts, the filing of the minutes of each auction with the registrar and the provision for the investment of the cheetu amounts if the same has not been paid to the successful bidder."

241. We, however, are of opinion that Cheetu Ordinance should also provide— Legislation recommended.

- (1) That no individual, firm or company, whether registered under the Business Names Ordinance or the Ceylon Joint Stock Companies Ordinance or any other legislation, can start or carry on the business under the style or of the nature of "Cheetu" unless such individual, firm or company, is registered under a special Ordinance known as the "Cheetu Ordinance". A severe penalty should be imposed for infringement of this provision. Registration under special Ordinance.
- (2) That all companies registered under such an Ordinance should have a paid-up capital of not less than Rs. 10,000 to be subscribed in cash. No business in cheetu should be started till the required capital is subscribed and paid up in full. Minimum paid-up capital.
- (3) At no time shall such a company institute cheetus of the total value of more than ten times the value of its paid-up capital. For instance, if there are four cheetus started of Rs. 1,000, Rs. 500, Rs. 250, and Rs. 100, the total amount involved in them would be Rs. 25,000, Rs. 12,500, Rs. 6,250, and Rs. 2,500 = Rs. 46,250. If the paid-up capital of the company is Rs. 10,000 they could institute further cheetus to the extent of the remaining Rs. 53,750 only, making Rs. 100,000, i.e., ten times the paid-up capital. Maximum limit on business.
- (4) A standard form of agreement setting out the rules and regulations of cheetu business should be approved by Government and the names of the subscribers should be recorded with them. The company should be left free to settle its own terms of remuneration, expenses, &c., with the promoter or the foreman of the company and the subscribers, but these terms should be incorporated in the agreement before it is signed by the company and its clients and recorded with Government. Standard form of agreement.
- (5) With the start of every auction cheetu the company should deposit with Government a sum equivalent to double the value of such cheetu. Thus if the cheetu for Rs. 1,000 is subscribed and is to be auctioned, the company should deposit with Government a sum of Rs. 2,000 in cash or in securities of the Ceylon, India, or British Government or in the shape of deposit receipts of approved banks made out in the name of Government. Deposit with Government.
- (6) The company shall intimate to Government every case of default in payment of instalments from the successful bidders at the auction cheetus or from its subscribers, whether the time allowed to such defaulters under the agreement has expired and whether the instalment of the defaulting subscriber has been paid by new subscribers or the cheetu reduced proportionately. Intimation of default.
- (7) The company shall report to Government the name of the successful bidder at each auction and the amount of the discount offered by him. Name of successful bidder and discount to be reported.
- (8) The company registered under this Ordinance should not be allowed to carry on any other kind of business and should, in no circumstances, be permitted to incorporate in its articles any power to receive deposits, Restrictions on business.

- open savings or current accounts or to do any kind of banking, trading, or insurance business. If strict care is not taken to restrain these companies from doing banking and insurance business, in the event of their failure the future prospects of indigenous banking and insurance institutions will be jeopardized.
- Not to style as banks. (9) These companies should at no time be allowed to style themselves "banks" or "insurance" companies.
- Arbitration. (10) Any dispute between the company and its clients should be referred to arbitration.
- Procedure in case of default. (11) Where there are several defaults and no substitutes are available, or when the company itself defaults in taking up the place of the defaulters and subscribing to the monthly accounts, it should be left to Government to decide whether the proposed auction of the cheetu should be stopped and whether steps should be instituted to take the company into liquidation.
- Company not to bid at auctions. (12) No company registered under the Ordinance should be allowed directly or indirectly to bid at auctions.
- Offers by tender. (13) A system of tenders should be introduced under the Ordinance along with the auction system. At the time of the sale the subscribers should hand over sealed envelopes containing their offers for discount to the Manager of the company and these should be opened in the presence of the bidders or their proxies and the highest bidder should get the cheetu so auctioned.
- Cheetu as instruments of fleeing. 242. How cheetu can be the instruments of fleeing the innocent and the unwary, it is not difficult to visualize. A foreman can have a number of his nominees as subscribers to a cheetu; there may be even bogus names. At an auction he could feel the pulse of the bidders, and if he finds that there are a few very needy subscribers eager to get the collection regardless of price, as is very often the case, he could well raise the bidding of discount through fictitious bids by his nominees. The subscriber badly in need of funds, in face of such keen competition, would ultimately come by the collection at a ruinous rate of interest.
- Amount of discount. 243. Cases have been reported to us where in an auction cheetu of Rs. 250 the bidder was satisfied with Rs. 60 only. In another case, at an auction cheetu of Rs. 1,000 the bidder offered a discount of Rs. 640, receiving only Rs. 360.
- Tendering system for bids. 244. To avoid this ruinous rate of discount offered by persons in want of money, we would suggest that offers should be received in sealed covers to be opened in the presence of the subscribers. This would be in the interests of all concerned and would remove most of the mischief done by the promoters and their nominees and agents.
- Registration under Business Names Ordinance and want of capital. 245. We have been informed that eighty-six companies doing cheetu business have registered themselves under the Business Names Ordinance. In Jaffna and other Tamil districts the cheetu business is worked by promoters with no capital of their own and various schemes are placed before the public, calculated to bring in the maximum of benefit to the promoters at the cost of the subscribers. It is, no doubt, for the borrowers and lenders to watch their own interests and borrow or lend moneys at rates of interest suitable to themselves; Government can have no say in

these dealings if they do not come under gambling or lottery transactions. At the same time we think it is the duty of every administration to protect the interests of the illiterate and innocent members of the public.

246. The cheetu system provides a crude form of borrowing and lending suited to a certain section of the community in debt who are denied any kind of financial facilities by bankers. When national indigenous banking is introduced and popularized in the Island and when small loans will be available through local banks, to those who can offer reasonable securities, the cheetu will gradually disappear.

(5) *Afghans.*

247. The word literally means inhabitants of Afghanistan, a country situated to the north-west of India. In the sphere of lending it connotes those members of this class who do money lending. In their scheme of credit there is no question of sentiment or sympathy.

248. The Afghan is reported to be a most rapacious type of money-lender. He is always on the lookout for someone who needs a loan badly and whose capacity to repay is not totally extinct. He will inveigle him into his meshes. Sometimes the debt will represent the price of cloth or some other article which the debtor has been induced to buy. He regularly visits the race-course to entice those who are frowned upon by fortune. His prey lies mostly among the poorer and lower middle class sections of society. According to the Money-lenders' Ordinance, the maximum rate of interest is fixed at 20 per cent. But this will not satisfy an Afghan. He overcomes the obstacle by making his borrower write the promissory note for double or treble the amount of money actually lent. At times he takes a blank signature, keeping himself free to enter whatever sum he likes. In these respects, too, he is going against the law and making himself liable to punishment. The rate of interest written in the document of course does not exceed the legalized rate; but that matters little when there is ample compensation in the fictitious amounts of principal entered in the document. He settles with his debtor to repay the full amount shown in the promissory note by some sort of regular instalments. He usually passes no receipts for amounts paid to him. It is said in respect of his borrowers, "once a debtor, always a debtor". He more or less shrewdly judges his man. If there is room for more credit he will induce him to borrow further, say when an instalment or interest is due; and he is not afraid to use physical force to collect his dues. When he finds that efforts to recover the loan are futile, he brings in a suit for the full amount of the promissory note. Although the debtor pleads want of or insufficient consideration, and although the courts have power to reopen cases, he rarely succeeds in the defence. In putting his signature to documents at the time of borrowing he has deprived himself of a reasonable chance of a successful defence.

249. It was revealed to us in evidence that these people came to the Island with a paltry sum of a hundred or two, but when they go home at the end of two or three years they carry with them a little fortune of five to six thousand. All this money has been obtained through their lending profession. They fatten themselves on the misery and improvidence of the poor.

250. It is difficult to suggest means to release borrowers from their clutches when they knowingly and deliberately allow themselves to be fleeced, and acknowledge in writing to have

received more than what they actually obtained. Even the Police cannot do anything to save such men from their stupidity and recklessness. The law has gone to the fullest limit to protect the public from the Afghans, so much so that unlike other creditors he is presumed to be a money-lender unless proved to the contrary. If in spite of the legal safeguards, he carries on a thriving business, that only shows that no amount of legislation will help those who are their own enemies.

251. In view of the great menace the Afghans are to their debtors, it has been suggested that they should be permanently banned from coming to the Island or engaging in money lending. Were there no difficulty concerning international reactions, we would strongly urge the Government to consider seriously the advisability of some such legislation.

252. In so far as malpractices and the use of physical force are concerned, it is suggested that the Police might be on the lookout and ask for exemplary punishment whenever an offence can be proved. The principal remedy lies, however, in educating the people not to be so reckless in their dealings as described above and in assisting them to form sectional or group Co-operative Credit Societies. Charity Commissioners take keen interest in helping men out of the Afghan's hold and people should be advised to approach this institution for help. Unless one is in a chronic debt position there is always some hope of saving him.

Size of their
business.

253. We have tried to ascertain the number of Afghan money-lenders and the total amount of money lent by them, but we were not able to get any reliable data. Although an appreciable number of them are working, the amount of their advance is not very large.

GOVERNMENT AND CREDIT SYSTEM.

254. Before we close the chapter on the existing credit agencies in Ceylon we would briefly review the Government's role in the credit system.

Place in credit
system.

255. The Government's place in the credit system of a country may be viewed from two main aspects:—

- (1) The cash funds at the disposal of Government being large the manner and method of keeping these funds must have far-reaching effects upon the monetary mechanism;
- (2) The main objective of its direct lending operations must be to afford financial assistance to the recipients.

256. Supply of credit is not the direct and primary objective, but in actual effect the result of such actions tantamounts to active participation in the financial field. We propose to deal with these two operations separately.

Size of Government
funds and their
lodgment.

Taxes and income
provide funds.

257. Government receive money from the public in the shape of taxes. As the State in Ceylon carries a good deal of business, mostly of the nature of public utility; such as railways, ports, post and telegraph, and supply of electricity, it also gets money in the shape of charges for services rendered through these undertakings. It is true that this money does not remain permanently with the Government; it has to be disbursed to a large extent in the form of salaries and expenditure, but the period during which it does remain with the Government gives it the power of disposal over them.

Other sources of
receiving money.

258. Government also manage several public funds, *e.g.*, Provident, Pensions, Charities and Endowment and receives deposits from contractors, suitors, trustees, &c. The ways in which money comes under its control are numerous and varied.

259. On account of its power of disposal over the money that comes into the public exchequer, the State has a unique importance in the financial system. Any amount paid into the Government Treasury must affect the size of currency in circulation, unless it was privately held in cash and came out of hoards. If, however, as is very often the case, it is withdrawn from banks or bankers, it means reducing their cash and power to lend. If instead of re-depositing the moneys received by it in the banking system, Government were to keep them in their vaults, the cumulative effect of such withdrawals on the business of the country would be serious. It would lead to a contraction of currency which, under certain circumstances, causes prices to fall and thereby alters the position between the creditor and the debtor in terms of commodities. It is true that much mischief cannot be done, because money must be continuously paid out as well for Government's obligations. But there is no doubt as to the power of Government in shaping the monetary policy. In speaking of currency here, we use the term in its broader sense, meaning money, and do not refer to the State's functions as the currency and note-issuing authority.

Effect of transfer of money from public to Government on banking system.

260. Government are free to keep their funds in their treasure chests, invest in bonds and loans, or to keep them with banks. They may keep their money in the country and/or outside, and their investments may be internal and external. In actual practice the Ceylon Government funds remain distributed in all these forms. The proportions of various investments and lodgements of funds are probably determined if there is any conscious policy and purpose behind them, by the estimates of requirements as to amount and time, considerations of security and safety behind the institutions where money is kept or invested, the return by way of interest and the need for financial aid of objects which the State regards its responsibility to help.

Methods of keeping and investing money.

261. To have an idea of the magnitude of its financial resources and employment thereof, it is necessary to classify the receipts and disbursements of the money which comes into its hands. An attempt in this direction is being made in the following statement:—

(Figures of amounts in million rupees.)

Reference to Page of Auditor-General's Report, 1932-33, from which information is taken.	Nature of Balance.	Cash in Hand.	With Banks and Agents.		Invested in Denomination and Colonial Securities.	Loans to Government undertakings.	Other Loans.	Miscellaneous.	Total of Balances.
			In the Island.	Outside the Island.					
98	Financial Statements of the Island ..	9.7	11.0	14.6	7.4	2.8	1.2	.8	47.0
161	Ceylon Government Railway ..	.1	.2	—	—	—	—	—	.3
64	Loans Board ..	—	—	—	3.2	—	5.4	—	8.6
65	Local Loans and Development Fund ..	—	—	—	—	—	4.3	—	4.3
66	Ceylon Savings Bank ..	—	1.0	—	8.2	—	1.3	.2	10.7
67	Post Office Savings Bank ..	.1	.1	—	15.1	—	—	.3	15.6
	Total Rs. (millions) ..	9.9	12.3	14.6	33.9	2.8	12.2	.8	86.5

Other miscellaneous
funds and
investments on
Currency Account.

262. In the preparation of this table we have omitted funds at the disposal of minor Government and semi-Government activities such as Coconut and Rubber Research Schemes and Immigration Fund. We have also excluded large investments which the Government makes in respect of the Currency Reserve or on account of sinking funds for loans. If the latter item were taken into account, the Government's total investment in Colonial and Dominion securities would go up from 33.9 million rupees to 161.2 million as under:—

	Rs.
Investments as per above statement	33.9 million
Investments on account of Currency Reserve ..	33.8 "
Investment on account of sinking fund for redemption of loans to local bodies .. ..	.6 "
Investments held on behalf of the sinking fund for the public debt	92.9* "
	161.2 "

Selection of banks.

263. The Government is thus handling and managing total investments and cash to the extent of over Rs. 200 million, and its policy in regard to the selection of banks, deposits, the types of securities for investments, the proportion between the two and the size and time of conversion of one into the other, must influence considerably the financial organization of the Island. Inquiries were made from the Treasury Department as to the basis on which banks for deposit of Government funds are selected. Beyond the simple answer that the choice was made in the end of the last century and that all the banks then working in the Island were approved, we could not get any further explanation. Perhaps the consent of the Secretary of State is required when approving a bank. If this is so, it must be merely an administrative formality and could not mean withholding Government patronage from banks that might have lately opened their branches. To do so would be to perpetuate monopoly and deprive the money market of that healthy feeling obtained through fair competition. We see no reason why new names should not be added to the list of approved banks, even though they are financially sound and solvent, merely because they did not exist in the Island in the nineteenth century. On December 31, 1933, Government had deposited a sum of Rs. 17 million with banks in Ceylon.

" Power of the
Purse ".

264. It could have then used the " power of the purse " in inducing those banks to be more sympathetic to Ceylonese. No bank can afford to ignore the reasonable wishes of its customers, especially when the client happens to be the Government. Even if no fault of discrimination or differentiation in the method of working may be found in regard to their credit policy, the attitude of the banks in refusing the sons of the soil, their legitimate place in the banking service is indefensible.

Government as
direct lending
agency.

265. Beyond giving loans to its own undertakings and meeting their temporary cash deficiencies, the Government does very little of direct lending. Public officers, however, can borrow from the Government for certain purposes and under certain conditions. Before the inauguration of the Local Loans and Development Fund in 1916, it used to make advances from cash balances to

* This includes £384,547 in deposit with Westminster Bank and Rs. 23,295 in hand pending investment.

Municipalities, Urban District Councils and similar local bodies and to the Co-operative Societies. This work has, however, now been transferred to this new organization. There are, however, old outstandings due to the institutions just mentioned. In course of time they would be repaid when the last traces of the State's direct lending would disappear from its balance sheet.

266. In the statement of assets and liabilities of the Island as on September 30, 1933, we find the following assets in the shape of loans:—

	Rs.	Rs.
	(1,000)	(1,000)
<i>Loans to non-Government Institutions—</i>		
1. Loans to local bodies (Sinking Fund Investment) ..	456	
2. Loans to local bodies ..	628	
3. Loans to public officers ..	129	
	-----	1,213
<i>Loans to Government undertakings—</i>		
4. Colombo Electric Supply Co. (Stores) ..	378	
5. Ceylon Government Railway—Cash advances ..	2,396	
	-----	3,774
Total ..		----- 4,987

267. In some cases loans are made to public bodies out of voted expenditure. These are distinct from advances from cash balances. The total of these loans outstanding on September 30, 1933, was Rs. 995,000.

268. Items Nos. 4 or 5 do not represent the total advance made by the State to these bodies since their inception. Original sums lent or invested in these concerns have been converted into capital accounts which stand to the credit of the Government in their respective books. The sums here referred to are assets of the cash balances and should be repaid from the earnings of these businesses.

269. The total capital outlay of the Government on railways, Colombo Electric Supply, and the Colombo Port amounts to Rs. 303.0 million.

270. Although the Local Loans and Development Fund is a concern of Government, we propose to deal with it separately in view of its separate and distinct entity. Likewise, we have not included under this section the working of the Loan Board, which is also closely associated with Government. There, however, remains for us to acknowledge the assistance of Government to the agricultural landowners for long-term credit. We refer to the guarantee which the State gives in respect of the debentures of the State Mortgage Bank. The position of this bank in the credit system of the country, on account of its importance and distinctive nature, also calls for separate treatment.

271. Government in Ceylon do not make direct loans to the agriculturists as the Provincial Governments in India do in the shape of *Takavi* loans for agricultural purposes under the Agriculturists' Loans Act, and for improvements in land under the Land Improvement Loans Act. Possibly, this is so because there is no system of land revenue here and the State is not directly interested in the fortunes of the cultivators for its financial resources. It may also be that in the absence of the land revenue administration, recovery of these advances would be difficult and costly. The Agricultural Department, however,

grants seed loans in some cases to farmers, which are repayable in kind at the end of the harvest, with 50 per cent. increase. On the face of it, the charge for accommodation may seem high, about 100 per cent. per annum if the period is taken into account. But it is to be remembered that the amount of loan is small and there is handling and administrative costs, which perhaps absorbs the whole of the interest amount and needs something more, and the borrower is not subject to the risk of fluctuation in prices.

Loans through
Local Loans and
Development Fund
and for
Colonization
Schemes.

272. Government's responsibilities to the farmers are, however, not entirely ignored. It has established the Local Loans and Development Fund which, by financing the Co-operative Credit Societies, gives monetary aid to the present members. The State Mortgage Bank help, with long-period loans, the better class of agriculturists owning land. In a way, lending through these special agencies created for these purposes is a better method of administering financial facilities than assuming direct responsibilities. The State also makes direct advances to the settlers in the Colonization Schemes. The only case that does not appear to have received Government's attention is that of the cultivator who is not a member of the co-operative system. But it is open to him to join this movement, if necessary, by forming new societies, and thereby avail himself of financial aid from public funds.

Government as a
borrower.
Role of direct
debtor.

273. We have so far confined our observations to the status of Government as a credit agency. Its reverse position as a borrower, or one wanting credit, may now be examined. When Government floats loans, it assumes the role of a direct debtor. We shall deal fully with these aspects of Government's activities later when discussing the savings and investment sides of credit. But our treatment of the present question would be incomplete unless reference was made to the public debt of the country.

Size of the public
debt.

274. The public debt of Ceylon on September 30, 1933, amounted to Rs. 212.8 million. On a population of 5.3 million this works out to a debt burden of Rs. 40.15 per capita. The visible and invisible capital assets of the Government of Ceylon are, however, so great that they cover the public debt liabilities of the Island several times over. In the first place the value of the Sinking Fund which is being accumulated to meet the debt payments at maturity amounts to Rs. 92.9 million. If this is deducted from the amount of debt, the net liability is reduced to 119.9 million, or Rs. 22.60 per head of population. Against this liability Ceylon's capital assets, including value of buildings, Post and Telegraph equipments, irrigation works, roads, &c., amounting to several million, are over Rs. 303.0 million. This is made up as follows:—

	Rs.
(1) Capital outlay in Ceylon Railways ..	226.4 million
(2) Loan to Colombo Electric Supply Corporation ..	10.2 ..
(3) Capital expenditure on Colombo Port .	66.5 ..
	303.1 ..

Public capital
saving.

275. If the amount of the public debt is deducted from the public capital assets, the Island has a surplus accumulated capital balance to the extent of Rs. 183.2 million. Instead of there being a debt burden of Rs. 40.15 per capita, as appears at first sight, there is public capital saving of Rs. 34.56 per head of population.

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34.1
10212

276. If the account is taken of the funds in the hands of the Local Loans and Development Funds, Rs. 4.4 million, which is in the nature of secret reserve of the State, the capital saving per capita would be increased by another rupee.

277. The debt position of the Colony is entirely satisfactory as compared with almost all the other countries. The position of her next-door neighbour, India, may be described in relief Ceylon's splendid achievements. The total debt of India on March 31, 1933, amounted to Rs. 12,108.6 million. Interest-yielding assets held against the loan obligations amounted to Rs. 9,688.7 million. The uncovered liability is thus reduced to Rs. 2,419.9 million. On a population of 352.7 million, this works out to a burden of Rs. 6.86 per head of population. As compared with his Indian friend the Ceylonese is better off to the extent of Rs. 40.06.

Debt position entirely satisfactory.

CHAPTER V.

NEED FOR A NATIONAL BANK.

278. In this chapter we shall discuss the deficiencies and defects in the existing credit system and the need for the establishment of an indigenous State-aided Bank. We shall also examine the views expressed by several witnesses, including the existing banks and the representatives of the Ceylon Chamber of Commerce against the proposed change in the banking structure of Ceylon.

279. The opposition from the existing British banks and the Imperial Bank is on the same lines as that emanating from the Ceylon Chamber of Commerce, namely, that there is not sufficient business for a new bank, and that there are enough non-Ceylonese credit institutions now existing in Ceylon. They both assert that there is no need for a national bank of the character described to them, even though its constitution be approved and efficient management assured by His Excellency the Governor. The non-Ceylonese merchants do not view with favour the establishment of such an institution because of their connections with the existing banks which they regard as sufficient for all purposes. With the inauguration of a national bank, the inhabitants of the country may hope to receive the same kind of attention and credit facilities which the non-Ceylonese now enjoy from the existing banks, and which, at present, in most cases, are denied to them. The establishment of an indigenous bank with powerful resources at its back would place the Ceylonese and non-Ceylonese borrowers on a footing of equal advantage. An ordinary indigenous bank with a small capital and without Government support is not objected to by the banks and the Chamber.

Opposition against a State-aided Bank.

280. The evidence given by the representatives of the exchange banks and the Ceylon Chamber of Commerce against a State-aided Bank is more or less on the same lines, as they both object to any kind of State-aid being given to such a bank. They desire that banking facilities should be afforded only by the banks now established and they see no room for an indigenous State-aided Bank. They would not object to, and cannot prevent, a new foreign bank from opening a branch in Ceylon, but they have objections to a powerful national bank being opened in the country in order to promote credit facilities. In Ceylon there are seven big banks financing the import and export trade; they also participate to some extent in the financing of the internal trade

Is the opposition justifiable?

of the country through Chettiars and shroffs. Their objection to the establishment of an eighth bank on the ground mentioned by them does not appeal to us. In India as well as in Ceylon the interests of powerful indigenous and non-indigenous banks are not identical and in both countries non-indigenous banks which are more powerful institutions than indigenous banks have almost the monopoly of the export and import trade. The right of indigenous banks, all the same, to exist and serve their country cannot be denied. England, France, Germany, Italy, Russia, America, Japan, China, Australia and almost all the countries have reaped the benefits and acknowledged the advantages of indigenous banks. Where sufficient capital is available from the public, State-aid is unnecessary, but where, for various reasons, sufficient capital is not forthcoming, State-aid is essential and has, in many cases, been availed of. We might well quote here the instance of America, where Government recently under-wrote the issue of fresh capital by banks and offered to take up such capital as was not subscribed by the public and thus strengthened the position of the banks by increasing their capacity to offer credit facilities to trade and industries. Powerful indigenous banks are always helpful not only to the commercial community, but also to Government in their hours of need. They are the real assets of a country which can look upon them for assistance and help in times of depression in trade and can always count on a sympathetic attitude in abnormal circumstances. Foreign banks may withdraw their funds when required for business or other purposes in their own country regardless of the difficulties to which such action would expose the trade and industry of the countries in which they serve. Non-indigenous banks, after all, function in Ceylon primarily for their own benefit and for the benefit of those engaged in trade with foreign countries.

Government
deposits.

281. It may be mentioned that Ceylon is perhaps the only important country in the world which deposits Government funds with foreign banks without taking any security from them. It is not within our knowledge that Government funds in any other case are deposited within the country with non-indigenous banks. If one indigenous bank with State aid were started in Ceylon, a portion of the money now deposited with foreign banks should be withdrawn and deposited with the national bank in the ordinary course of business. Such withdrawal would not certainly be in the interests of the non-indigenous banks now receiving Government and other deposits and utilizing the same in any way they like inside or outside the country. That, however, is not an argument that should stand in the way of a much needed reform in the banking system of the Island.

Grounds for the
establishment of a
national bank.

282. We are convinced that there is enough business in the Island to support more than one indigenous bank if started with a big capital and managed by experienced hands. If there is enough business to keep seven existing banks going, the same volume of work could easily be divided amongst eight banks, without materially affecting the prospects of any one of them. A large volume of business that really should go through banks is at present left in the hands of private money-lenders and Chettiars, and it is possible that the new indigenous bank would be able to attract a portion of that business as well. It is also probable that various merchants and investors, who, for one reason or another, do not deal at present with non-indigenous banks, would be willing to go to their "own" bank and have dealings with it. There is little doubt that an indigenous bank

with State aid, with powerful resources at its command, having an influential directorate and sponsored by efficient management, would work very successfully.

283. On the establishment of an indigenous bank with a large capital and resources, a marked change should be noticed in the attitude of existing lending agencies towards their Ceylonese clients, as has been noticed in India. Credit will be offered at cheaper rates by banks, Chettiars, and money-lenders.

284. India has made considerable progress with her indigenous banks, and 84 indigenous banks with capitals and reserves amounting to Rs. 132 million and having total deposits of Rs. 660 million are at present working in India. We feel confident, therefore, that Ceylon with an import and export trade valued at Rs. 927 million in 1926 and Rs. 377 million in 1933, is in a position to have a national bank of its own. We shall endeavour in some of the succeeding chapters to determine for it a form most suited to the country's requirements, and shall devise a banking system calculated to help the country's trade and industries by providing increased credit facilities to one and all at cheaper rates of interest.

285. There are two small banks, the Bank of Uva and the Hatton Bank, which are incorporated under the laws of the Island. But they serve specific financial requirements of a limited clientele and their part in the general banking of the Island is insignificant. Any casual observer will not fail to notice that the banking of the Island is solely in the hands of foreigners. We use this word in its broader sense. Europeans, including Englishmen, Indians, and people of other non-indigenous nationalities, having no permanent attachment to the Island, come under this category. Whether we take into account the Exchange Banks or the Imperial Bank of India or the modest Indian banks, they are all in the hands of foreigners. Even the private banking system is non-indigenous. The Chettiar, who mostly figures as a private banker, or the money-lender, is a non-Ceylonese. Unless there is behind the working of the banking system that patriotism and national enthusiasm which have stimulated and sustained the trade and industries of other countries, no nation can rise to its fullest economic stature. This is proved by the history of other nations.

Deficiencies and defects in the existing credit system.

286. What English banking has done for England, national banking elsewhere has done for its respective countries. American advancement in the realm of commerce and industry and her specialization in big business and mass production would have been impossible without national banking. The German credit system before the Great War transformed that nation, so to say, overnight from an agricultural to an industrial country. Even for the evolution of co-operative credit we are indebted to that country. Japan's present industrial growth owes a great deal to her banking facilities. Numerous examples can be given to show how the prosperity of a country depends upon the quality and size of its banking.

Banks of other countries.

287. It is true that some of the reputed financial systems in the world have given way, but the cause of their failure lies not in their being indigenous but elsewhere. When economic conditions all the world over are stabilized, national banking in every country is bound to be in the same unassailable position as in the past. Not only have national banks done good work

Their work.

in sustaining domestic enterprises during the stormy transitional period, but have also brought about adjustments necessitated by the changing and altered international relations in trade, industries, and communications. They are doing the same indispensable service in times of distress and adversity as in an era of economic peace and prosperity.

Belgium and
Holland.

288. Ceylon has the same area as Belgium and Holland. But the former has nearly 500 indigenous banking offices and the latter 650. Even if we for the moment waive the distinction between indigenous and non-indigenous concerns, there is a banking office for every 5,000 people in Belgium and for approximately 12,000 in Holland. In the case of Ceylon, on an average over 350,000 persons have to be satisfied with one banking office.

Non-indigenous
management.

289. Not only are the banks in Ceylon non-indigenous but their management is in the hands of non-Ceylonese. The European officials of the banks do not come into everyday contact with the people of the country. They lack that intimate touch with the local enterprise and local population which is generated only by a free and unfettered intercourse of daily life.

Change in the
system
assured.

290. In the past, banks have tried to meet the drawback of a want of personal touch by having two intermediaries between them and the Ceylonese—the shroff and the Chettiar. We have described in detail in the last chapter the part that the shroff plays in the banking administration and shown how demoralizing and vicious it is. Nowhere else in the world would such a method of distributing credit be tolerated. Although the shroff has unquestionably helped many a man to obtain financial accommodation, the system is corrupt and liable to abuse. The banks themselves seem to think that way. They have assured us that, whatever may have been the form of this mediation in the past, the system no longer exists in its old reprehensible shape. The Ceylon Chamber of Commerce have also told us that the shroff system has now been remodelled. If this is really so, it should be a matter of general satisfaction.

Displacement of the
shroff.

291. "What", it may be asked "will be the reaction of the displacement of the shroff upon the credit situation as a whole?" The class of people that formerly could go to banks through this official would be without means of financial accommodation. The shroff would do his utmost to frustrate whatever scheme the banks might evolve to replace him. At the present moment when demand for money is not so great, nor lending so free and liberal, as was the case when times were prosperous, the bank shroff may not do much harm or the banks may do without him, but we have also to visualize what the position would be when normal conditions are restored. We are strongly of opinion that under the present conditions and forms of administration the non-indigenous banks are not adequately equipped to assist an appreciable portion of the indigenous population.

Reduction in
Chettiar's
resources.

292. Let us next take the case of the bank's distribution of credit through the Chettiar. We have already acknowledged the importance of this agency in the development of the Island. But the price that he demands for lending is far too high. It is said that any one who once falls into the clutches of the Chettiar can never release himself from debt. Perhaps this is an exaggeration; but there is no denying the fact that 15 to 18

per cent. interest is an excessive monetary charge which business at no time can bear. In days of unprecedented prosperity borrowers could and did perhaps pay this high interest; but times have irretrievably altered; to be called upon to pay the same price for credit now seems very inequitable.

293. Assuming, however, for a moment that business can and will pay the Chettiar's interest and that there will be the same inducement for the Chettiar to lend, we have also to consider whether his capacity to lend has remained the same as in the past. It is an open secret that a considerable part of his financial resources came in the form of borrowings or loans from banks and of deposits from the public in India, Burma, and Ceylon. Both these sources have literally dried up. The present depression has demonstrated that it is unwise for financiers to lend for long or uncertain periods out of short-term loans and deposits. Neither the banks nor the public would ever repeat their mistakes of the past and it would be impossible for the Chettiar to rely upon these channels of assistance which have hitherto irrigated his monetary fields. Chettiar's capacity to lend.

294. Mr. Ian Stewart stated in his evidence before the Commission that it was not the banks that had stopped credit to the Chettiars but that the Chettiars themselves did not need any credit. This view is in conflict with what the representatives of the Chettiars have told us. But whether the stoppage in credit is due to the unwillingness of the banks or of the Chettiars, the result is the same. They will no longer play their erstwhile important part in the credit scheme of the Island. This void must be filled in. Its result.

295. The present banks are principally concerned with the financing of the foreign trade of the Island. This is borne out by the fact that their activities are centred in Colombo. With the exception of a branch or two of one or two banks, they have never cared to open any offices to assist in the internal trade of the country. Even the existing branches owe their birth to the circumstances connected with foreign plantation enterprises which involved movement of foreign capital and the financing of their business and exports. They were not opened with the primary object of financing internal trade. The movement of produce in all its stages from the field to the exporting point is financed in a crude way. Big estates may not be wanting credit or money but numbers of smaller cultivators pay enormous prices to their "boutiquekeeper" financiers. The absence of financial facilities has multiplied not merely the number of middlemen but the stages through which goods have to travel before reaching the hands of the exporter. Present banks more concerned with foreign trade.

296. What is true of exportable goods is equally true of the financial machinery, or lack of machinery for the movement of imports to the retailer's door. The banks are at the most content to come up to the importer or the indenter and the journey of the goods onwards remains no business of theirs.

297. The banks have taken no material part in the financing of home consumption of indigenous products. If they had ever regarded this work as falling within their orbit, they would have most certainly studied the conditions of marketing and of internal trade and would have not merely tried to finance them in a systematic way but would have, if necessary, insisted on improvements in their organizations. Financial deficiency for internal trade.

Geographical expansion.

298. Participation in the finance of domestic trade and industries and the movement of goods to and from the sea-board require a network of banks or branches, reinforced by agencies and pay offices at places where business is too small to warrant the opening of a regular office. Owing to their system of administration and high cost of working, the existing banks would not find it profitable to increase the number of their offices. This is perhaps why there has been no geographical expansion in their offices.

High cost of banking.

299. Even the expenses of running offices in Colombo must be pretty high. If they were lower, perhaps some relief might accrue to the borrower. The rate of interest that he pays is too high as compared to what prevails in the neighbouring country, India. Whereas banks there are anxious to lend at $3\frac{1}{2}$ per cent., the rate here is 5, 6, and even 7 per cent. This is so because the high administrative expense and restriction in business necessitate bigger margin between the borrowing and lending rates.

Policy dictated from distant centres.

300. The business policy of the banks is dictated from centres situated thousands of miles from their local seats of business. The Directors of the banks may be fully conversant with broad trade conditions and international aspects of financial proposals. They can never enter into the domestic spirit of the propositions that may be placed before them. Often they have to chalk out a credit programme for the institutions as a whole and to ration out credit to individuals dealing at more than one branch, even though their resources may not necessitate the imposing of a limit upon their branch business or upon the totality of credit available for any branch. It is prudent to restrict one's commitments to an individual party. If the size of the business happens to be large, the merchant would be obliged to seek aid elsewhere.

Advances at branches restricted by head offices.

301. There is a general complaint all the world over that Directors of a bank are free in their lending operations at the head office but are very rigid when considering branch proposals. Although this is generally denied, the grievance is not entirely unfounded. It is inherent in the system of branch banking. The Directors naturally take a broader view when the borrowers are, so to say, "under their very nose". When the proposals relate to transactions thousands of miles away from their supervision, they would not be human if they did not become more cautious and careful. Even if need for a rigid personal watch for the overseas business of a firm which has an office at the headquarters of a bank may not be so felt, it is bound to arise in the case of firms who have no connection with the bank's head office.

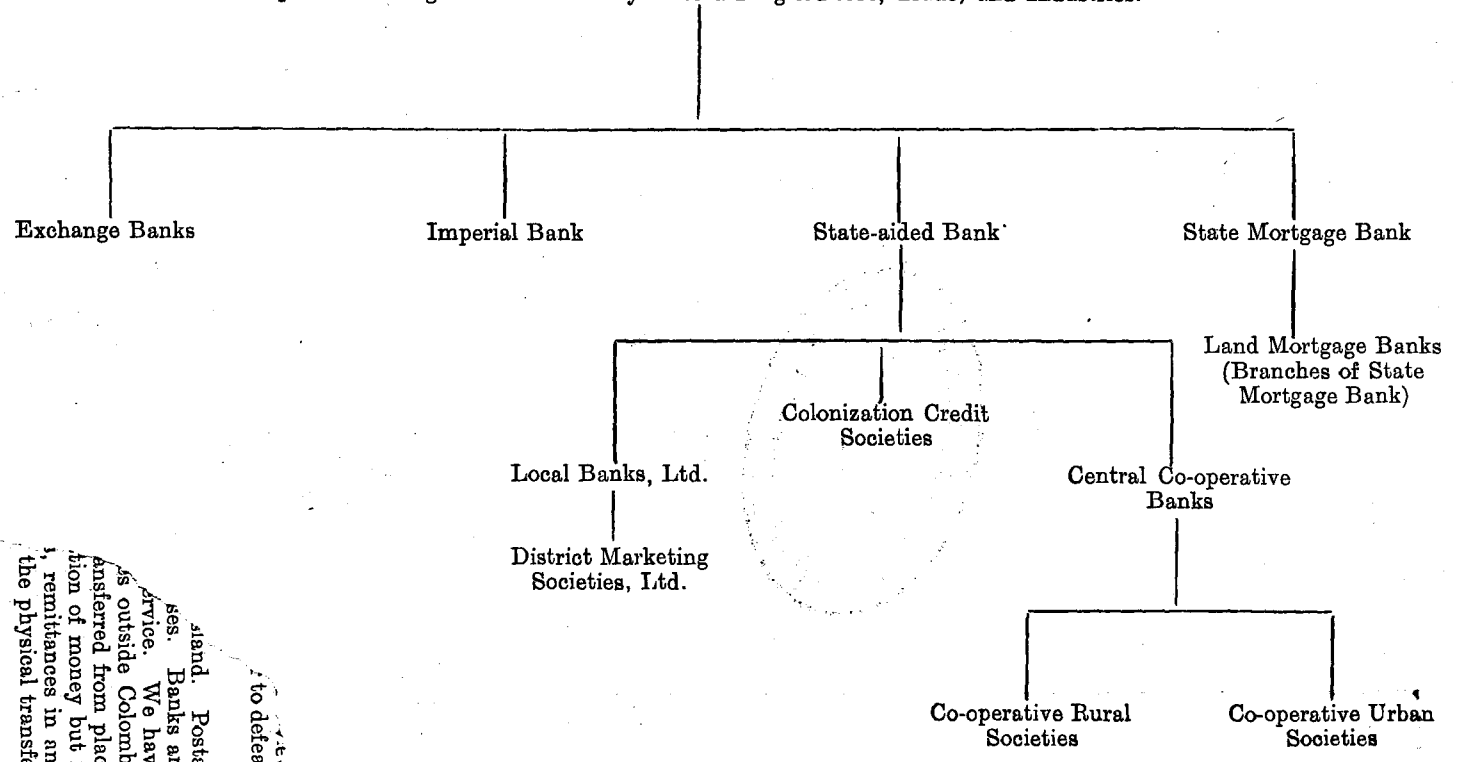
Interference in finance by foreign trade rivalry.

302. Credit is a powerful instrument but it can be abused as well. When there is business rivalry or industrial conflict between two countries served by the same bank, the one which has a bigger branch or head office will certainly manoeuvre with a view to use the control of credit vested in its Directors in order to defeat the economic opposition of the other.

Absence of remittance facilities.

303. There are no remittance facilities in the Island. Postal money orders are too costly for commercial purposes. Banks are the most convenient medium for this kind of service. We have seen that there are no banks and no branches outside Colombo and a few other places. Funds are bodily transferred from place to place. Not only does this impede circulation of money but it involves needless cost. In several instances, remittances in and out of a place must balance themselves and the physical transfer

Proposed Banking Structure for Ceylon to aid Agriculture, Trade, and Industries.



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To face page 73.

can thus be avoided. Those who want to send out funds can do so by buying a draft or a telegraphic transfer from a financial agency which will use the amounts thus obtained in paying those who want finance locally against payment in some other place. This pairing of business is impossible at the present moment. Planters have to pay heavy commission, approximately 1 per cent., for getting funds on the estate because cash has to be taken to them from Colombo. At the same time money collected in the neighbouring railway stations and post offices has to be railed to Colombo. What a wastage of effort and expense! If there were banks at convenient centres, the expense of the double journey could be avoided; and there would only be a nominal exchange charge on remittances with resulting economy in the circulation of money.

CHAPTER VI.

PROPOSED BANKING STRUCTURE: A NATIONAL BANK FOR CEYLON.

304. A grave defect in the credit machinery of the Island is the lack of organized indigenous banking. For all practical purposes, the Ceylonese are without an institution which they can call their own and which can identify itself with the national aspirations of the people. The policy of the existing credit institutions is directed and controlled from centres outside Ceylon. The nerve centre which operates the mechanism of the Exchange Banks is situated thousands of miles away from their locale. Direct and intimate contact, therefore, with prevalent business conditions and personal touch with prospective borrowers are almost non-existent.

305. The Chettiar's business is not organized on modern lines and their charges are heavy. They rarely lend below 12 to 15 per cent. This heavy charge may not have crippled trade and industry when prices were high and money kept pouring in as a result of world demand for Ceylon's products. The times have, however, now altered. The margin of profits shrinks year after year; the borrower cannot bear the burden of a high rate of interest. Similarly, the creditor cannot get funds from banks on easy terms. A portion of the Chettiar's resources has been derived from advances from banks. They had in the past large credit lines with banks. During the last few years, however, some of the Chettiar's have not been able to meet their obligations. It may, therefore, be expected that the supply of credit to them would hereafter be considerably curtailed, even if business relations between them and the banks is restored to the old bases.

306. Having regard to the altered conditions we are of opinion that the need for a strong indigenous commercial bank is imperative. No country in the world of the size and importance of Ceylon should be without a bank of its own. Evidence before us has unmistakably demonstrated the existence of this deficiency and the harm that its absence causes to the economic interests of the Island, and most of our witnesses have been emphatic in their desire to see a change in the prevailing conditions.

307. The institution of a big commercial bank should result in the lowering of interest rates which, in turn, would reduce the cost of production. Ceylon mainly produces commodities which are required for the international markets, and consequently the

price which they can fetch depends mostly on external factors. It is, therefore, expedient that every effort should be made to lower the prime cost so as to increase competitive power in the world trading centres. Every item of cost should be subjected to a close scrutiny with a view to ascertaining if it could not be reduced, and national banking should prove useful in this direction as well.

Present most
opportune time.

308. The present appears to be the most opportune time to bring into being a national bank. Stability in the tea and rubber industries has been introduced by national agreements in regard to their production and export, and there is every hope that losses suffered in the past would in time be made good and that creditors and investors interested in and having a stake in these enterprises will be freed of their anxieties in view of steady appreciation in their securities. The only other important staple produce of Ceylon, besides tea and rubber, is coconut. Its price has touched so low a level that a further drop appears extremely improbable. Further, provision of greater banking facilities must enable the cultivator to reduce his high interest charges and the middleman's commission, which are inseparable from the present method of finance.

A State Bank or a
State-aided Bank.

309. A "State Bank" is often associated with the idea of a bank of issue. It generally happens that on the opening of a State Bank, note-issuing functions are also transferred to it. At the present stage of its economic development Ceylon hardly needs a Central Bank of Issue. It is not yet adequately equipped for such a highly advanced and technical form of credit mechanism. A time may come, after credit organizations have sufficiently advanced, when, to unify and co-ordinate all the credit agencies and to introduce unity of policy and control of currency and credit, such a bank will be necessary. We go further and suggest that this should be the ideal. There are several factors on which would depend the fulfilment of this ambition, the most important being the rate of progress of indigenous banking and of the assimilation by the people of the banking and investing habit. When that stage is reached the question whether the Central Bank should be owned by private capital or by the State might be appropriately discussed. At the present moment, however, the country is not ripe to have a Central Bank and we are emphatically of opinion that a State Bank without note-issuing functions would be unsuitable.

310. Several witnesses have expressed themselves in favour of establishment of a State Bank and not a State-aided Bank simply because they think that the public would not subscribe freely to the capital of a State-aided Bank, and that moneys would be more safe with a State Bank under the guarantee of Government than with a State-aided Bank, which would be a joint-stock concern in which a part of the capital would be owned by the State but without any guarantee to the bank's depositors. Some of them were of opinion that unless there was the control of the State over such a bank, it would not work satisfactorily, and that unless there was a State guarantee people would not deposit moneys for want of confidence in the bank. When the advantages of a State-aided Bank, if free from Government control, were explained to them, some of them expressed their willingness to accept a State-aided Bank with a sound constitution and under an efficient management. We would have advised a State Bank with capital owned by the State or guaranteed by it if it were possible to work it free from State control. We

admit that if a State Bank were established with a capital provided by the State and with the guarantee of the State to its depositors, the bank would be a great success so far as its deposits and the confidence of the investing public are concerned, but due to State control, whereby the bank would be responsible to the Legislature, the very object of such an institution to give credit facilities and to help trade and commerce in a business-like manner regardless of party politics would be frustrated.

311. For the same reasons we would not give preference to Ceylon Savings a scheme to convert the Ceylon Savings Bank, which is under State control and guarantee, into a State Bank. This would have been relatively easy to do, but, in our opinion, the State should not inflict such heavy responsibilities on commercial banks in the country. Government have already taken upon themselves the responsibility of guaranteeing debentures of the State Mortgage Bank to the extent of Rs. 25 million and have also guaranteed the deposits of the Ceylon Savings Bank which, as at September 30, 1933, amounted to Rs. 9,628,796.

312. Taking all the circumstances into consideration and the fact that commercial banks in every country attract the confidence of the public principally through their capital, we recommend a State-aided Bank with a capital substantial enough to command the confidence of the investing public. Participation of the State in the capital unquestionably would enhance public confidence, if not to the same extent as in the case of a State Bank, at least to a very material extent. In the case of a State Bank there is always the danger of it being reduced to a Government department subject to all the disadvantages and disabilities incidental to departmental rigidity and red-tapism. Form and procedure would predominate and economic realities, on which credit should be based, would be treated as of lesser importance. Modern Governments are run mostly on the basis of political parties and the administration of the bank's affairs would be influenced by the views of the party in power.

313. The only alternative is a State-aided Bank. Its constitution should be so designed as to overcome the drawbacks discussed above. It is essential that the principal indigenous bank of the Island should have a formidable capital so that it may be able to maintain its prestige among other banks doing business in Ceylon and inspire confidence in the public, whose surplus funds are to be mobilized in the cause of national economic activities. Unless the Bank possesses adequate resources it will be unable to fulfil the mission it is designed to perform. The people of the Island are not familiar with joint stock banking enterprises. It would take some time before the advantages of putting savings in shares and stocks would be fully realized. The State, therefore, ought to assist the bank with a part of its capital at least to the extent that the public is not able to provide on account of the reasons stated above.

314. Freedom from political interference ought to be the essential consideration in evolving the constitution of such a bank. Beyond helping it in the matter of capital and extending to it the patronage of some of its funds by way of deposits, which are now placed with existing banks, Government should not assume any further obligations. There is no need for Government to give its guarantee for the Bank's deposits or its other obligations. When the country becomes investment-minded, Government may sell off their holdings in the Bank's shares, and thus reduce it to the status of a purely joint stock bank, the ideal form of commercial banking.

Recommendation
for a State-aided
Bank.

A State-aided
Bank—its
constitution.

Big capital
essential.

315. Irrespective of the consideration of prestige and the need for inspiring confidence, there is a further reason why the capital of the bank should be large. On this Bank would devolve along with other banks some of the burden of providing short-term and long-term credits to the trade and agriculture of the country. It is, therefore, essential that its resources should be ample to meet such demands. Large resources in the shape of deposits would only be attracted to the Bank if the security to depositors in the shape of capital was ample. We are inclined to think that unless the Bank has an authorized capital of Rs. 20,000,000 it would not be in a position to function fairly. A glance at the balance sheets of other important banks working in Ceylon would show how vast the capital of each of these concerns is. If it is desired that the proposed Bank should have the same status and enjoy similar prestige, the amount of capital suggested by us should be regarded as the minimum. There is a direct relationship between the capital, deposits and the credit operations of a bank and the extent and volume of the credit which the Bank would be called upon to meet would fully justify such a large capital.

State contribution
to capital.

316. In order, however, that the business of the Bank may not be unduly burdened with a heavy capital liability in its early years, we suggest that the issued capital should, in the first instance, be only Rs. 10,000,000. The demand for the Bank's shares would go on gradually increasing as its utility becomes more manifest and its stability fully ensured. The balance of the authorized capital can, therefore, be issued later on terms advantageous to the Bank, thereby enabling it to build up a considerable reserve. How to raise the capital is another important question demanding careful consideration. Had the people in Ceylon been accustomed to investments in shares of joint stock concerns, there should have been little difficulty in getting this capital subscribed by the public. In view, however, of the present economic development and financial organization of Ceylon and the ignorance and apathy of investors concerning the financing of trade and industries through joint stock institutions, only a small proportion of the proposed capital of the Bank is likely to be subscribed by the public. The balance will have to be taken up by the State.

Opposition to
State aid.

317. The evidence before the Commission goes to support the view that it is necessary that the State should contribute towards the capital of a State-aided Bank. Some of the European witnesses and the Ceylon Chamber of Commerce in its reply to some of the questions in the questionnaire have expressed themselves against establishing a State Bank or a State-aided Bank; nor do they approve of Government giving financial assistance for the encouragement and development of banks or industries in Ceylon. This is what the Chamber states in reply to question No. 21 of Part I. of the questionnaire—

“Government should not interfere directly with private enterprise and this Chamber sees no necessity for Government to give financial assistance, but should the findings of the Commission from the evidence submitted to them show that it is desirable for Government to encourage and develop local industries, this Chamber considers that the most scrupulous care should be taken to make the conditions of guarantees such as to preclude any reasonable possibility that the scheme shall impose a burden on the taxpayer.”

Our view.

318. We cannot see eye to eye with the Ceylon Chamber of Commerce on this subject, in as much as their views are not only

antagonistic to sound principles of economic development of a country, but also seem to ignore what is actually being done all over the world at the present moment. The Governments of the countries in Europe and America are now doing their best to help the trade and industries of their countries by lending money, providing capital and otherwise lending support and encouraging their industries. In order that national industries may be self-supporting and independent of other countries all Governments feel impelled to support private enterprises and to take a lead in promoting and financing trade and industries out of the taxpayers' money, and this is generally accepted as a policy conducive to the good of the country as a whole.

319. The part played by the British Government in encouraging and developing the textile trade of Lancashire, the subsidy given by them to shipping in England, the Overseas Trade Act of 1920, and the Trade Facilities Act of 1926 to finance trade and industries in England are instances of the healthy support offered by a Government to indigenous commercial and industrial enterprises. The action taken by Signor Mussolini to increase wheat production in Italy and by the British Government for a similar purpose and the facilities offered to trade in America by the National Recovery Act are measures of recent dates showing the direct "interference by Governments with private enterprises" with a view to rendering them all possible assistance by the imposition of a "burden on the taxpayer" and with the object of co-ordinating and developing the efforts of individuals concerned and protecting them against the inroads of foreign capital, foreign competition, and foreign domination. Restrictions in the tea and rubber industries are nothing more than a form of Government "interference directly or indirectly with private enterprise", and these restrictions we believe are welcomed by the commercial bodies of the countries interested. The Ceylon Government with ample resources at their back would, therefore, we submit, be fully justified in coming forward to subscribe to the capital of a national indigenous bank and thus provide better credit facilities than at present for the trade and industry of the country.

Illustrations in support of our view.

320. The two arguments advanced by the Ceylon Chamber of Commerce are—

What the Ceylon Chamber of Commerce thinks.

- (1) That the scope of the bank's operations would be "extremely limited and insufficient to justify its existence."
- (2) That "the establishment of any institution which has as a primary object the lending of money is psychologically and fundamentally undesirable in any country in which debt does not appear to cause a certain section of the people any embarrassment or even a sense of obligation"; and that "to extend facilities for obtaining financial accommodation would be putting a premium on borrowing."

321. There could be little doubt that an indigenous bank with a capital of Rs. 10,000,000 partly subscribed by Government, and several more millions of deposits to be received from the public, would be able to successfully compete with the banks now doing business in Ceylon. The new Bank is bound to take a prominent part not only in the internal trade of the country but should be able, in course of time, to develop its business in the foreign markets by having its own branches abroad. There already exist in the country seven big banks, two of which were started within the last 15 years, and they have a staff of 500 persons. All of

Our view.

these banks are said to be doing well in Ceylon, and there is no reason why an eighth bank should not flourish, starting business as it would be under conditions highly favourable to its inauguration.

322. The banking history of every country has recorded the obstacles new banks have had to overcome at the outset. The early history of joint stock banks in London provides ample proof of difficulties they had to face in the shape of business rivalry at the hands of the Bank of England and other private bankers and traders.

323. As to the second argument of the Chamber, one has only to think of the conditions in England a hundred years ago when the Big Five started functioning. The conditions of the country then were so deplorable that it is a recorded fact that "one person in every eleven was a debtor and one in every five hundred was committed for trial." There were "manufacturers without markets, shipping without freight, capital without investment, trade without profits." Still England did not hesitate to establish indigenous banks, and to-day we see British banking a bulwark protecting its trade and industries and rendering yeoman service to the country.

324. The conditions in Ceylon as at present existing are infinitely better than those prevalent in England a century ago. Even assuming for the sake of argument that the conditions in Ceylon are the same as those described by the Chamber, that fact in itself should be an incentive to Government to ameliorate the present conditions and to offer the people opportunities and facilities to foster and promote trade and industries. Once the people are educated and trained to enter into business life they will begin appreciating their obligations to others. In our opinion they need Government guidance and encouragement and it is, we feel, the duty of Government to help them, under adequate safeguards, with such resources as are required to meet this end. It is for this reason that we would strongly recommend Government to set up a State-aided Bank with a capital of Rs. 10,000,000. It must also be emphasized that indigenous banks have always the interests of the country and Government at heart; and they come to their succour and stand by them in times of economic crisis, failure of crops, and temporary budget deficits. Like the Imperial Bank of India, the proposed State-aided Bank will be in a position to lend to the Government of Ceylon for "ways and means" purposes, should they experience temporary cash shortage.

How the capital is to be divided and subscribed.

325. We propose that the proposed State-aided Bank should issue 3 per cent. cumulative Preference shares of the value of Rs. 8 million divided into 80,000 shares of Rs. 100 each and 80,000 ordinary shares of Rs. 25 each of the value of Rs. 2 million, on conditions that after the expiry of 5 years the Preference shares could be converted into ordinary shares of the Bank at the option of the holders of Preference shares. These Preference shares should be subscribed by Government. The following advantages are likely to accrue to the holders of these shares:—

- (1) A fixed interest will be guaranteed by the Bank and the shares being cumulative, Government will be earning interest from the date of purchase at 3 per cent. per annum, i.e., the same rate of interest as is obtained on Indian and Colonial securities at present. There will, therefore, be no loss of revenue by the change in securities or in the investment of their surplus reserve in the shares of the proposed Bank.

- (2) The shares being cumulative preference they will have a claim over the assets of the Bank prior to that of the ordinary shareholders and these shares will, therefore, be better secured than the ordinary shares.
- (3) The shares being convertible into ordinary shares after 5 years, Government will have the option of converting them in order to get the benefit of higher dividends.
- (4) In the Articles of Association of the proposed Bank special provision should be made for the Bank to cease functioning as soon as it be declared by the auditors to have lost one-third of its paid-up capital and reserve. This would cover the risk of the preference shareholders to a certain extent in as much as their losses, if any, would be restricted.

326. In our opinion it would not be necessary to call up the entire capital on the preference shares all at once. Twenty-five per cent. of the face value of the shares may be made payable on application and 25 per cent. on allotment. The balance may be called up in equal instalments of 25 per cent. at least six months after the payment of the last instalment as and when required by the Directors. Government, thereby, would have to find only Rs. 4 million in the first year and remaining Rs. 4 million at a later date, which would give them an opportunity to provide the sum within two or three years.

327. The ordinary share capital of Rs. 2 million should be divided into 80,000 shares of Rs. 25 each. This would give every individual, even with small means, a chance to make an investment in the shares of this national bank. The capital should first be offered to the public and only 40,000 shares should be issued at the start for immediate subscription—Rs. 5 to be paid on application and Rs. 10 on allotment, and the balance six months thereafter in instalments of Rs. 5 each at an interval of not less than six months. We advise the issue of only 40,000 shares because we feel that in view of various circumstances explained before, the public may not readily subscribe 80,000 shares. The balance of 40,000 shares may be offered to the public at an opportune time in the future at the discretion of the Directors.

328. The great advantage to the ordinary shareholders in this scheme would be that with the help of the big capital in preference shares subscribed by the State, the Bank would gain in business and prestige and the ordinary shareholders would reap a greater benefit in its profits than the preference shareholders. After paying a 3 per cent. dividend on preference shares the balance of profit will be divided among the small number of ordinary shares, of course after making adequate provision for reserve and contingency. It will be interesting to illustrate this point further. Suppose the Bank makes a net profit of Rs. 3 lacs in one year with a capital of Rs. 8 million in preference shares and Rs. 1 million in ordinary shares. The preference shares would be entitled to Rs. 240,000 as dividend and the remaining Rs. 60,000 or a major part of it would be available for ordinary shares. Second year, if the Bank makes a profit of Rs. 4 lacs, Rs. 160,000 or a major part of it will be available for the ordinary shareholders, *i.e.*, 10 per cent. more than the previous year. The ordinary shares of the proposed Bank should attract investors as there are chances of increasing dividends year after

Advantage of the scheme to the ordinary shareholders.

year with the growth and prosperity of the Bank and after providing Rs. 240,000 all advantages must accrue to them and them alone, at least for the first five years and thereafter according to the ordinary capital replacing wholly or partly the preference capital. By that time the Bank would make sufficient progress to justify its existence and would earn enough to pay a good dividend on the increased amount of ordinary capital.

When to commence business.

329. The Bank should commence business immediately after the preference shares are allotted to Government and after the list for ordinary shares is closed. It is not necessary that the whole number, viz., 40,000 of the ordinary shares issued should be taken up by the public before the bank commences work. Any amount of ordinary capital with Rs. 8 million preference capital should be considered enough to start the bank's business.

Government surplus, chief source for subscribing capital.

330. The present resources of the State can easily allow Government to subscribe the capital of the proposed Bank, wholly or in part, from the surplus reserves. Instead of investing this surplus in Indian or Colonial securities or depositing them with banks Government could conveniently invest a portion in the shares of the proposed Bank. With restrictions imposed on tea and rubber production, the profits of these two industries would certainly increase, and this would enable Government to show a fair surplus in the next year's budget due to increased returns of income tax and other revenues. In all probability, such surplus would not be less than Rs. 10 million. Government could, therefore, very conveniently spare a part of the surplus reserve now with them without tapping other sources to subscribe to the capital of the proposed Bank. If for any reason this proposal to utilize a part of the surplus reserve be not acceptable to Government we suggest other means to get the capital subscribed without undue strain on the country's finances.

The currency reserve.

331. Against a gross note circulation of Rs. 42,028,944 the Commissioners held on September 30, 1933, a reserve of Rs. 47,583,865 consisting of Rs. 13,852,132 in silver (including Indian Rupees) and Rs. 33,731,733 in investments (as per Appendix No. 6), resulting in an excess of Rs. 5,554,921 taking the investments at their cost.

332. The market value of these investments on September 30, 1933, converting sterling at the exchange rate of the day, was Rs. 37,403,998, which, according to the Auditor-General's Report, left a further surplus of Rs. 3,672,265. Thus, the total excess of reserve over Notes in circulation was Rs. 9,227,187.

333. We would advise Government to let the securities in the Currency Reserve Account continue to stand at cost as at present leaving the surplus of Rs. 3,672,265 untouched as reserve against future fluctuations in their market prices. A sum of Rs. 5 million could, however, be safely availed of from the excess of Rs. 5,554,921 in the currency reserve, for investment in the shares of the proposed Bank. This surplus is at present invested in Indian and Colonial securities as shown above. Some of these securities may be sold and the proceeds invested in the shares of the proposed Bank. The currency reserve would in no way be affected by this purchase and it would continue at the same figure of Rs. 5,554,921. The change would be only in the form of investments held against the note circulation, rendering available at the same time a sum of Rs. 5 million for the capital of the proposed Bank without disturbing the currency reserve. The security also will be as good and sound as other securities

now in the hands of Government, and would yield the same return as on other investments with definite chances of the yield being enhanced in future years.

334. The resources at the disposal of the Ceylon Government are plentiful to admit of a sum of Rs. 10 million being set aside for the capital of the Bank, and with the return of prosperity in the tea and rubber industries, there would be a yearly rise in revenue. The Ceylon Government, therefore, in our opinion, could easily spare Rs. 8 to 10 million from the surplus reserve or partly from the latter and the balance from the surplus in the currency reserve. It might perhaps be apprehended that in the event of market value of currency investments falling below cost, there would not be enough surplus to adjust the market values and the book values of such investments. The existing surplus, however, does not disappear under the arrangement suggested by us. It will remain in the shape of the Bank's shares. The currency reserve will remain invested in gilt-edged securities and it would, therefore, make no material difference whether the surplus of the currency reserve is invested in Indian or Colonial securities or in the shares of a national indigenous bank.

335. Another institution under Government control which might safely invest its surplus or its funds in the shares of the proposed Bank is the Ceylon Savings Bank. This bank was started in the year 1832 for the promotion of thrift, and is run side by side with the Post Office Savings Banks. Government have guaranteed its deposits and the bank is controlled, managed, and looked after by Government's nominees. On December 31, 1933, there stood a sum of Rs. 9,628,796 at the credit of its depositors, an increase of Rs. 894,358 over the previous year's figure. The funds were invested as follows:—

	Rs.	c.
(a) Cash in banks and with Treasuries ..	209,487	88
(b) Fixed deposits with local banks ..	753,000	0
(c) Investments in Indian and Colonial securities ..	8,160,842	0
(d) Loans on Colombo house-property ..	1,286,982	0

336. This bank's reserve stands at Rs. 1,070,431.07 and is built up principally by the difference in the appreciation in the book values of its investments to middle market values. The bank's profit in 1932-33 amounted to about Rs. 127,000, but the difference in the book values and the middle market values of the investments, viz., about Rs. 436,812, was added to this figure as profit for the year and transferred to the reserve fund. This reserve, therefore, is more or less an adjustment account for investment prices and is adjusted accordingly with the rise and fall in the rates at the end of each year. The same method is adopted in the accounts of the Post Office Savings Bank, where the investments are valued on December 31, 1933, at their market value.

337. Should there be any reluctance on the part of Government to provide capital for the Bank from the surplus reserves, they could invest Rs. 5 million from the surplus reserves and Rs. 3 million from the currency reserve by replacing some of the present investments in Indian and Colonial securities by shares of the proposed Bank, or they might invest Rs. 2 or 3 million of the Ceylon Savings Bank or the Loan Board by replacing some of their present investments. The Ceylon Savings Bank deposits as well as the funds with the Loan Board are guaranteed by the State and it is left to the State to invest their funds in such securities as they consider desirable. This

means that the State guarantees the safety of the investments that it makes on account of the Ceylon Savings Bank and the Loan Board. Funds in these two accounts as at December 31, 1933, were invested in securities (as per Appendix No. 7).

338. If Government invests a part of these funds in the capital of the proposed Bank by the transposition of some of the present investments, they would be taking the responsibility of the safety of such new investments in the same manner as in the case of the securities now held against the Ceylon Savings Bank and Loan Board funds. In our opinion Government would be running no undue risk in taking this responsibility as could be realized from a study of the Bank's constitution and the safeguards provided for the safety of the capital proposed by us hereafter. Should Government see their way to provide the capital out of the surplus and the currency reserves, the necessity of tapping the Ceylon Savings Bank and the Loan Board funds would be obviated, in which case the latter could be utilized at a time when Government deemed it incumbent to liquidate a portion of the investments in Bank shares for State purposes, or when further capital was needed for the Bank to extend its business activities.

Directors.

339. The next important question concerning the proposed Bank is the appointment of its Board of Directors. We have considered this matter very carefully keeping in mind the great stake that Government will have in this bank. At the same time we have not overlooked the importance of keeping the business of the Bank beyond State interference. A Commercial Bank, whilst it must not be exclusively guided by the State authorities, should be entirely free from party politics. If it is to play its proper part and function in the best interests of trade, industries, and agriculture, it must remain independent. We, therefore, suggest a constitution which we hope will be acceptable both to Government and the commercial community.

340. It cannot be denied that 95 per cent. of the trade and industries of Ceylon are directly or indirectly in the hands of Europeans and Indians only, and their co-operation and goodwill are, therefore, absolutely necessary not only for the floatation of the Bank but also for its future working. Without this the Bank could have no chance of developing its business and it would fail in its aim of serving the commercial community and of fulfilling the aspirations of the people of this country. Besides, it should also be remembered that for the smooth and successful working of a new bank, men with banking knowledge and business experience are needed. It will be some time before the requisite number of Ceylonese merchants of the required qualifications could be had to serve successfully on the Directorates of banks and other joint stock concerns. We, therefore, suggest that a Board of not less than seven Directors consisting of three Europeans, two Indians, and two Ceylonese or not more than nine Directors consisting of three Europeans, two Indians, and four Ceylonese be appointed to conduct the business of the Bank. The appointment of the first Directors is to be made by His Excellency the Governor. His Excellency should be free to increase the number of Ceylonese Directors, should it be considered in the interests of the Bank. To enable His Excellency to make the selection of right men, we suggest that the four important commercial and agricultural bodies, namely, the Ceylon Chamber of Commerce, the Ceylon Merchants' Chamber, the Indian

Mercantile Chamber of Ceylon, and the Low-Country Products' Association of Ceylon be requested to suggest seven names of five non-Ceylonese and two Ceylonese engaged in commerce, industry, and agriculture to work as Directors of the Bank. His Excellency the Governor need not necessarily make his selection for the Board out of these persons only, but the suggestions of such Chambers would certainly be helpful.

341. The Chairman of the Board of Directors should be appointed by His Excellency the Governor from the Directors nominated by him. His Excellency should have the power to change the Chairman whenever he considers it necessary to do so without assigning any reason. In case any vacancy occurs during the first five years, it should be filled up by the Directors subject to the sanction of His Excellency the Governor.

342. The qualifications of a Director of the proposed Bank should be:— Directors' qualifications.

- (1) That he should have been engaged actively in trade, commerce, industry, or agriculture for over ten years.
- (2) That he should have been a resident of Ceylon for five years.
- (3) That he should be under 65 years of age.
- (4) That he should hold shares of the Bank of the face value of not less than Rs. 5,000.
- (5) That he should not be a member of the State Council or an officer of the Government.

343. These Directors will retire at the first statutory meeting but will be eligible for re-election, and one of them will retire every year thereafter.

344. After a period of 5 years two Directors will retire every year.

345. The retiring Director in each case will be eligible for re-election.

346. The Chairman of the Ceylon Chamber of Commerce doubted if it would be possible to get Ceylonese of integrity and banking experience to act as Directors of the State-aided Bank. We may point out that it is not necessary to look for men with actual banking experience for the constitution of the Board. The administrative work of the Bank could be done by well-paid experienced bankers of long standing and banking knowledge. The Directors should be men of integrity and commercial knowledge conversant with the general conditions of trade and industries and well acquainted with the people of the country and capable of advising the management in determining the bank's policy. We are sure it would not be difficult to find in Ceylon the requisite number of Directors having these qualifications, irrespective of their nationality, and having the interests of the country at heart.

347. The preference shareholders should have the right to Voting vote as follows:—

The first five shares should carry one vote and the holders of each lot of the next twenty-five shares to have one further vote.

348. The ordinary shareholders will have one vote for the first five shares and the holders of every twenty-five shares thereafter will have one further vote.

Management.

349. The management of the proposed Bank should consist of:—

- (1) A Manager with banking experience of not less than fifteen years on a salary of Rs. 2,000 to Rs. 3,000.
- (2) A Sub-Manager with banking experience of not less than ten years on a salary of Rs. 1,200 to Rs. 1,500.
- (3) An Accountant with banking experience of not less than fifteen years on a salary of Rs. 750 to Rs. 1,000.
- (4) A Secretary with legal experience of not less than ten years on a salary of Rs. 500 to Rs. 750.

350. The above appointments during the first five years to be made by His Excellency the Governor. Future appointments of Manager and Deputy Manager to be made by the Board of Directors with the approval of the Governor. All other staff appointments to be made by the Manager with the approval of the Board of Directors.

Business of the Bank.

351. The Bank should be at liberty to do the following kind of business:—

- (1) Open Current, Fixed, and Savings Accounts.
- (2) Buy and sell Ceylon Government and foreign Government securities and bullion.
- (3) Underwrite, subscribe, and invest in shares of joint stock banks and other companies registered in Ceylon.

As to investment in shares of joint stock companies registered in Ceylon, it should not be more than 50 per cent. of the total of the subscribed capital in case of local banks, and not more than 25 per cent. in the case of other commercial and industrial institutions.

Ceylon is a country full of possibilities but owing to insufficient State encouragement, lack of technical training and credit facilities and similar other causes, it has lagged behind the times in industrial activities and other respects. Instead of giving direct financial help to each individual engaged in some local industry, it is desirable that the State should offer facilities and encouragement through a State-aided Bank. We have explained at length elsewhere in this Report the advantages of adopting such a course. To enable the Bank to help the State in carrying out its aim of encouraging deserving industries in the Island, it should be empowered under its Articles to do such kind of business as enumerated under (3), consistent with the safety of the Bank. Any abuse of this power, in view of the proposed constitution of the bank, is unlikely. Deserving and profitable industries will, through this privilege, be able to obtain the necessary help, so far denied to them by Government and banks, and such assistance will be an incentive for promotion of joint stock concerns. Of course, such investments should be made very cautiously by the Bank, with or without Government guarantee. It would be necessary to keep sufficient control over the working of such institutions whenever the Bank is directly or indirectly interested in them.

- (4) Deal in local and foreign currencies.

The Bank should be free to do foreign exchange business only after it has made sufficient progress in the local business of the country, but not within two years of its registration, and only with the approval of the

Board of Directors and the final consent of His Excellency the Governor.

Ceylon being an agricultural country with a large export and import trade, the Bank, sooner or later, must take part in its exports and imports, not in a spirit of unhealthy rivalry with the existing institutions, but with a view to providing further facilities for those who need them. There are already six banks engaged in this line of business and they cannot prevent a branch of any other bank starting exchange and local business in the Island. In our opinion, there is enough field for the State-aided Bank to work in harmony with the existing banks in the country. It is desirable, however, that the Bank in the first two or three years of its existence should devote all its attention to local business and advance the cause of local trade and industries.

(5) Agency business.

(6) Lend money on:—

(a) Immovable properties.

(b) Agricultural produce and manufactured goods.

(c) Bills of lading and documents of title.

(d) Promissory notes and bills of exchange.

(e) Ceylon Government and foreign Government securities.

(f) Debentures and fully paid shares of joint stock companies registered in Ceylon and elsewhere.

(a) As to lending moneys on immovable properties, the total amount of such should be restricted to not more than 25 per cent. of the paid-up capital and reserve of the bank. The advances on immovable properties in each individual case should not exceed 50 per cent. of their estimated value, provided the yield on the property is enough to provide $1\frac{1}{2}$ times interest on such proposal loan.

(d) Promissory notes should be signed by not less than two independent parties not connected as partners, and approved by the Board of Directors.

(f) The bank must not be allowed to lend money on its own shares.

(7) Discount local or foreign bills of one or more parties.

(8) Safe custody.

352. The Bank's accounts should be audited every month by Auditors, two firms of duly qualified Chartered or Incorporated Accountants. The preference shareholders should have the right to appoint one Auditor and the ordinary shareholders should make the appointment of the second Auditor. For several reasons the Auditor-General should have nothing to do with the Bank unless in the event of liquidation.

353. The Articles of Association of the proposed Bank should provide that if at any time within five years of the starting of the Bank it is brought to the notice of the Directors by the Auditors of the bank that the Bank has lost $\frac{1}{3}$ of its paid-up capital, it shall be incumbent on the Directors to take the Bank into liquidation after placing the affairs of the Bank before the shareholders.

Monthly statement
of accounts.

354. The Bank shall publish periodical statements of its liabilities and assets on the same lines as the weekly statements of the Imperial Bank of India, either weekly, fortnightly, or monthly, as the Directors might think fit.

A financial adviser
to the Bank.

355. The Government of Ceylon should appoint a Financial Adviser to the Bank at least for the first five years. He need not be a full-time man. A retired Bank Manager of good reputation with some knowledge and experience of business conditions in Ceylon can be selected. He may be consulted occasionally when determining the policy and other important matters which are likely to occur during the first few years of the Bank's existence. Besides, he would be useful when there is any difference between the Board and the management as regards the policy of any particular kind of business. The Board would also sometimes like to take independent opinion on certain matters concerning the Bank, and the expert advice of such a man would be very helpful to the institution. Such an adviser may be paid an yearly honorarium and not a monthly salary, and his services may be dispensed with after three or five years, if no longer required.

Direct
Government
representation.

356. We have considered very carefully the desirability or otherwise of direct Government representation on the Board of Directors of the State-aided Bank, particularly in view of the large stake Government may have in the capital of the Bank. We are of opinion that there is no need for such separate official representation, as we have provided in the constitution of the Bank the following safeguards necessary for the sound working of the institution and for the safety of Government and public money to be entrusted to its care:—

- (1) The members of the first Board of Directors will be appointed by His Excellency the Governor.
- (2) The Government by virtue of being the holder of the preference shares will always have a determining voice in the appointment of the Directors till it continues to be the preference shareholder.
- (3) The appointment of the Manager and the Sub-Manager will be in the hands of His Excellency the Governor and if the selection is made of right men, the efficient management of the bank will be assured.
- (4) The preference shareholders have the right of appointing one Chartered or Incorporated Accountant as Auditor for the Bank, who may carry out weekly, monthly, or six monthly audit of the bank as desired by the shareholders and report to them.
- (5) Provision is also made for compulsory liquidation of the Bank in the event of a loss of one-third of its paid-up capital.
- (6) The periodical weekly, fortnightly or monthly statement of the Bank will disclose its financial position.
- (7) In the event of any occasion arising, which would necessitate the appointment of a Government official to the Board of Directors, there is nothing to prevent Government, as holder of Preference Shares, to have the Articles of the Bank amended by a special resolution at a general meeting for appointing such an official.

357. Even were a Government official appointed on the Board, it is extremely doubtful whether he could prove himself useful to the other co-Directors, however efficient and able he be in his own sphere of work. A Bank Director must be able to gauge the credit risks in the loan operations of the bank and should

not refuse to undertake reasonable business risks. A successful business man by training and experience is best fitted to discharge these functions. On the other hand, not only is a Government official by training and experience rarely qualified for such tasks but, by the very fact of his being Government's representative, he would be inclined to be unduly cautious and conservative. He will consequently be more an obstruction than an asset to the Directorate in the conduct of the lawful business of the bank.

358. So long as Government hold Preference Shares in an adequate number, they will always be in a position to nominate their own representatives, not being Government officers. In future, however, should Government have disposed of their holdings and should they, in light of their continued patronage, deem it nevertheless expedient to be duly represented on the Board, it would, we feel, be possible to make a suitable change in the Bank's Articles by a resolution of the shareholders.

CHAPTER VII.

LOCAL BANKS.

359. In the course of our investigations, we have been struck with the need for expanding the existing credit structure for the purpose of providing reasonable credit facilities in the principal districts of Ceylon. Experienced witnesses have complained to us that in the absence of indigenous commercial banks, Ceylonese traders and industrialists are greatly handicapped in their business in Colombo and in other parts of the country and are compelled to resort to money-lenders whose charges are high and prove a great burden to their enterprise. Need for the expansion of existing credit structure.

360. An important preliminary question to be determined in connection with the provision of indigenous credit facilities in different provinces is whether the development of banking in Ceylon should be through branches of the State-aided Bank or through local organizations. We have recommended elsewhere the formation of a State-aided Bank to function as the bulwark of the national banking system. The question naturally arises whether this bank should not open branches in the interior through which financial facilities should spread over the entire country. We have given very careful consideration to this aspect of the problem and duly weighed points for and against both the systems and have come to the conclusion that the establishment of local institutions would offer greater opportunities of service. The local directorates will be in a better position to determine the financial requirements of their respective territories and to judge credit risk. Their influence will, moreover, help their banks to successfully tap local sources in order to secure deposits. Local banks.

361. In the case of banks working through branches complaints are invariably heard that local interests are neglected due chiefly to the absence of intimate personal touch between the Head Office and the customers of the branch and the consequent lack of knowledge concerning prevalent business conditions and the credit position of customers. If the matter were left to the decision of local men conversant with actual conditions, they would take a more correct view of the situation in dealing with local demands. The main advantage of branch banking lies in facilitating the transfer of surplus capital from one place to another where it can be profitably utilized.

362. With this end in view, we suggest that the local banks should be linked to the State-aided Bank so as to enable them to avail of all the benefits which that organization is designed to Link with State-aided Bank.

provide, preserving at the same time their independence. Joint stock banks located at important principal centres in different provinces should be made the chief source of affording credit facilities to the trade and industry in the interior of the Island. Should these local banks, however, fall short of expectations, there would be little difficulty for the State-aided Bank to introduce branch business. Those of the local banks that have been already working could be absorbed by the State-aided Bank or allowed to continue independently. In view of the advantages offered by local banks they should be first given the fullest opportunity of development and their growth should not be allowed to be impeded by the possibility of strong competition on the part of branches of the State-aided Bank.

State-aided Bank
to precede local
banks.

363. Whether the formation of the State-aided Bank should precede or follow the establishment of local banks, is the next important question for consideration. Were the local banks to come into existence before the inauguration of the State-aided Bank, not only would they be deprived of advice and guidance in their formative stages from such a central banking institution, but they would also be without succour and support in time of need. Local sources of savings being not very large, their credit operations would be greatly restricted. Further, there is the question of educating the public in matters of banking. Unless the people in the interior know the full significance of banking enterprise from a national point of view, the formation of local banks, if left entirely to the efforts of the local population, would be considerably delayed. Several of our witnesses have stressed the nervousness of the people concerning the stability of indigenous credit concerns as a result of bank failures in the past. Some of them have gone so far as to assert that there is general want of confidence among the people and that "Ceylonese do not trust each other in business". Without expressing any opinion on these views we wish to point out that banks will not inspire much confidence unless they have behind them a strong organization which they can look up to for counsel and financial assistance. It is, therefore, of the utmost importance that the State-aided Bank should be formed prior to the establishment of local banks. The latter might then function under its auspices and patronage.

Incentive to growth
of local banks

364. Once a central institution in the shape of the State-aided Bank is formed, the growth of local banks would be both smooth and steady, because wherever there is need and scope for such a bank persons locally interested in economic development would have sufficient resources and facilities to form a joint stock bank. A capital of a million or half should be sufficient in each case, the size of the capital depending upon the extent of the credit operations of the area. It is desirable that 50 per cent. of the capital should be subscribed by the State-aided Bank on being satisfied as to the need for such a local bank and the prospects of its success, and the remaining 50 per cent. locally or otherwise obtained directly from prospective investors.

Help from
State-aided bank.

365. The State-aided Bank may also assist the local bank in finding a suitable Chairman and Directors and staff for the management. In view of the sad experience of indigenous banking in the past in Ceylon, the value of honest and efficient management as a condition precedent to success cannot be too strongly emphasized.

State-aided Bank
as bankers to local
banks.

366. All the local joint stock banks of different Provinces will keep their accounts with the State-aided Bank at Colombo which will act as a banker to them and do their agency business. The

local banks will work as agents of the State-aided Bank in Provinces; thus there would be complete co-ordination in the future banking structure of the country. The wisest policy the State-aided Bank should pursue in connection with these institutions would be not to assume responsibility for, nor to interfere with, their working after their formation. Its connection with them should be merely in the capacity of an adviser and of one interested in their well-being and progress.

367. Having regard to the numerous banking catastrophes in the past in India and Ceylon, we consider it desirable to discuss in this chapter a few important points, which should not be overlooked in framing the constitution and laying down the working policy of local banks.

368. The capital of a local joint stock bank in Ceylon would obviously vary with the economic importance of the province in which it is opened, but there should always be an irreducible minimum. We consider it undesirable to have a joint stock bank with a subscribed capital of less than Rs. 500,000. A bank with a smaller capital would not, we think, inspire the requisite confidence in the saving and the investing public in the principal towns, with the result that it would be unable to tap fully the deposit resources of its territory, and in the absence of sufficient funds would fail to meet the credit requirements of the trading public. Both these deficiencies would in turn react upon its already weak capital foundation and may ultimately lead to disintegration. Further, the Exchange Banks, the Imperial Bank, and the State-aided Bank would hesitate to entrust their agency work or to pass on any business to a local indigenous bank unless they had sufficient confidence in its stability, which, to a great measure, would depend on the magnitude of its capital. We, therefore, strongly urge that no bank should be allowed to be floated unless it has a minimum subscribed capital of Rs. 500,000.

369. Before a bank commences work half its capital should be actually paid-up, for it is obviously only the paid-up amount of capital that really matters. If the subscribed amount is large and the paid-up amount relatively small, the real security which capital is meant to offer would be proportionately reduced.

370. In order that as large a portion of the public as possible should take interest in the bank, it is necessary that its capital should be widely distributed. This could be only done if the face value of the shares were kept low. We recommend that the capital should be divided into shares of Rs. 25 or Rs. 10 each, so that even persons with small means may be in a position to apply for them. In order that the bank should have full local support, preference in the allotment of shares should be given to the people of the province. Beyond this, however, no distinction need be made between the Ceylonese and the non-Ceylonese applicants for shares.

371. The directorate of the bank should be composed of respectable local businessmen, whether actively engaged in business or retired, well known in the province for their integrity and straightforward dealings. The connection of a person with a shady past must have an adverse effect upon the bank's career. The number of Directors should not be less than five and more than seven. These limits are suggested so that the number should not be too small to degenerate into a clique nor too large to become unwieldy.

Prohibition of advances to Directors and officers.

372. The Articles of the bank should provide that none of its Directors or officers would be allowed advances by the bank even against sufficient security. This restriction should apply not only to such persons individually but should extend to those who have offered themselves as guarantors or joint signatories. The Directors, not being personally interested in advances, will always consider business proposals on their intrinsic merits. In such an atmosphere of complete independence unpolluted by personal considerations and self-interest, the character of advances would certainly be healthy and satisfactory.

Business.

373. These banks should engage in liquid and self-liquidating credit operations. In the Articles of Association it should be distinctly provided that loans against the banks' own shares would not be allowed. The banks must do purely commercial banking transactions calculated to help the trade and industry of their respective provinces. Credit could be extended directly or through Co-operative Banks and Societies. Locking up of funds in advances against lands, buildings, and immovable properties in general should be avoided. During the early years of a bank it is liable to be severely tested by depositors in regard to its capacity to repay; and the value of liquid investments wherewith to meet such liabilities cannot be over-emphasized. Later, this restriction may be somewhat relaxed, if considered desirable, but it is absolutely necessary that for the first five or ten years of a bank's existence it should be prohibited from lending on the mortgage of properties.

Small loans preferred.

374. It is also necessary that the funds of the bank should be lent in small amounts and to a large number of borrowers. In such a case, loans could be recalled with greater success and the risk of heavy losses through failures would be minimized. It would be prudent to lay down in the Articles of Association that the Directors shall not lend to any individual borrower more than 10 per cent. of the bank's paid-up capital, even against securities. If a customer needs larger amounts, he should apply to the State-aided Bank.

Management.

375. It is essential that only qualified and trained men should be recruited to fill responsible posts. Amateur bankers or men with little or no knowledge of banking should not be entrusted with the highly responsible and technical work of conducting banks. Unless a person has duly qualified himself by study and possesses previous practical experience in the banking line for a period of at least five years, it would be extremely risky, in our opinion, to appoint him to a Manager's post.

Local employees.

376. It is true that there are not many local men who satisfy the above test in regard to qualifications but that is no reason why the progress of future banking should be jeopardized by entrusting such responsibilities to raw and immature men. The past holds out, in this respect, a grave warning which cannot be lightly ignored. Outside talent could be imported on time basis and the intervening period should be utilized to thoroughly train local men for responsible banking service.

Audit.

377. To provide independent check on the affairs of banks it is very necessary that their accounts should be periodically audited by qualified Auditors holding special certificates from the Ceylon Government. The working of a bank being highly technical, only competent and qualified Auditors should be certificated to audit accounts of credit institutions. Such audits

should be conducted once every month, but in no circumstances should an interval of over six months be allowed to elapse between two consecutive audits.

378. We have considered whether any restrictions should be placed on the distribution of dividends until a strong reserve position has been built up, but are inclined to the view that in order not to impede the flow of capital for banking concerns, this matter should be left to the discretion of the Directors. We, however, feel that it would be wise if at least 15 to 25 per cent. of the net annual profits is transferred to reserve, until it equals half the amount of paid-up capital, before a dividend is declared at a higher rate than 6 per cent.

Distribution of dividends and reserves.

379. Before actually forming a local bank it is advisable that its promoters should consult the State-aided Bank and act on its advice. If that Bank is satisfied as to the need and scope of such a bank, it might assist the organizers in framing the constitution, raising the capital, and selecting suitable men for the management. It might even take up a portion of the unsubscribed capital if the prospects of getting capital immediately are not sufficiently bright.

Guidance and help of State-aided Bank.

380. Local banks should keep running accounts with the State-aided Bank at Colombo; they should also deposit their surplus funds with it. Such dealings and points of contact will promote their friendly relations with the State-aided Bank, which by knowing them better will trust them more. This connection will in turn lead to increased confidence in the local bank on the part of the people of the Province and of the general mercantile community.

Further points of contact.

381. It is needless to say that if local banks are organized on the above basis, a net-work of efficient banks, entirely owned and managed by indigenous people, would soon spring up in the Island. Their policy being always directed for the advancement of national economic interests, they should exert considerable beneficial influence over the material welfare of the country and with the guidance and help of the State-aided Bank should be instrumental in developing the economic resources of Ceylon.

Beneficial influence of local banks.

CHAPTER VIII.

BANKING REGULATIONS.

382. In view of the public nature of the business of banks and the restricted responsibility of their shareholders in the event of loss, some legal control on the formation and working of banks is supremely necessary. Unless depositors' interests are fully safeguarded by law, they will not have that requisite confidence in the banking system which is necessary before they can entrust their money to the keeping of others. Legislative control having as its objective the smooth working of credit institutions and the preservation of public money deposited with them is the first essential condition of their birth and progress.

Bank legislation.

383. In some countries such as the United States of America, Canada, and Sweden, there is special banking legislation distinct from the law relating to the incorporation of limited liability companies. In England, however, there is only a Companies' Act which regulates banks in common with all joint stock enterprises. In the early history of Company Law no distinction was generally drawn between banks and other companies so that the growth of joint stock institutions might not be impeded. The

more complicated the law the less would be the disposition to come under it. But with the increase in company formation and in the light of later experience it is now generally felt that separate legislation to govern banks is necessary. England and other older countries which took to organized banking long ago may not want a special Bank Act because they have trustworthy and massive banking structures and also because certain conventions and traditions have grown up there to meet this deficiency adequately. However, in the case of countries that are thinking of establishing their banking anew, it is desirable to have legal machinery suited for this specific purpose and constructed in the light of past experience. Where the need for a separate enactment is not great, it will be sufficient if special provisions dealing with banks are incorporated in the General Companies' Act.

Existing banking
legislation in
Ceylon.

384. Banking in Ceylon is at present regulated by Ordinance No. 2 of 1897 coupled with Ordinance No. 4 of 1861 as amended by later Ordinances. No company, association, or partnership consisting of more than six persons can carry on business of banking in the Island unless it is "registered as a Banking Company under the Ordinance and Acts relating to companies from time to time in force in this Island or in any British Colony or Possession, or in British India, or under any Acts of Parliament, or be incorporated by an Act of Parliament or of the Governor-General of India in Council, or by Royal Charter or Letters Patent." * Before a bank can be incorporated under the laws of the Island previous permission of the Governor, under the hand of the Chief Secretary is necessary, and unless such authority is given no bank can be registered in Ceylon. We understand that this is a mere formality and the Governor's permission is given as a matter of course. No inquiry seems to be made about the applicant's status or financial means or of the size of the capital, or the amount that would be paid up before commencing business. The law requires that there should be at least seven persons to form a limited liability bank.

Joint Stock
Companies'
Ordinance.

385. The Joint Stock Companies' Ordinance of 1861 excludes banking and insurance from its operation. To meet this want the Banking Ordinance of 1897 has been introduced. It is a small enactment consisting of nine sections. It does not displace the regulations contained in the Companies' Ordinance, which must continue to govern the incorporation and working of banks as well, but lays down additional requirements to be followed by banking concerns. Every bank registered in the Island is required to display, twice a year, on stated days in a conspicuous place in its registered office and in every branch, a statement of its assets and liabilities in a given form and also to have its balance sheet audited. Model forms of Memoranda and Articles of Association are also given in the Banking Ordinance. Beyond these few points there is nothing more in the Ordinance of 1897. Our study and criticism of the banking regulations in the Island must therefore comprise not only the Banking Ordinance but the Companies' Ordinance as well. The former has no separate existence in fact, though legally it may be a distinct measure.

Its defects.

386. Any casual reader of the Joint Stock Companies' Ordinance will not fail to observe that it is out of tune with the modern times. There can be no finality in law relating to business. It must be periodically altered and enlarged to suit changing conditions of commerce and methods of operation and to

* Section 3 of Ordinance No. 2 of 1897.

provide further safety which the practical working of the law has demonstrated to be necessary in public interest. Failure of banks and limited liability companies in Ceylon in the past may be attributed in no small measure to the inadequacy of the law. There are so many loopholes of which the dishonest management can take advantage and they can thus deceive and swindle shareholders, depositors, and creditors and still escape punishment. In other countries the law governing company formation has considerably advanced so as to meet present-day requirements and has remedied defects revealed in actual working. We understand that both the public and the Government of Ceylon are conscious of the deficiencies of the present law and that attempts have been and are being made to thoroughly overhaul it. Unfortunately no tangible result has been achieved as yet.

387. We believe we are not expected to make detailed recommendations as to the improvements necessary in the existing legislation. We shall, therefore, merely indicate where and in what particulars the law is wanting and the amendments that we consider necessary.

388. We shall now attempt to deal with provisions, or rather the absence of them, that particularly concern banks. They should be incorporated in a comprehensive code of legislation on the subject of joint-stock companies. In the present state of the country's banking, which is conspicuous for its lack of national or indigenous concerns, simple but non-defective regulation would be of great value. Were the law based on the model prevailing in the United States of America, Canada, and other countries, where the legislature has attempted to impose considerable checks on the routine working and conduct of business, it would retard the growth of banking. The best policy would be the golden mean between the total absence of provisions relating to banking regulations and a highly specialized and rigid bank code. Comprehensive code required.

SPECIAL LEGAL PROVISIONS RELATING TO BANKS.

389. The word "Bank" must be defined if it is to form the subject of legislation. Several countries have attempted to do so but as yet no unanimity as to the connotation of the word, or of its derivatives has been achieved. The Canadian term "Bank" simply means "any bank to which this Act applies." The Bills of Exchange Act defines "Banker" as including "a body of persons whether incorporated or not who carry on the business of banking." Neither the Ordinance No. 4 of 1861 nor its Schedule "A" which prescribes the form of Memorandum of Association of Banking Companies attempts to define banking. "The objects for which the company is established" as laid down in the schedule, comprise "the carrying on the business of bankers including making advances of money and dealing in exchange, coin, and bullion." Sir John Paget in his "Law of Banking" sums up the position as follows:— Definition of bank.

"No one and nobody, corporate or otherwise, can be a 'banker' who does not—

- (a) Take deposit accounts.
- (b) Take current accounts.
- (c) Issue and pay cheques drawn on himself.
- (d) Collect cheques, crossed and uncrossed, for his customers."

He, however, goes further and says that a person or body corporate may do all these things and still not be a "banker". In addition to the above-mentioned requirements banking must be the principal business or occupation of a bank; it must hold itself out as a bank and the public must take it as such. According to him "the only true road to safety both for the public and the banker, lies in the scheme propounded by those best qualified to judge, of an authoritative and conclusive register of bankers."

Definition of banking business.

390. The Enemy Banking Business Rules of 1918 defined "banking business" as follows:—

"Receiving money on current account or on deposit; accepting bills of exchange; making, discounting, buying, selling, collecting or dealing in bills of exchange, promissory notes, and drafts whether negotiable or not; buying, selling, or collecting coupons; buying or selling foreign exchange by cable transfer or otherwise; issuing for subscription or purchase or underwriting the issue of loans, shares, or securities; making or negotiating loans for commercial or industrial objects; or granting and issuing letters of credit and circular notes; except in so far as such operations form part of, and are for the purpose of, and incidental to, the conduct of a business carried on for other purposes by the company, firm, or individual by whom such operations are transacted."

391. The Royal Commission on Indian Currency and Finance, 1926, suggested that "the term 'bank' or 'banker' should be interpreted as meaning every person, firm, or company using in its description or title 'bank' or 'banker' or 'banking' and every company accepting deposits of money subject to withdrawal by cheque, draft, or order." They recognized, however, that the matter required more detailed consideration than they had been able to give it.

Register of banks.

392. For the purpose of Ceylon Companies' legislation it is not necessary to go into the case of a private banker who conducts his banking business on the principle of unlimited liability. It is entirely his own concern how he styles himself or how he carries on his credit operations or trade. Whether a particular person could be called a banker or not should be left to the judgment of those who deal with him or to the determination of Court, should his status ever become the subject of such a decision. Inasmuch as he does not ask for any special safeguard or legal protection he should be left undisturbed and given complete freedom to call himself what he pleases. But when a company or partnership is registered on the principle of limited liability and has in its title the word "Bank", "Banker", "Banking", or any other similar expression, it must abide by certain provisions specifically prescribed in that behalf in the Joint Stock Companies' Ordinance. And this should be applicable to both the public and private limited liability companies. On the incorporation of any such company its name should be entered in a special register called the Register of Banks which should be kept in the Office of the Registrar of Joint Stock Companies and which should be available for public inspection, free of cost. This entry should be made by the Registrar or his office as soon as the certificate to commence business (see below paragraph 397) has been granted. Any joint stock company whose name does not appear in that

register should not be regarded as a banking concern, nor could it use the word "bank" or any of its derivatives as a part of its name.

393. Every existing bank working in Ceylon should be required to have its name entered in this register. If it is a locally incorporated bank, there would be no difficulty in getting this done. The bank concerned will have merely to write to the Registrar, giving reference to the number of the Incorporation Certificate; and he would then make the necessary entry. We deal below with foreign banks and the method of their registration. Compulsory registration.

394. Before a bank's name could be entered in the Register of Banks it must file a declaration with the Registrar, under the signature of its promoters, Directors, or principal officer that banking shall be its chief business, that it shall not do trading in commodities, that it shall be open to the public for business, and that among other functions it shall do the following:— Filing of declaration.

- (a) Receive deposits.
- (b) Open current accounts.
- (c) Issue and pay cheques drawn on itself.
- (d) Collect cheques, crossed and uncrossed, for its customers.

In the case of indigenous banks the foregoing provisions could be made in the bank's Memorandum of Association in which case there would be no need to file a separate declaration.

395. Under the present Banking Ordinance previous permission of the Governor must be obtained before a bank can be registered. We see no necessity for continuing this restriction. In the past such authorization has been freely given, and has been of little practical value. Whatever may be the reason for such a provision, we feel that its continuance is both unnecessary and undesirable, particularly as we are recommending several other legal safeguards, the introduction of which should sufficiently protect depositors. Registration of a bank should be as free as that of any other joint stock company. Governor's sanction unnecessary.

396. Under the present Banking Ordinance, seven or more persons cannot do banking unless they register their company under the Ordinance. The number of such persons is eleven or more in the Indian Companies Act. We think seven is too small a number to necessitate registration and persons less than eleven in number should be at liberty to do banking on private account without registration and should be exempted from the operations of the company law. Number of maximum persons who can do banking without registering their business.

397. The Companies' Acts in India and England require every joint stock company to obtain a certificate to commence from the Registrar, after it has complied with certain specific conditions. When the reformation of the Companies' Ordinance in this country is taken in hand, a similar safeguard should be provided for. In addition to the observance of such conditions, every bank that is registered in Ceylon must comply with some further stipulations before it should be given a certificate to commence business. These are— Certificate to commence business.

- (1) That the bank's subscribed capital is at least Rs. 50,000.
- (2) That at least 50 per cent. of the amount in respect of shares subscribed has been paid in.
- (3) That no consideration has been paid for goodwill.

398. In order that a bank should have some chance of success, we consider Rs. 50,000 to be the smallest capital which a bank

must possess in order to attract deposits. Condition (2) is necessary to avoid large figures of subscribed capital and small percentage of paid-up capital. Although a small paid-up capital may be sufficient in the banks, it does not induce sufficient confidence in the depositing public. One can never say that all the shareholders will be able to pay up the uncalled amount on shares in the event of winding up. Obligation to pay 50 per cent. of the nominal value of shares would further bring in only those shareholders who are serious about their investment and reduce the possibility of consideration of voting power in the hands of a few.

399. Stipulation (3) is designed to exclude the possibility of fictitious assets on bank's books which tend to reduce the security of capital to depositors. Unless there is this safeguard there is danger of shares being issued against goodwill when a private banking business is converted into a limited liability company.

Issue of additional capital.

400. If, after commencing business, a bank decides to issue further shares, a maximum period should be prescribed within which 50 per cent. of the new capital should be paid in, otherwise, the ratio which is insisted upon at the time of commencing business would be disturbed. We recommend that this period should not exceed three months.

Advances against bank's own shares.

401. It is a good principle that every joint stock company should have a lien over its own shares where a shareholder is indebted to it. The provision, however, is likely to be abused if a bank deliberately advances to a shareholder on the pledge of its own shares and regards those shares as the principal security behind the transaction. The actual result of such business would be to reduce, in fact, if not in accounting, the paid-up capital of the bank and the security behind its business. In spite of this being so obvious, we are surprised that it should be possible under the articles of Table "B" of the Banking Ordinance of 1897 for directors to make such advances. From the evidence of Mr. O. B. Wijesekera, the Managing Director of the now defunct Bank of Colombo, published in Volume II. of the Report, it would be seen that the practice of freely advancing against the bank's shares was no doubt one of the strongest factors which contributed to its failure. Before its formation the bank had entered into a contract with the shareholders to make advances to them on the security of its shares, but subject to the sanction of the directors. Fulfilment of such contracts is said to be permissible under Article 117 (g) of Table "B" which requires the Board to carry into effect any contract "in relation to establishing the company, the raising or obtaining subscription for the capital thereof, or otherwise in connection with the promotion or formation of the company" Under Article 117 (h) of the same Table the directors have power to make advances with or without security.

Bogus banking.

402. We do not think that the framers of the Articles ever visualized that in some ingenious way these sections would be utilized to reduce capital security behind the bank's business. If, as perhaps follows from the evidence of Mr. Wijesekera, capital for banking does not readily flow unless such a facility is given, we think it would be desirable to taboo such bogus banking as it is fraught with danger to depositors through lack of real capital and through the irresponsibility which such a situation breeds.

Publication of financial statement and balance sheet.

403. Under section 6 of Ordinance No. 2 of 1897, every bank is required to display in a conspicuous position in its every office of business a statement of its assets and liabilities in the form

given in Schedule " C " of the Ordinance, on the first Monday in February and on the first Monday in August. In place of the form given in Schedule " C " we would recommend the display of the company's audited balance sheet giving full particulars of its liabilities and assets. Every person going to a banking office would then have the chance to study its financial position and solvency. A copy of this balance sheet should be sent to the Registrar and every shareholder and should also be displayed in every branch of the bank. No one should be considered as a qualified auditor for this purpose unless he is a Chartered, Incorporated or Registered Accountant.

404. Sections 41 to 45 of the Joint Stock 'Companies' Ordinance deal with this point, but the form in which the balance sheet is required to be prepared is unsuited to banking business. Moreover, no qualifications are prescribed for the auditor; nor is a copy of the balance sheet required to be sent to every shareholder or exhibited in every office of the bank. In the Banking Ordinance there is no reference to this matter except in Schedule " B " which purports to lay down the lines on which the Article of Association of a bank should be framed. The questions of balance sheet and its audit are, however, matters of fundamental importance and should be statutorily laid down in the body of the Ordinance.

405. The word " capital ", unless properly qualified, is misleading. It may mean authorized, issued, subscribed, or paid-up capital. The ignorant and credulous public, however, attaches only the last meaning to this term and understands by its use the security provided by the members of the company for its general business. In order to attract customers certain small banks and companies often deliberately advertise their authorized and issued capital, or at best, the subscribed capital figure under the heading " Capital ". This is grossly misleading. The real protection in the shape of the paid-up amount of capital may be merely a fraction of the advertised figure. Several instances of this nature came to light in the course of evidence, particularly in the case of cheetu companies. Against an advertised figure of a capital of Rs. 1,000,000 the subscribed and paid-up amounts were a few thousands only. Such a misrepresentation may not be very injurious in the case of trading companies, but it is positively dangerous in the case of financial institutions. The unwary, reading a different meaning into the word " capital " entrust their moneys to a resourceless bank and lose perhaps their life savings. These remarks apply with equal force to advertisements of insurance companies and other monetary concerns, which have the object of attracting public money.

406. No bank, insurance company, or financial institution should be allowed to publish or in any way make known the figure of its capital unless it is properly qualified by an adjective showing its nature; and where capital other than paid-up is shown, it should be binding upon the advertiser also to publish alongside it and in its closest proximity and in the same type the amount of the paid-up capital. Failure to do so should be punished with a fine not exceeding Rs. 100 per day for the period for which such publication continues.

407. The companies' legislation gives power of complaint to shareholders and the general public whenever it is found that a particular company has violated any provisions of the law. Sometimes this right is abused and frivolous objections are lodged with the magistracy mainly with a view to bringing the management into disrepute. Often there is personal spite, malice and

Criminal action against Directors and officers of a bank.

blackmailing behind those complaints. They may not do much injury to a trading concern, but in the case of financial institutions the consequences are very serious and far-reaching. Credit institutions rest on the confidence of the public, which is bound to get badly shaken by the publicity received in the criminal courts. And although the complaint may be dismissed the injury aimed at by the complainants may have been done already. Some safeguards against such malicious attacks seen to be necessary.

Preliminary inquiry before prosecution.

408. It should be laid down by law that whenever a person has any reason to complain against a bank, he should lodge that complaint in a confidential manner with the Registrar of Joint Stock Companies and ask for permission to file the necessary complaint in the magistrate's court. Full details of the legal violations should be communicated to him. On receipt of this representation the Registrar should confidentially inquire into the matter and if necessary ascertain from the bank's officials the true state of things. If in his opinion there is reason and genuine ground for complaint, he should discuss the whole matter from the legal aspect with the Solicitor-General. The bank must produce any document, papers or books which these persons may require for the determination of the case. If after the discussion and inquiry the Registrar and the Solicitor-General are satisfied with the explanation rendered by the bank and think that proceedings are unnecessary, no permission should be given to the complainant to file the complaint. But if they feel that there has been violation of the law, permission to pursue the matter in the magistrate's court may be given. Only on receipt of such an order in writing under the hand of the Registrar and the Solicitor-General the complainant should be allowed to go to court. As an alternative suggestion, we recommend that in case of vexatious prosecutions of banks, the complaining party, if he fails to prove his allegations, should be required to defray the costs of the defending bank. The complainant should be asked to make a deposit in the court in advance to defray such costs. Legislation somewhat on the lines of the Vexatious Proceedings Act in Scotland is suggested.

Bear raid on shares.

409. Some malicious people may try to injure a bank's reputation by a bear raid on its shares in the share market. This will bring about a fall in the price of its shares and thereby cause nervousness among its depositors. In order to prevent such *mala fide* attempts at injuring a bank, there is Leeman's Act in England which restricts speculation in bank shares by requiring the seller to enter the respective numbers of shares in the contract. A provision to this effect should be entered in the law of Ceylon.

Supply of statistics.

410. Every bank working in Ceylon must be required to supply at least once a year the figures of its business in this country and the names of its branches to the Registrar to enable him to prepare banking statistics of the Island. There should be legal authorization for this in the Companies' Ordinance: Statistics are not meant to satisfy idle curiosity but to depict the path of the country's economic progress. Banking figures are of special importance in this study as they are indicative of the movements in trade and finance. In other countries banks gladly co-operate in the preparation of statistics and we hope that the banks in Ceylon too would have no objection to impart this information for the general good of the public. Indigenous banks can have possibly no objection to the disclosure of figures as they themselves publish their balance sheets. The foreign banks, however, may not like to reveal their dealings in Ceylon. They

have been exempt from such an obligation from their very inception and are not likely to forego easily that privilege. To continue such a state of affairs is obviously unfair to the banks established under the laws of the Island. The foreign banks can know the size of business of the indigenous banks in Ceylon, but do not themselves wish to impart the same information to the other banks. If objection is taken to the disclosure of all the items of their Ceylon balance sheet, they might be asked to give to the Registrar of Banks the figures of deposits, cash, investments in Government securities, bills discounted and purchased, total advances and the amounts due to and by the branches and the head office. Should, however, banks be still reluctant to submit such figures for public information, they might be assured that the figures would be considered confidential by the Registrar who would group them together and include a combined statement of all the non-indigenous banks in the banking statistics.

411. It is curious that there is no non-British bank in the Island. Is this accidental? It may be so, but there also seems to be legal prohibition against non-British banks. Section 3 of Ordinance No. 2 of 1897 already quoted debar a bank not registered according to the laws prevalent in the British Empire from doing banking business in the Island. We are unable to understand the reason for this restriction. Perhaps the framers of the Ordinance had no such intention and the disability has arisen through the fault of the draftsman. This inference appears to be borne out by the fact that no penalty is laid down for the violation of the provision. Whatever may be the reason for the existence of this limitation, we strongly recommend that it should be removed. There is no such restriction on other nationalities in the matter of trade, industry, and insurance, and to do so in finance would be invidious discrimination in the realm of economic activities. It would have its possible reaction when an indigenous bank tries to open its branches in foreign countries. All banks registered under the laws of the countries of their origin should be permitted to work on equal footing. By this we should not be understood as recommending that there should be no check on non-national banks. Foreign banks.

412. The American Express Co. has a branch in Colombo. Its principal business is tourist traffic but it does banking as well. It is difficult to say what its status in law is. According to the amending Ordinance of 1918 a company established outside the Island is required to comply with certain requirements. But there is nothing in that Ordinance which rescinds or modifies the restriction on non-British banking imposed by the legislation of 1897. The American Express Company.

413. Under the present state of the law there is a great danger of mushroom and bogus banks coming into existence. They may be products of the country incorporated under the local law or importations. Several instances were brought to our notice during the course of our inquiry where the ignorant folk were taken in by catchy names and defrauded of their deposits. Even employees were asked to furnish cash securities in order to secure employment which they never got. There is nothing new in such dishonest attempts. Every country has faced such a situation in the early history of her banking. Although it is impossible to uproot entirely dishonesty in banks where managers and directors may themselves be cheats and frauds, we can devise some machinery whereby permission to do banking can be refused when the past history of the promoters of a bank gives reasonable Licence for banking.

apprehension that the position is likely to be abused or where proven dishonesty shows that the continuance of its business is against the public good. We can also lay down requirements in regard to independent scrutiny of the bank's affairs by qualified Auditors, so that genuine errors in working, malpractices, and dishonest methods of procedure may be brought to light at the earliest possible opportunity.

How granted.

414. Every bank working in the Island should be required to take out a licence from Government. This should apply both to indigenous and non-indigenous banks and be renewable every three years. "Certificate to commence business" granted to a locally incorporated bank should have limited significance in the case of banking and should permit the doing of all other business excepting borrowing and taking of deposits, which should be permissible only when a licence has been granted. If any bank is found to be working without such a licence, it and its every officer who is knowingly a party to such default, should be fined Rs. 1,000 for every day that the provision is violated. Power to issue licences should be vested in the Financial Secretary or the Registrar. Unless there is something definitely disreputable or dishonest against the promoters and Directors of a bank, licences to do banking should be freely given. Licences should also be freely granted to all the existing banks working in Ceylon. Renewal of a licence would ordinarily be a matter of formality, unless in the meantime abuses, fraudulent dealings, or dishonest practices have come to light and the continuance of the bank's operations appears to be injurious to its depositors and the public.

Certificate to commence business.

415. In the case of banks registered under the laws of the land this licence should be obtained in addition to the certificate to commence business, and the fact of their having obtained the licence should be noted in the Register of Banks. The first application for the licence should be accompanied by a copy of this certificate to show that all the preliminary requirements of the proposed Ordinance have been complied with.

Conditions of licence.

416. The conditions of the issue of the licence or its renewal should be:

(1) Faithful observance by the licensee of the provisions of the legal enactment under which it is registered. In the case of foreign banks a copy of such legislation along with copies of articles of memorandum and association or documents corresponding to it should be lodged with the first application. Subsequent changes in law and constitution affecting a foreign bank should be deposited with the licensing authority as soon as practicable after their introduction. The application must also give the following particulars:—

- (a) Subscribed and paid-up capital, names of Directors, General Manager, and local branch manager, or managers, if there is more than one branch.
- (b) Address of the Head Office, the local branches, and other foreign branches.
- (c) Name and address of its principal agent in London, if any.

Any changes in the information supplied should be forwarded to the licensing authority as soon as practicable.

- (2) Every licensee should be required to submit a copy of its general balance sheet every year audited by a qualified Auditor as laid down in the law of its incorporation together with a copy of its local balance sheet audited by a person duly authorized in this behalf by the law of the Island.
- (3) Every licensee should be required to submit such particulars and figures of business as may be necessary for the preparation of banking statistics referred to already.
- (4) In the case of the liquidation of a foreign bank its assets in the Island should be first available to meet its liabilities in Ceylon.
- (5) Other conditions may be imposed on the basis of reciprocity. If a foreign country imposes any limitations on the working of a non-national bank the same restrictions should be imposed in the licence granted to a bank of that nationality.

When a foreign bank has been granted a licence to do banking its name should be entered in the Register of Banks.

417. According to section 58 of Ordinance No. 4 of 1861 "upon the application of one-third in number and value of the shareholders of any limited company registered under this Ordinance the Governor with the advice and consent of the Executive Council" may appoint Inspectors to examine the affairs of the company. Sections 59 and 60 deal further with this matter. The expression "one-third in number and value" may in practice be difficult of compliance, *e.g.*, where a comparatively small section having the greatest stake in the concern on the score of shareholdings desires such investigation but is unable to get at the vast body of small shareholders to complete the number. Investigation by Government.

418. In the Indian Companies' Act of 1913, section 138, the only qualification as regard shares held is laid down and the number of membership applies in these cases where there is no capital. Further, possession of one-tenth of the shares issued in the case of ordinary companies and one-fifth in the case of banks, is sufficient to entitle their holders to apply for such an inquiry. We recommend that these proportions should be substituted in the revised Ordinance. Indian Companies' Act.

419. In a banking concern depositors and creditors have a greater stake than the members and we think they should be given some such right. Government should be empowered to carry out inspection. When depositors not less than one-fifth in number of the total depositors, holding not less than two-fifths of the total deposits apply for such an inquiry, Government should consider the application in the same manner as if it were made by the holders of the requisite number of shares. We have purposely included the number of depositors as well as the value of deposits so that it may not be possible for a small clique to discredit a bank by making large temporary deposits and then asking for an inquiry on the strength of such deposits. Right of depositors to call for inspection.

420. The existing Ordinance is defective inasmuch as it does Security for not explicitly require submission of evidence by the applicant shareholders in support of their request, nor is security for expenses required to be furnished. It is possible that the demand may originate in malicious motives. We recommend that the Ordinance should be enlarged to provide for these.

Miscellaneous.

421. Banking to-day is not mere money lending. It is both an art and a science. Those in charge of a bank whether as Directors or as Managers have to observe all recognized principles in the conduct of their business, e.g. :—

- (1) It is highly risky to block up bank's funds obtained in the shape of short period deposits in mortgages of real property which usually take long in repayment.
- (2) A bank must have sufficient cash and liquid resources to meet all possible demands for withdrawals according to the tenure of deposits.
- (3) The distribution of assets should be so planned as to get the maximum of return at the minimum of risk of safety and liquidity.
- (4) Spread of credit should be among a large body of borrowers representing diversified business, and so on.

422. Legislation exists in some countries on these points of procedure and administration. We, however, strongly feel that in the present state of this country's banking, where there is no indigenous bank worth the name, it is needless to impose legal checks in this behalf. These matters can be left to the common sense and judgment of those in charge of the banks. We have already urged that only qualified Auditors should conduct bank audits. They can successfully bring to the notice of the management the sound principles on which work should be done. Hidebound restrictions hamper the growth of economic institutions.

Schedule.

423. *Form "A"—Memorandum of Association.*—Memorandum of Association of a banking company is required to be in the form "A" of the schedule or as near thereto as circumstances would admit. We think it requires considerable improvement and enlargement under the third object. Taking of deposits, the principal part of a bank's business, is not specifically mentioned, though it may be said to follow by implication from the words "business of bankers". But if this is so, there is no need to say "making of advances and dealings in exchange", as these functions can also be said to be implied in the expression "business of bankers". Banks should have power to manage and liquidate business of their borrowers of whatever nature in the event of default and should, therefore, arm themselves with powers in that behalf in the memorandum. A reference to the memorandum of any modern bank would give some idea as to how this "object" should be worded.

Schedule.

424. *Table "B"—Articles of Association.*—This also requires recasting. Inasmuch as the Articles of Association of a bank cannot much deviate from this form, we recommend that the Table should be revised so as to conform with the changes in the law recommended by us, and to follow the model sets of Articles appearing in the constitutions of modern banks or the corresponding sections of the more up-to-date legislation in England.

CHAPTER IX.

LEGAL HANDICAPS OF CREDIT AGENCIES.

Weakness in legal system affects lending.

425. The interest which banks and money-lenders charge includes not only hire for the use of money but compensation for the risk of losing money on account of weakness in security or delay in getting it back, due to a defective legal system. If the legal cost of realizing the amount lent is high, it must go to swell

the cost of the loan to the borrower. If the laws of the land allow the debtor to defeat the creditor in spite of the best safeguards, lending becomes a hazardous trade or speculative proposition. Under such circumstances bankers whose guiding principle is "Safety first" become diffident in their operations and curtail credit, but money-lenders find scope for a good gain and thrive.

426. Banks and commercial bodies have emphatically complained to us that the commercial laws of Ceylon do not help the creditor. Although repeated representations have been made by them to Government for the modification and improvement of the law, the position unfortunately still remains the same. The Agent of the Imperial Bank and representatives of the exchange banks told us that much of the complaint of the public against the restrictive lending policy of banks would disappear as soon as the legal defects from the creditor's point of view were removed. They rightly urged that, if the law helped the debtor against the legitimate rights of the creditor, no one should blame the latter if he became too cautious. As long as times were prosperous and loans were repaid without the intervention of courts, financiers were not too particular about the nature of the law, but the present depression during which the Judiciary had to be frequently approached to enforce the rights of creditors has revealed serious defects. Even witnesses unconnected with banks and money-lenders have deposed that the law is not at all satisfactory for the creditors. Representatives of borrowing classes have no objection to improving the law.

Complaint of banks and commercial bodies.

427. In order to understand how far these complaints were genuine we wrote to the Hon. the Attorney-General giving him a short review of the defects. He was good enough to depute the Solicitor-General to discuss the matter with us. We take this opportunity to thank those officials for their assistance in explaining to us the various legal enactments that impinge upon credit.

Reference to the Hon. the Attorney General and Solicitor-General.

428. As the result of our study and interviews with the various witnesses including the legal advisers of Government, we come to the conclusion that the legal machinery of the Island is very defective from the point of credit and lending, and that it should be overhauled if banking is to do its legitimate business. It is not possible for us to examine exhaustively in this report the several defects of the legal machinery, which naturally is the function of a Legal Commission, but we give below some important suggestions in which improvement appears to be urgently called for. Modifications desired by the local banks are already with the Legal Department of Government.

Legal machinery to be overhauled.

429. Witnesses have emphasized that the Civil Procedure Code is very antiquated and offers temptations to borrowers to be dishonest in their dealings in every conceivable way. It requires to be considerably improved so as to facilitate expeditious disposal of Civil suits. Some have even suggested that a Committee should be appointed to recommend necessary improvements. Although Chapter 53 of the Civil Procedure Code aims at speedy recovery of money due on a promissory note, cheque, or other negotiable instrument, in practice a debtor easily surmounts its provisions. A summary procedure should be prescribed for moneys due on negotiable instruments as also

Civil Procedure Code.

when a party seeks to recover a debt or liquidated demand in money payable by the defendant with or without interest, arising on a contract expressed or implied, or on an enactment where the sum sought to be recovered is a fixed sum of money or in the nature of a debt other than a penalty, or on a guarantee, where the claim against the principal is in respect of a debt or a liquidated demand only. Suits of such type should be styled summary suits and in case of summary suits the defendant shall not be entitled to appear or defend the suit unless he obtains leave from a Judge to appear and defend. The Judge whilst granting leave to defend should put the defendant on certain terms; for instance, if he finds that the defence is of a frivolous nature and that it is taken up simply with a view to delaying payment of the moneys that may be decreed in the said suit, he should call upon the defendant to deposit the amount claimed by the plaintiff in the suit in court within the stipulated time or the Judge may in his discretion ask the defendant to deposit such sum which he may think fit and proper, and which would safeguard the interest of the plaintiff till the suit reaches hearing. Leave to defend may be given unconditionally or subject to such terms as to payment in court, giving security, framing and recording issues or otherwise as the court thinks fit. If it appears to the Judge that there are several defendants and that one of such defendants has a good defence and should be permitted to appear and defend the action, but that the other defendants have no such defence and should not be permitted to appear and defend, the defendant who has a good defence should only be permitted to defend and the plaintiff shall be at liberty to take a decree against the other defendants and execution may be proceeded against such defendants without prejudice to the plaintiff's right to proceed with the action against the defendant who has a good defence to the suit. Section 194 of the Civil Procedure Code relating to the satisfaction of a claim by instalments is said to be greatly abused. The said section should be amended and the Judge should be at liberty, whilst ordering the defendant to pay the decretal amount by instalments, to put him on such terms as to payment of interest, the attachment of his property or the taking of security from him or otherwise as he thinks fit. There should be a section in the Civil Procedure Code whereby the decree holder may be permitted to apply to the court for an order that the judgment-debtor be orally examined as to whether any or what debts are owing to the judgment-debtor and whether the judgment-debtor has any and what other property or means of satisfying the decree and the court may make an order for the attendance and examination of such judgment-debtor and for the production of any books or documents.

Delay in disposal
of suits.

430. It is a general complaint that it takes 4 to 5 years before a suit can be decided. There is danger of considerable depreciation in security during this period. It was brought to our notice that a person had to wait for two years for the hearing of a mortgage action. He was obliged to eventually settle it out of court at a great loss to himself. It is said that long dates are usually given on the ground that the Trial Roll of every Judge is full up. Causes for such inordinate delay appear to be partly due to the inadequacy of the provisions of the Civil Procedure Code and partly to the insufficiency of the strength of the Judiciary in proportion to the number of cases. But whatever may be the reason the fact is indisputable, and it is necessary in the interests of credit to greatly minimize this delay.

431. For the speedy disposal of suits, a division should be made of suits. Suits should be allowed to be filed as commercial causes and summary suits. Commercial causes shall include causes arising out of the ordinary transactions of merchants, bankers, and traders; amongst others, those relating to the construction of mercantile documents, export or import of merchandise, carriage of goods by land, insurance, banking and mercantile agency, and mercantile usages and debts arising out of such transactions. A special Judge should be nominated for taking up such commercial causes, and if such Judge after reading the plaint is satisfied that the suit is a commercial cause, he shall direct the plaint to be marked with the word "Commercial Cause". On the plaint being accepted, the plaintiff shall take out a summons for general directions to be served upon the defendants in the suit, and such summons shall be made returnable in not less than four days. At the hearing of the summons for direction, the Judge may make such order as he think fit for the speedy determination of the suit, the avoidance of multiplicity of interlocutory proceedings and the avoidance of expense and delay which might arise from commissions to take evidence or otherwise. Summary suits and commercial suits should be heard in priority to all other suits filed in court.

432. Title deeds are generally very involved. We have discussed this matter fully in the Chapter on "Agricultural Finance", and repeat here that the problem is of great urgency. Title deeds.

433. Complaints in connection with the mortgage of immovables are:— Mortgage of immovables.

- (a) A mortgagee is not allowed to bid at the sale of the mortgaged property unless he is prepared to buy it at least in full satisfaction of his claim, or at the appraised value, which is more or less fictitious, fixed by the auctioneer.
- (b) Payment by instalments is decreed.

434. There seems to be no equitable basis for the retention of provisions relating to (a). If the saleable value of a property is less than the claim there is no reason why the mortgagee should be compelled to buy it for a higher amount. With regard to (b) the grievance is that there is danger of depreciation in value of security either due to market conditions or neglect during the period of instalments. If interference with the discretion of Judges in this respect is not considered desirable, we recommend that the judgment-debtor should be bound down to keep the property in a state of preservation and repairs and to allow the judgment-creditor to inspect it periodically, and on his failure to do so the decree should become due forthwith.

435. There is no provision for equitable mortgage by deposit of title deeds. A facility of this nature is highly necessary to a commercial community. A person may require a temporary loan and the only security he can offer to his banker is that of his property. If he executes a regular mortgage the expenses in the shape of stamp duty and registration fee when added to the interest make the borrowing prohibitively costly. To overcome this, mortgage by deposit of title deeds is allowed in England, India and other countries. We strongly recommend that the law of the land should be improved to make this permissible in Ceylon. The law relating to mortgages of immovable properties Equitable mortgage.

should be amended so as to make it conformable with the Indian Transfer of Property Act, which in Chapter IV. of the said Act lays down the law as regards the various forms of mortgages and the rights, duties, and liabilities of the mortgager and the mortgagee.

Mortgage and hypothecation of movables.

436. It is said that section 17 (4) of Ordinance No. 21 of 1927 does not apply to the mortgage of movable property with the result that when a lender accepts movable property, *e.g.*, stock-in-trade, goods, shares in public companies, &c., as security for a fluctuating overdraft his rights may at any time be seriously impaired, if not destroyed, by a secondary mortgage to secure a fixed sum. Any ambiguity on this point should be removed.

437. The law relating to the mortgage of movables is complicated and expensive. The borrower is required either to execute and register a regular mortgage or hand over the goods to the financier. The former method is expensive and the latter involves publicity and inconvenience. Further, realization of security can only be effected through court and the pledgee has no right to sell even after giving due notice to the pledger. It is obvious that during the pendency of case there may be depreciation in value and deterioration in quality. All these handicaps dissuade credit on the security of goods.

438. We recommend that simple hypothecation of goods should be rendered possible in Ceylon as in other countries, with power to the lender to sell off the security in the event of the borrower failing to repay, after giving him due notice.

439. In India bankers have a general lien over goods bailed to them as a security for indebtedness of their clients. We recommend that a similar provision should be made in the laws of Ceylon. Section 171 of the Indian Contract Act which deals with this matter reads as:—

General lien of bankers, factors, wharfingers, attorneys, and policy brokers.

“ 171—Bankers, factors, wharfingers, attorneys of a High Court, and policy brokers may, in the absence of a contract to the contrary, retain, as a security for a general balance of account, any goods bailed to them; but no other persons have a right to retain, as a security for such balance, goods bailed to them, unless there is an express contract to that effect.”

Pledge of shares and stock exchange securities.

440. It is said that under the Roman-Dutch law shares come under the category of incorporeal things and are excluded from the operation of Chapter IV. of the Registration of Documents Ordinance, with the result that there is no statutory method of creating a security in respect of them. Blank transfers, as is the practice in other countries, are not possible here because under section 16A of the Stamp Ordinance, No. 22 of 1909 (amended by Ordinance No. 18 of 1930), all transfers in respect of shares must be stamped within one month of “execution” thereof, the word “execution” meaning “signature”. Under the existing state of law banks can only create security by actually registering shares in their names or in the names of their nominees, but this involves large expense and also risk to lenders in the case of partially paid-up shares. There is also the question of determining the amount of consideration to be entered in the transfers. The security cannot be realized by the lender by selling the shares and he must go to court for permission to sell. In a falling market he may lose a good deal by this inability to sell forthwith. There is also the question of expense when retransferring shares on the satisfaction of debt.

441. In case security by mortgage of shares is created there is the question of fresh stamp on the share transfer deeds, over and above what is paid in respect of the mortgage, which means double stamp duty. The law should be modified so as to make registration of such shares possible with a nominal stamp on transfer deeds. This modification as regards stamp on transfers should also apply to those cases where a mortgage is created by a memorandum setting out the terms of the loan (stamp 50 cents) signed by the borrower in favour of the lender.

442. It would considerably expand the scope for bank credit if pledge of shares by a simple agreement with a nominal stamp, supported by blank transfer deeds, can be made possible. The transfer deeds are required to be stamped with impressed stamps which bear the date of stamping. If the companies to which the shares relate insist on the registration of shares with them within a certain period of this date, it would be necessary to modify this condition, or to substitute adhesive stamps in place of impressed stamps, so that the security recommended to be created by the pledge of blank transfer deeds should not be vitiated.

443. Before February, 1931, share deeds in Ceylon could be stamped with adhesive stamps and the present requirement was introduced to watch proper stamping of deeds and put a stop to the traffic in used stamps which were extracted, cleaned and sold. In India adhesive stamps are still in use and we feel that its abuses as revealed in Ceylon can be kept under check by surprise visits of the officers of Stamp Department to the joint stock companies and examining the transfer deeds registered by them. There is no doubt that the commercial and banking communities find adhesive stamps more convenient and their adoption would remove difficulties of registration of shares by companies who now seem to insist that registration should be effected within one month of the date on the impressed stamp.

444. In India, sections 172 to 178 of the Indian Contract Act deal with bailment of goods by way of pledge. Section 176 of this Act which describes rights of the pawnee reads as—

“ If the pawnor makes default in payment of the ^{Pawnee's right} debt, or performance, at the stipulated time of the promise; ^{where pawnor} in respect of which the goods were pledged, the pawnee may ^{makes default.} bring a suit against the pawnor upon the debt or promise, and retain the goods pledged as a collateral security; or he may sell the thing pledged, on giving the pawnor reasonable notice of the sale.

If the proceeds of such sale are less than the amount due in respect of the debt or promise, the pawnor is still liable to pay the balance. If the proceeds of the sale are greater than the amount so due, the pawnee shall pay over the surplus to the pawnor.”

445. We recommend similar addition to the mercantile law of Ceylon.

446. Under the Indian and English law the assignee of an ^{Assignment of} insurance policy is in the same position as the insured and the ^{insurance policies.} assignment is possible by endorsement on the policy. In Ceylon not only is it necessary to have “ assignment by way of mortgage ” with all the defects from a credit point of mortgages but the question of stamping is far from clear.

447. The matter of stamping policies was referred to the Commissioner of Income Tax and Stamps. He is of opinion that the assignment of insurance policies is liable to an *ad valorem* duty on the surrender value under item 51A of Part I. of Schedule B to the Stamp Ordinance, No. 22 of 1909. This is certainly a heavy charge and discourages the use of insurance policies as security for credit.

Other assignments.

448. At present difficulty is also experienced in interpreting item 51 (a) of Schedule I. of the Stamp Ordinance, in so far as it applies to the assignment of a lease made without any consideration excepting that of handing over the future rents. *Ad valorem* duty may be claimed on the total value of future rents. We suggest that ambiguity on this point should be removed.

449. We also recommend that the law in regard to assignment in general, *e.g.*, of book debts, insurance policies and other actionable claims should be reformed on the lines of Chapter VIII. of the Indian Transfer of Property Act. That would make assignment by endorsement possible. This chapter deals with transfers of actionable claims and provides for matters like—

- (a) Transfer of actionable claim.
- (b) Notice of transfer.
- (c) Liability of transferee.
- (d) Warranty of solvency of debtor whose debt is transferred.
- (e) Mortgaged debt.
- (f) Assignment of rights under marine or fire policies.

Credit on the basis of hire purchase.

450. It is not possible to mobilize the security arising from the hire purchase system for credit purposes, because under the Roman-Dutch law mortgage or assignment of future choses in action is said to be neither valid nor registrable. A large business in the sale of motor cars is carried on on this principle but the legal protection in spite of agreements being taken to cover the risk is far from perfect. There is scope of extending this method of business to other commodities as well. In Western countries, increasing use is made of this device to increase consumption. In order to provide the fullest possible scope for the development of this machinery, we recommend that the law should be improved on the same lines as recommended for other assignments in the previous paragraph.

Trust receipts.

451. A considerable portion of the foreign trade, particularly the import part of it, is financed by means of trust receipts, under which the drawee executes a trust receipt in favour of the holder of the bill agreeing to retain the relative goods, or in the event of sale the corresponding sale proceeds, in trust on his behalf. Difficulties as to the ownership of goods are experienced in the event of the borrower's death or insolvency. Similarly in the case of exportable goods the letters of lien should be recognized legally to protect the bank's interests.

452. Clear legal facilities in favour of creditors should be provided in this respect. They are mainly required by banks who are too respectable to abuse them. There is, therefore, no question of a creditor taking undue advantage of the debtor. Violation of the obligations imposed under trust receipts should be invariably regarded as a criminal offence.

Negotiable instruments.

453. At present bills payable at less than three days after sight are classed as usance bills and require to be stamped on that basis. In conformity with practice in other countries these bills should be treated as demand bills and chargeable to nominal stamp as such bills.

454. It is a common knowledge that some of the debtors try to cheat their creditors by resorting to bankruptcy proceedings and entering into deeds of arrangement. Although there can be no objection to the granting of relief through these channels to *bona fide* cases, it is observed that dishonest people take advantage of these instruments to evade payment which they are in a position to meet. We suggest the appointment of an official assignee to take charge, manage, and dispose of estates under insolvency. The same officer can also act as official receiver of solvent estates pending decision of the court. The Ceylon Chamber of Commerce has fully dealt with this matter in its memorandum and we reproduce below its suggestions to tighten the law in this respect so that the rights of claimants may not be lightly violated by unscrupulous borrowers:—

Bankruptcy and deeds of arrangement.

- (a) The law requires tightening up because no real stigma attaches to the fact that a businessman has been adjudicated insolvent.
- (b) At present there is not sufficient supervision of the duties and operations of an assignee in insolvency.
- (c) The law does not contemplate cases of trading partners where some of the partners may not be resident in the Island at the time of adjudication.
- (d) Receiving orders contemplated by section 13 of this Bankruptcy and Deeds of Arrangement Ordinance should receive greater publicity and be published in the local papers in addition to the *Government Gazette*.
- (e) Approval of the court to a composition and a scheme of arrangement contemplated by section 17 should bear the signature of the Judge in addition to the court seal.
- (f) That the warrant for the arrest of debtor under section 24 should be executed by a Police Officer in addition to the Fiscal.
- (g) That section 88 in regard to the advisability of the trustee being permitted to open a bank account should be further considered.
- (h) Clause 3 (b) of the Deeds of Arrangement should be clarified so as to invalidate a deed of arrangement unless the debtor can pay in full all debts other than those of the parties of the deed.

455. Under section 299 of Ordinance No. 2 of 1889 a judgment debtor owing less than Rs. 200 on a decree against him cannot be arrested in execution of the decree. Although modern legal tendencies may be against civil arrest this wholesale freedom from arrest enables dishonest people to escape with impunity valid claims of their creditors. A person can go on borrowing from different parties less than Rs. 200 each and successfully defy all of them to do their worst. In the face of this serious risk there is no wonder that petty lenders demand exorbitant price for accommodation. We recommend that the law should be strengthened; and instead of giving statutory freedom from arrest the matter should be vested in the discretion of the Judiciary.

Judgment debtors and civil arrest.

456. Under the present state of law no action is maintainable against a public servant upon any promise to pay on his behalf or on behalf of others. This cuts at the root of credit facilities to Government employees. It is, therefore, not surprising to find that clerks are in debt to Afghans and other rapacious lenders. We do not find fault with the object to discourage borrowing by public servants, but it should not be impossible for them to take

Public servants' liabilities.

loans for legitimate purposes. Even if general modification is not considered desirable we recommend that this should not apply to banks, co-operative societies, and thrift societies and similar respectable lending agencies.

Roman Dutch law.

457. The application of the Roman-Dutch law to modern commercial and credit activities is unsuitable. This is the main reason why the mercantile legislation in Ceylon is in its infancy and out of date. Pledges, mortgages, and hypothecations are all influenced by it.

458. The incidence of the Roman-Dutch law on the cost of borrowing is in no way small. There is the high cost of getting security. Because a creditor cannot claim compound interest he is obliged to ask for a higher rate of interest; and on failure to receive interest, he resorts to court for the enforcement of his claims, otherwise his overdue interest would not earn anything. In all important countries banks charge interest with monthly, half-yearly or yearly rests. This would not be permissible under the Roman-Dutch law. Realization of security offers no end of trouble. Intervention of the court must be required in every case before it can be sold; and until this permission is obtained the security may deteriorate or depreciate in value. Modernization of the legal system of Ceylon is a necessity for the smooth running of its commercial and banking machineries. We strongly urge upon Government to give their very early attention to this matter.

CHAPTER X.

INVESTMENTS AND SAVINGS.

Importance of savings and investments to banking system.

459. Savings and investments feed the banking and capital systems. Take them away and both these structures crumble to the ground. It is therefore of the utmost importance that the public habits in this respect and the facilities available in regard thereto should be examined, and if they are found wanting to suggest ways and means to improve them. Increased savings widen the basis of credit in a geometrical progression and their utility is not merely limited to the size of their numerical significance.

Thrift as an ideal in life.

460. Besides forming the foundation of banking and capital markets, thrift as an ideal of conduct is of very great value in practical life. One must lay aside a bit for the rainy day. Provision against old age, death or emergencies when the income of the earning member of the family disappears or diminishes is emphasized in every community and country. Things do not move evenly all throughout one's life and every advantage must be taken of an opportunity to save. Unforeseen contingencies are matters of experience and they can be only met by prudent budgeting and habits of thrift. Of course the capacity to save varies with the means of earning but each one can set aside something for the future according to his income.

Hoarding and jewellery.

461. Hoarding and jewellery used to form popular forms of savings but we are glad to note that tendencies in these directions are decreasing. To lock up funds in unremunerative channels deprives the money market of capital which is so essential for economic development.

Investment in lands.

462. The love of the Ceylonese to invest their surplus income in land is proverbial. This has been abundantly made clear to us during our travels throughout the Island. On account of the depression and fall in the price of land and the difficulty of converting it into cash, this means of saving is not so attractive now

but the fancy prices which people have paid in the past bear ample testimony to its magical fascination. Men were said to be literally land-hungry and they grabbed it at any price. Prices rose higher and higher regardless of the returns.

463. It is difficult to understand the uneconomic keenness for land but the possible explanation lies in the fact that there are no other suitable forms of investments. With the exception of a small issue, the Government have floated all its loans abroad. Indigenous Joint Stock enterprises are practically non-existent. Plantation companies, both Sterling and Rupee, are owned by European shareholders who were loathe to part with their holdings until perhaps lately when due to depression dividends disappeared or fell very low. And whenever they came out as sellers they possibly wanted a high price or there were other Europeans anxious to buy them.

Absence of stock exchange securities.

464. All the Share Brokers are Europeans and they have naturally more contact with the people of their own community. They have not been able to render adequate service to the indigenous people or to train them in the share investment habit. Easterners are more used to visible and tangible forms of securities under their personal ownership, and it requires effort and propaganda to make them realize the value and advantage of indirect liquid investments through joint participation. If Ceylonese take to broking in stock exchange securities they would stimulate security habit. They could easily demonstrate advantage of possessing shares in good companies. Instead of holding a piece of land measuring a fraction of an acre or so which does not bring in any income its owner can sell it and with the proceeds buy a share or two of a plantation or an industrial company and get dividend therefrom. Such an exchange of capital would also be beneficial from a national point because these small fragmented lands would thereby be released for the purpose of consolidation and cultivation which would increase the country's annual wealth.

No Ceylonese share brokers.

465. Under the present constitution of the Colombo Brokers' Association, whose members are six in number, all Europeans, it is not possible for a Ceylonese to get into it. Not only a huge security* is demanded from new members but the right to admit them vests in the existing members who would naturally be loathe to increase their own competition by taking in more brokers. Every application has to be proposed and seconded respectively by two of the existing members and is further to be submitted to the scrutiny of the other members. Two black balls would disqualify. It is not surprising that we do not find any Ceylonese as a member of this Association or that there is not much disposition in the indigenous community to seek its membership on these costly and humiliating conditions. But if the habits of the people are to be formed in favour of liquid investments, it is essential that the stock exchange should be widened so as to include an appreciable number of Ceylonese brokers. It is they alone who by their living among the people and freely mixing with them can usefully demonstrate the benefits of stocks and shares.

Widening of stock exchange.

466. The European brokers deposed in their evidence before us that the present arrangements were satisfactory and their services were available to those who cared to utilize them. No doubt it is so. But the question is not merely to be judged from this point, whether facilities for share business exist or not, but also whether they are adequate and effective from the national and

Weakness of evidence of European brokers.

* 1 lakh in cash or approved guarantee.

investment points. We are entitled to ask how many of the Ceylonese take advantage of the existence of the present non-Ceylonese brokers, and to what extent this agency has succeeded in developing the investment habit amongst the people of the country. Viewed from these angles their contribution is insignificant indeed. Share prices are, of course, published in papers but even most of the better classes of Ceylonese hardly know anything about these things. The views of the Brokers' Association appear to be influenced by the consideration that invasion of their business by others would lead to decrease in their income. Such a belief is not well-founded. With the general increase in the volume of security transactions, which the Ceylonese brokers would bring about, there would be an increased share available for everyone; and on account of their past connections, traditions, and experience, the European brokers will continue to play a preponderating part in the stock exchange activities of the Island for considerable time to come.

Government to intervene.

467. We hope the Government would be able by persuasive methods to effect liberalization of the rules of the Broker's Association so as to stimulate the entry of Ceylonese in this business. But should its efforts fail we have no hesitation in recommending legislation for the working of the Colombo stock exchange and broking in securities. There are precedents for this in other countries.

Issue of local loans by Government.

468. We strongly recommend that Government should increasingly resort to floatation of its loans in Ceylon. Witnesses in general and bankers and investors in particular have all emphasized that such issues would be a success and they would provide a medium of safe investment. Both Europeans and Ceylonese agree with this view. Perhaps Government were obliged to go to outside markets because the monetary rates were cheaper there or there was apprehension that the rupee loans would not be successful. Conditions are now very auspicious. The debentures of the State Mortgage Bank have become very attractive and augur well for the State's own internal borrowings. The financial and debt positions of the Island are highly satisfactory, as already reviewed in a previous chapter. There is therefore no reason why Ceylon should not be able to satisfy her loan requirements through domestic subscriptions, as cheaply as external borrowing. But even assuming that the rupee loan costs a little more than outside debt, it is worth paying this small extra sum in the interest of developing the home market in securities and providing means of investment to the public. There is also the advantage of freedom from exchange fluctuations which in the long run would more than balance this slight loss. Services of the proposed State-aided Bank should be utilized for the management of the rupee loans of Government. For a small charge, to be mutually arranged, that Bank will be able to assume the responsibilities of paying interest on bonds and renewing them whenever necessary.

Conversion of outstanding loans.

469. Government can take advantage of the present easy monetary conditions to convert its outstanding foreign loans into rupee liability. There is no suggestion that this should be compulsory. It has been possible for other countries to lighten their interest charges by voluntary conversion and if Ceylon tries she can achieve similar saving. That would also offer immediate method of increasing rupee paper. If proposals in this respect are not favourably received by the existing holders the plan to substitute external debt by internal borrowing will have to be postponed until its maturity.

470. Some of the witnesses seem to think that there is not enough money in the Island to meet all the Government requirements. Deposit figures of Post Offices and banks and their inability to use most of their funds in the Island prove beyond any doubt that such a fear is unfounded. But even assuming for the sake of argument that such is the case, it is to be emphasized that there is no restriction on outside capital coming in subscription of the rupee loans. Experience of other countries shows that when general conditions are satisfactory external capital usually flows in towards domestic borrowings. In the case of rupee securities the neighbouring country of India would always be anxious to offer a helping hand. There is consequently no question of any failure. The value of rupee issues is to be measured not only by offering a chance for direct subscription to the people but also by the fact that they would develop a market in Ceylon in the rupee paper of the Government which would increase facilities for investing savings as and when available.

471. Life insurance provides a beneficial scope for investment. It combines the function of accumulation of small periodic savings with a benefit in the event of an early death. Although a person who survives the maturity of his policy or lives longer than what is anticipated by the mortality table gets less than what the accumulation of his premia would otherwise bring in, if invested in other forms, the advantage of realizing comparatively bigger amount in case of untimely death more than compensates for this loss.

472. Among the educated and upper classes the value of life insurance seems to be fairly recognized and there are a number of foreign insurance companies doing good business. The middle and lower classes have, however, not been touched to any appreciable extent by this type of saving. If there were local life companies they would be able to greatly popularize insurance. Examples of other countries, notably of India, confirm this view.

473. We have already pointed out that the laws of Ceylon do not permit incorporation of indigenous joint stock insurance companies. But foreign companies can do business without let or hindrance. There is no objection to good respectable outside concerns carrying on insurance business in Ceylon but certainly it is the duty of the State to save its people from being swindled by unscrupulous mushroom companies. The dishonesty of a few recoils upon the respectability of the business. It gets into bad odour and people are discouraged from investing in insurance. We, therefore, strongly urge that regulations permitting registration of local limited insurance companies and requiring supervision of foreign companies should be introduced at an early date.

474. The proposed legislation relating to insurance business should require every such company to lodge security with the Government. The Indian Life Assurance Act requires every Life Assurance Company to deposit a minimum sum of Rs. 25,000 before it commences business which has to be gradually increased to Rs. 200,000 from the premium income and life insurance fund. We recommend that similar provision should be introduced in the proposed legislation in this country to save people from bogus insurance concerns.

475. Insurance legislation should also cover other important features like preparation and submission of audited accounts, the form of balance sheet, actuarial valuations, qualifications of auditors and actuaries, separation of life insurance receipts from other insurance business, the maintenance and accounting of different insurance funds, like life, marine, fire, &c., the securing

of life fund for the sole benefit of life policy holders, submission of statistics, winding up of insurance companies, rights of policy holders to ask for Government inspection of such companies and to petition to court to order winding up, penalties for violation of legal requirements, &c. Protection to the insurance clientele in these directions is very necessary both from the points of the public and the business itself. Inasmuch as life insurance saving is meant to help people in their old age or their survivors, when income is ordinarily less than when the assured was alive or in full working vigour, need and importance of the safety of these investments are much greater than in other cases. By referring to legislation enactments of other countries, it will be found that they make adequate provisions in respects of the points referred to by us.

Demand for investment of insurance funds in local securities.

476. Some sections of people in Ceylon seem to demand that funds received by insurance companies working in the Island should be required by law to be invested inside the country. It is difficult to support this view. Much of the underwriting risk particularly in non-life business is passed on to other companies, who have to be paid the proportionate amount of the premium income. All the income of these companies therefore does not wholly remain with them and it is unreasonable to expect them to lend all their revenue in the Island. There is also the absence of suitable investments, and until that is possible compulsion in this direction may really lead to the deterioration in security behind the insurance business. If indigenous work in underwriting of risks increases there would no doubt be greater tendency to use the surplus income in domestic credit channels. The legislations can, however, reasonably require the insurance business to disclose in its balance sheet what assets it holds inside the country and what outside, as is the case in the Indian law. Such a provision would exert indirect pressure in favour of a good proportion of domestic investments, because in its absence national and patriotic feelings may be aroused to discourage business in such concerns. Insurance companies would therefore be eager to present a respectable appearance in this respect in order to maintain and attract popular custom. We are not prepared to recommend any more restriction than this. Obligation to deposit security with the Government has been already recommended in an earlier paragraph and this should sufficiently meet the requirement of safety.

Insurance by Government.

477. We think it is premature for the Government to undertake public insurance work. Before the need for the State to enter this field can be established it should be clearly shown that the indigenous people are unable to carry on this work privately. It will be putting the cart before the horse to pass any verdict on this question now when there has been no such attempt in the past. No doubt law has been against indigenous enterprises but in the absence of experience it is impossible to make decisions. When the legislation is improved and Ceylonese have tried at insurance business and failed, the matter can be re-examined to ascertain if the State's intrusion in this sphere can be justified. It is true that foreign insurance companies are too strong and can if they so desire successfully keep out Ceylon concerns from entering this field, through the usual device of cutting down rates below remunerative levels or giving more than legitimate benefits, but if there is the threat of the Government intervening in the event of such abuses they are likely to avoid unhealthy competition. It is also likely that in conformity with the modern

trend of increased co-operation between domestic and foreign enterprises, the indigenous insurance companies may be able to make satisfactory arrangements with non-Ceylonese concerns whereby annihilating strife can be replaced by peace on reasonable working basis. We therefore recommend that the Government should wait and watch how the situation develops.

478. In India the Government carries on life insurance business in respect of Government employees through the Post Office up to a maximum of Rs. 10,000 in each individual case. The premium is naturally lower than what an ordinary private company charges because there is no question of commission, profit or fees for medical examination which is done free by the Government's own medical officers. We have no objection to the assumption of such a function by the Government of Ceylon. An enterprise of this nature may provide them with the requisite experience to extend its insurance operations should our expectations for the growth of private enterprise not materialize.

Post Office insurance.

479. Provident and mutual societies also afford scope for savings. But in the absence of adequate protection and supervision some of them degenerate into instruments of swindling the ignorant and unwary. Many complaints were made to us during the course of our inquiry how so-called provident societies advertising to give death, marriage and other benefits were in reality cloaks for cheating the public. As soon as the promoters had gathered a considerable collection from periodic subscriptions they disappeared, leaving nothing behind them to which the members could look for redress. Even reasonably intelligent persons are lured by the appearance of attractive terms only to regret in the end that they were not more prudent. In other cases the provident funds continue their operations but they give undue trouble when the time for receiving benefit arrives, so much so that the members are obliged to settle their claims for a much smaller amount than what is due to them.

Provident and mutual societies and their dangers.

480. In a majority of cases no mathematical or actuarial calculation is made of the benefits promised to be given on the happening of a particular event. Unless the schemes are well thought out and based on normal expectation and experience, it will be obviously impossible to meet these claims for any length of time. Those who are fortunate to have early claims may get their dues in accordance with initial stipulation or according to their expectations but those who come at the end suffer a good deal. They may even find that nothing is left to satisfy any portion of their dues. As an example we may take the case of a marriage society which promises to give a certain minimum sum on the occasion of marriage of its members on their subscribing a certain sum monthly. A scheme like this can be easily destroyed if a number of persons of marriageable age join the society and demand the contracted benefit soon after the completion of the minimum period of membership.

Wrong basis of working.

481. It is therefore clear that every mutual society cannot be a success in spite of the best intentions of its promoters. There are a few essential conditions which they must satisfy before there can be a reasonable chance for their continued prosperity. They are:—

Conditions of success of mutual societies.

- (1) A narrow range of age to which the members must conform at the time of joining the society, so that older people do not disturb its stability by making claims much earlier than the younger members.

- (2) Continuity of membership so that the income does not get diminished when members retire on the completion of the event for which they joined.
- (3) No fixed sum should be guaranteed as the minimum benefit and only periodic collections of subscriptions should be divided among the claims arising in that interval, less certain percentage for reserves to meet emergencies or lever up dividends in times of strain.
- (4) Where benefits other than relief on death is the object, *e.g.*, marriage benefit, habits and customs of the members should be fairly uniform to avoid the scheme getting out of gear by the demands of those who satisfy the conditions too prematurely.

Legislation relating mutual provident and other societies.

482. Ordinance No. 16 of 1891 as amended from time to time prescribes the law in regard to the working of mutual, provident, and other societies. According to section 3 of the Ordinance, societies aiming at promotion of thrift, giving relief in times of sickness or distress, aiding in pecuniary difficulties and making of provision for widows and orphans or purposes specially notified, are only governed by this law. We recommend that the Ordinance should be extended to apply to all mutual societies.

No scrutiny before registration.

483. There is however no provision in law empowering the registration authority to scrutinize the objects and conditions of working to determine whether the scheme is feasible. Section 6 of the Ordinance permits cancellation and suspension of registry of a society under certain conditions including existence for illegal purpose, but it is not comprehensive enough to cover the case where it is fundamentally impossible for a society to carry out its object for any length of time. There is no question of illegality or fraud here but want of business understanding and foresight. We have already explained an example of this nature in a preceding paragraph. To permit such an activity is to lay certain trap for the people to fall into disaster. There is also no provision for the initial examination of the business methods of a society. It is dangerous to allow registration of a fraudulent, defective or undesirable society in the hope that it could be quashed on the detection of illegalities and discrepancies. We recommend that the Ordinance should be improved to give power to the Registrar to refuse registration of a society whose working in his opinion would be against public good or lead to victimization of innocent people. To safeguard against the abuse of such a discretion, power of appeal to the Supreme Court may be allowed.

Share capital.

484. Section 5, sub-section (1), requires every society to have a subscribed capital of at least ten thousand rupees. We have explained in the chapter on "Banking Regulation" that only paid-up capital constitutes the real security behind a company's business. Requirement of a subscribed capital in the case of societies therefore does not mean any protection to members. We recommend that the sub-section should be altered to read "paid-up capital of Rs. 10,000".

Deposit of security.

485. By manipulation the capital of a society may assume the shape of an overvalued fixed asset and be not in cash. As an example we may take the case where promoters bring in or buy some small building at an inflated value. Goodwill may also be reckoned as an asset. Capital can be weakened by borrowing or creation of encumbrances to meet claims for remuneration of promoters, agents, or staff. In order that capital and surplus

income from members should remain intact we recommend that every society should lodge an initial deposit of Rs. 10,000 with the Government before commencing business which should be gradually increased to Rs. 50,000 by depositing every year 50 per cent. of the surplus reserve fund for members set apart from income. There is little difference between the functions of mutual societies and insurance companies. Both deal with payment of benefit in the future. When security is recommended from the one there is no reason why it should not be demanded from the other. The security may be lodged in Government paper of Ceylon, India, England or any other approved country, or in deposit of approved bank or debentures of the State Mortgage Bank.

486. Several of the cheetus and provident societies are registered under the Business Names Ordinance. This is a formal piece of legislation requiring disclosure of persons trading under any assumed name and does not impose any regulation on business or observance of safeguards. But the registration is taken advantage of by the promoters of these benefit societies who advertise on their letter heads that they are registered under a particular Ordinance. This is deliberately done with the intention of creating a feeling of respect about them in the minds of ignorant people who usually associate, or are persuaded to associate some kind of Government patronage or supervision of business with such registration. This is perhaps one of the rare instances in legal jurisprudence where legislation has unwittingly led to the creation of abuses never thought of by its framers.

Registration under Business Names Ordinance and its abuse.

487. We strongly recommend that the practice of advertising registration under a particular Ordinance or printing the same on letter heads should be stopped by law. In ordinary Press advertisement the fact of paid-up capital should be mentioned to avoid any misunderstanding by the public of the security behind the advertised business.

Advertising of registration to be stopped.

488. The Business Names Ordinance can be suitably altered and renamed as "Partnership Ordinance". A provision can be made in this law requiring that where an individual works under an assumed name he should lodge the same information with the registration authorities. That will do away with all the ambiguity and confusion which the expression "Business Names Ordinance" seems to have created in the public mind. The law may also be improved on the lines of the Indian Partnership Act of 1932 which is a modern piece of legislation.

Partnership legislation.

489. There are several societies of Government servants which aim at promoting the habit of saving and thrift. Widows' and Orphans' Pension Fund, Public Service Mutual Provident Association, Ceylon Railway Benefit Association, Ceylon Police Saving Association, &c., are some of these examples. They are working on proper lines and under proper supervision. Their activities appear, however, to be mainly confined to middle and higher services and we suggest that the movement should be extended to lower employments as well. Their need for protection against their own improvidence is greater.

Benefit societies of Government employees.

490. Thrift societies also assist in the growth of the saving habit, but their formation in Ceylon is as yet in infancy. A homogeneous group of persons can combine to impose upon its members practice of compulsory thrift. A small sum is contributed every month, mostly by deduction from salary at the source, and the amounts go on accumulating. As a rule no withdrawal

Thrift societies.

is allowed unless in the case of death or retirement from service or on completing a certain number of years, in which period it is hoped the member has learnt the value of saving. In emergent cases like sickness loans may be granted on the security of balances to the credit of subscribers.

Thrift societies and estate labourers.

491. Thrift societies are particularly suited to assist lower classes of the public and estate labourers. In his memorandum to the Banking Commission, under the title "Co-operation amongst Indian Estate Labourers in Ceylon", published in Vol. II. of the Report, Mr. T. L. R. Chandran, I.C.S., Agent of the Government of India in the Island, has shown how the conditions of Indian estate labourers in Malaya have greatly improved on the result of inauguration of thrift societies amongst them. He has advocated the starting of similar associations in Ceylon. It is quite immaterial what form the constitution of these societies takes, the emphasis is naturally upon the formation of thrifty habits. "The most distressing feature in the life of the Tamil estate labourer in Ceylon is his perennial indebtedness. In spite of the several steps that have hitherto been taken to remedy this sad state of affairs, still one finds even to-day that the lot of the Indian estate labourers is no better". Anything that would tend to improve the situation should be welcome. Some estates have started assisting their labourers to save by providing savings departments or co-operative stores combining thrift societies, but hardly the fringe of the problem has been touched. We strongly urge upon the estates to take steps in this direction. Apart from its humanitarian aspect, satisfied and solvent labour is an asset in itself. If they offered a small inducement of an extra contribution on the labourers saving a small percentage of their pay on the lines of employees' provident funds, the position would perhaps soon improve. We recommend careful consideration of Mr. Chandran's proposals.

Nithis.

492. There are one or two institutions in Jaffna known as "Nithis" which contract to give a lump sum at the end of a stated period in lieu of monthly contributions. No interest is agreed to be paid but its account is taken in fixing the sum payable; and also some dividends depending upon nett profits may be paid. The Utam Nithi, for example, pays Rs. 25 at the end of 80 months for every 25 cents paid monthly. The total of contributions comes to only Rs. 20. Payment of premium of Rs. 5 and dividend takes the place of the usual interest allowed on deposits. There is nothing objectionable in the nature of their working but we feel that the cost of managing these infinitesimal amounts would absorb a good portion of their earnings and the present expectations of their promoters may not be fully realized. They are incorporated under the Joint Stock Companies Ordinance, which as already pointed out, is defective. With the improvement in this law, as recommended by us, the working of Nithis would also be better regulated.

Building societies.

493. Building societies provide a legitimate form of security. If properly advertised, they should become channels of attractive investment. Desire to possess one's own house is strong in human beings, but everyone has not the ready means to satisfy it. It is to help these men that the plan of building societies has been formed. Of course, one can save bit by bit in an ordinary savings or deposit account, and when the total has

reached a substantial figure to utilize it in purchasing property. But there are many occasions when temptation to use these funds for other purposes is irresistible and the original intention in the majority of cases remains unfulfilled.

494. By systematizing periodic contributions for a definite object building societies assist men in ultimately buying the house in which they live. They are required to make an initial deposit of about one-third of the cost of building or buying a house and the remaining two thirds is repaid by monthly equated payments spread over a period of 20 to 25 years. Liquidation of loan in this manner, when it extends over a long range of years, is very much simplified and the monthly instalment is only slightly in excess of the interest on loan or the rent of the house. One thus pays for the house as one lives and the burden is not at all felt. Everyone according to his means and source of income can take advantage of a scheme like this. In case of premature death of the occupant his descendant may experience difficulty in meeting the instalments but such an inconvenience can be obviated by insuring one's own life so that its benefit may liquidate his commitments to the society and his posterity may get the house free of all encumbrances. Method of payment.

495. The methods of raising funds are:—

Financial methods.

- (1) To take deposits.
- (2) To float debentures.

Both members and outsiders can take advantage of these facilities. As there is good security behind the business and the members' means to pay their instalments are more or less definite and known, they usually do not experience any difficulty in getting requisite finances. Of course there should be reliable and honest management to inspire public confidence and there should be no underhand dealings.

496. Generally these societies prefer to start their own schemes of building houses on specially acquired land which is distributed into plots to its members. Usually there is no restriction on the plan of the house and one can build according to one's requirements and means. There is however nothing in the nature of these societies whereby instead of launching on building new houses they assist their members in acquiring already existing houses. Their business in such an event would more resemble the working of Building Mortgage Banks. A proposal in this respect was submitted by Mr. R. Senanayake of Kandy which is not published at his own request. Messrs. Mahadeva of the Public Works Department and W. Don Michael (Catholic Home, Colombo) have also submitted general memoranda dealing with the operations of these societies, which are published in Vol. II. Building activities.

497. Regulation of building societies is controlled by Ordinance No. 15 of 1891. This is fairly exhaustive and imposes safeguards on their working both in the interests of the general public and their members. It is, however, surprising that no advantage has been taken of this law and there are no societies of this nature. Efforts should be made to bring the advantages of these schemes to the notice of the public. We have no doubt that with full propaganda and realization of the value of building institutions as means of savings combined with visibility of security they should become very popular. It is needless for us to say that we recommend introduction of these facilities to promote thrift and improve housing conditions. Ordinance No. 15 of 1891.

Savings Banks and their agency in promoting thrift.

498. Savings banks provide the most convenient and popular form of collecting savings and their agency in the promotion of thrift is indisputable. Amounts as small as 25 cents can be deposited so that even the poorer sections of the population may have some safe place where to set aside their little surplus.

Post Office and Ceylon Savings Banks.

499. Besides the Savings Bank Departments in ordinary commercial banks referred to in the chapter on "Existing Credit Agencies", there are the Ceylon Savings Bank and the Post Office Savings Bank which specialize in this form of investment. The former is an older institution having been established in 1882. The latter was introduced in the year 1885. Both are managed, controlled, and supervised by the Government. The Auditor-General's Department maintains a continuous audit on their working. Ordinance No. 12 of 1859 and rules framed thereunder govern the working of the Ceylon Savings Bank but the regulation of the Post Office Savings Bank is in accordance with the provisions of the Post Office Ordinance, No. 11 of 1908.

Area of operation of the two banks.

500. Although Kachcheries may be said to be working as branches of the Ceylon Savings Bank the main work of this bank is confined to Colombo where it has its office. The Post Office Savings Bank however works at Colombo and offices in the Island specially appointed in that behalf. It, therefore, covers a wider area of operation and its facilities could be availed of by a much larger population. One, therefore, rightly inquires why there should be two public agencies doing the same kind of work when the more important Postal Savings institution can successfully take over the work of the Ceylon Savings Bank. That would save in overhead charges and introduce other economies in working cost and consequently lead to the provision of better service.

Arguments for and against amalgamation examined.

501. At first sight it may be difficult to understand why this duality of the arrangements should be allowed to continue. But when the matter is looked into deeper there appear to be some possible reasons why the two are kept apart. In the case of the Ceylon Savings Bank there is no statutory liability of the Government for the obligations of the bank which of course is undeniable in the case of a Government department like the Post Office and its activities and the State naturally thinks it prudent to let the two agencies continue so as to limit its financial responsibilities. Again because in both cases maximum limits are prescribed for the amounts that can be deposited in an individual account annually as well as on the total of individual deposits at any time, the separation in the two institutions is perhaps deliberately allowed so as to offer the public facilities for increased deposits in Savings Banks. There is also difference in the interests and assets of the two. The Ceylon Savings Bank can invest a portion of its funds in loans on Colombo house properties but the other Savings Bank has no such freedom. Advances on mortgages bring in greater interest income than Government or gilt-edged securities and this is perhaps the main reason why interest allowed by the Post Office Savings Bank is lower being only 2.4 per cent. per annum as compared to 3 to 3½ per cent. of the Ceylon Savings Bank. The argument of limits on deposits is perhaps not so strong. It is a matter of detail and there would be no difficulty in increasing them, if the amalgamation of the two is otherwise considered desirable. The other explanations revolve round the question of security and return.

We feel that there is nothing wrong with the methods of the Ceylon Savings Bank in investing a part of its funds in mortgages and similar liberty may be extended to the postal institution. The position is now simplified a good deal because debentures of the State Mortgage Bank provide a handy and improved means for mortgage loans. Because they are guaranteed by the Government they are the State's own liability. The working of these Savings Banks is on such safe lines that we do not visualize any occasion when there would be loss on assets and the State would be called upon to make it good, if it assumed increased responsibility in that behalf. The reluctance of the Government to assume bigger financial obligation on the merging of the two banks, although justified in theory, cannot be supported by practical considerations and should therefore not be a bar to the fusion of their activities. The constitution of the Post Office Savings Bank should be suitably modified so as to permit its absorption of the Ceylon Savings Bank and thereby introduce economy, efficiency, and unification in the Savings Bank work of the Island.

502. On examining the balance sheets of these banks given on pages 66 and 67 of the Report of the Auditor-General for the year 1932-33 and his remarks thereon, it will be clearly seen that their deposits are increasing. The Ceylon Savings Bank had deposits amounting to Rs. 9,628,796 at the end of December, 1933, which gives an increase of the Rs. 894,358 over the 1932 figure. The number of its depositors at that date was 61,544. The total deposits of the Post Office Savings Bank on the same day amounted to Rs. 12,610,303 and recorded a rise of Rs. 541,522 in the last year. It had 374,032 depositors on its books. On account of fall in interest rates, the higher interest of the Ceylon Savings Bank is comparatively much more attractive now and accounts for bigger increase in its business. This should remove any doubt that the public views its security in a less favourable light than that of the Government postal agency. It may also be incidentally mentioned that the deposit figures of these two savings banks would perhaps have shown greater improvement had it not been for the more attractive terms of the commercial banks in this direction whose figures show relatively a larger increase. Business figures of these banks.

503. On the assets side of their balance sheets we find that a very large portion of their investments consists of non-rupee securities. Obviously their value is liable to exchange fluctuation and there is also the risk of fall in price due to deterioration in the economic, financial, and political positions of the countries whose loans they form. Occasions when some of these securities were at a serious discount are still fresh in public memory. There are statutory provisions in regard to the nature of the assets of these two savings banks, but we do not know what principles are followed in the selection of investments, *inter se*. The Postmaster-General, however, told us in his evidence that in so far as investment of his savings bank funds was concerned it was divided roughly in the proportions of 3:2:1 between Indian, Colonial and local securities, respectively. Relatively, however, the Ceylon Savings Bank has a greater proportion of its funds in non-rupee paper. In order to obviate the risks referred to by us, efforts should be made to first explore fully the possibilities of investments in rupee securities, preferably of the Government of Ceylon and buying of non-rupee paper should be an Assets examined.

exception rather than a deliberate policy. Advantage should be taken of domestic and Indian issues to effect change in the composition of the assets of these banks.

Liberalization of
rules of
withdrawal.

504. Not more than Rs. 10 can be withdrawn from a postal savings account without previous notice. This is unduly restrictive and should interfere with the progress of savings bank work. A depositor wanting a bigger sum has to post his demand along with the pass book to the Colombo headquarters of the bank where scrutiny is made of the signature and other conditions of withdrawal. If there is no objection a warrant of payment is posted which is encashable at the nearest post office. From the explanation of the Postmaster-General it appears that the concentration of the savings work is in Colombo and the condition of previous intimation is introduced to avoid risks of frauds and impersonation. He also seems to think that the work of passing payments requires special knowledge and skill which the ordinary staff at post offices cannot be expected to possess. We differ from these views. The work is of a simple nature and ordinary postal clerks can be trained to successfully perform it. In a way they are already doing it when they make payment for sums up to Rs. 10. There is also no question of extra staff because if the work of withdrawals is decentralized there will be men surplus in the Colombo office which can be distributed amongst the other important post offices in the Island in proportion to their savings work. Even if general extension is not considered desirable, start should be made at important towns like Jaffna, Kandy, Galle and so on. India is a vastly greater country but no difficulty is experienced there in permitting various post offices to transact this work in its entirety. Excepting that in small places notice for the payment of big sums is required to enable them to arrange for necessary funds there is no differentiation between the banking business of Indian post offices. If the present restriction is removed and withdrawals are liberalized we feel confident that the savings machinery would become much more popular. Although the Postmaster-General assured us that on account of the small area of the Island not more than two days' delay was involved by the existing procedure, even when the notice came from the farthest point from Colombo, in actual practice there would be greater interval and inconvenience as was justifiably complained to us by witnesses.

Current accounts in
post offices.

505. In order to popularize the cheque habit, and through that medium to widen the practice and basis of credit, some are of the opinion that post offices should be permitted to open current accounts and allow withdrawals by cheques; others suggest that although payments in this form may not be feasible the facility of depositing by means of cheques should be allowed. We know that these improvements do exist in postal banking systems of some of the advanced countries, but under the present state of savings banks in Ceylon we do not feel justified in making recommendations to this effect. The testimony of the Postmaster-General makes us doubtful if the postal staff at places other than Colombo would be able to undertake increased responsibilities when they are not considered efficient to handle withdrawals of more than Rs. 10. The employees at the head office may be competent, but as there are enough banking facilities for keeping cheque accounts in the capital town there is no need there for increasing the duties of the Post Office Savings Bank. Demand in this connection particularly comes from the country

districts, but the machinery there is not adequate. It is, however, hoped that, with the inauguration of the movement of indigenous banking visualized by us, opportunities in this direction would also be increasingly available at places outside Colombo.

506. For reasons similar to those given above, we are not in favour of recommending the starting of savings and deposit banking by local bodies like Municipalities and Urban District Councils. There are not enough trained men who can cope with a general expansion of this nature. We think all available resources in men and money should be concentrated in making the programme of the State-aided Bank and local banks a success. After they are securely established, the problem of banking by local bodies may be again taken up if any need for them is still felt.

507. Postal Cash Certificates are a very convenient form of small investments. In payment of a certain sum paid in at a post office, it issues a certificate of an increased value undertaking to pay the full value specified therein at the end of a stated period. The difference between the amount paid in and the sum promised to be paid at maturity replaces the ordinary interest payment. But although the certificate is redeemed at its face value only on the termination of the given interval, an earlier payment is also allowed, but in that case, the rate of interest varies directly with the extent of the duration—the longer the money remains with the post office the greater is the interest allowed. This progressive increase in return is a powerful brake upon the temptation to an early withdrawal. Experience of other countries, notably of India, shows that this device of inducing people to save is proving efficacious. At one time India used to pay Rs. 10 for every Rs. 7-8 annas paid in, on the expiry of 5 years. But on account of easier money conditions the price of the certificates has been raised. To-day it costs Rs. 8-8 annas to buy a certificate of Rs. 10. If the holder wants premature payment he gets Rs. 8-10 annas if the certificate has remained in force for at least 12 months, Rs. 8-10-9 after 15 months, Rs. 8-11-6 after 18 months, Rs. 8-12-3 after 21 months, Rs. 8-13-0 after 24 months, Rs. 8-14-6 after 27 months, Rs. 9 after 30 months, Rs. 9-1-6 after 33 months, Rs. 9-3-0 after 3 years, Rs. 9-4-6 after 39 months, Rs. 9-6-0 after 42 months, Rs. 9-7-6 after 45 months, Rs. 9-9-0 after 4 years, Rs. 9-10-6 after 51 months, Rs. 9-12-0 after 54 months, Rs. 9-13-6 after 57 months, and Rs. 10 after 5 years. The rate of interest thus progressively increases with the period of deposit.

508. We strongly recommend that the system of Postal Cash Certificates should be soon put into operation in Ceylon. The subject seems to have been already considered by the Government as provision for their issue is found in Ordinance No. 2 of 1929. But, unlike India, where the sale is continuous and unrestricted excepting that not more than Rs. 10,000 worth of cash certificates can be bought by any one individual, in Ceylon the State Council and the Governor have specially to authorize an issue and the amount of sale should not exceed the limit imposed therein—*vide* section 3 of the Ordinance. Government have not permitted sales, so far which accounts for the non-existence of this mode of investment. We suggest that not only should this channel of conserving savings be made available at the earliest possible moment, but that no restrictions should be imposed on sales excepting that of the maximum amount beyond which it should not be legal for each individual holding.

Treasury Bills.

509. Treasury Bills form a suitable form of employing temporarily short period funds. Banks, insurance companies and other keepers of large cash balances take advantage of this investment. They are obligations of the State and mature for payment within a few months but usually before 12 months. Three, six and nine months bills are mostly found in vogue. In England and India they have come to form a regular feature of the financial market. Provision for their issue exists in the law of Ceylon, *vide* Ordinance No. 7 of 1923, but very little advantage has ever been taken of it. If, instead of keeping very large cash balances, Government so manipulated their funds as to carry on with as little money as possible, and in the time of need to borrow on Treasury Bills, that would prove of advantage both to the State and the people. The money market would also develop a certain degree of elasticity.

Reasons for non-existence of Government and postal forms of investments.

510. Funds received in the Postal Savings Bank, as already pointed out, are mostly invested in foreign securities and do not form, as is usually the case, a means of state borrowing to meet public capital expenditure. Because there is no immediate requirement for fresh capital Government have naturally not resorted to the new forms of loans in the shape of Postal Cash Certificates or Treasury Bills. They rightly argue that there is no point in taking money from the public and saddling the taxpayer with interest charges when they have no use for such money.

Preparation of market for future requirements.

511. Some such method is necessary to allow the flow of savings to develop into a substantial stream. Government will have soon to face the arrangement of finances for the Hydro-Electric projects. We have already pointed out the desirability of converting non-rupee loans into internal debt. Even if the adoption of methods advocated by us involves a little loss to Government that should not stand in its way. It should be merely regarded as a small price for developing national habits, and preparing the market for future requirements, which will have ample compensation in the future.

Investment trusts.

512. Investment trusts as a means of promoting saving and investment practices have fully demonstrated their value in other countries. They may prove of special assistance in Ceylon where the share and security habit is so undeveloped. These corporations replace the popular ignorance of stock exchange activities and want of technical knowledge by experienced study and practice. By joining them, investors avoid the usual pitfalls and become more or less sure of a reasonable income.

Necessity of integrity and efficiency.

513. In order to attract savings for this purpose, the highest degree of integrity and business acumen is required in the promoters and managers of these enterprises. If honest and efficient business men combine to make a small beginning they may eventually succeed in establishing a respectable corporation. With the progress in national banking there would also be stimulus to the development of other financial organizations. In order that the activities of the investment trusts may not be starved by want of credit facilities or thwarted by poverty of correct understanding of the stock market, it would perhaps be better if their inauguration is postponed until at least the State-aided Bank has begun to function.

Stamp on cheques.

514. At present a stamp duty of 5 cents is required on every cheque. We recommend that this should be abolished in the

interest of the development of the cheque habit. The amount involved is not much. During the year 1932-33 a sum of Rs. 122,413 was collected as composition duties on bank cheques and share certificates. Receipts in respect of the former would be much less. It would be a small price indeed for popular convenience, for developing the saving and the cheque habits and through them for widening the basis of credit and creating economy in money circulation.

PART II.

CHAPTER XI.

AGRICULTURAL FINANCE.

(a) DIVISIONS OF AGRICULTURAL OCCUPATIONS.

515. The word " agriculturist " embraces a variety of occupations associated with land, the needs and credit capacity of which differ widely. Agriculturists may be roughly divided into three main divisions according to the part they play in the plan of production :—

- (1) The landless cultivator.
- (2) The landowning cultivator.
- (3) The landlord agriculturist who does not work with his hands but enjoys the income from his land.

Some will fall under more than one of these three divisions, but for the purpose of our discussion they may be regarded as distinct individuals presenting different problems. The settlers in the new peasant colonies are covered by the second classification.

516. The landless cultivator is a man who has no land of his own. He either works as a labourer on the farm, getting a wage or a share, or has leased a bit of land for which he pays rent. In the former case there is no need for credit for productive purposes. The daily and periodic wage should provide the means of maintenance. Where the employment is precarious and irregular, he would want to borrow during periods of idleness and repay when he gets work. On account of uncertainty of occupation, the lender here runs a considerable amount of risk and would, therefore, insure himself against loss by a high rate of interest charge. No form of organized credit agency can help him.

517. If the periods of employment and unemployment alternate and yield an average income sufficient to maintain him throughout the year, perhaps the formation of Co-operative Credit Societies may help him. The successful working of these societies, however, requires power of understanding and consciousness of self-help and a degree of honesty much above the average. If our labourer has all these, he would possibly be able to secure for himself a more permanent position in life.

518. The agricultural tenant is indissolubly tied to the whims and caprices of his landlord. Not only is he liable to be turned out at any moment, but is also under agreement to apply for financial assistance to his lessor and to agree to his terms.

519. The peasant proprietor is the ideal agriculturist. He has interest in his land and with the aid of his manual labour can obtain the best results. Every improvement that he makes will contribute to greater or better production. If the land that he owns is more than he can cultivate, he leases out the additional portion or works with hired labour. In some cases he arranges for exchange of work; he helps others and others help him.

520. His need for credit will be of two kinds: (1) short period finance to carry on until the marketing of the crop and (2) long period loans to effect permanent improvements. The latter expense is of a capital nature and its benefit would accrue over a range of years not limited to the year of improvement. Its liquidation must be spread over a number of years.

521. Betwixt these two forms of credit is what is known as medium term credit. As an example of expenses falling under

this head, we may refer to the buying of the field cattle. The duration of the intermediate or medium term credit is about 5 years.

Short-term credit.

522. Co-operative Credit Societies are the ideal form for organizing short-term financial agencies for this type of agriculturist. His land and crops offer acceptable security. At the end of the harvest the loan is liquidated from the proceeds of sale. The success of the credit scheme, however, assumes that the production would be sufficient to meet all his reasonable expenses including debt charges.

Medium term-credit.

523. There is no provision for the medium period credit. We do not, however, suggest the establishment of any new agency for the purpose, but recommend that the Co-operative Credit Societies should employ a percentage of their resources for such purposes. The repayment of the loan should be spread over a period of five years and secured by a charge on improvements or assets acquired with the help of the loan. Where the land is already mortgaged to a Land Mortgage Bank, application for this sort of help should also be addressed to that bank because the improvements and land are inseparable from each other. As the expense will be utilized to improve the security of debt, it is but fair that the mortgagee should also finance the improvement.

Colonization schemes.

524. In view of the number of colonization schemes already existing or proposed to be introduced and their importance in alleviating agricultural unemployment, their need for credit may be separately discussed. The ideal aimed at in settlement on the irrigated areas is to have peasant proprietors. The land in the colonies is the Crown land and it is for the State to so arrange their development as to render it possible for the settlers to get the maximum advantage.

525. The Land Commission, 1927-29, had this problem under consideration and we understand action is being taken on its recommendations. The appointment of the Land Commissioner and the preparation of the Land Development Ordinance are, we are told, some of its results. The recent concession of allowing colonies to dispose of timber and firewood off peasant settlements shows that assistance in addition to small loans advanced to cultivators was needed. According to the report for 1933 of the Land Commissioner, there is little doubt that in more than one case it has just enabled a hard-pressed colonist to turn the corner. Where the man has some past savings of his own to supplement the State assistance, he may not feel the financial want, but the number of such people is extremely limited.

Special financial agency.
" Sir Hugh's Scheme."

526. The Land Commission, beyond drawing attention to this need and suggesting that a special financial agency should be created, have said very little on the matter. In mentioning the formation of a " Financial Agency " they seem to have had in mind, the idea of a " Development Board " referred to in His Excellency the Governor's message dated May 18, 1927, to the Finance Committee of the Legislative Council. This message, popularly known as " Sir Hugh's Scheme ", contemplated placing ample funds " not less than Rs. 500,000 and if necessary as much as Rs. 15,000,000 " at the disposal of the Board " for surveying roads and bridges and for loans to enable the peasant proprietor to clear and cultivate his holding and maintain himself and immediate dependents until the land is producing an income sufficient for their maintenance."

527. Restricted tenures without powers of alienation and limited as to subdivisions in succession have been suggested to stop colonization lands falling into the hands of private financiers. In the absence of adequate and cheap credit facilities, we think that such a handicap would only go to class them as landless cultivators for the purpose of borrowing. It would mean raising for them the price of money which would eventually lead to disintegration and abandonment of their holdings. The State would have to find new men to replace them, but their problems would be even worse because the land would have been impoverished in the meantime. Unless sympathetic and cheap credit agency is established side by side with the colonization scheme, the chance for its success is remote, specially in those parts of the Island where the peasant is improvident.

Chance of success of colonization schemes.

528. We suggest that special forms of credit societies designated " Colonization Credit Societies " should be established along with the colonies. Each colony must have a society of its own. All such credit societies should be controlled by a Central Board at Colombo consisting of two nominees of the Government, one official and one non-official, the Manager of the proposed State-aided Bank, the Director of Agriculture, and the Registrar of Co-operative Credit Societies. The Board should have an office of its own in the premises of the State-aided Bank and work through its Secretary. It should also determine the conditions for advances for each colony and arrange for funds. The State-aided Bank should provide it with funds at cheap rates on the guarantee of the Government. The societies in the colonies should be managed by the local settlers assisted by Government officers, who should have power of vetoing any proposal. Much of their work will have to be done without remuneration to keep down expenses.

Colonization Credit Societies.

529. The colonization credit institutions would be elastic in their operation and provide medium and short-term credit. There would be no question of long period loans. In case of failure of crops recovery of amounts due would be postponed. Where the benefit of any expenditure would spread over a number of years, the advance should be recovered by small reasonable instalments. These institutions may embrace marketing finance also, thereby reducing middleman's charges. When facilities of this nature are provided, there would be no objection to introducing measures aimed at stopping alienations and encumbrances. We would go a step further and suggest that opportunities for borrowing might be closed altogether by withdrawing legal protection to lenders other than societies or credit agencies specially permitted to help them.

Will provide medium and short-term credit.

530. The State aid for these societies need not be continued indefinitely. As soon as a scheme is in full working order and its settlers have been trained in the wise use of credit and know the value of self-help and self-interest, the special credit societies may be converted into Co-operative Credit Societies.

Co-operative Credit Societies.

531. It is necessary that this section should end in a note of caution. World conditions have greatly altered since the Land Commission submitted its report. Although colonization schemes of small settlers, which principally aim at producing articles of food for internal consumption, and are mainly designed to provide means for the ordinary low standard of living, are not faced with the risk of economic collapse, the proposals for the settlement of large areas on the proprietary system to be worked by tenants or hired labour appear to us to involve a good deal of

risk. It would be advisable to postpone their consideration until the world atmosphere clears up. When there is no profit in cultivation to-day, land cannot be expected to pay for the costs of cultivation and profit of the landlord. According to the reports of the Director of Irrigation and the Land Commissioner, relief in rates of water and rent is asked for in many cases. Wherever we went we heard of the agony of the tenant in not getting an adequate return for his labour. It is undesirable to perpetuate such a situation. The problem of middle and higher class employment must be sought in the industrialization of the Island and not in the exhausted resourcefulness of agriculture.

Landlord
agriculturist.

532. We now come to the last form of agricultural occupation. Here land is worked through hired labour or on the rent system. The owner has a paid manager or an agent, who looks after his interests. Most of these big estates are in the hands of non-Ceylonese and owned by joint stock companies with non-Ceylonese capital. In view of their financial solvency, organization and methods of accounting and auditing, as well as their intimate contact with the foreign monetary centres and the existing banks, they do not seem to be experiencing any difficulty in the matter of credit. Unlike most of the Ceylonese estates they came into existence through investment capital and not borrowed funds. A very large percentage of them do not want any loans; on the contrary they have spare money to deposit in banks. If they do need accommodation at any time, Colombo banks are ready to help them.

Short credit and
long credit needed
for indigenous
estates.

533. In the case of indigenous estates, their requirements fall under two heads—

- (1) short term credit, and
- (2) long term credit.

The former is needed to finance the tenant or for current expenses and would be repaid at harvest time. The requirements are too great to be met by the ordinary Co-operative Credit Society. Hitherto the landowners have relied for this upon the Chettiar and banks. The circumstances to which a lender would usually look are—

- (1) General financial solvency and whether the land is free or encumbered;
- (2) Capacity to pay the debt punctually and previous experience in that respect;
- (3) Business efficiency; and
- (4) Honesty of the borrower.

Proposed
registration of
hypothecation of
crops.

534. Where the creditor will not feel fully satisfied, he would ask for some further security. Banks may not feel interested owing to lack of knowledge, but there would invariably be found a private financier to help. If the pledge of crops can be facilitated by an amendment of the law, it would add to the possibilities of raising loans. In that case banks would feel more inclined to help him. Even the scope and usefulness of the proposed State-aided Bank would, in that event, be greatly increased. We suggest the provision of special legal facilities for the "registration of hypothecation" of crops in favour of banks, with power to seize and sell the crops on the same lines as those laid down in the "English Agricultural Credit Act" of 1928. Such pledges are required to be registered in a special book and only in favour of banks and recognized respectable credit agencies. It may not be desirable to vest such a power in private

money-lenders, but there can be no objection in the case of banks. If these powers are entrusted to " licensed banks " referred to in the chapter on " Banking Regulations ", there would be no danger of the borrowers' interests being thrown overboard.

535. In regard to long period credit requirements the Long period credit. position has altered with the creation of the State Mortgage Bank. Hitherto the Ceylonese landowner mostly depended on private money-lenders, whose conditions of loans, both in regard to interest and period of payment, were not so suitable. The Colombo banks, the insurance companies and trustees also entered this field to some extent. But there was not that systematization of credit and spread of repayment to lessen the burden of debt as is the case with the Land Mortgage Banks. If the State Mortgage Bank is not able to do much, the fault is of the borrowers and the incompleteness of their security and not of the bank.

536. In dealing with the position of the landlords we wish The absentee landlord. to draw attention to the deterioration in land due to the increasing practice of absenteeism. When the management of estates is entirely left to employees, they would not take the same care thereof as would owners living on the land. Intimate personal contact with the work and labour is as necessary in the field as in a factory or a trading house.

537. The absentee landlord also creates danger of social deterioration. The country life is deprived of the intelligent understanding and guidance which the presence of intelligent and educated men provide; it gets impoverished materially, socially, and intellectually. Absenteeism has its reaction on the economic value of land and agriculture and to that extent enfeebles the proprietor's power to borrow. As an element in the increase of credit capacity, it is important that there should be a change for the better in the system of absentee landlords.

(b) THE AGRICULTURIST AND HIS CREDIT CAPACITY.

538. No scheme of credit construction can be complete with- Credit needs of the agriculturist and the obstacles in his way. out taking into account the agriculturist in Ceylon. He forms the bulk of the population. According to the census of 1921, 64.4 per cent. of the people of the Island live on or by the production of primary produce. For general prosperity and contentment, the consideration of credit needs of the agricultural classes is of paramount importance.

539. It is becoming increasingly clear that agriculture needs some sort of regulation and international co-operation for its rehabilitation. In the absence of such an arrangement most forms of cultivation and plantation become unremunerative and lose their attractiveness as investments or as bases of credit. If restriction in tea and rubber are beneficial why should it not be extended to coconut and other types of agriculture? If fragmentation of lands leads to dissipation of energy and wastage one fails to understand why it should not be stopped. The very bounty of nature in Ceylon needs a restraining hand. The principal obstacles in the way of agriculturists in obtaining credit are—

- (1) Complications of title to land.
- (2) Fragmentation of land.
- (3) Absence of suitable subsidiary occupations.
- (4) Absence of fixed tenancy.
- (5) Existing indebtedness.

540. *(1) *Complications of Title to Land.*—Unless the buyer or lender can get an absolutely clear title to land, he cannot be expected to put in his money; if he does he would only pay a smaller consideration than he would in the case of a clear title.

Land tenures.

541. There are two systems of land tenure; the Feudal and the Allodial. Under the former the State or Sovereign is the supreme lord but in consideration of certain regular and periodic payments in cash, kind or service, the use and possession of land is permanently transferred to others. Under the latter system the owner is the sole master. All lands originally belonged to the Kings in Ceylon and its possession devolved through grant or gift.

542. In the days of the Dutch, Portuguese, and the Kandyan Kings the system of land tenure was feudal, but to-day it is allodial. Feudal dues were periodically paid to the overlords and their record was kept in registers known as "Thombus" or "Likamitiyas" in the case of Kandyan Kings. With the abolition of land tax disappeared the record of these payments which at least gave *primâ facie* proof of ownership.

543. On the British occupation of Ceylon personal service as a condition for holding lands was dispensed with and replaced by a tax. All the existing records of land tax were recognized as proofs of ownership. "Sannas" or Royal Grants issued by the Kings of Kandy were also honoured. They were given for services rendered by chieftains or as endowments to temples. In the former case the land was called "Mudagama" and in the latter "Viharagama" or "Dewalegama" according to the nature of the temple endowed. But the work of determining boundaries and rights of the landowners was no simple matter and is as yet not complete. No tax was levied on the temple lands but "Mudagamas" were taxed in common with other private land. Inquiry into the land rights of under-lords was further complicated by the relation between them and their tenants who held lands under them on payment of services.

Crown land.

544. All land that was not lawfully acquired was presumed to be Crown property. But the enormity of the task of investigation, its slow progress and incompleteness of record in regard to boundaries and areas and their location, gave opportunities to the people for encroaching upon the Crown land. Ordinance No. 12 of 1840 was passed reiterating that land was presumed to be Crown land unless proof of payment of tax signifying ownership or grant could be produced. This had to be reinforced in 1885 by a system of experimental settlement through Forest Officers. There was of course no question of registering titles. In spite of this check the conversion of Government forests into disputed and ill-defined chena areas went on. These illegal acquisitions changed hands as in case of ordinary sales of land. To check this rapidly growing evil the Waste Lands Ordinance was passed in 1897. It aimed at preservation of Crown lands and the fixation of their boundaries but not the clarification of private titles.

Proclamation of 1799.

545. The difficulties concerning titles do not merely lie in the uncertainty as to their origin. The law of transfer and registration has made the position worse. By a proclamation in 1799

* Material for this section has been drawn from the paper on "Registration of Title to Land" by Mr. I. F. Wilson read in 1933 before the Engineering Association of Ceylon and the discussion that followed thereon and the memorandum of the Assistant Settlement Officer.

the Roman-Dutch law was made applicable to land in the Maritime Provinces. This was, however, found to be very inconvenient, as transaction in land had to be executed in Court before a Judge and had to be abandoned in favour of execution before a Notary Public. Ordinance No. 8 of 1863 is the first Statute which attempted to introduce a system of land registration. It provided for registration of deeds as well as of title to land on a cadastral survey. The same year saw the passing of the Partition Ordinance which is still operative. There is general complaint that it is not only out of date but too expensive for practical purposes.

546. Although registration of title is feasible in new areas, its application to older tenures is difficult and expensive. Ordinance No. 5 of 1877, therefore, modified the Ordinance of 1863 and made registration of title compulsory only in notified areas. The new legislation was proclaimed in the then undeveloped areas of Dehiwala, Wellawatta, and Kirillapone, but it was soon abandoned on the ground of expense. The law was again changed in 1891, reintroducing the principles of registration of deeds contained in the Ordinance of 1863 and incorporating the idea of priority registration. In 1907 Ordinance No. 3 was passed which combined the system of registration of title and of compulsory registration of land transactions, but not being proclaimed it was never brought into force. Ordinance No. 23 of 1927 is the last piece of legislation in connection with registrations and is operative to-day. It gives effect to the priority system of registration of titles in land, which implies registration of the deed as well. There has been a tendency in the legislation of the country towards registration of documents alone.

547. The question of inheritance is also a disturbing factor. Inheritance. If there is no testamentary declaration, and there is very little of it, particularly among the indigenous races, the property can only descend through the personal law to which the deceased owner became subject on the ground of race, nationality, or religion. There are at least six such legal systems in the Island, namely, the Roman-Dutch law, the English law, the Kandyan law, the Tesawalamai, the Mukkuwa law, and the Mohammedan law. Violation of any of these at any stage of the transfer of property may vitiate the title of the ostensible owner. Although the prescriptive period is 10 years, for the Government it is 30 years, it does not operate against any flaw in inheritance or wrongful or unauthorized disposal of one co-descendant's share by another. A number of witnesses emphasized that there were several instances in which there was collusion between co-descendants to mulct the buyer of their inherited property. A number of them would represent themselves to be the only heirs to the prospective buyer and after the transaction was over, the omitted co-descendants would put in their appearance and create difficulties for the purchaser. Right of inheritance of a Kandyan girl depends on whether she is married in " Binna " or " Digha ". It is said that although these girls generally marry outside their fold and therefore lose their claim to parental property there is no legal certainty as to the status of their husbands and that they often create trouble at the instigation of their relatives.

548. If there are a number of co-owners of a property and one of them wishes to cultivate or plant his share or sell, instead of arranging for a regular division or fixation of his boundaries with the consent of the others, he merely partitions out the property according to his sweet will. He may be honest in taking

the correct area, but that does not give him a complete right to that land. At the time of partition no question may be raised by the other joint owners but difficulty may arise when his land has blossomed into a profitable plantation.

Chief obstacle to
cheap credit
facilities.

549. Unless reformation is introduced in the system of titles provision of cheap organized credit facilities is impossible and elusive. This is proved by the actual working of the State Mortgage Bank. In view of the importance of this subject we are giving our suggestions for improvement in the following section of this chapter, entitled "Registration of Titles to Land to Improve Marketability."

550. (2) *Fragmentation of Land.*—The disadvantages incidental to successive inheritances and fragmentation of holdings are too well known to be mentioned. In Jaffna we were told that the smallest holding was 1/328th part of an acre.* Such unremunerative areas may have sentimental value but from the economic point they are worthless. The lender has to look at it from its general market value, what it would be worth to a free buyer. These minute holdings help neither the owner nor the creditor and the sooner they get absorbed into the adjoining blocks the better would it be for every one concerned. We suggest that in the interests of agriculture the problem should be studied and legal provision made for exchange and consolidation of holdings and for the prevention of fragmentation of land.

551. (3) *Absence of Subsidiary Occupations.*—If a peasant does not get enough from his soil he cannot stick to it. As, however, he has nothing else to turn to, he sticks to it as long as he can and he tries to work as a labourer in his spare time, which is not always possible. The standard of living in the rural areas is too low. The villager's resources and assets being so poor, his capacity for credit is negligible. He has an obliging friend in the boutique-keeper but the friend is there to drive the best bargain for himself. By associating farming with industries allied to agriculture, such as poultry, dairy farming, and hand weaving he can increase his wealth-producing power. Even if he does not produce for the market he can meet some of his own wants and to that extent conserve his resources. It is essential that the cultivator should be trained in such subsidiary occupations.

552. (4) *Absence of fixed tenancy.*—A tenant who leases a plot of land from the landowner has no certainty of continuity of tenancy. He has no ambition to improve the value of his crop by systematic manuring of soil. The greatest drawback, however, lies in the fact that he finds it difficult to obtain credit in as much as no lender can, in case of default, attach his crops because of the superior rights of the landlord. He has, therefore, to depend upon his master, the lessor, and submit to his exactions.

553. In some parts of India occupancy rights of a tenant descend from father to son. In other cases, there is life tenancy. Occupancy at will, as it prevails here, is not conducive to a sound policy of agricultural progress or of agricultural finance.

554. (5) *Existing Rural Indebtedness.*—We have heard appalling stories of the indebtedness of the agriculturist. In districts such as Negombo and Chilaw, 90 per cent. of coconut planters are said to be under debt, the total amount of debt exceeding the

* Record instances of claims to undivided share include 1/900, 1/4 of 2 coconut and two jak trees, 3/448 of one jak tree. (Transactions of Ceylon Engineering Association for 1933—page 40.)

present value of their lands. In southern areas the percentage of debt is said to be 50 per cent. In the Eastern Province paddy land is said to be fast going into the hands of the Moor money-lenders. The position in other parts of the Island is no better. With such a heavy load of debt how can new credit agencies render financial assistance? They could obviously advance only a percentage of the market value but that cannot satisfy the encumbrance. Some assistance may be possible where the property is intact and the loan is clean, but no scheme of credit can help the debtor if he has already mortgaged his assets to the hilt. Much of the debt in Ceylon was incurred for buying land when prices were high. But in addition to borrowing for purchase of land or for productive purposes, the Ceylonese have been taking loans for social needs. Birth, marriage, and death, all domestic occurrences, levy a heavy toll and are potent causes of indebtedness. Society has a great hold upon the individual in these matters and it calls for the collaboration of all interested in social and economic reforms to eradicate the evil of uneconomic borrowing.

(c) REGISTRATION OF TITLES TO LAND TO IMPROVE MARKETABILITY.

555. We have already called attention to the urgent need of improvements in the system of titles and their registration. The Partition Ordinance and recourse to the Court are costly in operation and take very long to settle land disputes. The situation demands a simple machinery aiming at judicial sifting of the data on the spot. The Settlement Department is already inquiring into disputes between the Crown and the public, and in view of the technical experience acquired by it, we are of opinion that it is the best agency for carrying out the work. It would mean a slight extension of its duty if instead of merely deciding disputes it were to pursue the matter a little further and determine the ownership of the property in question. Where the finding is that the State is the owner, no additional work would be involved. It would be the usual process of writing an order and registering it in the registry. Even where the land is found to be a private property, much of the spade work would have been done in the process of inquiry and it would only remain to sift the rights *inter se* between the claimants. There would be cases where the past ancestry of the holders would be involved and the subsequent work of determining their rights would be heavy and complicated. But the number of these cases would not be very large; and in the majority of them prescription would solve much of the difficulty.

The Settlement
Department.

556. We are told that the Settlement Department will hardly have the time to cope with this additional duty. If so, we see no reason why the staff should not be augmented for the purpose and a few Judges associated with them.

557. Another argument against the proposal would be the item of expenses. Investigation and registration of title in the Dehiwala and a few other areas were abandoned on this score. It has also been urged that landowners had to sell cheaply their rights in notified "waste lands" because they had no money to carry on litigation. These grievances can be overcome to some extent by making a portion of the expenses of investigation a charge on the land in dispute. A small rate per acre may be fixed according to the nature, value, and locality of land. It would perhaps not be possible to recover all the expenses of

Expenses.

such investigations, but in view of the urgency and public importance of the matter, the State may come forward to assume its share of responsibility.

558. If a property is mortgaged and the owner has little or no interest, he may not be willing to co-operate in the inquiry of his title. He may also be unwilling to pay his share of cost for what would mean the clearing of the path for his creditor. In such cases the mortgagee should have a right to come in and pay the fee of investigation but with power to add it to the mortgage amount.

Inquiry optional.

559. There will be certain cases in which the owner or mortgagee may not be anxious to divulge his rights for scrutiny, because of the fear of losing the property. Such cases could be avoided if the inquiry into titles is made optional and restricted to those who voluntarily come forward. We, however, think that the scheme would be availed of by many even though there were no compulsion. Clearness of title is a sufficient inducement in itself.

Is it in public interest?

560. There is another way of looking at the matter. Is it in the public interests to continue the existing uncertainty? Is it even to the benefit of the owner or the creditor? Any moment the person claiming to be the rightful owner may come forward and ask for an inquiry, in which case the present owner or creditor would be faced with a situation that he was avoiding. In view of these considerations it seems to us highly desirable that the inquiry should be universal. Only such cases may be omitted where Crown title already exists. In all the other cases fresh Government orders should become the starting points of new series of titles. Should, however, the compulsory nature of the proposed inquiry be not acceptable to the majority of the people, we suggest that the scheme should be made available for those who wish to come in; and that in the case of disputes relating to the waste lands the procedure should be extended right to the end of finding the true owner and giving him the order establishing his indefeasible title.

Mala fide objections.

561. There would be cases where *mala fide* objections to dislodge present owners may be filed. To contest such claims the landowner may not have the means. Such difficulties are inseparable from an inquiry of this nature. We suggest that the investigating authority should use its discretion in such matters and provide assistance in the procurement of proofs, and where a small loan may be needed to help the parties in establishing their claims, it should be advanced on the security of the land. The ways and means of providing this money as well as expenses of inquiry, to the extent they become a charge on land, are being discussed in a later paragraph.

Charges to be distributed over years.

562. We suggest that the payment of the charges in respect of title inquiry should be distributed over a number of years, so that its burden may fall lightly on the parties concerned. The same procedure should be adopted with regard to the recovery of any loan advanced for the purpose of establishing proofs. Both these would be secured by the first charge on the property. The mortgagee, who avails himself of the scheme may also be given similar facility if he so desires, but he will have to forego his priority in favour of this payment.

Who should finance.

563. Government may finance these payments from its revenue or special borrowing, or arrangements may be made with the State Mortgage Bank or the proposed local banks to lend

the necessary funds. Ordinary formalities of mortgage and realization through Court may be waived in favour of a simple order of the Settlement Officer with direct power to the Government to effect recovery for itself or the bank as the case may be. In case of default in payment of instalments recovery may be made through sale of the property in question. The period of payment may be kept at 5 to 10 years as may be fixed having regard to the convenience of the parties concerned.

564. When a title is determined in the manner suggested by *Compensation to us it should be indefeasible against the whole world. Bona fide oppressed parties.* errors may, however, creep in. On grounds of justice and equity, if not law, some compensation would be due to the genuinely oppressed parties. We suggest that an equity fund may be established by setting apart a small amount from the investigation fee, or that a nominal cess may be charged in addition.

565. The investigation of titles through such a scheme is, *Future records.* however, only a preliminary step. If the record of titles is not continued in a well defined logical manner the same confusion would again arise in course of time. We recommend the introduction of a system of registration of titles. The first record in the register would be based on the orders of the title-inquiring officers, but every subsequent change should be noted in the register, and the document evidencing transfer would be merely a proof on the strength of which the change in the title would be made. Every prospective buyer or lender has merely to refer to this book to know who the rightful owner is. Similarly, notes of mortgages and encumbrances should be made in the register. Some propaganda and education would be necessary so that the masses may fully understand the object of the proposed measures and procedure and co-operate in making it a success.

566. Simplicity of title presupposes simplicity of transfer. *Succession certificate.* Through mass meetings organized by headmen and district officers and through frequent contributions in the press the public must be made to realize that the value of initial clarification of title and registration would be rendered nugatory if the changes are not kept up on the death of the owner. Some sort of succession certificate should be insisted upon by the Land Registry before substituting the names of the descendants of the deceased. The process of obtaining the certificate should be simplified and cheapened.

567. In addition to the probate and letters of administration, the recognized forms of acquiring the deceased's property, the only other valid proof of succession should be the succession certificate. We recommend that the law of inheritance, in so far as it relates to the registration of titles at least, should be amended accordingly, even though the procedure may be at variance with the existing personal law that affects some succession in Ceylon.

568. Fragmentation of holdings has nothing to do with the *Minimum holding.* registration of titles, but extreme subdivisions may create work in the Land Registry quite out of proportion to their importance. People may also become inattentive and negligent of recording their rights in the register. The need for legislation on the subject has been stressed by us in the main part of this chapter. We propose that the minimum holding in the case of agricultural land should not be less than 2 acres. In the case of garden

lands and building sites a smaller minimum will have to be prescribed. As an initial step land less than 2 acres may be omitted from inquiry if that would facilitate the task.

Equitable
mortgage.

569. In addition to the questions of time and cost to which we have already referred, there are two other possible objections to the system of vesting titles in the register. They are:—

- (1) when there is no deed or document of title, the creation of equitable mortgage by deposit of title deeds becomes impossible;
- (2) the law of prescription goes overboard.

With regard to (1) mortgage by deposit of title deeds is not valid in Ceylon. We are, however, recommending elsewhere that it should be introduced in the legal system of the Island, and it is necessary to consider whether our present suggestion would make that recommendation unfruitful. We do not think so. A slight change in the usual method of creating such a charge can meet the situation. Instead of depositing title deeds a memorandum recording the pledge of title by the owner in favour of his lender, without reference to the amount and terms of loan, should be sufficient for the registration department to make an entry in the register of the charge or interest created in the title. This method would in fact be an improvement upon the usual way of depositing the document, because in the latter case there is possibility of some innocent man being deceived. When the note of encumbrance is in the register of titles, it automatically serves the purpose of a notice to every one concerned.

Registration and
prescriptions.

570. As regards the other objection, it is true that in the system of registration of titles there is no place for prescriptions, but that should be one of its advantages rather than a disadvantage. The law of adverse or prescriptive possession like the law of limitation has behind it the difficulty of establishing proofs and the undesirability of disturbing existing position enjoyed over a number of years. It was obviously created to help the true owner who through lapse of time or successive successions has lost his proofs of ownership. Although in practice the law applies both to the right man and the dishonest usurper, it could not be the intention of anyone to perpetuate the possibility of frauds if there could be a way out of it. The system of registration of titles offers a way to eliminate chances of dishonest pleas. There may be cases where through indifference in recording succession in the register there may be variance between the names of actual owners and those in whose names the titles are registered. To help these rectifications power should be given to the court to examine such claims and decide them on their merits, wherever necessary. On the strength of these judicial findings changes in titles should be made.

(d) PROPOSALS TO RELIEVE AGRICULTURAL INDEBTEDNESS.

Estimate of rural
indebtedness.

571. We attempted to frame an estimate of rural indebtedness and to classify it according to the purpose for which debts were incurred. But we could not obtain reliable statistics. Witnesses have freely indulged in vague generalizations from insufficient material. A reference was made to the Registrar-General concerning mortgage debt, but without avail. The information with him gives particulars of mortgages registered, but their release or satisfaction is not always marked. Even if marked, the information is not noted in a form suitable for statistical
State Mort.

handling. There is also the difficulty of separating securities behind mortgages, such as agricultural land, city property and hypothecation of goods. In some cases there would be a combined mortgage, and the splitting up of the amount among components would not be possible.

572. In our opinion, the first step for the salvation of the agriculturist is to give him breathing time to pay off his indebtedness. The short-term credit the agriculturist now receives should be converted into long-term credit of say 15 to 20 years, so as to give him the facility to reduce his indebtedness gradually during this period at low rates of interest. The only way to arrive at this kind of arrangement would be by prevailing upon the creditors to give some relief to their debtors by conciliation of the indebtedness. The agricultural class has borrowed a good deal more than the market value of their securities and the creditor himself is well aware of the inadequacy of his securities and the loss he stands to suffer in the event of his foreclosing his mortgage or selling off the property. It is within his knowledge that there are hardly any buyers of agricultural land if sold by auction. He is also aware of the legal difficulty of enforcing his claim against the debtor in face of a defective or doubtful title to the mortgaged property, and so is not anxious to go to Court to enforce his claim if he can avoid it. He is also aware that it must take a long time before the coconut industry and paddy markets improve, and there are, therefore, few chances of his recovering his interest on the loans for at least some years. These factors, unfavourable as they are to the creditors, should induce them to accept terms of conciliation for the repayment of their debts. The debtor, of course, can do nothing in this matter unless the State comes to his assistance and lends him money to pay off his creditors.

Our recommendations for giving relief to agriculturists.

573. The questions arising are:—

- (1) Will the State come forward to help agriculturists to reduce their indebtedness and give them facilities to convert these debts into long-term advances? and
- (2) Will the creditors agree to some kind of conciliation, say on market value of their present claims, such conciliation not to be made compulsory or obligatory to the creditors but to be voluntary and to be effected only in such cases where the debtors and creditors would agree?

574. We tried to ascertain the views of the deputation of Chettians which appeared before the Commission and inquired of them if some arrangement to conciliate the present indebtedness of agriculturists was practicable. We are glad to learn that the Chettians would be glad to consider any such kind of conciliatory arrangement. If Government were to come forward with about 10 to 20 million rupees to help the agriculturists of the Island, we think it would not be very difficult to solve the problem of agricultural indebtedness.

Conciliatory arrangement.

575. We recommend that Government should offer, directly or through the State Mortgage Bank, or the proposed State-aided Bank, the market value of the mortgaged agricultural lands including coconut lands to those creditors who voluntarily accept this offer. Such a step on the part of the Ceylon Government would be welcomed by the people for two reasons: it would save the Ceylonese community from forfeiture of their lands and would save the agriculturists from the heavy burden of interest on their indebtedness.

Recommendation for Government assistance.

Rupee loan to be floated.

576. It would be easy to float a Government loan with interest at $3\frac{1}{2}$ per cent., free of income tax or 4 per cent. with income tax, for the purpose of paying off those who may be willing to accept Government's offer to release their mortgages on agricultural lands. Government could buy up the claims of the creditors and advance money against the same land to the owners on condition that they should be repaid within 20 years, the value of the loan with interest at 6 per cent. per annum. Such direct State relief has been provided in many countries.

What other countries have done.

577. The Farm Relief Act of the United States provides relief to agriculturists. In Italy the debts of agriculturists are authorized to be paid in 25 years by annual payments. In Germany only lately a law was passed enabling debtors to appeal for special assistance for debts incurred before 1931. In Austria encumbered agricultural lands are protected from forced sales, debt claims are postponed, and short-term credits are converted into long-term advances. In Holland courts have been established to negotiate between agricultural debtors and creditors. Compulsory reduction of interest rates have taken place in many countries. In Denmark postponement of interest and amortization of payments are authorized by law.

Advantages of the proposed scheme.

578. There will be five main advantages under the above mentioned scheme, namely—

- (1) A great part of the problem of agricultural indebtedness will be solved.
- (2) Agriculturists will get long-term credits from Government at a low rate of interest.
- (3) The public will be supplied with an opportunity to subscribe to a rupee loan of the Ceylon Government, and the lands acquired under the scheme will be held as security against such a loan.
- (4) Government revenue will be increased by difference in rate of their borrowings and lendings which should be credited to a sinking fund account to meet the contingencies under this scheme.
- (5) Agriculturists will be benefited by savings in interest of about Rs. 10 million per year and would mean a total saving of about Rs. 150 million in the next 20 years.

579. This is only a skeleton of the proposed scheme and could easily be developed if approved by Government. We realize the difficulties involved in such a scheme. The question of titles to land will be a serious handicap in its way, but a little discretion and sympathetic consideration on the part of those responsible for carrying out such a scheme would go a great way in attaining success.

Registration of indebtedness.

580. When we think of what other Governments have done in the past to improve the condition of their agriculturists and to relieve them from the heavy burden of interest, we realize that the Ceylon Government have so far done hardly anything for the agricultural classes. In our opinion the present is an opportune time to negotiate conciliation between agriculturist debtors and their creditors with the object of reducing the standing indebtedness of the agricultural landowners. Should the Ceylon Government think of taking up this question seriously, the first step should be to get the debtors and creditors of agricultural lands to register their indebtedness and claims with Government. This would indicate the approximate indebtedness and pave the way to further inquiries as to the necessity or otherwise of Government interference in their affairs. Such a survey would help considerably to determine rural indebtedness, the interest charged

and the existing burden of debt on agriculturists and the extent of help required to save them. We think the creditors would agree to large reductions in view of the present depression in the values of agricultural lands; a compromise of 50 per cent. would probably be acceptable to them. The conciliation of debts being voluntary and not compulsory, it should not meet with much opposition, as the debtors as well as the creditors would find therein some kind of relief if they willingly took advantage of it.

581. It will, no doubt, take a long time before the real condition of the agriculturists could be determined through the process suggested by us; in the meantime a number of agriculturists may stand to lose their land and means of maintenance. We would advise, therefore, the immediate appointment of Conciliatory Boards in each district to go into the details of every proposal for conciliation of debts, if such a proposal is agreed to by debtors and creditors; and to determine whether the security offered to Government would be adequate for advancing moneys under a new "Agriculturists' Redemption Fund Ordinance". A separate department should be established either in the proposed State-aided Bank or the State Mortgage Bank to administer this work. The Bank should incur no risk or responsibility and merely act on behalf of Government and under the direct guidance and orders of a special Board consisting of:—

- (1) The Deputy Financial Secretary.
- (2) The Hon. the Minister of Agriculture and Lands.
- (3) The Chairman of the proposed State-aided Bank.
- (4) The Chairman of the State Mortgage Bank.
- (5) The Manager of the proposed State-aided Bank.

The Secretary of the Bank should act as the Secretary of the Board. The Bank should charge Government actual expenses of the Department plus a small charge for overhead expenses.

582. It is possible that the general estimate of the agricultural indebtedness is greatly exaggerated. In that case Government would not be required to invest a very large amount.

583. Should some such scheme meet with the approval of Government, it would be necessary to guard the agriculturist from again incurring debts and strong precautions would have to be taken by Government for preventing him from falling once more in the hands of the money-lenders. Government could at least save him for the next ten or twenty years if by law he is prohibited from borrowing on his land till the debt due by him to Government is finally paid off. It would certainly be open to him to take advantage of the co-operative societies and urban banks to finance him for his crops, for manure, labour, &c., and for the improvement of his land.

(e) LAND MORTGAGE CREDIT.

The State Mortgage Bank.

584. In the chapter on Existing Credit Facilities we have already described fairly exhaustively the various agencies from which advances against immovable properties are available. We have referred therein to the activities of the State Mortgage Bank. It is the most recent and the most important of the institutions that exist in the country for helping agriculturists with long-term credit facilities. We therefore think it necessary to give a detailed account of its constitution and operations. We would also suggest means to widen its activities and increase its usefulness to the agriculturists.

585. A Committee was appointed in 1927 under the Chairmanship of Mr. C. V. Brayne to go into the question of providing its history and constitution.

credit to agriculturists, and draw up a suitable scheme for such an institution. The Committee reported in 1929. It recommended a State-controlled and State-guaranteed Mortgage Bank, and the draft of an Ordinance to establish such a bank was given in the report itself. It is on the lines of this draft that the State Mortgage Bank Bill (Ordinance No. 16 of 1931) was cast, and it received the assent of the Governor on June 17, 1931. The first Board of Directors was appointed in October of that year. However, it was not till fairly late in 1932 that all the necessary preliminary stages such as the appointment of the Manager and the preparation of the Rules were worked off and the bank started functioning. The bank thus has had barely two years experience behind it.

586. The State Mortgage Bank has for its object the granting of long-term loans for exclusively agricultural purposes on the primary mortgage of landed properties. It is a Government institution but it leads to some extent a detached and semi-autonomous existence of its own. It is not a full-fledged Government Department like the Customs or the Post Office for instance, but it is a body corporate for which the State has undertaken certain definite financial liabilities, and over whose administration the State has an effective control. It raises its funds by the sale of debentures guaranteed by Government, both interest and principal. The amount of the debenture issue cannot exceed the amount of the mortgage loans. Government also give the bank a temporary overdraft to issue loans from and to meet various preliminary expenses, till the debenture money is available. There is a provision for Government making good any deficits that the bank might incur, and since the bank has been so far working at a loss, Government have paid the deficit out of public funds. One would presume that since Government make good the loss, it also takes a share in the profits. But the bank is not a profit-making concern. Any surplus over expenses is to be credited to a reserve fund which has to be invested in approved readily realizable securities. If the profits are large and the reserve fund so grows as to equal to one-tenth of the outstanding debentures, the bank may then utilize the surplus profits in acquiring land and premises or in its ordinary loan business. We do not know if it will be ever possible for the bank to obtain an appreciable part of its loanable funds out of its surplus. The first three years' experience does not make one very hopeful about it. But business may grow and administration may be made more efficient and economical and the bank may see better times.

Management.

587. The management of the bank is vested in a Board of Directors, all of whom are appointed by the Governor. To exclude political influences, the Ordinance provides that no member of the Legislature can be made a Director. The Directors are not whole-time officers. They are paid a fee of Rs. 50 for every sitting. No Director may, in any way, be interested in the loans granted by the bank. The Directors hold office for five years and their appointments are so made that one Director is due to retire every year, so that the whole Board renews itself every five years. This rotation preserves continuity of administration. The Directors are, individually or collectively, removable by the Governor for incapacity or misbehaviour, or if the affairs of the bank are not properly managed by them. The appointment and dismissal of the important members of the bank's staff are subject to the Governor's approval. The rules framed under the Ordinance must also be sanctioned by the Government. The bank's accounts

are examined by the Auditor-General every six months and incidentally it is not done free of charge, but has to be paid for by the bank. Every shortfall in the capital or revenue account has to be reported to the Governor, and his instructions are to be followed. Provision is also made for the Governor to institute every five years or oftener if he thinks necessary special inquiries into the affairs and conditions of the bank. Finally the Governor has the power of dissolving the bank when its solvency, safety, or credit is at stake.

588. This Government control, more or less inevitable, because of the financial responsibilities undertaken by Government is balanced by certain special concessions and privileges given to the bank. The bank has the right to foreclose without recourse to a Court of Law. The debentures have been given the rank of trustee securities. The bank has also power to inspect the valuation rolls of local rating authorities without payment of any fee or charge, in order to ascertain the value of such property. The loan given by the bank is again a first charge on the property mortgaged. It has to be stated, however, that some of the minor advantages enjoyed by co-operative banks, such as exemption from stamp duties and income tax have not been granted to the State Mortgage Bank.

589. We now pass on to its loan operations. Under the law the bank can only lend for any of the following purposes :—

- (a) Purchase or lease of agricultural land and its development and improvement, and capital expenditure necessary for the preparation of the produce for the market;
- (b) Any purpose incidental, accessory, or auxiliary to any of the above purposes;
- (c) The liquidation of debts incurred for any of the above purposes.

590. Thus although non-agricultural objects are ruled out, within the boundary of agricultural purposes a wide and elastic range of loans is permitted. The bank received 307 applications and granted 46 up to September, 1933. It has not yet made any analysis of the proportion of loans taken for various objects. Such an analysis would be extremely interesting and useful. We suggest that it be included in future in the bank's annual report as is done in the case of the Co-operative Department's report. We understand, however, that very few loans have been taken for the purchase of new land. Approximately 50 per cent. of the money seems to have been borrowed for improvement of property and another 50 per cent. for the liquidation of past debts. It has to be observed that the bank cannot lend for the cancellation of all kinds of past debts, but for only those which were originally incurred for agricultural purposes. It is however, impossible for the bank to trace correctly the origin of each of these past debts, and in general, the word of the borrower has to be accepted.

591. Under the Ordinance the Board has power to investigate the application of the loan and to call upon the borrower to show that funds have been rightly spent. If he is unable to satisfy the Board the loan may be recalled or he may be ordered to spend an equal sum of money on the original object. These are strict and desirable provisions but difficult for the bank as it is constituted to carry out unless it provides a standing instrument of supervision. The supervision clause (clause 58) of the Ordinance is at present virtually a dead letter. This together with the impossibility of inquiring into the origin of past debts and the

Provisions difficult to carry out.

possibility of elastic interpretation of purposes, " incidental, accessory, or auxiliary " to agriculture, makes the restrictions far less stringent in practice than they appear on paper.

Bank's borrowers.

592. Nearly all borrowers so far have been the owners of small and medium sized estates. The larger estates mostly in European hands, command ample and easy financial resources. In any case the restriction in tea and rubber has cut off for some time the demand for loans for extending estate business. It is only for improvement that loans are now mostly wanted, and that also mainly by the small rubber and tea estates in Ceylonese hands which were badly starved during the depression. Coconut is hardly an active borrowing agent, the outlook being still very gloomy. A few loans have been taken by the Citronella producers. Paddy growing is not very widespread in the country, and the cultivators do not also require the large amounts that the bank offers them. There has been, therefore, little or no business with them. As for loans for settlers and colonists, where the Crown has settled land in large blocks of 50 to 60 acres, a few loans to pay for the lands had been taken. Small scale settlers are not obviously the proper clients for such a bank.

Expenses on a loan.

593. The bank is indeed not meant for small borrowers. No loan is to be less than Rs. 5,000 and the maximum is Rs. 150,000. The reason for making Rs. 5,000 the minimum amount is that small loans are not worthwhile for the borrower or the bank. There are certain expenses that have to be incurred in effecting a mortgage loan. A Rs. 5,000 loan for instance, would approximately cost the bank the following sums of money:—Legal Adviser's fees (3 guineas) Rs. 31.50. Supposing two independent valutors are engaged, they will each take about Rs. 30. Traveling expenses of the bank's Inspectors may be another Rs. 40. Against this total of Rs. 131.50, the bank receives under the existing scale 2 per cent. of the amount of the loan as valuation and Legal Adviser's expenses, together with a fixed charge of Rs. 20 for each loan as office expenses. It receives therefore from the applicant Rs. 120 while it has to spend Rs. 131.50. It is true that once the loan is granted the bank has hardly any further expenses to meet. But the difference between the rate at which the bank raises its capital (debentures) and the rate at which it lends, must under the rules be 2 per cent. It cannot be said to be so tantalizingly large as to make the bank unconcerned about initial expenses. The cost of a loan does not, however, rise in proportion to the size of the loan. Large loans are more economical than small loans. There was a feeling also when the bank was projected that the large estates were getting ruined for want of finances and the bank must not dissipate its resources on tiny loans but should be an instrument of constructive large scale agriculture.

Requirements of small borrowers.

594. In all this there was an implied hope that the small borrowers would be able to get their requirements from other sources. These sources, however, have not yet materialized. Therefore, they must soon come in the form of Co-operative Mortgage Banks, small Joint Stock Banks, or branches of the State Mortgage Bank.

595. Our suggestion is to open branches of the State Mortgage Bank at important centres in the Island. We refer to this matter at length while commenting on Land Mortgage Banks.

Removal of Rs. 5,000 limit.

596. We also recommend the removal of the restriction regarding the minimum of the loan and give the bank a free hand in granting amounts smaller than Rs. 5,000.

Valutors.

597. The State Mortgage Bank under the Ordinance cannot have full-time valutors. Valuation is at present done by men

selected by the bank from the locality where the property happens to be situated. This ensures local knowledge and saves in travelling expenses. However, we think one competent full-time valuator should be employed at the bank's head office to supervise the valuations and calculations of valuers outside Colombo.

598. Another restriction is regarding the duration of a loan. ^{Duration of loan.} Loans are not granted for a period less than five years or more than 25 years. We do not see any serious objection to the lowering of this limit. There is a certain demand for loans of shorter duration. The co-operative source for such loans is as good as non-existent yet. The borrower, therefore, must either go to the private lender or take the loan for a longer period than he wants. Since, however, it is open to him to repay the loan whenever he wishes, a five-year loan can in practice even be made into a one-year loan. The provisions in the Ordinance in this respect seem to be contradictory. Section 53 says that no loan can be granted for less than five years, while section 61 says that "the Board shall, if notice of three months is given by the borrower, accept payments in respect of a loan before they fall due."

599. Both these restrictions, one regarding the amount and the other regarding the duration, can be got round by an ingenious borrower. All that he has to do is to conform to the five-year and Rs. 5,000 rules, and then pay off any portion of the loan that he does not want at any time he likes. These restrictions may have already invited some round about escapes of this kind. ^{Evasion of restrictions possible.}

600. Regarding security the bank accepts only a primary mortgage of immovable property, which, further, must not be an undivided share. The amount of the loan can at the highest be 50 per cent. of the value of the property. Such property once mortgaged to the bank must also be kept free from any future encumbrances. This means that the borrower cannot raise any more funds on the property concerned, by means of second or third mortgages with other parties. It may be a little unfair to tie him down in this way, but the safety of the loan demands such a provision. It is not really as harsh as it seems, for where the borrower has not borrowed the full 50 per cent. of the value of the property, he may apply and obtain a further amount on a second mortgage of the same property from the bank itself. Such loans have been in one or two cases given. The loan is by law made a first charge on the property mortgaged in preference to other creditors. ^{Security for the loan.}

601. A loan made may be recalled on three grounds:—

- (a) If the property given as security depreciates to such an extent as to endanger the safety of the loan;
- (b) If the title is discovered to be inadequate;
- (c) Mis-statements by the borrower or misapprehension of actual facts by the Board.

^{When loans can be recalled.}

While there is hardly anything to be said against (b) and (c), recalls on account of depreciation of security under (a) may obviously create great difficulties for the borrower. A mortgage loan is usually taken to pay old existing debts, and even if it is for capital expenditure, it may take years before the expenditure bears fruit. To recall it untimely is really to make it a short period loan. It will simply drive the borrower to get a new loan from some other source at perhaps ruinous rates or force him to sell off the land at a low value. This is not in the interests of the borrower or the bank.

Right to recall the loan.

602. Judging by the original object of establishing such a bank and the nature of its business which is long-term credit, we are of opinion that the right to recall the loan should be exercised only if the agreed instalments are not regularly paid. Some risks are inevitable in all loan transactions and if the 50 per cent. margin kept by the State Mortgage Bank on its own valuation proves to be inadequate at some time during the continuance of the loan it indicates an abnormal situation. It is at such times that the borrower needs relief from his creditor, and he should not be pressed for further margin or for repayment of his loan. If he could at all offer fresh securities he would only be too willing to do so and save his property from being sold off at a low cost. But it is at such times that the debtor is not able to arrange for finance, particularly when he has no further securities to offer, elsewhere. The State, through the State Mortgage Bank, should not recall advances at such a time but should take a certain risk and allow the loan to run on as it is not concerned with the appreciation or depreciation of the security mortgaged to it so long as it receives regularly its agreed periodical instalments from the borrower, which includes interest and part of the principal.

Recovery.

603. The interest and principal of the loan is collected in half-yearly instalments by the bank. Two methods of repayment are recognized and it is left to the borrower to select the one that is more convenient to him. One is the system of equated payments, and this, we understand, is the system that is generally favoured. Most of the loans have been taken for repayment in ten to twelve years. In the other system, the borrower pays half-yearly a definite portion of the principal together with the interest on the amount of the principal or balance thereof outstanding during that period. Under this system the instalments payable in the initial years are heavier than under the system of equated payments.

Default in payment of instalments.

604. In case of default in the payment of any instalments the bank may forthwith exercise its right of foreclosure and arrange to sell the mortgaged land. There is no necessity of going to court for obtaining the Fiscal's assistance. At the sale, the bank may fix an upset price below which the property is not to be sold to any party other than the bank. When the bank purchases the property it may before it resells it, cancel the sale and return the property to the mortgagor if meanwhile he clears up all his dues to the bank (including a penal rate of interest for the period of the delay). Otherwise the bank holds the property until it is able to dispose of it. All these are fairly elaborate safeguards, but as we have already explained, the real security behind the loan lies in the earning capacity of the borrower. We hope the State Mortgage Bank gives as much attention to that factor as to the fulfilment of various legal requirements.

Provisions for extension of time.

605. As far as we can see, there is no clear provision in the Ordinance for giving the borrower an extension of time for the payment of his dues. Section 101 says that if he fails to pay on the due date, he will be charged a higher penal rate of interest for the half-year for which default has been made. Whether he can continue defaulting for successive half-years is not clear. The bank apparently is not bound to take drastic steps against him immediately (*vide* section 63 which is permissive, not forcing). It thus seems within the bank's power to grant extension of time in appropriate cases. We consider this power

very necessary and the law on this point should, in our opinion, be made quite explicit. Forced sales or possession by the bank of the property are extreme remedies which should, as far as possible, be avoided. It is far better for the bank to give the borrower some breathing time, and, if possible, guide and help him along the road to recovery and solvency. In this respect we are afraid the State Mortgage Bank cannot be as good as co-operative banks which can maintain a more intimate touch with the borrowers. The least, therefore, that the State Mortgage Bank can do is to give all reasonable extensions. We understand that some extensions have already been granted. On the whole repayments have been very regular so far and no use has been made of the large legal powers given to the bank.

606. The rate of interest charged by the bank for its loans remained till very recently at 7 per cent. In March, 1934, it was brought down to $6\frac{1}{2}$ per cent. The Ordinance does not allow any further reduction. No further relief can thus be given to the borrowers. We realize that there are dangers of making money too cheap but we do not understand why the minimum should be so rigidly laid down by law. The lending rate of the bank is based upon its borrowing rate. If it is able to borrow money cheaper, we see no reason why it should be prevented from passing on the benefit to its debtors. By pegging the lowest rate at $6\frac{1}{2}$ per cent. the bank has further been caught in a vicious circle. Under the rules "the rate of interest payable on loans granted by the bank shall be 2 per cent. over the rate payable on debentures issued at the time of granting the loan." (Rule 18 made under section 90 (f) on July 14, 1932.) If it raises debentures on 6 per cent. it must charge 8 per cent. on its loans. Since, however, it cannot lend at anything less than $6\frac{1}{2}$ per cent. it cannot also issue debentures at less than $4\frac{1}{2}$ per cent. Rate of interest charged.

607. In our questionnaire we invited opinion on the subject of possible conversion of the old debenture issues to new ones bearing lower rates of interest. We discovered that there were certain technical difficulties, one of them being that debentures and loans are inseparably connected. No debentures can be issued without loans being first made on mortgage. All repayments of loans must be devoted to cancellation of debentures. A new debenture, therefore, cannot be issued for the purpose of replacing an old. It can only be done to finance new mortgages. Debentures are bought as a means of long period investment. It will be obviously unfair to suddenly return the money to the investor. But as regards new issues, we do not see any reason why the bank should not get them at the cheapest possible rate. All hindrances in the way of issuing cheaper new debentures should, in our opinion, be removed. Conversion of debentures.

608. From the time it commenced to work up to September 30, 1933, the bank received altogether 307 applications for loans. Only 46 of the applications matured into loans, the others being retired or refused. Apart from technical faults the board has turned down applications more on the ground of insufficient valuation than on that of imperfect title. A good few, it will also be seen, were withdrawn by the borrowers because the amount sanctioned by the bank was less than what they wanted. The bank must for its own safety carefully, and perhaps sometimes conservatively, appraise the property, and the examination of the title also must be done scrupulously. We have heard some complaints about the rigorousness of the procedure, but we do not see how the bank can possibly help it. Applications for loans.

One witness writes bitterly about the "delay, undue scrutiny, over-cautiousness, red-tapism, protracted correspondence, and the high charges" of negotiating a loan with the bank. He asserts that the procedure is much quicker and less expensive in the case of loans given by the Public Service Mutual Provident Association. In his own case, application for a loan was made on March 14, 1932, and a definite negative reply from the bank was received only on September 7, 1932. While we would invite the attention of the bank's Board to the need of expeditious disposal of loan applications, we would at the same time not ask them to jeopardize safety to promptitude. A certain amount of time is bound to elapse before a loan application can be thoroughly examined. Here again with a proper system of registration of titles much of the delay is likely to be prevented.

Nature of advances. 609. The total mortgage loans granted up to September 30, 1933, was Rs. 1,188,671. The security for these loans consisted of 10,139 acres of agricultural lands with the buildings thereon, and fifteen properties in town. Lands under cultivation in coconuts, tea, and paddy as well as undeveloped lands and residential buildings in towns have been accepted as security. We do not think it is desirable to lend moneys on undeveloped lands except on condition that the loan amount should be utilized on its development only.

Total of debentures issued. 610. Up to September 30, 1933, Rs. 980,950 worth of debentures were sold. It speaks well of the popularity of these debentures that every issue so far, even when interest was brought down to 4½ per cent., was over-subscribed. In order to give the smaller investors an opportunity of buying these gilt-edged securities, of which there are so few in Ceylon, the amount of a debenture has been fixed at Rs. 50. In allotment also, special consideration has been given to the applications of the smaller investors. The debentures are transferable, such transfers being registered with the bank. So far, however, very few transfers have taken place. They are quoted by the stock brokers in Ceylon and at present they enjoy a small premium. The last issue was floated at 4½ per cent. They are redeemable after 25 years, but the bank has the right to pay them off according to the sequence of their issue and by lot if funds are available to pay back a large quantity of the same issue, before maturity. The total debenture issue is limited to Rs. 25 million. This defines the upper limit of Government liability for the bank.

Branches and agencies.

611. Under section 24, the bank has the power to establish branch boards in any area where business is large and local co-operation is necessary.

Land Mortgage Banks.

The first Land Mortgage Bank.

612. The ordinary Co-operative Credit Societies only supply short period loans. For long period credit, a special co-operative institution called the Co-operative Land Mortgage Bank has been devised. A number of these banks exist in India where in different provinces they have met with different degrees of success. In Ceylon very little progress has been made with this type of co-operative institution. The first Land Mortgage Bank was registered in Negombo in 1930, and ever since its inception it has been struggling against a world of difficulties. The difficulties of raising capital have been very great, and the volume of

business which it has been able to do has been very poor, for an institution of four years' standing. It had barely lived the first year of its existence when the Government decided to open in 1931, the State Mortgage Bank. Both in financial resources and the extent of special privileges conferred upon it, the State Mortgage Bank is a far stronger institution than any Co-operative Land Mortgage Bank could ever hope to be. It represented a bold attempt to solve the question of mortgage credit in the Island from a new angle of approach. After its foundation, co-operative effort naturally went into the background to some extent. The centre of interest and the centre of gravity of the whole system of mortgage credit shifted to the new State Mortgage Bank.

613. Due to this and also due to certain difficulties inherent in the working of Land Mortgage Banks, the Negombo bank has not been able to show convincingly good results. Until recently, it was working at a loss. It is only during the last financial year that it has been able to earn a small profit. The second Land Mortgage Bank was started in Kandy in 1933. But there also the soil has proved rather inhospitable. We need hardly make any comments on this bank because it has not given out any loans or sold any debentures yet.

Banks of Negombo and Kandy.

614. We admit that where conditions are favourable Land Mortgage Banks started on the co-operative principle may be of considerable service to the borrowing classes. For various purposes such as purchase and improvement of land, installation of costly machinery, exceptional demands in connection with ceremonies, and liquidation of past oppressive debts, the agriculturist is constantly in need of long-term credit. It is the function of the Land Mortgage Bank to supply him this credit on the security of real estate that he is prepared to mortgage. Loans are given for periods ranging from 2 to 25 years, in some cases even for longer periods, and the amount given generally is from 33½ per cent. to 66½ per cent. of the assessed value of the property. The practice in this respect differs in different countries. These banks raise their capital partly by means of shares, but mostly by the issue of debentures which may or may not be backed by a Government guarantee of interest and principal. In the absence of a Government guarantee it is not easy for them to raise a sufficient amount of capital. Loans are given to members primarily for agricultural purposes and are repayable in easy instalments. For recovery of dues from defaulting members, these banks are given in certain countries special summary powers of foreclosure and sale of the mortgaged property without recourse to law.

Need for long-term credit.

615. In Ceylon, however, on the whole conditions do not seem to be favourable for the growth and development of Land Mortgage Banks. In the first place they have to work under the shadow of the State Mortgage Bank which is bound to take over an increasingly large portion of the available business. They do not possess sufficient funds to entertain applications for large loans, and small loans are not generally as paying as the large ones. The banks do not enjoy the privilege of a Government guarantee of their debentures and consequently it is extremely difficult for them to market their issues. Further, they do not possess any summary powers of recovery and sale. The depression has materially affected the wealth of farmers in all provinces and it would not be easy to raise sufficient share

Unfavourable conditions.

capital from borrower-members. The scope for profitable small scale borrowing also is likely to remain small for some time to come. It would again not be easy to train up people in the management of Land Mortgage Banks whose transactions are certainly much more complicated than that of the simple village credit societies.

Constitution of the Negombo bank.

616. The experience of the Negombo Land Mortgage Bank corroborates the difficulties of the situation that we have just mentioned. This bank operates in a part of the Negombo District known as Alutkuru Korale North. In order to get the benefit of local knowledge, this area again has been divided into smaller areas. In each of these, there are small Committees who investigate and report upon the local loan applications to the main Board of Directors. The funds of the bank have been raised by: (a) the issue of shares, and (b) by the sale of debentures, the major portion being raised by debentures. The bank has not yet received any deposits or loans, although it is empowered to do so. The debentures are not in any way guaranteed by the Government. They are secured by a trust bond in favour of three trustees. All recoveries on loan account are paid into a banking account in favour of the trustees who administer them as a sinking fund, and can use it to call in and repay debentures. The principal and interest payable to the debenture holder is a first charge on the assets of the bank, subject to a prior claim of the Local Loans and Development Fund, the Loan Board, and the State Mortgage Bank. The total debentures in circulation must not exceed the total amount of loans outstanding. The debentures are negotiable. They have not, however, been made trustee securities.

Its shares.

617. The other source of working capital is provided by shares of Rs. 10 each. Every member must take at least five shares but he can increase his holding whenever he wants. The amount that a member can borrow is related to his holding of shares. In no case will a member be given more than 20 times the value of the shares he holds.

Its loans.

618. Loans are given to promote all kinds of economic interests, and more particularly for agricultural improvements and redemption of mortgages on agricultural land. They are not exclusively confined to agricultural purposes as in the case of the State Mortgage Bank. But whereas the State Mortgage Bank accepts both agricultural and urban securities, the co-operative banks accept mortgages of agricultural land only.

Amount of minimum and maximum advances.

619. The minimum of a loan is Rs. 500 and the maximum Rs. 5,000. The Indian Central Banking Committee deliberately refrained from laying down a minimum amount, as in their opinion, "the facilities should be available for small agricultural debtors also". We suggest the same thing for Ceylon also.

Additional security.

620. No loan is to exceed one-half of the appraised value of the land. The bank accepts only primary mortgages, undivided shares are not accepted. The bank may further require the applicant for a loan to give two personal securities as additional security.

Lending rate.

621. The debentures of the Negombo Bank have been issued at 6 per cent. The bye-laws stipulate that the rate of interest on loans shall allow a margin of 4 per cent. over the borrowing rate. The bank cannot thus lend at a rate lower than 10 per cent.

The State Mortgage Bank's present lending rate is only 6½ per cent. As far as borrowers are concerned therefore the co-operative banks have not yet been able to give them the same facilities as the State Mortgage Bank.

622. The operations of the Negombo Bank during the last financial year are summarized in the following figures :— Summary of banks business.

Members.	Borrowings by Sale			Deposits.
	Share Capital.	of Debentures.		
	Rs.	Rs.	Rs.	Rs.
44 ..	4,050 ..	15,100 ..	Nil	
Loans Outstanding.	Overdues.	Reserve Fund.	Net Profits.	
Amount.	No.		Rs. c.	Rs. c.
Rs.	Rs.	Rs. c.	Rs. c.	
14,911 ..	11 ..	Nil ..	259 94 ..	54 65

623. It is obviously not a very flattering position. The membership yet is low. Loans outstanding are only 11 although more than 100 applications have been made in all. One of the memoranda explains that the depression in coconuts has considerably reduced the scope of productive long period borrowings in Negombo which is mainly a coconut district. There are also the general difficulties in connection with the examination of titles and the correct valuation of properties. General difficulties.

624. From all this it is clear that in spite of the fairly orthodox constitution, and the assistance and guidance given to it by the Registrar of Co-operative Societies, the Negombo Bank has failed to establish a strong foothold. The prospects of the Kandy Bank seem to be even gloomier. In his last report the Registrar says, "the Kandy Land Mortgage Bank while it was a matter of discussion and preparation, was a model of enthusiasm and energy, but since it became a matter of collecting cash and getting to work, there has been a sad falling off. It has not so far done anything to cure my misgivings as to its prospects." (Report, 1933-34.) An attempt has been made to obtain some support for these institutions from the State Mortgage Bank but it is not easy to build up a connection between two types of institutions working under entirely different principles, under different Ordinances, and under different systems of administration. We understand that a request was made by the co-operative banks to the State Mortgage Bank for borrowing facilities. Under the Ordinance the State Mortgage Bank possesses power to lend moneys to the Co-operative Societies on terms and conditions that it may itself fix subject to the Governor's approval. The State Mortgage Bank is willing to lend, but only up to half the value of the mortgage bonds tendered to it. In other words when the Negombo Bank has made a loan of Rs. 50 on a property valued at Rs. 100, it can raise only Rs. 25 from the State Mortgage Bank by endorsing the mortgage deed. This is obviously unacceptable to the Negombo Bank. At the same time the State Mortgage Bank finds itself legally tied down, and cannot perhaps do anything more. The Kandy Bank.
Two types of institutions.

625. We are afraid we cannot suggest any easy or practicable method of rescuing the Co-operative Land Mortgage Banks from the stagnation which threatens them. They cannot be easily made a live force in the country. Our suggestion, therefore, is to leave the co-operative banks alone until such time as conditions No more Co-operative Land Mortgage Banks.

materially improve and to concentrate now on the development of the State Mortgage Bank. The State Mortgage Bank already possesses the power of expansion over the country. Under section 24 of the Ordinance, the bank may from time to time establish branch Boards for any area, where the prospect of local business is large and local co-operation is necessary. The constitution and duties of these branch Boards are already outlined in sections 25-30. We see no reason to deviate from these provisions. The branch Board is to be subordinate to the parent Board at Colombo and its duty will be—

- (a) to consider all applications submitted to it and transmit them to Colombo with its recommendations thereon; and
- (b) advise and assist the Board of Directors in all matters in which advice and assistance is sought.

Every branch Board is to consist of two members and a Chairman who shall be specially appointed for each year by the main Board. Branch Board members will hold office for two years. Their disqualification and removal from office will be on the same grounds as those applicable to the Directors of the main Board. They are to be paid a remuneration for sittings attended on a scale to be fixed by the bank.

626. We consider that a satisfactory solution of the problem of mortgage credit can be obtained by opening up branch Boards in suitable areas. It will not be then necessary to proceed with the formation of Co-operative Land Mortgage Banks which have to battle against so many unfavourable factors. The State Mortgage Bank has been in existence only for a short while and if it has not opened any branches yet, there is no reason why it should not find it profitable to do so in future. We see considerable advantages in this method of advance over any scheme of artificial respiration that we might devise for the Co-operative Land Mortgage Banks.

Our
recommendations.

- (1) In the first place the State Mortgage Bank is capable of expansion and it has very great financial resources at its disposal. Few countries can boast of such a State institution. Having formed it, it is obviously our duty to make the most of it, rather than scatter our energies on different types of institutions.
- (2) It enjoys a Government guarantee and other substantial privileges which are denied to co-operative banks.
- (3) It is in a better position to deal with the technical problems involved in mortgage credit, such as the examination of titles and valuation of properties. It can command more finance and more brains. It can engage a staff for scrutiny of titles, valuation, supervision, &c., which will be beyond the power of the co-operative bank. If, as we recommend, it is allowed to lend amounts below Rs. 5,000, its scope of usefulness will be still more widened, and no section of borrowers can have any reason for complaints.
- (4) It has been complained to us that the co-operative banks had to put up with a good deal of vexatious interference by the Registrar's Department. The State Mortgage Bank is to a large extent free from all this interference and red tapism.

627. On all these grounds, we suggest that the possibility of opening branch Boards be watchfully kept in view by the Directors of the State Mortgage Bank. The Registrar of Co-operative Societies, Agricultural Department, and the Government Agents of the various Provinces can materially help in this work. If a suitable number of these branch Boards develop in the country, long period credit facilities will be carried to the very doors of the borrowers. These branches will decentralize administration, without in any way weakening the strength and efficiency of the parent institution.

(f) MAIN AGRICULTURAL INDUSTRIES.

Tea.

628. The tea industry ranks as the premier industry. The area under tea has been computed at over 557,000 acres, distributed over some 1,230 estates, and some 54,000 small-holdings. The following table describes the distribution of the export trade in tea during the last few years, from which it will be observed that the principal customer is the United Kingdom which absorbs as much as 69 per cent. of the total trade:—

	1931. lb.*	1932. lb.*	1933. lb.*
United Kingdom ..	160,509	172,222	149,495
United States of America ..	15,531	15,775	12,003
Australia ..	11,607	15,278	11,839
British South Africa ..	9,751	8,038	9,170
New Zealand ..	10,888	8,391	8,694
Canada and New Foundland ..	7,918	8,366	7,236
Egypt ..	6,925	6,173	3,493
France ..	1,740	1,818	2,125
Iraq ..	1,951	1,785	1,273
Argentine ..	1,603	1,136	1,090
Russia ..	1,409	1,474	435
Other countries ..	14,138	12,368	9,208
Total exports ..	243,970	252,824	216,061

629. The other principal producing countries are, India and the Dutch East Indies, and competition particularly from the latter source has been felt acutely in recent times. Exports from the principal countries during the last three years were—

	1931.	1932. (1,000 lb.)	1933.
Ceylon ..	243,970	252,824	216,061
India ..	344,259	367,677	324,256
Dutch East Indies ..	171,562	170,461	158,096
Total ..	759,791	790,962	698,413

630. As a result partly of over-production and partly of the low purchasing power of the masses on account of the world depression, prices of tea fell heavily and reached unremunerative levels in 1932. To remedy the situation, a scheme for controlling exports was agreed upon in 1933 by three producing countries on a basis of 85 per cent. of normal output and the contraction of supplies in 1933 is solely due to restriction. Since then, prices have improved substantially, and the general average for the current year is 68 cents per lb.

* In 1,000's.

631. The following table gives figures of tea exports from Ceylon during the last 8 years, and the prices fetched in the local market:—

Year.	Million lb.	Price per lb.*
1926	217 ..	99 Cents
1927	227 ..	94 ..
1928	237 ..	85 ..
1929	251 ..	81 ..
1930	243 ..	75 ..
1931	244 ..	57 ..
1932	253 ..	42 ..
1933	216 ..	54 ..

The future prospects of the industry cannot be judged by the higher prices now fetched by tea; these prospects solely depend on the effectiveness of restriction in removing the incubus of surplus stocks now overhanging in the market and on the increase in consumption before the expiry of restriction—the agreement is only for five years—so as to absorb the potential production.

Ownership.

632. The majority of tea companies are worked under joint stock management and owned by British capital. According to the data supplied by the Tea Controller 350,000 acres are owned by non-Ceylonese companies. Another 50,000 acres are owned by non-Ceylonese private owners. Holdings by Ceylonese companies and individuals, on the other hand, amount to about 100,000 acres or 20 per cent. of the total acreage under tea. The dominance of British capital in the tea industry may be ascribed to its historical development. Tea succeeded coffee, after the blight of the eighties which completely destroyed the coffee plantations.

History of the industry.

633. The tea industry in Ceylon is less than fifty years old. In 1880 there were only a few stray plantations with an aggregate acreage of 8,000 acres. It was in this decade that the coffee blight was at its height. Tea was caught in that feverish search for alternative products, following the destruction of coffee plantations, and rapid extensions brought the acreage to 70,000 acres in 1884. Once the success of the industry was assured, there was a rush to open up land. Within two years cultivation rose to 150,000 acres, and five years later it was reckoned at 250,000 acres. By 1900 it was estimated that 384,000 acres were cultivated with tea, and thus, within the space of 15 years, the acreage had increased five-fold. There was a lull in the next few years owing to low prices, mainly attributable to overproduction, and development in subsequent years has raised the cultivated area to the figure already stated.

634. No reliable estimate of capital invested in this industry is available, but if an acre is capitalized at Rs. 500, a figure rather on the low side, the value of investments in tea would reach something like Rs. 280 millions. The greater majority of these investments is held by companies, registered locally or in England. Many of these companies are in turn managed by firms, private or joint stock, termed estate agents who discharge the functions of agents and secretaries. This form of management is in some respects similar to the managing agency system obtaining in India. The estate agents play an important part in the financing of estates, tea as well as rubber, and in a lesser degree coconut. The need for some local body to take care of estates owned by companies situated far away from the field of

* According to local weekly sale averages.

investment is obvious, and hence arose these institutions whose scope, at first confined merely to the function of agents and secretaries, has been later extended to include a multitude of operations. The number of firms in Ceylon acting in estate agency work is not many. As agents and secretaries they are responsible for the management and running of the estates under their care. Their functions on the marketing side vary; in some cases, the produce of the estates is consigned directly to their principals in London; but in others, they undertake the marketing operations too. The nature of their work gives the estate agents many opportunities to enlarge the scope of their activities. Some of them have become direct exporters of various classes of produce on their own account or on behalf of their principals. Others have extended their field to import trade, and have even undertaken, in addition, agency business on behalf of shipping lines and insurance companies.

635. The functions of these agency firms in connection with Agency firms: the management of estates bring them in contact with the financial world. Their high standing and close association with banks enable them to enjoy liberal facilities, and they are, therefore, able to finance their estate operations and activities in other spheres cheaply and expeditiously. They provide estates with loans for short periods by way of working capital where necessary, and in some instances even with long period capital. The estate agency firms also obtain their resources from private investors who entrust their savings to them or utilize their services for suitable investments.

636. From a financial point of view, the tea industry as a whole can be said to be amply provided with funds. The European companies have the supreme advantage of having begun initially with ample capital resources. Their estates are managed extremely well, and the dividend policy of companies owning them is often conservative and cautious; they have large liquid balances and substantial reserves, so that they are more often than not in a position to finance renewals, improvement, and other capital extensions out of their resources.

637. The need for agencies to finance long-term requirements is hardly felt, and demands in this respect are limited to temporary accommodation. In such cases assistance is always forthcoming from the estate agents, if not from banks. The perennial character of tea as a crop makes the problem of securing adequate working capital rather simple. There are no marked seasonal fluctuations in tea as in the case of some of the typical seasonal crops. The revolving fund of working capital needed to finance the current outgoings is constant, and in such circumstances the estates are well able to provide, without outside assistance, the entire working capital; where this is not possible the estate agent usually steps in with the assistance of banks.

638. Turning to the subject of marketing finance, we would Marketing: preface our remarks by stating that all tea produced is not sold at the local auctions. The produce of some estates is not consigned directly to their principal offices in London and banks do not then have the opportunity of intervening in their finance. Tea is sold in the London market and the Head Office remits funds only to the extent of meeting current expenditure and other commitments. The procedure is distinctly different where tea is sold at the local auctions. Tea sales are held weekly, at which exporters purchase their requirements. The auctions are

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supervised by the Ceylon Chamber of Commerce. Tea consignments remain with the broker for 3 or 4 days on an average, while awaiting the weekly sale. During the interval it is possible to obtain advances through firms of brokers on the security of stocks in their possession; they in turn enjoying overdraft facilities from banks. After the completion of sale at the weekly auction the balance is paid to the seller, interest at a shade over the bank rate being charged for the period of the loan.

financial needs.

639. The subsequent chain of financial operations by banks from the time tea leaves the sales to its receipt at the importer's end need not detain us long. The export trade is generally in the hands of firms of high standing, who in turn deal with importers of similar status. Their names are familiar to the trade, and bills drawn on them are gladly discounted by banks. Where tea is sent on consignment, similar facilities are afforded.

640. The system of financial operations so far described cannot be applied *in extenso* to tea plantations owned by Ceylonese.

641. Proprietors of first class standing doubtless receive similar facilities, but it is not so with the generality of proprietors who have to turn to less welcome institutions like the Chettiar and the shroff to satisfy their needs. The institution of the State Mortgage Bank has, of course, solved to some extent the difficulties of the large proprietor needing long-term capital, but he is in several ways handicapped in securing short-term finance. The proposed State-aided Bank and the local banks would be able to help him with short-term finance. All the smallholders and many of the middle class owners whose properties are not large enough to warrant the erection of a tea factory sell their leaves (in the green state) to bought-leaf factories, which purchase them for processing into manufactured tea. The bought-leaf factories secure green leaf sometimes directly from the smallholders, but frequently through the intermediary of petty commission agents who in turn are in contact with the smallholder. The latter obtains his funds from the commission agent, who is always eager to secure his alliance, which gradually assumes a permanent character as the smallholder become more and more enmeshed in the web of debt woven round him by the shrewd creditor.

Rubber.

The rubber industry.

642. Rubber is the next industry belonging to the major group. Its cultivated area is estimated at about 607,000 acres. The distribution of the export trade in rubber is shown in the following table. It will be seen therefrom that more than $\frac{2}{3}$ of the trade is with the United States and the United Kingdom:—

	1931. lb.*	1932. lb.*	1933. lb.*
United States of America	92,527	65,314	74,798
United Kingdom	22,635	14,827	19,299
Germany	5,469	9,292	14,922
France	2,604	2,970	7,317
Belgium	3,164	2,301	5,459
Italy	1,205	2,039	4,577
Mexico	1,453	2,119	3,977
Holland	2,270	3,598	3,490
Australia	3,621	5,423	2,225
Japan	592	330	710
Other Countries	2,465	3,029	5,543
Total exports	138,005	111,242	142,317

* In 1,000's.

643. The other producing countries are Malaya, the Dutch Rubber producing East Indies, Siam, Southern India, and Indo-China. The total countries. output of these several countries during the last three years was :—

From—	1931.	1932.	1933.
	Tons.	Tons.	Tons.
Ceylon ..	61,600	49,700	63,500
Malaya ..	422,000	405,700	445,000
Dutch East Indies	257,200	211,100	281,000
Siam ..	4,500	3,500	7,400
Southern India	8,500	3,900	4,500
Indo China	11,700	14,400	16,800
Total (world)	782,900	700,300	849,000

644. The history of the rubber industry has so far been marked by extreme fluctuations in price, which has given it a substantially speculative element. A conjunction of a series of unfortunate circumstances, including the application of an ill-advised restriction scheme and the appearance of a world slump, has resulted in gross over-production and a large accumulation of surplus stocks. Prices accordingly fell away from 52 cents per pound in 1929 to the low record of 11 cents in 1932. There was a small improvement to an average of 15 cents in 1933. To meet this crisis in the industry an agreement for controlling of exports on a sliding scale, to reach a maximum of 70 per cent. of the normal output before the close of the year, was concluded in the middle of 1934 between the chief producing countries. Since the introduction of restriction prices have considerably improved, the ruling price in September, 1934, being 34 cents per lb. of crepe.

645. Exports of rubber during the last eight years and the Exports. prices realized in the local market are as follows :—

Year.	Quantity of Exports. lb.*	Average Prices.† Rs. c.
1926 ..	131,841	1 21
1927 ..	125,063	0 95
1928 ..	128,326	0 55
1929 ..	180,632	0 52
1930 ..	170,946	0 27
1931 ..	138,005	0 14
1932 ..	111,242	0 11
1933 ..	142,317	0 15

646. It has been truly said that as an article of utility there is practically no other commodity in the world to equal rubber. It is being put into an increasing range of uses, but despite its high degree of utility the problem of equating its potential production to industrial consumption has been extremely difficult. Stocks of rubber have mounted high and the present surplus is large enough to satisfy about a year's consumption. The future prospects of rubber entirely depend upon the ability of the industry to maintain its productive capacity within the limits imposed by world consumption, and it is yet premature to estimate how far the present scheme for artificial control of supplies is able to achieve this end.

647. The dominance of British capital in rubber though less than in tea is nevertheless substantial. The proportion ascribed to British capital is about 45 per cent. According to the data

* In 1,000's.

† Averages for top grades only (Ribbed smoked sheet and contract crepe).

supplied by the Rubber Controller, the ownership of rubber estates of 10 acres and over, numbering 5,634 estates, is distributed as follows:—

	Number of Estates.	Acreage.
Sterling Companies ..	270	145,000
Rupee Companies ..	244	100,000
European Private owned	204	31,000
Ceylonese Private owned	4,830	160,000
Others ..	86	45,000
Total ..	5,634	442,000

648. In addition to the above, there are some 140,000 acres in the hands of over 90,000 small holders.

Area under rubber plantations.

649. The rubber industry is comparatively of recent origin. As late as 1904 the area under rubber did not exceed 25,000 acres, but in less than three years plantations rose to 100,000 acres. The boom in rubber continued during the next four years, when rapid extensions brought the acreage to 204,000 acres. There was a lull in the subsequent three years, only to be disturbed by a renewed fever of activity which raised the area under cultivation to 220,000 acres on the eve of the war. The abnormal demand for rubber during the war caused prices to rise very sharply, a pound of rubber at one time fetching as much as Rs. 2.50. Consequently there was extensive development and the area rose to 397,000 acres by 1920. Further expansion took place in the twenties during the operation of the previous restriction scheme, which controlled exports but did not prohibit fresh plantations. The subsequent slump threw some areas out of cultivation, but after the re-introduction of restriction they have been brought under tapping. The present acreage consists of 548,000 acres of fully matured plantations and 59,000 acres of partly matured rubber, making in all 607,000 acres.

Ceylonese holdings.

650. The high proportion of Ceylonese holdings in rubber needs some explanation. In tea, it will be noted, European pioneers led the field and the capital cost of opening an acre of tea was substantially high. It was similarly so in rubber except for this difference, that the problem of labour was less acute. The rubber industry imposed less exacting conditions on labour than tea, and indigenous labour was found willing to seek employment on rubber plantations. The European-owned estates, however, continued to employ imported Indian labour, but the Ceylonese plantations were, in the majority of cases, able to satisfy their needs by recruiting local labour.

651. Moreover, Ceylonese capitalists had then in coconut a remunerative source of income providing them with funds to undertake capital development in rubber. Nevertheless, there is no doubt that a considerable section of the Ceylonese who followed in the wake of European pioneers opened up rubber plantations with capital borrowed from Indian and European capitalists. The rate of interest was generally high; but so profitable were the prices of rubber that the burden of high interest was scarcely felt and there was sufficient surplus left over to liquidate capital borrowings. The heavy demands made during the great war on the man-power as well as the finances of the British deterred them from further participation in the industry during the war period. The field was thus left open to Ceylonese capitalists, who, assisted by the abnormal prices fetched by rubber, made best of the opportunity.

652. The capital cost of developing an acre of rubber may be put at Rs. 400 and on this basis the total investment in rubber plantation would be in the region of 240 million, of which 130 million would be Ceylonese capital. It is remarkable that the indigenous population, without the assistance of cheap long-term credit, should have been able to secure such large capital resources; but the main explanation, as hinted at earlier, lies in the fact that they put back into land the abnormal profits which rubber procured them during the course of its speculative career.

653. The financial requirements of the rubber industry are similar to those of tea. The estates in the hands of Europeans proprietors, joint stock or private, do not suffer from lack of credit. As in the case of tea, the rubber estates are well managed and their internal resources are generally large enough to look after their credit needs; where they are insufficient, no difficulty is experienced in securing funds from banks or estate agents. The same cannot be said of the section of the industry in Ceylonese hands. It suffers partly from insufficient capital resources and partly from inadequate credit facilities. The former drawback must be attributed in a great measure to the type of organization common to this section of the industry. It will be noticed from the distribution of holdings described in a preceding paragraph that the number of Ceylonese rubber estates far exceed the number of other estates; but relatively their holdings are lower. It is a noteworthy fact that local capitalists have not organized themselves under joint stock principles. They prefer to work on their own and are reluctant to convert their business into joint stock form even when it has reached a size too large for their private resources.

654. The predominance of this personal type of organization in plantation industries in Ceylonese hands is due to two reasons. In the first place, the ownership of broad acres is an attribute of social status in Ceylon. A private capitalist has thus a strong motive for investing in land which he can call his own; and he would far rather prefer to retain the undisputed ownership of his possessions even at the cost of starving them of needed finance or of borrowing at usurious rates than associate himself with his co-capitalists on a joint stock basis, even though such an arrangement would procure larger financial resources for developing his lands. The other reason is that the investing public is not yet educated to the benefits derivable from joint stock enterprise. The frequent failures of joint stock companies floated locally have shaken the confidence of the public in this type of organization. This attitude of mind is symbolic of an undeveloped industrial and commercial order.

655. Compared with the joint stock type of enterprise, there are several limitations imposed on the financial capacity of a private business. In the first place, the internal resources of a private business are usually never too large. Generally speaking, it begins operations with a load of debt. Many of the estates held privately by Ceylonese, in fact, have been opened up with borrowed capital. A joint stock enterprise, on the contrary, starts with ample initial capital resources. Secondly, the borrowing capacity of a private business is, save in a few exceptional cases, smaller than that of a joint stock enterprise. Thirdly, a joint stock company, as a rule, starts business on a pre-arranged financial plan. As additional long-term or immediate funds are required, it is an easy matter to obtain them

by further subscriptions or appropriations from reserve. A private business is often without this advantage. Its creditor can press for repayment of loans at moments very inconvenient to the business and the continuity of the loan, unless arranged otherwise, depends upon the discretion of the lender. Lastly, the personal element counts a great deal in the success of a private business and its creditors have to share the risk of failure of the concern by the untimely death of its proprietor. A joint stock company, on the other hand, does not die; thus not merely are the tiresome legal arrangements involved by the death of a partner in a private business avoided, but there is a much better chance that the energy and vitality of the whole concern will survive that of any individual member of it, however prominent.

656. The handicaps of Ceylonese estates cannot, however, be ascribed merely to the personal form of their organization. There is another reason, referred to earlier, namely, want of appropriate credit facilities from banks and other financial institutions.

657. Turning now to marketing finance, unlike tea in which sales are held only weekly, there is a daily market in rubber. There is less need, therefore, for advances on rubber stocks awaiting sale at brokers'. But there is another system, less prevalent in tea, more prevalent in rubber, and widely prevalent, as we shall see, in coconut, whereby advances are obtained from exporters direct or through brokers on future delivery of produce. Details of such arrangements sometimes vary, but the general rule is that the price of these deliveries is fixed at the time of negotiation. If there were an organized market in futures, this procedure would be certainly equitable from the point of view of both buyer and seller; but where there is no such market, as is the case, the temptation on the part of buyers to take advantage of the sellers' need by depressing the contract price is often found to be irresistible. While the nominal rate of interest payable by the borrower may not be high, the actual rate, when allowance is made for the low price he receives, is often excessive. It may be mentioned that European producers do not resort to this device of contracting prospective supplies for the purpose of securing current advances, as they are financially well provided by banks or by internal resources. The position is otherwise in the case of Ceylonese proprietors who rely largely on these future arrangements, miscalled "forward contracts" in local parlance, to procure funds for working or intermediate capital.

658. We need not dwell at length on the financial position of the smallholders. They labour under difficulties common to the small cultivators elsewhere. Their sources of credit supply are the money-lenders or the local rubber dealers, and the latter, as a class, are in their dealings certainly not above the tendencies for extortion attributed to them by tradition and general experience. The local banks if started in several provinces will be helpful to smallholders of rubber estates.

Coconut.

Coconut industry.

659. From the point of view of importance to the export trade of Ceylon, the coconut industry can claim equal rank with rubber, but considered with reference to the place it occupies in the village economy it should be given precedence over all other agricultural industries in the Island. In tea, we have noticed that the share of the villager is insignificant, in rubber, though

larger, it is not very considerable; but in the case of coconut it is the village garden that predominates. In fact, in the districts where coconut flourishes, it is the principal money crop of the average villager.

660. No reliable statistics of the acreage under coconut are extant, but it is generally reputed to be about 1,100,000 acres. Plantations are found all along the coast plains round the Island, where the rainfall permits, but the chief producing areas are the North-Western, Western and Southern Provinces in the order named.

661. The following table shows the principal countries producing coconut on a commercial scale:—

	Acreage.	Percentage of Total Acreage.
India	1,400,000	20
Ceylon	1,100,000	15
British Malaya	600,000	8
British South Sea Islands	600,000	8
British West Indies	100,000	1
British Borneo, Kenya and other British countries	100,000	1
Dutch East Indies	1,500,000	21
Philippine Islands	1,400,000	20
Foreign South Sea Islands	300,000	4
Siam	100,000	1
Mozambique, French Indo-China and other foreign countries	100,000	1
Total	7,300,000	100

Coconut producing countries.

662. A considerable proportion of the output, however, is consumed internally. For example, the internal consumption in Ceylon is generally taken at 40 per cent. of the total output.

663. It will be observed that the area cultivated under coconut in Ceylon represents 15 per cent. of the world acreage. The fortunes of the coconut palm are closely linked with the fortunes of other oils and fat industries, and Ceylon, by her action alone, can hardly influence the world situation in the oilseed and oil trade. Moreover, recent advances in technology have so increased the range of competing substitutes of coconut that the premier position that this product occupied in a large number of industrial uses has been seriously assailed by other substitutable oils. The result is that the coconut industry, not only in Ceylon, but also in other parts of the world, is faced with a very serious crisis. Over-production, partly due to surplus capacity but mainly in consequence of competition from substitutable oils and fats, particularly whale oil and soya bean oil, has caused prices to fall to a level even below cost of production. In 1928 the average price realized by a candy of copra was Rs. 76 and from that year onwards prices have fallen almost without interruption—the exception being in 1932, when owing to certain abnormal conditions in the Indian market there was a rise—and the current rate is Rs. 25 per candy. Coming as it did on the top of an abnormal depression, the slump in coconut prices has produced far-reaching reactions threatening the stability of the industry. Tables below give the export trade in copra, coconut oil, and desiccated coconut, the principal chief products of the coconut palm and the prices realized by them.

Oil industries.

Fall in prices.

Copra.

	1911-13. (Average)	1930.	1931.	1932.	1933.
	Tons.	Tons.	Tons.	Tons.	Tons.
India ..	3 ..	68 ..	1,125 ..	14,376 ..	23,764 ..
Italy ..	—* ..	34,458 ..	32,688 ..	9,497 ..	16,745 ..
Holland ..	51 ..	3,575 ..	9,616 ..	8,061 ..	10,950 ..
Germany ..	29,173 ..	17,277 ..	14,936 ..	5,552 ..	4,654 ..
Turkey ..	— ..	1,299 ..	2,531 ..	2,149 ..	2,701 ..
Denmark ..	1,753 ..	7,225 ..	4,500 ..	2,849 ..	2,500 ..
Greece ..	— ..	734 ..	5,015 ..	100 ..	810 ..
Norway ..	— ..	16,150 ..	13,006 ..	1,353 ..	400 ..
Belgium ..	609 ..	4,250 ..	5,000 ..	50 ..	201 ..
United Kingdom ..	367 ..	533 ..	432 ..	301 ..	100 ..
Other countries ..	10,597 ..	5,061 ..	5,017 ..	1,411 ..	1,515 ..
	<u>42,553</u>	<u>90,630</u>	<u>93,866</u>	<u>45,699</u>	<u>64,340</u>

Coconut Oil.

	1911-13. (Average)	1930.	1931.	1932.	1933.
	Tons.	Tons.	Tons.	Tons.	Tons.
India ..	43 ..	3,659 ..	9,498 ..	25,718 ..	17,595 ..
United Kingdom ..	9,615 ..	7,591 ..	9,057 ..	7,629 ..	9,788 ..
Italy ..	87 ..	4,330 ..	3,044 ..	1,365 ..	4,035 ..
Egypt ..	—* ..	4,386 ..	4,028 ..	1,964 ..	2,621 ..
Sweden ..	187 ..	3,847 ..	3,342 ..	562 ..	2,367 ..
British South Africa ..	18 ..	1,014 ..	2,659 ..	657 ..	2,279 ..
Burma ..	—* ..	109 ..	413 ..	1,648 ..	2,071 ..
Argentina ..	—* ..	2,140 ..	2,145 ..	1,503 ..	1,766 ..
Belgium ..	291 ..	1,040 ..	1,130 ..	1,256 ..	1,144 ..
Germany ..	400 ..	1,198 ..	1,197 ..	2,077 ..	872 ..
U. S. America ..	11,102 ..	351 ..	428 ..	234 ..	199 ..
Poland ..	— ..	35 ..	1,192 ..	874 ..	65 ..
Fiume ..	— ..	2,240 ..	1,719 ..	656 ..	— ..
Other countries ..	2,487 ..	6,249 ..	8,287 ..	5,109 ..	8,268 ..
	<u>24,230</u>	<u>38,189</u>	<u>48,139</u>	<u>51,252</u>	<u>53,070</u>

Desiccated Coconuts.

	1911-13. (Average)	1930.	1931.	1932.	1933.
	Tons.	Tons.	Tons.	Tons.	Tons.
United Kingdom ..	6,281 ..	14,594 ..	15,642 ..	14,914 ..	20,568 ..
Germany ..	2,588 ..	6,426 ..	5,582 ..	6,011 ..	6,971 ..
Holland ..	335 ..	2,442 ..	2,154 ..	1,539 ..	2,310 ..
Spain ..	221 ..	1,363 ..	1,198 ..	1,356 ..	1,377 ..
Belgium ..	503 ..	837 ..	884 ..	706 ..	1,012 ..
France ..	108 ..	949 ..	944 ..	786 ..	928 ..
Italy ..	2 ..	962 ..	874 ..	663 ..	726 ..
U. S. America ..	2,965 ..	2,327 ..	1,729 ..	558 ..	684 ..
New Zealand ..	135 ..	493 ..	584 ..	343 ..	653 ..
Canada ..	286 ..	1,170 ..	740 ..	520 ..	436 ..
Australia ..	636 ..	632 ..	164 ..	71 ..	112 ..
Other countries ..	520 ..	3,019 ..	2,971 ..	3,496 ..	3,716 ..
	<u>14,580</u>	<u>35,234</u>	<u>33,466</u>	<u>29,963</u>	<u>39,493</u>

* Included in "Other countries".

Year.	<i>Copra.</i>		Value. Rs. (1,000).	Price per Candy of 560 lb. Rs. c.
	Quantity. Tons.			
1926	120,970 ..	..	39,848 ..	79 40
1927	99,108 ..	..	31,845 ..	76 88
1928	98,833 ..	..	31,802 ..	76 22
1929	102,124 ..	..	26,316 ..	64 47
1930	90,630 ..	..	18,029 ..	52 36
1931	93,865 ..	..	12,715 ..	35 6
1932	45,699 ..	..	8,284 ..	42 21
1933	64,340 ..	..	6,828 ..	29 75

Year.	<i>Coconut Oil.</i>		Value. Rs. (1,000).	Price per Ton. Rs. c.
	Quantity. Tons.			
1926	28,523 ..	..	15,489 ..	539 36
1927	33,658 ..	..	16,568 ..	491 73
1928	38,956 ..	..	19,266 ..	489 2
1929	43,926 ..	..	18,024 ..	412 33
1930	38,189 ..	..	13,190 ..	351 63
1931	48,139 ..	..	12,130 ..	253 52
1932	51,252 ..	..	14,475 ..	283 75
1933	53,070 ..	..	10,800 ..	209 43

Year.	<i>Desiccated Coconut.</i>		Value. Rs. (1,000).	Price per lb. Rs. c.
	Quantity. Tons.			
1926	37,718 ..	..	17,276 ..	0 20
1927	43,642 ..	..	20,482 ..	0 19
1928	39,335 ..	..	19,840 ..	0 19
1929	34,723 ..	..	11,876 ..	0 16
1930	35,235 ..	..	10,036 ..	0 13
1931	33,466 ..	..	6,111 ..	0 10
1932	29,963 ..	..	7,150 ..	0 11
1933	39,493 ..	..	6,747 ..	0 8

664. There are no data regarding the distribution of holdings of coconut land. The Coconut Commission estimated that small holdings of 10 acres and under would probably be about 50 per cent. " This cannot ", they add, " be regarded more than a calculated guess. However, the list of coconut estates in Ferguson's Directory, which contains estates mainly of over 10 acres, totals about 300,000 acres, so this estimate is, probably, not far from the truth."

665. The capital in this industry is almost exclusively Ceylonese in the sense that the ownership is retained in Ceylonese hands. The non-Ceylonese share is generally reckoned at about 5 per cent. to 10 per cent. A considerable section of the coconut plantations has been opened up with the aid of borrowed capital, and much European and non-indigenous capital is interested in this industry by way of mortgages and loans. To quote the Report of the Coconut Commission again, " It is a matter of difficulty to estimate the amount of capital which has been sunk in coconut cultivation, but it would probably be an under rather than an over estimate to say that it is between Rs. 300,000,000 and Rs. 500,000,000. Transfers of coconut land are frequent, so the bare cost of opening cannot be used for an appraisal of capital involved. The estimate given above is largely based on the more reliable figures supplied in the answers to the Questionnaire."

Financial needs.

666. The financial needs of the coconut industry while, in many ways similar to tea or rubber, are in some respects peculiar. These peculiarities are in the main the outcome of two determining factors underlying the industry as a whole. The first relates to certain technical facts connected with the coconut industry; the second is concerned with the form of economic organization prevalent in it.

Long-term finance.

667. The interval between planting and full maturity of a coconut estate is generally reckoned as ranging between 10 and 12 years. This interval, it will be noted, is almost twice as long as in tea or rubber. When the period of return after initial investment of capital is of such long duration, the problem of long-term finance, though no less important in other industries assumes a particularly complex character in the coconut industry.

What capital necessary.

668. The capital necessary to bring an acre of coconut under cultivation is estimated at between Rs. 400 and Rs. 600, the actual cost varying with geographical and other local conditions. Of this sum about half is required for expenditure within the first 3 years and the balance is expended in the remaining 7 to 9 years in nursing the plantation during the stage of its growth. In the ordinary course funds for such capital development should be provided either out of surplus savings of the investors or by loans from appropriate financial institutions specializing in long-term finance, for example, mortgage banks. At any rate it is extremely imprudent to embark on capital enterprises of this character even partly with the aid of borrowed funds from private parties which may be liable to be withdrawn at short notice, as the lender, particularly if he has an eye on the property, is more often than not likely to press for repayment of his advances at moments very inconvenient to the borrower. If the latter relies on the current income of his estate to liquidate his debt or to defray the interest, an unexpected deflation of prices will upset his calculations and in the event of defaults in payments the creditor will generally be compelled to take legal steps to recover his dues.

Estimate of indebtedness.

669. If the coconut estate is initially developed with borrowed capital entirely, the financial position is still worse. A period of ten to twelve years is too long to enable even the most conservative and cautious expectations to prove true and in all probability unforeseen circumstances would upset the calculations and destroy the financial plans of the investor. In actual practice, however, a very considerable proportion of the coconut industry has been financed on these undesirable lines. We have not been able to obtain an accurate estimate of indebtedness in the coconut industry, but the consensus of opinion is that the proportion of debt ranges from 50 to 70 per cent.

Waiting period.

670. If it is so hazardous to rely on borrowed capital to open up coconut lands what are the reasons for the high rate of indebtedness in the industry? One is that, if the long waiting period in coconut has ultimately proved to be a snare to the debtor-investor, it has at the same time been a strong temptation to him. We have remarked earlier that the block capital in coconut is not expended at once in a lump sum, but is distributed over a period of years, the heaviest outlay, generally not exceeding half, being required in the first three years and the rest disbursed in instalments during the remaining period till maturity.

Not same attention required as in tea and rubber.

671. Furthermore, coconut, unlike tea or rubber, is better able to resist neglect, and consequently does not demand the attention to detail as in tea and rubber. These two considerations have combined to induce capitalists with insufficient or even

meagre resources to open up coconut land. Prompted by the comparatively small outlay, and therefore the ease with which the early operations can be financed, many of the proprietors have developed land when prices were booming without paying heed to the subsequent expenditure required during the period of growth, or without recognizing their ability to provide the necessary finances once the preliminary operations were over. Consequently funds had to be borrowed from private capitalists at high rates of interest to tide over the waiting period. Failure to pay interest was generally the occasion for compounding arrears into capital. Interest was accordingly piled on capital and opportunity was taken by creditors of subsequent defaults to make further capital additions, thus multiplying the original debt.

672. The other reason accounting for the high load of debt brings us back to the second feature which was mentioned earlier as peculiar to the coconut industry, namely, the economic conditions that the largest proportion of the industry is in the hands of smallholders. The aggregate area of these holdings amounts to over 50 per cent. The rest of the plantations are owned by private capitalists; few of whom can be regarded to have unencumbered properties. The form of joint stock ownership, so common in tea and considerably prevalent in rubber, is not in fashion in the coconut industry. Companies owning coconut estates are exceedingly few. High load of debt.

673. We have outlined while dealing with the rubber industry the reasons for the reluctance of Ceylonese to associate themselves in joint stock working of their estates, and we have also mentioned there the financial handicaps inherent to the personal as compared with the joint stock form of ownership and management. The financial deficiencies existing in tea and the rubber industries are found in an aggravated form in the coconut industry. The private individual by himself is generally not in a position to undertake on his own account capital enterprise involving such a long waiting period as in coconut unless he has ample private resources at his command. When the private individual is the small peasant holder with scarcely any resources to call his own, or the capitalist with limited means, the industry cannot but be saddled with a large burden of debt. Reluctance to joint stock principles.

674. During recent years the load of debt overhanging the industry, never too light in normal times, has become unbearably heavy with the progress of the depression. Except for a few interruptions the trend of coconut prices has been downward in the past four years and they have now reached record low levels with the result that the income from coconut properties is barely sufficient to meet the cost of production. Few of the mortgaged lands have been able to pay regularly interest during this period, and a good many are defaulters for the last two or three years. The position is, in fact, exasperating from the point of view of both creditor and debtor. Chronic indebtedness saps the energy of even the most enterprising debtor. The rate of interest charged is often exorbitant and the coconut industry has not been able to bear such high charges except in abnormally prosperous times. Income insufficient.

675. Turning now to marketing finance, we may at the outset observe that the nuts of the coconut palm, unless utilized in the fresh state, have to pass through certain processes before they can be marketed as copra, coconut oil, or desiccated coconut. The duration of these preparatory processes varies from three weeks for copra to about five weeks for the other two products. The Marketing.

bulk of copra and coconut oil is turned out according to primitive methods which do not need at all any machinery. There are, however, a few large factories in Colombo and its vicinity, owned by large capitalists or joint stock companies for machine drying copra and pressing oil. Desiccated coconut on the other hand is a machine product and a factory is therefore indispensable for its manufacture. But the cost of equipment is not unduly high and the installation of a factory of moderate size does not exceed more than Rs. 50,000.

676. Estate proprietors and medium holders as a rule undertake themselves the processes of manufacture and sell the produce in the form of copra and oil. The preliminary marketing operations are also usually performed by them. They sell the finished product, copra or oil, to the shippers directly or through the intermediary of brokers. Few of the proprietors, and then only large estate owners, enjoy direct credit facilities from banks. The majority of them are financed by shippers who give advances on the security of produce which are often further secured by a mortgage over the property. The shippers in turn obtain their funds from banks. When shippers grant loans to producers, it is their general custom to fix in advance the price of the prospective deliveries from the proceeds of which the loan is to be gradually liquidated. This system of contracting forward is very common in the coconut industry and a large number of coconut estates secure their finance on this basis. When dealing with the rubber industry we had occasion to comment on the drawbacks of this system. The same remarks apply with greater force to the coconut industry, as the forward contract system is more widely adopted in this industry than in the rubber industry.

Short-term
advances.

677. In business generally accommodation on the security of produce is of a temporary character. Such short-term advances are used to meet current expenses of production and are repaid out of current income. A good number of coconut holders, however, have utilized such loans for capital purposes. Extensions or improvements have been made and even lands bought with the proceeds of temporary accommodation. Many of the estates have thus been almost in perpetual indebtedness to the exporting houses and the latter, through the device of the "forward contract" have often turned these connections to their own advantage.

Small holder suffers
too.

678. If the financial status of the large proprietor is bad, the plight of the smallholder, who forms the general body of coconut owners, is worse. He is practically outside the influence of banks and other credit institutions. His only source of credit is the intermediate dealer who has little or no regard for the welfare of the producer, his sole aim being to buy as cheap as possible. He sometimes grants advances against the standing crop which he gathers himself and converts into copra and oil. In such cases the smallholder rarely receives a fair price. Even where the preparatory processes are completed by the smallholder, the price he obtains for his products is in no way better as the dealer usually obtains a hold over him by becoming his debtor.

No central sale
agency.

679. There is no central sale exchange for coconut as in the case of tea or rubber. The exporters, who form the real market, get a considerable proportion of the produce directly from the estates proprietors or dealers. The forward contract system assures them of this supply. What they do not get directly they secure through the brokers in Colombo to whose hands the balance of produce finds its way. There is a general feeling of suspicion

that the local market is controlled by the shippers in alliance with the brokers and that the producers do not get the best price. The shippers protest against the allegations, but so long as there is no open market, this feeling of suspicion, whether true or not, is likely to persist. We see no reason why a central sales exchange should not be established. If the covert sales and purchases do not result in a combination of buyers, an overt market which a sales exchange would create cannot be injurious.

680. In the first instance a central sales exchange for coconut products should be established, and in this behalf we recommend the proposal of the Executive Committee of Labour, Industry and Commerce to form a Coconut Marketing Board. We have had the advantage of perusing the proposed legislation in its draft form. The operations of the Coconut Marketing Board to begin with should be confined to copra only. The Bill provides for the institution of a central sales room under the control of the Marketing Board. The object is to persuade exporters to make their purchases at a central exchange by stipulating that only copra sold at the auctions held by the Board or otherwise exempted by it under certain definite circumstances can be exported out of Ceylon. The Board is empowered to extend the scope of the sales to include other coconut products besides copra, and the intention is that as it gains experience it should enlarge its sphere to embrace the industry as a whole. In addition to providing a central sales room, the Executive Committee aims at perfecting the chain of marketing operations connecting the producer with the exporter.

Indebtedness of Coconut Landowners.

681. The large area of coconut land acquired by non-Ceylonese creditors in payment of the debts due to them, the total stoppage of credit facilities by banks, Chettiers, and money-lenders to owners of coconut plantations and the large number of law suits in the Island to recover debts due by the Ceylonese landowners have created a position which requires the most careful attention of Government and of those interested in the welfare of the country.

682. The following comparison of prices of copra during the last twelve years gives some idea of the heavy fall in prices and consequent reduction in the margin of profit of the owners of coconut land:—

Per candy of 560 lb.					
1921.	1925.	1930.	1932.	1933.	1934. (Sept.)
Rs. c.	Rs. c.	Rs. c.	Rs. c.	Rs. c.	Rs. c.
87 16 ..	80 36 ..	52 36 ..	42 21 ..	29 75 ..	22 12

683. Several witnesses estimate that 60 per cent. of the coconut land owned by the Ceylonese has been mortgaged to banks, insurance companies, foreign capitalists, Chettiers, and other money-lenders for amounts much higher than the present market value and at interest rates varying from 8 to 30 per cent. per annum.

684. We have been told by several witnesses that a large area has been mortgaged by owners for more than 10 to 15 years, and that owing to the prosperous condition of the trade and high prices of coconut in past years, owners of land could bear the heavy burden of interest at high rates and that most of them

discharged their liabilities in respect of interest to their creditors until the depression set in. Law suits for recovery of interest or foreclosure sales or attempts to have possession of properties were very few in the past. It is only during the last 3 or 4 years that the borrowers have not been able to pay interest on their mortgages. The interest charges are added to the principal, thereby increasing their indebtedness by more than 50 to 75 per cent. The gravity of the situation is readily realized when we are faced with the alarming facts that—

- (1) 90 per cent. of coconut land is owned by the Ceylonese,
- (2) 75 per cent. of such land is mortgaged at more than 15 per cent. interest, and
- (3) interest thereon remains to be paid for more than three years, and is added to the principal which again earns interest at the same high rate.

Disastrous
consequences.

685. If the figures furnished to us are even approximately correct it can well be imagined what the position of owners of coconut land would be if the market does not improve in the near future. Even if 50 per cent. of the total, i.e., about 500,000 acres held by the creditors and money-lenders under their mortgages pass out of the hands of the Ceylonese to their non-Ceylonese creditors, the consequences would be disastrous. Ceylonese investors do not come forward to buy these lands even at the present prices. We are told by some witnesses that nearly one-third of the coconut land mortgaged to Chettiars has already gone into their hands and most of the former owners have to seek elsewhere their means of subsistence. This information is corroborated by the Nattucottai Chettiars' Association, who in their memorandum furnished to us admit that they have purchased 500,000 acres of coconut land against their claims. These figures call for earnest consideration by Government and immediate relief.

Some relief
necessary.

686. In the absence of any authentic information, we are not in a position to form any opinion as to the volume or percentage of debts on coconut estates, large and small. However, it is clear to us that if mortgagees are allowed to pile up their interest figures with the principal amounts at abnormally high rates and if they are allowed to take advantage of the unusual and unexpected depression in the coconut trade to take over their securities at the present unprecedentedly low value the community will have to suffer serious consequences. It is an acknowledged fact that Ceylonese mortgagors have paid their mortgagees interest on their loans at very high rates all these years out of the remarkably high prices of their produce. This has enabled the mortgagees to recover three or four times the amount of their principal in the shape of interest according to the duration of their mortgages. It is, therefore, not too much to ask that these mortgagees should in the existing difficult times give some relief to their clients, so as to enable them to keep their heads above water.

Raising of prices
for whose benefit?

687. What action Government should take in the matter is a problem which requires practical handling. Those who urge the Government to take such action as would increase the demand for and the prices of coconut so as to leave a profitable margin in the business have in our opinion totally failed to visualize the gloomy future that lies before owners of coconut lands mortgaged with non-Ceylonese money-lenders. They have overlooked the fact that all attempts to increase the prices of coconut with State aid even if successful would bring money not to the landowners who have mortgaged their lands but would

benefit the money-lenders in realizing their overdue interest. Such an action would hardly be expected to benefit the owners already in debt unless their burden of interest is reduced, and they are given some relief at the hands of their creditors in their future dealings with them.

688. We would, therefore, suggest what we consider to be **Bold steps** a few constructive proposals to save this country's coconut lands **necessary.** from being snatched from the hands of the Ceylonese. Whenever abnormal conditions prevail in a country, a national and sympathetic Government boldly takes such steps as are calculated to save the community and the country from ruination regardless of the consideration whether such steps would be acceptable or unacceptable to certain sections directly or indirectly concerned.

689. We are of opinion that by an Ordinance the interest **Constructive suggestions.** on loans taken against coconut lands should be reduced to $6\frac{1}{2}$ or 7 per cent. It should have retrospective effect from January 1, 1931, if it is possible to do so under law in cases where interest has remained in arrear. The arrears of interest should be consolidated with the principal loan at the rate of interest fixed under the Ordinance. The Ordinance should have effect for three years from the date of its passing, but it may be reconsidered by Government at any time during this period in light of the circumstances then prevailing.

690. During this period, mortgaged property shall not be sold **No sale or** or foreclosed for any arrears of interest or non-payment of **foreclosure.** principal due before the date of the Ordinance.

691. In case the mortgagor fails to pay interest on the balance of his indebtedness on or before January 1, 1936, at the rate fixed under the Ordinance, the mortgagee should be at liberty to obtain a decree from a law court and to exercise his rights to recover his dues at the original rate of interest.

692. Estimating on a conservative basis the total acreage of **Estimated saving** coconut land already mortgaged with creditors at, say, only **of Rs. 5,550,000 a** one-third of the total area, it would be about 370,000 acres. Taking **year.** the money borrowed per acre, at Rs. 300 per acre, the total amount of indebtedness on 370,000 acres of coconut land would amount to Rs. 111,000,000. Calculating an average rate of interest now running on these mortgages, at 12 per cent. only, the difference between this rate and the proposed rate of 7 per cent. would cause a saving of not less than 5 per cent. in interest charges to the coconut land owners, who have mortgaged their lands. A saving of Rs. 5,550,000 a year only in interest charges is the essence of this scheme. This saving would in course of time improve their capacity to meet their engagements to their creditors, at least so far as interest is concerned. It would not be a matter for surprise if the saving in interest amounts to over Rs. 7,000,000 a year under this scheme. The mortgagees of coconut lands would in no way be placed at a particular disadvantage under the scheme, having regard to the present money conditions and the low bank rates prevailing throughout India and other countries for a very long time. We think a rate of even 6 per cent. should not be considered low in the present circumstances and it ought to be acceptable to them if there is a hope of assurance of interest being paid regularly in cash as and when accrued. Besides giving relief and breathing time to the mortgagors, this scheme would improve the position of the mortgagees too, as they would be getting their interest.

First step should be to save land.

693. We hope those anxious to give relief to the coconut producers will seriously consider the advantages of this scheme as a first step to improve their lot and save their land from being sold off and falling into the hands of non-Ceylonese creditors.

Other measures.

694. After such an Ordinance is placed on the Statute Book, the next step should be to take such measures as would decrease the present cost of production and increase its demand and prices so as to leave a better margin of profit. The question of freight should be considered next and Government should persuade steamer companies to reduce by at least 30 per cent. the rates of freight on coconut shipped to different parts of the world. Should Government not succeed in getting the rates reduced, they should endeavour to charter themselves steamers to carry copra, oil, &c., to their respective ports. The appointment of Trade Commissioners in the different parts of the world to attend to publicity in connection with copra and oil and to find new markets for their sale would be the next step required to be taken by Government. The increased use of coconuts is necessary under all circumstances and any mutual commercial treaty for the export of coconut and the import of other foodstuffs with India or any other country would be welcomed in the interests of the coconut trade industry of Ceylon.

Price dependent on world-wide factors.

695. It is true that the prices of coconut, copra, and oil are more or less dependent on world-wide factors, but our past experience of the tea and rubber industries shows that combined efforts bring in good results and are instrumental in removing the depressing effects on trade, if not immediately, at least gradually. There is no reason why Government should not place restrictions on new coconut plantations, as on tea and rubber, at least for such time as the prices improve and thus control overproduction during the near future.

Coconut marketing board.

696. We have already expressed our views on the Coconut Marketing Board which is expected to manage and supervise a Central Sale Room, to inspect and grade copra and other coconut produce, and issue certificates for export of coconut produce. The expenses of such a Board and the sale room should be recovered by levying of a cess. But the activities of Government and of the Board should not go further than this for the present. We would not advise Government or the Board to take any kind of financial responsibility. The financing of the industry should be left to the credit agencies already existing and which will be supplemented by the proposed State-aided Bank and local banks.

Paddy.

Paddy industry.

697. The economic and financial conditions of paddy cultivation are in many respects fundamentally different from tea and rubber. The cultivation of paddy is essentially a peasant industry; it is a business as well as a form of living and the peasant is not always guided by the simple motive of profit. Even though it may not yield him any return, he may continue to till his field for no other reason but that cultivation is his only means of living. At the same time agriculture does not provide employment to the peasant all the year round. To afford a profitable livelihood it has to be combined with subsidiary occupations during slack seasons. Moreover unlike the major industries dealt with so far, the markets for which are entirely or chiefly situated abroad, the market for paddy is found within the country. There is no exportable surplus in paddy; on the contrary the output is not sufficient to meet more than

a portion of the needs of the local population, and a large volume of rice is imported every year to supplement home production.

698. The area under paddy is estimated to be over 850,000 acres yielding 12 to 13 million bushels per annum. There are two paddy-growing seasons, both of which are made use of for the cultivation of the same track of land when sufficient labour and water are available. The maha crop is sown from the end of August to the middle of October according to the district. The harvest from this sowing is reaped in February or March. The yala season commences in March and the crop is harvested in July or September. Generally speaking six months are required for the maha crops and four for the yala crops. Between these two seasons, there is, in some districts, another intermediate or meda crop.

Area under paddy cultivation.

699. If hill paddy is excluded, it may be said that the cultivation of paddy is based upon a plentiful supply of water. In the wet zones cultivation is carried on without the help of irrigation. In the dry regions, however, paddy is grown under irrigation, the water being supplied by springs, streams, wells, or tanks. The irrigation works in Ceylon are divided into two main classes, namely, major works and village works. Under the first category fall the larger tanks and other works constructed or restored by Government. There are, besides, the village works comprising smaller tanks maintained by the cultivators themselves under the general supervision of Government officials.

Supply of water.

700. The owners of land irrigated by the major works are required to contribute towards the cost of the construction and maintenance. The irrigation rates, as these contributions are called, vary with the different works. It has been complained to us that the rates are unduly high and are a contributory factor to the indebtedness of the cultivator. On investigation, however, we are unable to agree with this view. In abnormal conditions such as the present, when the price of paddy is exceedingly low, the rates may tend to become somewhat burdensome. But we understand that provision exists for adjusting rates in such cases, and that reductions or even waivers have been made in several instances. Some witnesses have advocated the complete abolition of the rates. The cultivator would, no doubt, welcome such a step, but we consider it a sound principle that when the general taxpayers' money is expended for the immediate and realizable benefit of a definite body of the community, the beneficiaries should be made to acknowledge that benefit in some shape.

701. To make Ceylon less dependent on imported supplies of rice, the importance of irrigation cannot be too strongly emphasized as it is mostly in the drier parts that considerable expansion of home cultivation is possible. We have observed in an earlier chapter that new outlets are practically closed in tea, rubber, and coconut and it is necessary that national resources should be directed along new channels. The cultivation of paddy is one of the channels. But unless irrigation facilities are provided on a more adequate scale than hitherto and steps are taken to ensure a more stable market at home there is no prospect of attracting capital in that direction. We are strongly of opinion that in the peculiar circumstances of Ceylon, no effort should be spared to establish new industries and, particularly, one like

Imported supplies.

paddy, the source of the staple food of the population in which ordinarily a country should be self-supporting. No effort to achieve this end could be more productive of national benefit than the extension of irrigation facilities or opening up of land suitable for paddy.

702. The table below indicates the import trade in rice during the last nine years, and it gives some idea of the dependence of Ceylon on foreign supplies. It may be added, by way of explanation, that besides rice, paddy to the value of about Rs. 3 million is also imported annually.

	Quantity. (1000 cwt.)	Value (Rs. 1000).
1925 ..	8,321 ..	94,083
1926 ..	8,795 ..	98,062
1927 ..	5,087 ..	102,852
1928 ..	3,245 ..	103,151
1929 ..	3,381 ..	35,454
1930 ..	3,260 ..	75,565
1931 ..	8,733 ..	51,443
1932 ..	8,833 ..	50,132
1933 ..	8,738 ..	44,621

Short-term credit.

703. Cultivation of paddy is carried on by peasant labour, in some cases the peasant himself owns the field; often, he leases out the land from the owner; in other cases he cultivates the land on behalf of the landlord on a share basis. Paddy cultivation requires short-term credit as working capital for current expenditure for the subsistence of the cultivator and the family during the interval between sowing and harvesting, the purchase of seed paddy, fertilizers, &c., and the finance of marketing operations. It also requires long term and intermediate credit to purchase holdings, to effect permanent improvements, to buy implements, cattle, &c. But the peasant is completely outside the influence of commercial credit institutions.

Owner cultivator.

704. When the peasant is an owner-cultivator, his only source of credit is the village dealer and the local capitalist. It is generally a condition attaching to the loan that the produce should be sold through the creditor. The peasant keeps a running account with the dealer, his borrowings being more often in kind than in cash. Goods are sold to him by the dealer at inflated prices, while the paddy with which the debt is to be liquidated is bought in turn by the dealer at much below the market price. Thus on both accounts the peasant stands to suffer heavily. Sometimes, the cultivator obtains his funds from the village dealer as well as from the local capitalist. He has recourse to the dealer to satisfy his requirements for subsistence, but obtains from the capitalist seed paddy. For short period loans the general form of security is the promissory note endorsed in blank. We describe elsewhere the devious methods to which the trader resorts. The usual rate of interest ranges between 25 per cent. to 50 per cent. per season, but it should be added that these rates, though excessive, are tolerated by custom and never looked upon by village society as extortionate.

Long-term credit.

705. If the cultivator needs intermediate or long-term capital, he generally obtains it from the village capitalist or money-lender. He usually mortgages his field as security for

the loan and his land is then as good as sold. Sometimes, instead of borrowing to purchase cattle, the cultivator hires out the cattle for ploughing. In such cases he has to pay a share of the produce to the owner the amounts varying with local conditions. The sum is generally quite substantial and it is a common belief that it is possible to recoup the capital cost of a pair of buffaloes from the hire of three or four seasons.

706. Where the cultivator leases out the field or agrees to Landlord. work it on a share basis, his position is in no way improved. The landlord then steps into the shoes of the dealer or money-lender. The more enlightened landlord is less exacting and is even inclined to be benevolent; but, as a class, his dealings are in no way an improvement on the outside creditor.

707. The amount left to the cultivator after all those exactions are deducted from the produce of the field is barely Chronic indebtedness. sufficient for his subsistence. Consequently he lives in a state of chronic indebtedness. These difficulties of the peasant cultivator are not peculiar to Ceylon. They have been found to exist in other parts of the world. It is a peculiar feature of agricultural credit that the cultivator does not understand the economic function of credit and is usually unable to appreciate the advantage to him of the use of credit in his business. Any permanent cure, to be effective, must reach this root problem. In the majority of the cases the difficulties of the cultivator are largely due to ignorance and improvidence, which in turn are traceable to illiteracy. We recommend that the State should provide in the village schools a course in the rudiments of agricultural economics and thus enable the peasantry to understand and appreciate the scope and functions of credit in agriculture.

708. It is generally admitted that commercial credit institu- Want of marketable tions are singularly ill-equipped to meet the wants of the assets. population engaged in agriculture. Their loan operations are based on marketable securities and agriculturists are rarely in a position to satisfy banks in this particular. Generally the sole asset of the peasant is his honesty and his willingness and ability to work and it is by capitalizing this moral asset into personal credit that the peasant can hope to secure the bulk of the capital needed in his operations. This is exactly what co-operative credit aims at doing, and in localities where the co-operative movement has gained a foothold, the financial and the economic status of the cultivator has, in general, improved vastly. We deal elsewhere in our report with the scope, functions, and the operation of the co-operative movement.

709. Co-operative credit by itself cannot improve permanent- Chief means for ly the economic status of the cultivator. If any benefit is to securing credit accrue from improved credit facilities, steps should be taken simultaneously to improve the credit capacity of the borrower. Improved methods of production, more efficient marketing, and the creation of wider opportunities for subsidiary occupations are the chief means of securing this end. Under the first heading come questions such as increased yields and improved strains of paddy. The yields secured in Ceylon are extremely low and it is satisfactory to note that efforts are made by the Agricultural Department to educate the peasant to adopt improved methods of cultivation. Similarly, steps have also been taken to improve the strain of paddy by proper selection of seed paddy. facilities.

What Mr. C. V. Brayne, Land Commissioner, says.

710. In this connection it is interesting to read what Mr. C. V. Brayne says in his notes on a tour in Australia:—

“ Take one instance only—paddy cultivation—at which after only 10 years Australians have pretty well beaten the world. Thinking in terms of our Ceylon paddy cultivation the results well nigh took my breath away. One Australian farmer produces for his labour something like 100 times as much grain as our Ceylonese farmers. He cultivates 20 times as large an area and he gets a yield of 5 times as much paddy per acre, over 400 tons of paddy, in addition to seed paddy for the next year, has actually been harvested by one farmer off 100 acres, and the average of good, bad, and indifferent on the whole area cultivated was last year about 1½ tons per acre. Everything is of course done by machinery, the cutting of channels, the making of check banks (bunds) the ploughing, harrowing, levelling, sowing, reaping, and threshing, the only hand operation being the actual turning of the water.”

Absence of square deal in sale of produce.

711. Better marketing is another crying need of the villager. It is a universal complaint not only in Ceylon but also in other agricultural countries that the peasant does not get a square deal in the sale of his produce. The reason is that the buyer himself is often the peasant's creditor, and is, therefore, advantageously placed to exploit the relationship to his own advantage. We are glad to note that increasing attention is being given by the Government as well as the public to the important problem of marketing and we welcome the establishment of a separate department of marketing which will eventually be in charge of all marketing problems. We have given our suggestions on the marketing problems of the agriculturists in the chapter on “ Marketing Finance.”

Revision of Government policy required.

712. In conclusion we may state that we entirely agree with the remarks of Mr. Brayne that—

“ Our rice industry in Ceylon is largely awaiting the organization of proper processing which will produce a saleable standard article fit to compete successfully with Indian rice. Several other industries could be mentioned. The question I would here ask is whether the time has not come radically to revise our policy in the light of what is being done in other countries. Where there is a reasonable chance of developing an industry that will employ our peasants and increase the prosperity of the Island but private enterprise has not supplied the necessary facilities for the processing or marketing of the product, should not Government step in and be prepared to risk losing a little money in installing the necessary processing plant and starting the industry? Once the industry is established and is being run in the best interests of the primary producers, Government can cease to participate. No doubt a little money will be lost but it will have been exceedingly well spent if new agricultural industries are set going. It may not be necessary in every case for Government to instal or run a plant itself. A guarantee to co-operative or private enterprise or some Government support of its credit may be all that is needed. I would submit that the time has now come to abandon the policy of extreme caution and within reasonable limits to be prepared to lose a little money in developing the industries which will benefit our peasants.”

(g) MINOR AGRICULTURAL INDUSTRIES.

713. Besides the major industries there exists a few other agricultural industries of minor importance. The following table gives an idea of the several minor products and their acreage:—

				Acreage*
Arecanuts	..	..	..	69,000
Cacao	..	..	..	34,000
Cardamoms	..	..	..	6,000
Cinnamon	..	..	..	26,000
Citronella	..	..	..	33,000
Tobacco	..	..	..	14,000
				182,000

714. The economic and financial conditions of the minor industries are in many respects similar; compared with the major industries they form a class apart. The cultivation of the minor products is mostly in the hands of peasant holders and small capitalists. Systematic cultivation under modern conditions is rarely practised, the only exception being cacao in which some plantations are found under estate management. Generally the minor industries are usually pursued as subsidiary occupations so that they do not often attract that care and attention given to the major products. Production shows a tendency towards seasonal features which are however not marked and prominent. The preparatory processes preliminary to marketing are few and simple; and little or no skill is required to perform them.

Comparison of major and minor industries.

715. Practically all the minor products belong to the export group, their markets being found chiefly out of Ceylon. The following table discloses their contribution to the export trade:—

Mainly exported.

		Quantities. (In 1,000.)			Values. (In 1,000.)		
		1931.	1932.	1933.	1931. Rs.	1932. Rs.	1933. Rs.
Arecanuts	.. cwt.	102..	99..	105..	1,678..	1,400..	1,285
Cacao	.. lb.	8,587..	9,243..	7,282..	2,320..	2,192..	1,545
Cardamoms	.. cwt.	2.7..	2.7..	3.2..	375..	373..	333
Cinnamon, quills, and chips	.. cwt.	42..	48..	49..	1,177..	993..	987
Citronella oil	.. lb.	1,203..	1,280..	1,459..	948..	1,203..	1,274
Tobacco	.. lb.	2,584..	1,622..	2,166..	1,378..	994..	978

716. The collective value of their trade amounts to 7.2 per cent. of the total export trade of Ceylon. It will thus be seen that their economic importance is small in comparison with the major industries.

717. Being small scale industries of a simple character, the financial requirements are neither large nor complex. For current production they hardly need any credit; and when the need does occur the source of credit at hand is either the money-lender or the local dealer who purchases the crop. In some cases such as arecanuts, citronella, and tobacco the standing crop is sold to the dealer who undertakes their preparation for the market. Like all small producers, the owners of these plantations are practically outside the sphere of commercial credit institutions. Not expecting the aid of such agencies they do not realize their absence, and seem to tolerate and bear the existing scheme of things without resentment.

Financial requirements.

718. It is extremely difficult to suggest ways and means to improve the financial status of "small men". If they suffer from anything at all, it is more from inefficient marketing than

Evils of unorganized marketing.

* These figures are of doubtful accuracy.

inefficient credit. The peasant generally offers an easy victim of exploitation to the dealer, and more often than not the latter succeeds in getting the better of the former in the sale of the produce. The evils of unorganized marketing do not rest here. In order to make larger profits, the village and town dealers adulterate the produce passing through their hands, with the result that the market treats even produce up to the standard on the same level as the inferior kind and penalizes the honest trader by pricing the genuine produce at the same rates as the latter.

Co-operative credit. 719. The only efficacious remedy against this and similar evils is more enlightenment among producers and dealers alike. In regard to credit the co-operative credit system is better able to reach the door of the peasant than any other agency. We deal with these institutions elsewhere. So far as the more independent capitalist is concerned, we consider that his needs, at present looked after by the money-lender, will be provided for by the proposed local banks which we recommend elsewhere in the Report.

Jaffna tobacco. 720. While the foregoing remarks apply to the general body of minor industries, the position of the Jaffna tobacco is somewhat different. Cultivation of tobacco in Jaffna is largely a peasant industry; the fields are either owned by the peasants themselves or leased out by them from the landlords. Tobacco is a seasonal crop, there being one season in the year, and its cultivation requires strenuous and continuous work on the part of the peasant. Manuring is a necessary though an expensive item. During the growing period the cultivator borrows, either from the money-lender or from the landlord, funds to meet the current expenses of production. Where there are Co-operative Societies—and Jaffna is the stronghold of the co-operative movement in Ceylon—such societies displace the private money-lenders in the credit transactions of the peasant.

721. When tobacco reaches maturity, it is either sold by the cultivator as a standing crop or harvested and cured by him. The marketing of tobacco is in the hands of a handful of exporting firms who have agents throughout the country collecting tobacco. The money-lender or the local dealer is usually the exporter's agent and it is a part of the arrangement that the exporter would finance the loan business of the former if it involves a claim on the crop of the borrowing cultivator. When the tobacco is produced by the exporter, he sometimes pays full value to the buyer but often retains a margin which is payable only after the crop is realized in the export market.

722. The cured tobacco undergoes a process of special treatment with salt water before export to Travancore which is the sole market for the product. In Travancore the tobacco is sold through licensed brokers who advance to the Jaffna shippers a part of the probable value of the consignment on its arrival in the Government warehouse. An interval of 2 to 3 months is taken for the final disposal of the tobacco by the broker, who then remits to the shipper the balance (if any) due after deducting commission and other incidental charges and interest at 12 per cent. on the money advanced by him on the tobacco.

723. This system of trading has been carried on from time immemorial. The chief defect is the possibility of control of the

market by the exporters in Jaffna as well as the broker in Travancore. It was generally acknowledged that producers did not get full value for their sales, and the recent slump in the trade had aggravated their position.

724. Consequently a successful attempt has been made by the Co-operative Department to organize producers into a system of marketing. It is proposed to handle tobacco through a marketing society which will collect it directly from the grower, the society giving 60 per cent. of the value of his produce as an advance on taking over the crop. The marketing society is to consign the produce to Travancore and sell it through a commission agent there, who will be responsible for the sales. Remittances would be made to the society on realization of sales, and balances due to growers would subsequently be distributed among them.

725. The aims of the Jaffna Co-operative Marketing Scheme are no doubt ambitious, and should it succeed it will benefit the producers very considerably. The scheme has this merit of attempting to solve the marketing and the financial problems of the cultivator simultaneously. The society is expected to handle this season's crop, and the success of the scheme will no doubt be awaited with much expectation.

CHAPTER XII.

INDUSTRIAL FINANCE.

726. We have made frequent references in the earlier portions of our Report to the predominance of agriculture and the general absence of industries in Ceylon. The reasons for this are not far to seek. They are partly historical, and partly accidental. The industrial system as we know it to-day is comparatively of recent origin. Its birth may be said to date from the industrial revolution in England which began in the latter half of the 18th century. This revolution was only the culmination of a long series of attempts to utilize in the most profitable way the natural resources available. The essence of the new order was the application of motive power to mechanical appliances. It increased enormously the efficiency of the machine over unaided human labour. The process of manufacture became more complex and intricate, needing skilled care and attendance; heavy initial outlay was required to commence operations of any particular process; and the organization of production demanded a higher degree of business ability and training than before. In other words the principal features of modern industry were soon manifest: first, the birth and rise of capitalism; secondly, the creation of a labouring class, and finally the creation of a separate business class.

727. By the time Ceylon passed into the hands of the British in the early years of the last century industrial revolution had gained complete ascendancy in the economic life of England. First in the race for industrial supremacy, she soon became the centre of industrial activity.

728. The early British colonists set out with the idea of discovering markets for British manufactures, which in turn would supply raw materials needed by the parent country. Accordingly, when they occupied Ceylon they vigorously strove to develop, on the one hand, an import trade in British manufactured goods, and on the other, an export trade in raw materials.

729. Even in spite of Government indifference Ceylon would have attained some degree of industrial development, had it not been for another reason, namely, the shyness of indigenous capital for modern industrial enterprises generally. The Ceylonese preferred a safe profit from such established industries as tea, rubber, or coconut to a doubtful return from purely industrial ventures. Generally speaking, industries based on technical science have been disregarded partly because such undertakings were thought to be venturesome and partly because profits in other ways have been easy and assured.

A growing cry. 730. But there is now on all sides a growing cry that the country should be less dependent on foreign supplies of manufactured goods. The old industries no longer afford avenues for fresh investment, and there is a demand for new enterprises in which the savings of the general public may find an outlet. Ceylon, also, has not been free from the influence of national economic policies and the remarkable success recently achieved in the industrial sphere by some of the Eastern countries has been a strong inducement to similar efforts on the part of this country. But the agitation for greater industrialization springs from other equally powerful cause. The problem of middle class, particularly the educated unemployed, has become exceedingly acute.

Analysis of import trade. 731. An analysis of the import trade of Ceylon discloses the extreme dependence of Ceylon on supplies from abroad even for those manufactured articles the raw materials for which exist in the country. The following commodities picked at random from the import schedule give an idea of the range and value of such articles:—

	Value of Imports (1933). Rs.
Biscuits	377,000
Confectionery	373,000
Bricks	21,000
Tiles	314,000
Earthenware and stoneware	274,000
Cement	1,152,000
Boots and shoes	518,000
Soaps	1,436,000
Matches	339,000
Varnish	83,000
Chests	2,634,000
Leather, dressed	41,000
Fish products	9,590,000

Factors of industrial development. 732. The basic factors contributing to industrial development are:—

- (1) Availability of raw materials;
- (2) Adequate supply of skilled labour and technical training;
- (3) Cheap power; and
- (4) Capital.

733. As a Banking Commission we are concerned with the last factor only, but before we make our recommendations on the subject of industrial finance it seems desirable to deal briefly with the other factors also.

Raw materials. 734. The Industries Commission of 1921* inquired into the available raw materials but the war and post-war conditions under which the work was undertaken robbed much from the value of their efforts. Many natural resources are seen to run to waste. Ceylon imports fish products to the value of over Rs. 9 million a year when her coastal waters abound in fish to supply all her needs. It is only very recently that even a survey of the littoral

* Sessional Paper I. of 1921.

waters has been made. If fishing is to attract capital to convert it from a primitive and risky undertaking into a profitable business, something more than a mere survey is needed. The industry as a whole needs reorganization, including the crafts and implements in use.

Another instance is the neglected state of the forest resources with the result that Ceylon imports timber for sleepers and building construction and spends over Rs. 2½ million on imported packing chests. Forest resources.

735. We, therefore, recommend that as a preliminary step an exhaustive survey of the resources of raw material found in Ceylon should be undertaken immediately. Our recommendations on the subject of finance are made on the distinct assumption that a survey would be undertaken. It should be the aim of the survey, first to examine the available resources, next to ascertain which of them holds out prospects of commercial development, and thirdly to demonstrate how they can profitably be developed. Our recommendations.

736. It will be observed that the survey we have in view is of a continuous character. It combines exploration with demonstration and research. Merely to say in the abstract that a particular raw material is available for a purpose is of little value unless it is demonstrated how it can be used. For this purpose research and experimentation are necessary and we consider that Government should assume the responsibility of devising ways and means to carry out pioneer work in regard to new industries and even assuming advisory functions in relation to established industries. The need for such technical assistance to industries by Government has been well described by the Indian Industries Commission in these words:—"The country's lack of industrial organization, of private consultants and specialists, of information on the industrial value of raw materials and of experience in the way of approaching industrial problems, are serious obstacles, specially to the smaller scale undertakings." They further state in their report:—"If we are to suggest the way in which Government assistance can best be given, it is important for us to understand the difficulties of industrialists who engage in new undertakings in India, especially on a small scale. The smaller industrialist, whether Indian or European, who is thinking of taking up a new venture, seldom has the advantage of a name which commands the confidence of a wide section of investors, or the support of large resources of his own and he is thus not in a position to engage the assistance of experienced technical advisers in his preliminary investigations. The knowledge of the industry which he possesses is more often than not incomplete. He may have familiarized himself with it in actual operation in another country; but to start it in a new field demands greater practical experience and skill than he has usually acquired."

737. Some of the difficulties which have been enumerated above are common to new industrial efforts in all countries and cannot be eliminated, but there should be a Government organization which will at any rate ensure technical advice for the small industry and adequate economic and scientific data for all classes of undertakings. This will furnish industrial enterprise of all kinds from the outset with much better prospects of success than in the past. We believe that public opinion is completely changed in regard to the permissible limits of State activity, and that the grant of such assistance is urgently needed. Technical advice.

738. If the State is to assume this new task, it must obviously be equipped with men and material. We are of opinion that a separate Department of Industries should be established to:—

Technical department and its functions.

- (1) Undertake pioneer and demonstration work in relation to industries;
- (2) Assist industries by placing at their disposal technical advice; and,
- (3) In general, guide the industrial policy of Government.

739. It is outside our province to deal exhaustively with the working of the proposed department. But we may give a brief account of the lines on which the department may, with advantage, work. Its preliminary duty would be to make a survey of the available raw materials. It need not wait for the completion of the survey for the next stage of work. Rather, the most promising objects should be selected first and attention concentrated on them. Supposing it is found that a particular raw material holds out good prospects, the department should communicate to the public its industrial possibilities. Before this can be accomplished, much experimentation may have to be done, and even plant on semi-commercial scale erected. The results of the experiments should be embodied in a publication issued by the department and it should include all details regarding estimates of costs, description of processes and other particulars necessary for any enterprising capitalist to form a judgment as to the commercial value of the undertaking. These detailed prospectuses need not be broadcast but may be made available to *bona fide* applicants.

Technical assistance.

740. We are glad to note that Government has already accepted the principle of State technical assistance to industries. In a recent report to the State Council by the Executive Committee of Labour, Industry and Commerce, the Committee quotes with approval the two cardinal principles laid down by the Indian Industries Commission that:—

- (1) In future Government must play an active part in the industrial development of the country with the aim of making (Ceylon) more self-contained in respect of men and material;
- (2) It is impossible for Government to undertake that part unless provided with adequate administrative equipment and forearmed with reliable scientific and technical advice.

741. We understand that the Executive Committee has already taken steps to requisition a technical adviser on industries. His services are to be rendered available principally in three ways:—

- (1) In encouraging private enterprise by giving necessary technical advice and assistance;
- (2) In pioneer and experimental work with a view to inducing private persons to undertake new industries.
- (3) In co-operating with technical officers of other Government departments and enlisting, as far as possible, the services for the handling of industrial problems which they may be more competent to deal with.

742. It would, however, be too much to expect that one technical officer would be able to handle the industrial problems of a country, which is still predominantly agricultural. We notice that the ultimate objective of Government is the creation of a fully equipped industrial department, and the sooner such an organization is set on foot the better.

743. Experts can be of little use in developing an industrial structure, unless those who manage and own the industries are themselves trained. But general technical skill is at present lacking in Ceylon and the country lacks the benefit of a technical education. No nation can expect to become industrially efficient unless it can command a ready supply of technical skill. The absence of trained craftsmen in industrial as distinct from mechanical arts is indeed a condemnation of the educational system of the country. Industrial education.

744. If the industrial aspirations of the country are to be realized, it is of the utmost value that appropriate training is provided to equip the country to achieve the goal in view. A comprehensive scheme of industrial education should be devised to impart suitable training to students in those industrial processes for which the natural resources of the country are most suitable, and accordingly we commend to Government the desirability of early action in this behalf. We do not anticipate that undue expenditure will be involved in carrying out this policy if teaching is undertaken by the technical college in collaboration with the proposed department of industries.

745. Cheap and efficient mechanical power is another factor indispensable for industrial progress. Unfortunately neither coal nor oil is found within the country which depends on imported supplies to meet present requirements. Hydro-electric energy is, however, available, but this source of power has not been tapped yet on an extensive scale, and if Ceylon is ever to become more than an agricultural country Government should accept the initial responsibility of providing a cheap means of motive power. We understand that Government contemplates the resumption of work on the projected Hydro-Electric Scheme at an early stage. On our part, we would remark that any delay in undertaking this scheme must necessarily mean the postponement of the hopes of Ceylon for developing domestic industries, and it is no exaggeration to say that for the general economic welfare of the country the Hydro-Electric Scheme cannot be completed a day too soon. Hydro-Electric Scheme.

746. We have so far devoted our attention to the consideration of the basic factors of industrial development other than finance. They constitute, if we may use the analogy, the foundation on which the industrial structure rests, but in the building of the structure itself capital, or more generally finance, plays a large and important part, and we shall turn to deal with this aspect of the problem. Industrial development.

747. At the outset we may remark that the problem of procuring financial assistance for industries is of more than ordinary difficulty in Ceylon. This is principally due to the fact that Ceylon has hardly reached even the stage of industrial infancy. Consequently there is much loose thinking on the subject, different people holding different views about the manner in which industries ought to secure finance. We have, in fact, been presented with a bewildering volume of conflicting evidence during the course of our inquiry. For example, a considerable number of witnesses declared that persons engaged in industries had no means whatsoever of securing funds for their businesses so that there was no chance of an industrial undertaking being started, much less of its proving a success. However, it generally transpired in evidence that those who were most vehement in complaints of this character were, in general, grossly ignorant of the methods of industrial finance. Many of Industrial finance.

them had no better idea than that there should be some arrangement whereby every industrial adventurer, by the mere opening of the financial tap should be able to secure funds to finance his proposition, however doubtful or unsound it may be.

Views of certain witnesses.

748. In the opposite camp, holding quite the contrary views, was another section of the witnesses who asserted that no industries floated on sound lines and showing a reasonable promise of success have been unable to obtain the financial assistance necessary, both from the public and the banks. According to them the fault lay not with the credit institutions but with the proposals put before them which were generally ill-considered, unsound, or speculative.

Traditional bias.

749. Between these two ranks of opinion lies another body of witnesses whose song is that on account of the peculiar conditions of Ceylon, it is difficult to requisition funds even for a sound enterprise. The general trend of their arguments is as follows: All economic activity in Ceylon has hitherto followed agriculture mainly, and every industrial proposition meets with inertia due to traditional bias, and does not receive a satisfactory measure of support from the investing public. Moneyed people are reluctant to take to industry readily and industrial propositions are generally sponsored by persons without sufficient resources and their names do not command that degree of confidence as would enable them to procure funds from the investing public. In other words, industries suffer from lack of long-term and working capital and some means should be devised so that promising industries may obtain the necessary financial assistance for their operations. No aid can be expected from banks and other existing financial institutions in securing long-term capital for the concerns, nor is short-term accommodation for the purpose of working capital available from them. There is, therefore, an urgent need for a new agency, specially created to provide industrial concerns with their long-term and short-term needs.

Government subsidization or industrial bank.

750. The proponents of this view accordingly suggest that either Government should directly finance industries or an industrial bank with Government support should be established to undertake this function. They suggest the former proposal by citing the example of India where direct State assistance is granted to industries in a number of provinces. They are aware that a Government Department is ill qualified to handle operations of this character which involve examination of the claims of every applicant for a loan, and his *bona fides*, and general supervision of the conduct of the undertaking after the loan is granted. But they aver that these difficulties could be solved if the department is associated with an advisory body of business men in these lending operations. Others suggest the second alternative of an industrial bank in order to avoid the handicaps inherent in direct participation by Government. The general view is that the capital of the industrial bank should be subscribed jointly by Government and the public, and the bank should secure funds for its operations by floating debentures, not to exceed a determined multiple of its subscribed capital, Government guaranteeing either capital or interest of the debentures or both. The bank would finance industrial concerns by purchasing their share or debenture capital, and by granting in other ways loans of long and short term character. In order to ensure the satisfactory working of the business, the bank would maintain an intimate contact with the borrowing concern and keep a controlling influence

over its management. In other words, the bank would work in a sort of partnership with industry, advising and assisting those engaged in it.

731. Before we can express an opinion on these proposals, What banks can do. it is necessary to explain how industries are ordinarily financed. An industrial concern, as any other, requires capital for long and short periods. It is an essential condition of any business undertaking that it should supply itself from its inception with capital resources sufficient to meet long-term needs and normal short-term requirements. The methods of securing these funds vary. Funds may be supplied by the owner himself, if the concern is a private undertaking, or they may be subscribed by the investing public if it is run on joint stock lines. But the essential point is that before the industrial concern can expect outside aid, it must show that it has sufficient interest in the project which it intends to exploit by procuring out of its own resources the normal requirements of block and working capital. It is, however, not sufficient that a concern is financially well-equipped in order to be fit to secure assistance from credit institutions; it must, in addition, have been in operation for a sufficient period of time to show that it is strong enough. The agency from which the undertaking actually obtains funds is merely a matter of detail. It depends mainly upon the nature of the financial system in operation. In England, for example, where banking is highly specialized, industries obtain funds partly from the capital market and partly from the commercial banks. On the Continent of Europe, where banking is less specialized, finance is secured principally from banks, commercial or industrial. It cannot, however, be sufficiently emphasized that such assistance is given only to concerns of proved standing and ability in order to enable them to make extensions of and improvements in their business or to meet abnormal demands for working capital, as, for example, when they receive large and unexpected orders for execution. But nowhere is it the business of banks to start industries. That must be left to private enterprise. When witnesses speak of banks in other countries starting industries, they probably refer to instances where banks undertake the preliminary operations of formation and underwriting. But whenever banks assume such functions, they generally confine themselves to tried lines of industry. In such cases they have the experience of undertakings already engaged in the particular branch to go by, and are thus able to judge with a fair degree of accuracy beforehand the success of the concern for whose formation and underwriting they have assumed responsibility.

732. When we examine the situation in Ceylon, we find that it Situation in Ceylon. is entirely of a different character. In this country, industries have not even reached the stage of infancy and therefore it has neither the tradition nor the experience of industrial enterprise. We had occasion to refer to the lack of technical knowledge and skill. We cannot, therefore, apply to Ceylon a country practically agricultural, the conditions obtaining in other parts of the world where industries have existed long enough for people to gain experience and to profit by mistakes. If Ceylon desires to be an industrial country, she must be prepared to follow the difficult path of experience which it had been the lot of other countries to traverse. There is no short cut to industrial riches. Nevertheless Ceylon has a distinct advantage in that she can benefit by the experience of others and avoid their mistakes.

What is expected
of Government.

753. In other countries Government grant direct financial aid or through established industrial banks when the industries have attained a reasonable degree of development. Those who urge that such institutions should be started in Ceylon at the very initial stage recommend by implication that Government should subsidize even industries whose commercial success is doubtful. In other words, they wish Government to undertake what no reliable banker would agree to entertain. But supposing, for the sake of argument, Government did come forward to assist industries at this stage, what would be the result? No sooner is it known that Government are ready to grant financial aid, than there would be shoals of applicants. How is Government to choose the good propositions from the bad ones? In fact, what are the industries which can be said to have succeeded in Ceylon? It is true that there are a few soap, tile, and match factories. Have they been long enough to enable anyone to conclude that these industries would be a commercial success? If the investing public cannot, is Government with all its disabilities in commercial matters better able to judge their value? Fortunately there is no need on our part to attempt to answer these questions. The applications for assistance received by Government during recent times provide in themselves a true and complete answer to them. The Registrar-General and Director of Commercial Intelligence told us in evidence that his department had received a number of applications for assistance from persons who intend to start industries. In almost every case, the applicants had no funds to provide even the initial capital. They had no comprehensive plan of operations, and no knowledge whatever of the technique of the industry they intended to start. In short they were mere industrial adventurers who desired to gamble with the funds of the State. But we were in no way surprised to hear this for the mere reason that such things are not peculiar to Ceylon; India too, during the initial stage of her industrial regeneration, had to live through a similar experience.

Baneful results of
easy credit.

754. We consider that, to provide financial facilities to industries in the present stage of development in the manner suggested would be not only disastrous to the agencies granting such assistance, but also unsound and dangerous to the industries concerned. Spurred by easy credit, the inexperienced industrial concerns, instead of following, as they should, cautious programmes of policy, would be inclined to be venturesome and thus see grandiose schemes of a speculative character. Instead of being pioneers and enterprisers in industry, they would become mere industrial adventurers with the result that their undertakings would more probably than not end in failure. Should this fate befall them on a general scale, industrial progress would be shunted back for many decades to come. It is no doubt true that it is extremely difficult to get the support of the investing public for industrial schemes, but this is merely a measure of their diffidence on the proposals put before them, and unless there is experience to rely on, neither the public nor the banks nor even the Government would be in a position to judge better the chances of success of any particular venture.

Our
recommendations.

755. We are, therefore, strongly opposed to the creation of a special institutions for the finance of undertakings at this stage and likewise we are strongly against the grant of direct financial assistance to industries by Government. We recommend elsewhere in our Report the creation of a State-aided Bank and consider that the normal needs of industry would be met by it.

institution in the ordinary course of business. After the Department of Industries, the formation of which we have recommended, begins to operate, it will be possible to ascertain with some degree of certainty the industries most suitable for development in Ceylon. Such industries should be assisted by the State-aided Bank. We do not consider it proper for us to anticipate the conduct of that institution by describing in what way it should finance such prospective industries. The extent to which it would be prepared to give assistance would largely depend on the individual merits of each case, and should it consider feasible to finance even block capital in some cases the resources of the bank would be large enough to enable it to do so without in the least affecting the stability of its general business.

756. We, however, recognize that there is a widespread Demand for early industrialization. opinion is impatient to move cautiously and expects Government to speed up the process of industrial development by active participation in industries. In addition to affording assistance in the manner we have recommended earlier in this section we consider Government could profitably associate themselves with industry in the following ways:—

- (1) Erecting model factories;
- (2) Guaranteeing certain types of industrial investment undertaken by the State-aided Bank;
- (3) Granting financial assistance through a scheme of industrial scholarships.

757. We are not competent to express an opinion as to the Model factories. type of model factories that should be erected. This should be done in consultation with the proposed Department of Industries. However, we consider that, as a rule, the factories should have a distinct educative value; in fact, models which private enterprises should copy in their own undertakings. It follows that such models would be instituted in connection with medium scale industries in which there will be room for a number of competing concerns to participate efficiently in the industry. With regard to the second line of activity, we anticipate that in certain circumstances the State-aided Bank may be reluctant to assist a particular industry, for example, if it has an element of undue risk, although it may be eminently desirable from the national point of view that such an industry should be started; or the capital resources required of any individual undertaking in a particular industry may be so large that sufficient public support is not forthcoming; or, again, the undertaking, though sound, may be a pioneer enterprise in that particular branch of industry. In such cases, we recommend that Government should step into the assistance of the concern by guaranteeing the advances given to it by the State-aided Bank. For this purpose Government should by annual appropriations from revenue build up an Industrial Encouragement Fund. We suggest that this fund may be built up by setting apart a certain amount out of the surplus balances every year. The volume of the fund will depend upon the commitments of Government by way of guarantee. The precise conditions and the occasions for Government guarantee should be determined in consultation with the bank and the Industries Department. It should not be concluded that the instances we have just cited as justifying Government guarantee

cover all cases of such assistance, although in general there will be rarely other occasions when the need would arise for assistance of this character.

Industrial
scholarships.

758. The scheme we have in view for granting financial assistance through a system of industrial scholarships is that students of exceptional ability who qualify themselves from the Technical College in any line of industry may be given suitable assistance by the State-aided Bank in order to enable them to start business in the branch in which they have become proficient. When the assistance involves financial commitments by the bank, Government should guarantee the bank for losses it may suffer from such transactions. As before, the terms and conditions under which assistance of the character described should be decided by Government in consultation with the bank and the Industries Department.

The work of the
new bank.

759. Once the State-aided Bank has begun to function, we expect the general body of industries to seek from it advice and guidance in the general conduct of their business and particularly in their financial arrangements. It is for such reasons that we have recommended the State-aided Bank to be empowered to do company promoting and underwriting business; and it is our hope that the bank would avail itself of this power very carefully and cautiously and introduce to the investing public reliable concerns requiring extended financial resources, and thus forge the link between those in need of funds and those in search of avenues of profitable investment.

COTTAGE INDUSTRIES.

Cottage industries
as subsidiary
occupations.

760. In this section we shall confine ourselves to home and other small scale industries. They form a class apart and have little affinity with the industries dealt with in the preceding section, either in their financial or other economic problems. Some of these industries are carried on in the spare hours of the workers as subsidiary occupations. This is particularly so in the case of peasants who find that agriculture is often in the nature of subsistence cultivation and does not afford in itself a sufficient income for a living. There is therefore a growing recognition of the fact that subsidiary occupations of the character of cottage industries play an important part in the life of the peasant, not only in increasing his major agriculture income, but also in alleviating the monotony of his daily work. They have thus both an economic as well as a social importance. In his Administration Report for 1932 the Director of Agriculture touches on the former aspect of the value of subsidiary occupations to agriculturists where he aptly observes that "rarely can the villager raise sufficient paddy to keep himself supplied with food requirements in this commodity for more than a few months in the year. The production of paddy in the villages is therefore correlated to the extent to which its occupants can find other food either by cultivation or by selling their labour for other purposes. The latter point becomes increasingly difficult from day to day". The situation is similar in the case of other forms of cultivation. In addition to providing subsidiary occupations, cottage industries are also important as being the principal means of employment to a large section of artisans.

Chief defects.

761. The principal defects of cottage industries spring from one central cause, namely, inefficient organization. Scattered all over the countryside, ignorant, conservative, and unbusinesslike

in their habits, the cottage workers are content to leave matters to take their own course and make little effort to improve production. They pay little heed to changing fashions but continue to follow outworn patterns and old standard. Even should they strive to improve the articles they find that they rarely receive a better reward in consequence. The system of marketing is such that any better price received for improved work finds its way into the pocket of the middleman.

762. Some effort has been made to improve the conditions of cottage industries by teaching and demonstration by the Education Department which is in charge of them. Industrial exhibitions held in rural areas also encourage them in some measure. However, no lasting good can come out of any such efforts unless the workers are organized. The success which has followed a few attempts in this direction most forcibly demonstrates the value of organization among them. We refer to the Kandy Arts Association and the Kalutara Basket Society. In fact so convinced are we of the great need and value of organized or co-operative effort on the part of the workers that we are of opinion that no remedial action in the matter of finance can achieve any profitable result unless the industries are better organized than they are now. How remedied.

763. As a first step, we feel that societies on co-operative lines should be started where industries are carried on in concentrated areas. Simultaneously with this, action should be taken (1) to develop new ideas by supplying fresh and attractive patterns for the workers to copy, (2) to instruct them in modern processes and make them familiar with efficient appliances, (3) to improve the marketing arrangement for the disposal of the finished products. In order to achieve these ends, we consider that there should be a central institution in Colombo. In this connection we may quote the recommendations of the Ceylon Industries Commission (1921), with which we entirely agree— Steps to be taken.

“ We feel that the only way in which these minor trades and handicrafts can best be encouraged is by the establishment of a central institution in Colombo. We do not mean to suggest the abolition of these local associations. But we feel that if they were linked up with, and to some extent controlled by, a central school of arts and handicrafts in Colombo, the danger to which we have referred of a break in the continuity of policy would be averted ”

“ In Madras, home industries such as hand-loom weaving, carpet making, the manufacture of furniture, silver and brass work, gold thread embroidery, &c., have been fostered in many ways: first, through the technical schools in many centres, where children are taught such trades in a systematic manner; and also through a central agency, the Victoria Technical Institute in Madras, where samples of the best artistic work produced in the Presidency are exhibited for show and sale. This institute has also been responsible for the resuscitation of many dying arts, such as the art of hand painted cloths at Ponneri.

“ Apart from the local associations already referred to, the chief organization at present interested in the home industries is the Education Department ” “ At the same time work of such a nature cannot be done in the most efficient manner if it is given a place as a somewhat unimportant side-issue in the programme of a big department.

" We feel, therefore, that a central school of arts and handicrafts should be established in Colombo "
 " with the following objects :—

- (1) To control as far as possible the work being done throughout the Island.
- (2) To foster those handicrafts which are in danger of extermination.
- (3) To have on exhibition for sale such things as lace, gold, silver, and brass work, lacquer work, baskets, hats, mats, tortoise shell work, village made cloth, &c.
- (4) To establish an arts and crafts school with skilled instructors trained in India or Japan."

Financing.

764. Cottage workers require finance principally to purchase raw materials and implements. The former is a recurrent need, the latter non-recurrent. As many of these cottage workers, as a rule, make to order and not for stock, they very often obtain the raw material from the dealers as an advance with they repay from the proceeds of sale of the finished article. As in other cases, such relations with the dealer react to the detriment of the worker, as he has to pay not only a higher price for the raw materials supplied on credit in addition to the interest on their value, but is allowed lower prices on the manufactured goods. The only remedy in our opinion is better organization on the part of the workers, such as the formation of Co-operative Societies among them. At present there is no central body devoting its sole attention to these and other problems of cottage industries, and we consider that the central bureau of arts and crafts when established would give them that needed organization.

CHAPTER XIII.

MARKETING FINANCE.

Importance of marketing methods.

765. When dealing with the existing credit agencies, we have referred incidentally to some of the channels of marketing finance. In view of its importance, however, the subject calls for separate treatment.

Sphere of marketing finance.

766. The sphere of marketing finance may be said to embrace the financial operations connected with goods from the moment they are ready for use to the time they are consumed, or exported, or taken to a factory. In the case of imported goods, the need for marketing arises as soon as the goods are landed and continues until the consumer buys from the retailer. In the case of home-produced goods marketing finance operates from the time they are ready at a factory or a farm and ends when they are awaiting shipment or go for internal consumption.

Finance of imported goods.

767. The foreign exporter, as a rule, assumes the obligations of financing the goods until they reach the seaboard of Ceylon. He is, no doubt, materially assisted by the banker in shouldering this responsibility. Sometimes bankers facilitate the taking up of deliveries by giving DP to DA conversion facilities and taking trust receipts from importers. The importers can also pledge their goods to banks and take loans. But the system is not in vogue and requires to be extended. The importer generally allows credit to the wholesale dealer, but when the necessary confidence is lacking or the importer's own financial arrangements are weak, cash may be demanded. In such an event the wholesale dealer must have sufficient capital of his own or borrowed. In the Chettiar he used to find a ready friend but since

the shrinkage in the Chettiar's business he has difficulty in arranging for financial accommodation. Credit for moving goods from the wholesale dealer to the retailer is supplied in some cases by the former; and in other cases the latter must make his own arrangements. As a rule the retailer has a small capital of his own and he mostly depends upon the Chettiar or other indigenous lending agency for his financial requirements.

768. As soon as the goods reach the port, the obligation of the existing banking system to finance them seems to terminate. Merchants have to pay high prices for accommodation to the private lending agencies. The banks' reply to the charge of indifference to indigenous demands for credit is that the law is defective. This is true to a great extent, but the absence of close contact between a bank's management and the local customers is also responsible for the existing state of affairs. Pettah merchants are sufficiently respectable, but most of them complained to us that banks did not treat them fairly and that they have, therefore, to depend largely upon the Chettiars' assistance. Unless credit can be cheapened and broad-based, merchants will have less than a reasonable margin of profit or consumers must pay a high price for goods.

Defects of existing imported goods finance.

769. We have recommended the establishment of local banks and a State-aided Bank. These institutions will be in a position to improve matters. Indigenous banks will be in a position to correctly assess credit of dealers and take that fact into account when deciding applications for advance. Their activities will be spread all over the Island and not confined to Colombo, as is the case with the existing banks; and they will therefore be in a position to have the custody of goods, for the purpose of security, if they so desire, in the whole process of their movement from one dealer to another, until the credit is liquidated by the final buyer. Indigenous banks can also successfully introduce the system of self-liquidating internal bills as instruments of marketing credit.

Banks will improve matters.

770. Consumers' stores would also cheapen the cost to the consumers. In so far as such stores will work on systematic lines and keep regular books of accounts, it would facilitate grant of credit to them. These stores may be formed on co-operative basis or on some other recognized principles. The former method has this advantage that all the profits on business are distributed amongst the consumers either in proportion to their purchases or capital or both. Some of the estates have their own boutiques with the object of providing wholesome foodstuffs and sundry articles at reasonable rates to their labourers. They seem to be doing well. The example of their success should induce others to provide similar stores for their own estate labourers. But the Consumers' Stores need not necessarily be confined to estates. Communities, villages, offices, and similar groups of people can organize their own stores.

Consumers' stores.

771. The problem of marketing finance for home-produced goods is very important, as it reacts upon what the local producer can get for his effort and enterprise. If the number of middlemen between the primary producer and the ultimate buyer for export or consumption were large, each wanting a share for himself, the residue left for the producer would be small. He has also to face the possibility of a combination of buyers, and being unorganized, he accepts the terms dictated to him.

Problem of marketing finance for home-produced goods.

772. The Director of Agriculture and his assistants have stressed the need for marketing facilities for agricultural produce throughout the Island. Several witnesses are also of the opinion that the cultivators are not getting the proper value of their produce, that they find great difficulty in marketing and in realizing the right prices.. The boutique-keeper and other money-lenders take advantage of the cultivators' indebtedness and deprive them of the fruit of their labour at harvest time. The high interest charged by their creditors and the low rates of their produce are greatly responsible for continuing, and very often increasing, the cultivators' indebtedness.

Principal commodities.

773. In view of the great importance of the internally produced articles to the economic well-being of the Island, we wish to discuss in detail the marketing finance of some of the principal commodities. Tea, rubber, and copra are the principal articles of export. Paddy, vegetables, and chillies may be said to be the chief produce for internal consumption.

Marketing finance for tea.

774. Tea plantations are mostly in the hands of foreigners. About 20 per cent. of land under tea is said to be in the hands of the Ceylonese. European estates have no difficulty in arranging for their financial requirements. In most cases they have enough capital of their own to move down their produce to Colombo. When the goods are shipped for export, they get money from banks on the security of shipping documents. Where there is need for outside credit the estate agents and banks come to their assistance. Brokers' advances are also available to them when the commodity reaches Colombo and is awaiting auction sale.

Bought-leaf factories.

775. The problem of the small man who owns patches of tea land and does not produce enough to have a factory is different. Tea leaf in its natural state is not fit for consumption. He must sell his leaves to a neighbouring factory. The leaves are generally bought by tea factories known as "Bought-leaf factories". There is not much competition in their business and the small producer of the tea leaf may be said to be at their mercy. The marketing finance of the "Bought-leaf factories" resembles that of the big tea estates and may be regarded as well provided for.

Suggestions to improve position of small producer.

776. The position of the small producer can be improved by collective or co-operative bargaining or establishing co-operative tea factories. In point of function such a factory will be similar to a "Bought-leaf factory", but with the difference that the profits from the factory will be available to the "producing members". Banks can supply finance to such factories.

Marketing finance for rubber.

777. The position of big European rubber estates in the matter of marketing finance is similar to that of the big tea estates. About 55 per cent. of rubber land is in the hands of the Ceylonese who possess big estates as well as small areas. It has been represented to us that even large Ceylonese rubber estates experience financial difficulties in marketing their produce. Witnesses have told us that banks do not readily negotiate their shipping documents. To escape financial worries some of them are obliged to entrust their lands for management to European estate agents. When indigenous banks are established, they will be able to help Ceylonese rubber producers.

Licensed rubber dealers.

778. The small man sells his rubber to a licensed rubber dealer who takes it down to Colombo to be sold to exporters. Licensing of rubber dealers has been introduced not

with a view to helping the producer to get a fair price but with the object of preventing theft of rubber from estates. The licensee is usually a small man, often a boutique-keeper. He may take the stuff in settlement of account due. There is no doubt that the producer does not get a fair price.

779. Conditions of small producers could be improved by marketing societies. In order that they may be a success they will have to combine credit facilities along with their buying and selling work. The producer lives on credit from the boutique until his stuff is ready for sale, and unless the marketing society can stand in the position of the boutique-keeper to him, he is not likely to abandon his present connection even though it reduces his profits. Marketing societies for rubber.

780. Coconut is mostly an indigenous industry. There are big coconut estates, as well as small areas. The former have often their own copra factories. The small estates generally sell to neighbouring estates. The copra producers bring the stuff to Colombo and sell through brokers or directly to shippers at the price of the day. They have little holding power, and, therefore, lack in bargaining capacity. Brokers and buyers may be said to be more influential in fixing the day's price and the allowances which the sellers should give for defects in quality. As long as the industry was doing well this one-sided arrangement was not much resented to. But copra is in a very bad way and needs for marketing organization and marketing finance are urgently felt. Government are contemplating the introduction of measures calculated to bring in better return to the producer. We feel the necessity of establishing at an early date a Coconut Produce Marketing Board to set up, manage, and supervise a central auction sale room on the lines similar to auction rooms conducted by the Ceylon Chamber of Commerce for tea and rubber. We are glad to say that we are under general agreement with the aims, objects, and usefulness of this Board, and would like to see it work as soon as possible. This will no doubt help to ease the situation. We feel that for the realization of the object in view financing of copra should form an integral part of any scheme, but Government should take no responsibility in it. The proposed State-aided Bank should play an important part to aid Government in its aim to help the producer. Marketing finance for copra.

781. If on arrival in Colombo copra can be properly graded and warehoused and the warehouse warrant is made negotiable, it will be possible for banks to advance on the security of these warrants. If the producer can get about seventy to eighty per cent. of the market price by way of loan from banks, the urgency to sell would disappear and by withdrawing from the market he could influence prices in his favour. Warehouses may be owned and managed by private firms or limited companies or by the State. Grading and warehousing of copra.

782. The export of copra used to be mainly in the hands of Europeans. Of late Indians have entered the field, as India has developed a large market for copra at its present price. Both these classes of merchants experience no difficulty in getting their export bills negotiated by banks. Ceylonese merchants have complained to us that banks do not treat them fairly in this respect with the result that they cannot partake, to any appreciable extent, in the foreign trade of this commodity. When indigenous banks recommended by us come into existence such complaints would disappear. The State-aided Bank can also specialize in financing warehouse warrants of copra. Export of copra.

Marketing finance of produce for internal consumption.

783. It has been represented to us that the extension of "Sunday" markets helps to bring in a better price to the producer but that this advantage is to some extent offset by the combination of the principal buyers. This may be true where consuming centres are distant from the field; but if markets are near towns like Anuradhapura, Nuwara Eliya, the producer should be able to get fair price. This is actually borne out by the evidence of the Government Agent at Kandy. The danger of buyers joining together to defeat the seller can only be met by encouraging sellers to visit bigger markets or combining together to form a selling society.

Marketing of chillies.

784. Although Ceylon is able to produce substantial quantities of chillies, it is surprising to find that the article is largely imported and the local commodity does not find a good market. It is only in Jaffna that home grown chillies are sold without difficulty. The marketing arrangements for the imported chillies are in the hands of strong hands who are able to adequately finance the commodity from the moment of import to the time of consumption. Their strong financial capacity is utilized to discourage the use and sale of Ceylonese chillies. The problem can be met by a chilly selling society either on a co-operative basis or on joint stock methods. A well established organization will not experience credit difficulties particularly when the banks recommended by us come into existence.

Home-grown paddy and imported rice.

785. From the point of foodstuffs, paddy is by far the most important article of internal production and consumption. The Island does not produce enough rice and depends upon foreign countries for its food supply. The price of home-grown paddy or rice is therefore largely controlled by the price of imported rice.

Boutique-keeper and Jaffna traders

786. The cultivator sells his surplus paddy, over and above what he requires for his use, to the boutique-keeper. In the Eastern and Central Provinces, the Jaffna traders are the principal buyers. But on account of want of organization of the producers and their need for ready cash the buyer has always the upper hand. Moreover paddy must first be converted into rice before it can be used as food stuff. To separate husk from rice with manual labour is more costly than milling paddy. It would benefit producers were small mills established at convenient centres to convert paddy into rice. If such mills work on co-operative principles, their advantages would wholly accrue to the producers. Milling and marketing of rice can be combined to increase the profit of the cultivator. Such an organization will have to combine credit functions as well, so that the farmer may be able to get a major portion of the price on handing his paddy. If it combines the work of a boutique as well, its usefulness to the villagers would immensely increase.

Remittance facilities.

787. In Ceylon the absence of remittance facilities is proverbial. Even the big estates have to physically move funds from Colombo to their plantations. It costs them roughly 1 per cent. In India and other countries money can be transferred over much longer distances at or under 1/16 per cent. Provision of cheap and adequate remittance facilities is the first step towards getting a better price to the producer.

Present wastage in effort and cost.

788. In his evidence before us, Mr. M. J. Cary, a well known citizen of Colombo, has fully described the wastage in effort and cost in physically moving funds. Money at Railway Stations, Post Offices, and Kachcheries is being brought down to Colombo; and money from Colombo is being taken back to those very places. If money collected locally by the Government Departments can

be paid out against receipt of similar amounts in Colombo, it should save a good deal of expense to Government and the public. That would also lead to economy in circulation and to that extent broaden the basis of credit. The present want of co-operation seems to be due to the fact that Government cash balances in Kachcheries, Railway Stations, and Post Offices do not form integral parts of the country's money market. It is hoped that with the establishment of the State-aided Bank and local banks, the Treasury balances would merge into the Island's banking funds.

789. Transmission of money can be made through Post Offices, but it costs 1 per cent. The trade cannot bear this charge. The charges preferred by the few money-lenders and private bankers who do such business are also high. Merchants, therefore, prefer to carry cash with themselves whenever they have occasion to make payment at another place. The risk incurred by them was tragically brought home this year to a merchant who was taking a large sum of money from Jaffna to Colombo. On the matter being represented to Government arrangements have now been made for the transfer of funds through the Jaffna Kachcheri to Colombo or *vice versa* at $\frac{1}{4}$ per cent. We strongly recommend that until adequate facilities are provided by banks for remittances this facility should be extended between all the principal towns of the Island. In order to keep the Kachecheries fully supplied with funds to meet demands of this nature local collections at Post Offices and Railway Stations should in the first instance be handed in at the Kachecheries. When the balance of any Kachcheri becomes large, it may be moved to another place or Colombo.

790. In the earlier paragraphs we have recommended the formation of marketing societies to help the cultivators to realize a fair value for their produce. We give below a scheme in this connection for the consideration of Government. The co-operative movement was introduced in the country more than twenty years ago, but for various reasons it has not made satisfactory progress in different directions. It is therefore hardly possible in the present circumstances to expect much from it in the direction of marketing.

SCHEME FOR FORMATION OF MARKETING SOCIETIES.

791. We propose that, on the recommendations of the Agricultural Department, Agriculturists' Marketing Bureaux or Societies be formed and opened at different places for marketing the produce of agriculturists. They should be named after each place or district that they are meant to serve. They should be registered not under co-operative rules and regulations, but as joint stock companies with limited liability under a separate Board of its own, consisting of three members at each centre to be selected by the Agricultural Department. The Headman of the district and an influential member enjoying the confidence of the villagers should be appointed as members of the Board of Management of such societies at each place with one of the senior members of the Agricultural Department in charge of that district. These will look after the working of the company.

792. There should be an Advisory Board at Colombo consisting of:—

- (1) The Hon. the Minister for Agriculture and Lands.
- (2) The Hon. the Minister for Labour, Industry and Commerce.
- (3) The Director of Agriculture.
- (4) The Registrar of Co-operative Societies.

They should meet once a month to direct the policy of these Marketing Bureaux or Societies and consider the reports of various societies as to their progress and study the difficulties in their way. They would also suggest ways and means for advancing the utility and service of these Bureaux to the agriculturists.

- Auditing.** 793. Each society's accounts should be audited by Certified Auditors, once or twice a year on such remuneration as may be fixed.
- Annual meetings.** 794. The Directors of all such societies should meet the Advisory Board at Colombo or some convenient place once a year and discuss means for the development and co-ordination of marketing facilities throughout the country.
- Capital.** 795. We recommend a sum of Rs. 50,000 to be placed at the disposal of the Agricultural Department as a loan from the Local Loans and Development Fund for the purpose of establishing Agriculturists' Marketing Bureaux or Societies and providing capital and advances to such societies. Each society will render its audited accounts to Government at the end of every year through the Agricultural Department.
796. The capital of each Marketing Bureau should be determined by the Agricultural Department according to the importance of each place, not exceeding Rs. 5,000, in any individual case. It is advisable that in the beginning only six such societies or bureaux should be established at importance centres and after acquiring experience for about a year, more Marketing Bureaux may be established.
- Business.** 797. The aim of every marketing society would be to induce the agriculturists in its respective area to take their produce for sale at such markets and every effort should be made to encourage them to dispose of their produce through them instead of selling it to boutique-keepers or money-lenders, who never give them a fair price. It is not intended that these market places should only sell the cultivators' produce, but efforts should be made to supply their several wants through these markets and make the cultivators independent of the influence of the boutique-keepers.
798. The utility of these marketing societies would increase if they supplied, from time to time, livestock, manure, seeds, &c., to cultivators to enable them to cultivate their lands at cheaper rates than at present.
- Advances against produce.** 799. The business at the markets would be done for cash at prices acceptable to the sellers. In case a seller is not prepared to accept the price and wants to wait for better rates, the society might be prepared to advance him 75 per cent. of the value of his produce at, say, 6 per cent. per annum, provided the goods are delivered in the custody of the society.
- Warehouses and resting places.** 800. The society should provide facilities for storing goods in their custody and should also provide resting places for cultivators bringing their goods for sale from long distances.
- Commission on sale.** 801. It is desirable that for the first 12 months the marketing society should make no charge to the cultivators for rendering them marketing facilities, and that each marketing bureau should bear its own expenses just to encourage the cultivators to deal with them.
- Business prospects and Government aid.** 802. We are of opinion that Government should be prepared to spend a small amount on this scheme. It is possible that once these markets are well established, local banks in several

important centres, when started, would come forward to finance the agriculturists marketing bureaux against goods stored with them and no more funds would be necessary from Government except the initial capital invested at each bureau. Under the proposed banking structure for Ceylon, there will be close co-operation and co-ordination between the State-aided Bank, local banks, agriculturists' marketing societies, co-operative banks, and mortgage banks, all helping one another in the agricultural and economic development of the country.

803. We have stated above that these agriculturists' marketing societies should not work under the Registrar of Co-operative Societies, but should be established with a limited liability under the supervision of the Agricultural Department. This is because we feel confident that this department is, in view of its present very satisfactory organization and intimate connection and knowledge of every part of the country and its products, in a position to carry out the work most efficiently. The whole Island is now divided by the Agricultural Department into six administrative divisions. In each of these there are about a dozen subordinates in charge and they act as agricultural instructors. Thus the Agricultural Department has enough facilities at least to supervise if not to conduct the work of marketing societies. To cope with these additional duties additional staff will be necessary, but the expenses of such staff would be met by each individual society from the commission that would be charged by it to its clients. Each of the societies would be a separate concern under one of the six administrative heads of the Agricultural Department, and they will work under the advice and guidance of the Director or Assistant Director of Agriculture under the Hon. the Minister of Agriculture and Lands.

804. Under the scheme the following advantages would accrue to the cultivators and the Agricultural Department:—

- (1) The Agricultural Department will come in close touch not only with the cultivators but also with their produce and their prices.
- (2) The Agricultural Department would get an opportunity of studying the cost of production and the defects in the quality of the production, and would be able to suggest improvements to get produce of better quality to compete with foreign produce and fetch better prices.
- (3) The cultivators would not be forced to sell their produce at low rates to their creditors or middlemen.
- (4) The cultivators would receive a fair price for their goods and would be encouraged to improve their lands to get better results and increased crops and this will induce them to take more interest in their work than at present. There will be an incentive for them to get out of the hands of the money-lenders and to improve their position.
- (5) The agriculturists' marketing bureaux or societies will provide accommodation to store the marketable produce, will study the different markets and will take steps to get the best price for the produce. The Agricultural Department will help them with its knowledge and experience to produce increased crops of better quality and in quantities such as would find a ready sale at remunerative prices.

PART III.

CHAPTER XIV.

CO-OPERATION.

INTRODUCTORY.

805. We now turn to the co-operative movement. It has been introduced in many countries and it has proved itself one of the best methods of supplying current funds to men of limited means in the villages and the cities. Value of co-operation.

806. The Royal Commission on agriculture in India says,—
“ We have no hesitation in recording that we believe that the greatest hope for the salvation of the rural masses from their crushing burden of debt rests on the growth and spread of a healthy and well-organized co-operative movement based upon the careful education and the systematic training of the villager himself.”

807. Not only in India, but in other countries also where it has been introduced, co-operation has done much to establish a proper system of financial irrigation in the villages. Its great advantage lies in the fact that it teaches a man of small means to stand on his own legs, and, by joining his fellowmen, to dispense with the services of the middleman who has exploited him in no small measure. It opens up a school for him to learn the virtues of thrift, self-help, and good citizenship.

808. In Ceylon the movement may be said to have been started in 1912 with the passing of the Co-operative Credit Societies' Ordinance of that year. The growth of the movement in India had attracted a great deal of attention of the Government and the people of Ceylon. His Excellency Sir Henry McCallum, a Governor of the Island, was personally interested in the question of establishing co-operative banks among villagers. He appointed in 1910 a Committee under Mr. H. L. Crawford, C.M.G. “ To consider the whole question of agricultural banks, whether they are required in Ceylon, and how far banks on the models introduced in India and other countries are suited to the conditions existing in Ceylon.” Governor McCallum himself placed before this Committee a memorandum on village co-operative banks. The Committee recommended the introduction of an Ordinance on the lines of the Co-operative Credit Societies' Act of 1904 in India. History of co-operation in Ceylon.

809. Even before this, experiments, we understand, were carried out by individual Government officers with the general support of Government in organizing village societies. But no disciplined progress was possible without a special law and a special department to look after the movement.

810. The Ordinance of 1912, however, was modelled on the Indian Act, and like it only made provision for Co-operative Credit Societies. Other non-credit types of societies could not be organized under it, nor could secondary institutions like central banks be built up. These and other defects of the law led to the passing of Ordinance No. 34 of 1921, which still regulates the working of the movement. We understand that this Ordinance also requires certain minor alterations in the light of the past few years' experience. But the amendments relate to points of administrative details. A draft Bill has been prepared and is now in the hands of the Hon. the Minister of Agriculture and

The Registrar's
Department.

811. Together with law, an efficient administrative machinery has also been built up. It was recognized early that Government, as in India, must guide and help the movement in its initial stages. The Director of Agriculture was put in charge of co-operation and for a number of years he continued to be the *de jure* if not the *de facto* head of the administration. In 1926 he was given the assistance of a joint Registrar, he himself still bearing the designation of the Registrar of Co-operative Societies. Considering the rapid progress that was being made with the formation of societies, it was obvious that sooner or later co-operation had to branch off from agriculture and be made an independent department. No one would dispute the close relationship between the two, but for administrative convenience separation was necessary. This separation virtually took place in 1926 with the appointment of the joint Registrar, although technically the Director of Agriculture continued to be the head till 1930. In that year an independent department of co-operation was created. The headquarters of the department were removed to Colombo from Kandy in 1932. The department now falls under the Ministry of Agriculture and Lands.

Study abroad.

812. In 1925 a Civil Service officer (Mr. W. K. H. Campbell) was specially deputed to India and certain countries in Europe to make a study of co-operation abroad. He submitted a valuable report in 1926, followed up by another short supplementary report on co-operation in Ceylon in 1927. Mr. Campbell has been in charge of co-operation since 1926 and the progress that co-operation has made in the Island is in no small way due to a trained and experienced officer of his type being at the helm of affairs.

Where co-operation
started?

813. Co-operation in the Island was first tried in the Southern Province. Next, Mr. Brayne did some work in the Batticaloa District. Unfortunately the soil there has proved rather unfavourable, and nearly all the societies that were formed during the early stages had to be wound up. The first experiment at establishing a marketing society was also made in the same district but it (the Paddy Sale Society) proved a failure. An attempt to organize a central bank there has also yielded no better results. Of the various Provinces, Jaffna seems to have done the best in regard to co-operation.

One-sided
development of
co-operation.

814. The first village societies were formed in 1913. The first central bank on proper lines was registered in Jaffna in April, 1929. Secondary societies for supervision were also rather late in appearing.

815. Co-operation in Ceylon as in India has developed more on the credit side than on the non-credit. There are a few supply and sale societies, but more attention has been naturally paid to the problem of the agriculturists' indebtedness than to anything else. But a supporting non-credit arm is being built up now and we anticipate more activity in this line in future than it has been the case so long.

Co-operative
conference.

816. Every three years a Co-operative Conference is held at Kandy for the purpose of taking stock of the position and discussing various common problems. All societies except those that belong to the lower grades (Grades C and D) are represented in this Conference. The first meeting of the Co-operative Credit Societies of the Island took place as far as we know on April 28.

1914. Later sessions were held at irregular intervals. Now the Conference is regularly held every three years. There are, apart from this, also District Co-operative Conferences held in some of the areas.

817. The object of the co-operative movement in Ceylon has been so far mainly to assist the village agriculturist with short period loans. But his long period requirements have not been entirely ignored. A new arm of the co-operative system was created in 1930 with the opening of a Co-operative Land Mortgage Bank. There are now two of these banks in existence in the Island and we have dealt with them in "Agricultural Finance." Different types of societies.

818. The short period credit societies fall broadly under two classes—the rural societies with unlimited liability and the urban societies with limited liability. They cater for different types of people and consequently their constitutions are different.

819. Another type of society is the thrift society. These societies stand more or less detached from the rest of the movement. They have been started principally to encourage saving amongst certain classes of people, chiefly salary earners. They lend only against savings.

820. There are further a few stores or supply societies. A new development is the starting of two marketing or sale societies at Jaffna.

821. There are three central banks in the Island and their business is principally to finance the affiliated primary credit societies. For purposes of supervision another type of secondary or joint society also exists. This is the supervising union of which there are at present 32. A start was made with this type of society earlier than with the central bank, the Colombo District Co-operative Union being formed in May, 1925. These unions are doing very useful work for the many societies within their jurisdiction. Their principal duty, as their name indicates, is to supervise the work of the primary societies, but they may do various other things in the interests of the co-operative movement. Through them at least in one important respect, namely, supervision, the co-operative movement is getting self-dependent, and the further these unions spread the better for the cause of co-operation in the Island. In India, secondary institutions have taken up much of the work of supervision, audit and education from the hands of the official Registrar. Self-government is perhaps easier here than in the field of finance, and there is no reason why their number in Ceylon and the sphere of their activities should not increase. In three Provinces there are no unions yet and there is room for more of them in the other Provinces. It would not be incorrect to say that at present the Registrar bestrides the whole movement without wishing to do so. Properly speaking, the only functions of the official staff should be regulation, audit and liquidation, while organization, supervision, education, and propaganda should be left to unofficial and preferably co-operative agencies. Even in the matter of audit the movement can do much internally, leaving the final inspection in the hands of the Registrar. We realize, however, that unless more unions are founded the Registrar has to shoulder all this burden himself and the only advice that we can give is to expedite the formation of secondary societies. Central banks and supervising unions.

Statistics of progress.

822. The progress of co-operation in the Island is shown in the following table:—

Year.	Number of Societies.	Number of Members.	Paid-up Capital.		Reserve Fund.		Deposits.	
			Rs.	c.	Rs.	c.	Rs.	c.
1913-14 ..	37 ..	1,820 ..	8,200	0 ..	23	5 ..	—	
1914-15 ..	54 ..	3,850 ..	18,782	50 ..	746	93 ..	29	74
1915-16 ..	55 ..	4,068 ..	—	..	—	..	No report.	
1916-17 ..	71 ..	6,027 ..	32,994	25 ..	3,245	72 ..	486	84
1917-18 ..	92 ..	9,551 ..	48,549	10 ..	6,675	0 ..	2,648	10
1918-19 ..	113 ..	11,310 ..	68,062	55 ..	11,243	17 ..	4,772	57
1919-20 ..	136 ..	15,200 ..	99,284	0 ..	14,662	72 ..	6,498	90
1920-21 ..	154 ..	17,896 ..	122,070	92 ..	20,522	97 ..	10,351	19
1921-22 ..	169 ..	19,957 ..	150,354	97 ..	25,057	17 ..	16,380	90
1922-23 ..	208 ..	23,322 ..	188,689	50 ..	32,142	88 ..	21,022	94
1923-24 ..	222 ..	26,757 ..	238,607	2 ..	44,603	64 ..	29,561	51
1924-25 ..	257 ..	30,548 ..	281,478	86 ..	65,161	99 ..	43,026	42
1925-26 ..	315 ..	34,164 ..	362,987	8 ..	73,183	39 ..	57,075	43
1926-27 ..	303 ..	35,112 ..	430,311	38 ..	91,421	32 ..	67,689	23
1927-28 ..	360 ..	33,057 ..	497,775	60 ..	91,730	0 ..	114,102	23
1928-29 ..	383 ..	27,970 ..	488,415	18 ..	101,108	36 ..	134,727	75
1929-30 ..	459 ..	22,416 ..	471,222	89 ..	108,482	42 ..	245,331	16
1930-31 ..	600 ..	24,068 ..	505,108	16 ..	136,212	56 ..	503,610	74
1931-32 ..	665 ..	24,415 ..	563,407	55 ..	144,967	61 ..	756,381	85
1932-33 ..	779 ..	26,719 ..	625,422	73 ..	170,665	24 ..	892,333	92
1933-34 ..	897 ..	30,277 ..	740,624	19½ ..	201,821	42½ ..	961,790	61

UNLIMITED CREDIT SOCIETIES IN RURAL AREAS.

823. There are altogether 762 Primary Credit Societies in the Island in rural areas. They are organized with unlimited liability.

Constitution.

824. In Ceylon members generally subscribe a small share capital in such societies. In India the share system is not universal and a great many Primaries are formed only with a nominal entrance fee from members without any shares. The management of a Primary rests with the general body and the most important functionary is the Secretary, who is sometimes the village schoolmaster. All officers are unpaid. We believe the societies have, on the whole, been well-managed. Voting power is not proportionate to the holding of shares. No weightage is given to the owner of a large block of shares. One member, one vote is the rule, that is rightly followed.

Area.

825. A Primary Society must, if it is to be a success, cover a small area. Then the members will know each other very intimately and they will meet perhaps daily. The average area of a Primary in Ceylon is about 1 square mile which is quite a right size. Average membership per society is now 34, share capital per society is Rs. 723 or per member Rs. 2 (Registrar's Report, 1932-33). A society to be compact must not take too many members and in no case in our opinion should the strength of a society be allowed to exceed 50.

Finance.

826. A Primary Credit Society raises its funds from four different sources. It collects an amount in the shape of shares, which are usually of small denominations. In certain cases a small entrance fee is also insisted upon from the members.

Deposits.

827. The second source is deposits from members and non-members and although this is kept on tap, the amount that flows in indicates a poor response. In the published official returns the deposits of members and non-members are not separately shown, but we are informed that non-members have not yet taken very kindly to the movement. We suggest that

members' and non-members' deposits be shown hereafter in two columns, so that an idea of outside public support for village societies can be obtained.

828. Of the two classes of deposits, current and fixed, the latter are obviously more useful to the society. Members want to borrow money for periods which are hardly ever less than six months. There are no clients for day to day loans as in the case of commercial banks. Consequently time deposits are more valuable than current deposits. Indeed, hardly any village society takes current deposits. So far the amount of deposits, current and fixed, has been very small. In 1932-33 for instance the total deposits held by the 762 Primary Societies in the Island amounted to only Rs. 146,211 or approximately Rs. 215 per society. It is satisfactory to note however that the figures of deposits have been steadily rising year by year.

829. A third possible source of obtaining working capital is the Reserve Fund. "A sum not exceeding half of the Reserve Fund (in the case of unlimited societies) may with the sanction of the Registrar be utilized for the ordinary business of the society." (Rule 16 (2).) Reserve fund.

830. In Ceylon so far, whatever may be the provision in law, in practice societies have not been allowed to use any portion of the Reserve Fund for current business. In some cases indeed Reserve Funds have grown up to an embarrassing size. Happily the societies also seem to be alive to the importance of a Reserve Fund as their last line of defence, which should be kept beyond all possibility of raids. We may indeed observe that the whole attitude of Co-operative Societies towards the constitution and disposal of profits and of the Reserve Fund should be, and we are glad to note, has been, conservative and cautious. A good part of the profits by law or by practice go to the Reserve Fund.

831. These sources cannot yield all that the societies require. The Primary Societies have, therefore, either to look for financial assistance from Government, or in regions where they have been started from the Central Banks.

832. The three main sources, therefore, from which Primary Societies derive their loanable funds are share capital from members, deposits from members and non-members, and loans from Central Banks and Government. An analysis of the working capital in the hands of 680 unlimited Primary Societies in 1932-33 shows that out of a total of Rs. 1,015,488 collected from these sources, share capital contributed 39 per cent., deposits 14 per cent., and loans 47 per cent. Share capital thus is an important element. In contrast to this, in India in many parts societies are formed without any share capital at all. Ceylon has harnessed this method of raising capital better than perhaps India has done. The method has been made still more effective by providing for additional shares being taken up by members whenever they want. It is a source which is always "on tap", and, if the society is doing well, members will put more and more money into it. The share list is never closed. Each share is small in amount, but a member can buy a large number of shares. Three main sources of working capital.

833. The total borrowing power of the societies is fixed at a certain maximum limit by the Registrar on the basis of an assessment of the capacity of the members to absorb and repay the money. Whatever may be said of the principle behind it, Borrowing power of societies.

in practice such a limit is not easy to fix. It may, and, we believe, it has, to some extent, impaired the lending power of the societies. The lending power depends on borrowing power. The present procedure in fixing the credit-worthiness of Primary Societies provides, for checks at so many points that it may well have operated a little harshly. What happens is that the society itself at the annual general meeting fixes its maximum credit limit. It is then submitted to the Registrar who may cut it down, but may not increase it. The Registrar is guided by the property register and other relevant factors, and he has also the benefit of the report of the Supervising Union for the locality. The estimate is then passed on to the Central Bank which again may reduce, but not increase the limit. Thus at each stage only reductions are possible. All this means an effective check on overborrowing, but has probably made the system oversafe.

Inelastic credit limit.

834. We do not see any point in setting an inelastic credit limit by the Registrar. After all, the members have pledged unlimited liability, and it is for those who lend to the society to see that the loans are safe. Where central banks are the main lenders, they can easily find out with the help of the supervising union whether the Primary Society is borrowing more than it should.

Safety and economy.

835. The procedure by which money from all these sources is lent out to the members ensures, in our opinion, both safety and economy. Loans are given out as far as possible for productive purposes. The Committee of the society sees to it that the money is scrupulously devoted to the object for which it was given. In case of misuse, the loan is liable to be called back. Non-payment on maturity is followed by legal proceedings. The societies enjoy, as we describe elsewhere, certain special privileges in realizing their dues by appeal to law.

836. Other safeguards adopted include the provision of sureties and the laying down of a maximum limit that can be advanced to an individual borrower consistent with his economic position. The surety system is a necessary second line of defence.

Loans against property not allowed.

837. Loans are not given against mortgage of immovable property. It is only allowed in the case of Land Mortgage Societies.

838. Sub-section (1) of the same section prohibits, save with the permission of the Registrar, the lending of money on the security of movable property also. This is also a wholesome clause and prevents, for instance, loans to be given against jewellery. It would be a dangerous practice to allow that in view of the difficulty of valuating and storing them. Co-operative short credits should always keep securities in the background and depend chiefly on personal faith. One danger of allowing pledges, movable or immovable, would be to create a false sense of safety in the minds of the sureties.

Limits to borrowing by members.

839. A further safeguard is that each society at its general meeting fixes the maximum credit limit of every member, and loans, except in special cases and with the special permission of the Registrar, are not to exceed this amount.

840. Apart from this limit set for individual members according to their property and income, there is also a general limit beyond which no member can in any circumstances be allowed to borrow from the societies. The funds of the society being for

general use by all members, it would be obviously unfair and unco-operative to allow the well-to-do members to monopolize all the loans or take even a lion's share. They should be distributed as equitably as possible.

841. All these provisions raise the questions: Are loans given by a society sufficient for its members? Do not the elaborate formalities reduce borrowings to their minimum? Are loans granted sufficient?

842. Co-operation cannot meet and is never intended to meet all the credit requirements of the villager. It can only serve him to a limited extent. It gives a controlled amount for a controlled purpose. It is not an open-sesame for indiscriminate credit. Indeed it would be dangerous to make credit too facile for him, and this applies to long credit also. All observers have given warning against too easy credit facilities. Within their range of action, we believe, the Co-operative Societies of Ceylon have accommodated their members fairly liberally. In the present state of the members and their societies, we doubt if more could be given out profitably and safely in the form of loans. We have heard very few complaints about loans being denied for clearly productive or necessary purposes to able and honest parties. We are inclined, therefore, to agree with the Registrar that "in the majority of societies the legitimate short-term requirements of the members are fully lent." The Kalutara Co-operative Union says "The current needs of the members are adequately supplied and the members do not go to Chetties."

843. During the last official year the volume and percentage of loans given for different objects were as follows:—

Analysis of Loans issued in 1933-34.
According to Object.

Object.	No. of Loans.	Amount. Rs. c.	Percentage of Total loans granted.
<i>Productive—</i>			
Cultivation ..	4,251	270,200 96	16·60
Buying cattle ..	534	33,188 80	2·04
Purchase of land ..	786	88,515 50	5·44
Improvement of land ..	493	32,700 26	2·01
Trade ..	5,841	445,232 33	27·36
Building of houses ..	1,334	146,517 57	9·01
Buying of carts ..	249	18,701 50	1·16
Buying food ..	174	10,178 77	0·62
Lease of land ..	1,224	59,579 92	3·66
Others ..	2,473	96,264 71	5·91
Total ..	17,359	1,201,080 32	73·81
<i>Unproductive—</i>			
Payment of old debts ..	3,042	266,819 21	16·40
Ceremonial ..	573	38,916 0	2·39
Other ..	2,178	120,529 10	7·40
Total ..	5,793	426,264 31	26·19
Grand Total ..	23,152	1,627,344 63	100·00

These figures, which relate almost entirely to credit societies with unlimited liability, show a fairly balanced distribution of loans.

Amount borrowed.

844. The average amount borrowed by a member differs of course according to the resources of the society and the economic status of the members. Very seldom do they, however, exceed Rs. 1,000 per member. The Kalutara Union says that the average amount borrowed by a member is Rs. 200. We have hardly any accurate means of finding out what proportion this bears to the total non-co-operative debts of the person concerned. We fear that, in general, a member's outside debts are much heavier than his debts to the society. We believe that co-operation has only touched the fringe of the problem of rural indebtedness.

845. The analysis of loans according to amount, supplied to us by the Registrar's Department, is given below. It shows that the four important grades of loans are all fairly well balanced. The table only gives an idea of the size of the loans, not the actual borrowings of the average member. A member of course very often takes more than one loan of more than one size:—

Amounts of Loans issued in 1933-34.

Class of Loan.	No.	Amount.		Percentage of Total.
		Rs.	c.	
Under Rs. 50 ..	14,773	381,319	7	23.43
Rs. 51 to Rs. 100 ..	4,495	376,524	74	23.13
Rs. 101 to Rs. 200 ..	2,584	403,837	82	24.82
Over Rs. 200 ..	1,300	465,663	0	28.62
Total ..	23,152	1,627,344	63	100.00

Duration of loans.

846. The question of the adequacy of the loans can be approached from two further points of view. First, are the loans given for a sufficient length of time? The Primary Credit Society as we have stated before deals only with short and medium term loans. It is not intended to give long period loans. That is the province of the mortgage bank to which we devote a separate section. Short period loans are generally defined as extending from a quarter of a year to about two years.

847. The table below shows the distribution of loans according to periods during the last financial year 1933-34:—

Period of Loans.

Class of Loan.	No.	Amount.		Percentage of total loans granted.
		Rs.	c.	
Up to 6 months ..	7,252	330,385	17	20.31
Over 6 months to 1 year ..	13,576	939,239	95	57.72
Over 1 year to 2 years ..	2,297	343,338	51	21.09
Over 2 years ..	27	14,381	0	.88
	23,152	1,627,344	63	100.00

These figures indicate the overwhelmingly large number of loans that are made for a period ranging from 6 months to 1 year. Loans from 1 to 2 years are not usually entertained, while loans over two years are conspicuous by their absence. The two Co-operative Land Mortgage Banks which are designed for making long-period loans start with loans for 5 years or more. For loans between 1 and 5 years thus the existing facilities are rather poor. This gap has somehow to be filled up.

848. Another question on which we should say a few words Security. relates to the surety system. There are critics of this system and we are aware that in places it has not worked very satisfactorily. The sureties are too easily found or they too light-heartedly take up their duties. In such cases, as a check on indiscriminate loans, the system of course is a failure. Sometimes the same man becomes surety for more than one borrower as a kind of professional guarantor for some consideration which need not of course be in money. Here again the main object of suretyship is defeated. Such abuses are difficult to prevent by law.

They can only be eradicated if the society puts them down with a strong hand. It is within the power of the society to fight these abuses. The sureties are generally themselves members and the amount for which a member may stand security is within the discretion of the Committees to determine. Committees should be a little alert on this matter.

849. We next come to the important question of the rate Rate of interest. of interest. Primary Credit Societies fix a maximum and minimum rate of interest by their bye-laws. In practice the rate of interest has been, for nearly all societies, pegged at 12 per cent. This is undoubtedly a fairly high rate, and we hope societies will make an effort to reduce it as soon as their finances improve. A society can of course lend as cheaply as it can borrow. The societies get their deposits at rates varying from 5 to 6 per cent. (for fixed deposits) and the central banks accommodate them at rates varying from 6 to 8 per cent. The Kandy Central Bank charges 8 per cent., the Colombo Bank 7 per cent., and the Jaffna Bank 6 per cent. In the present state of co-operative finances, it would be difficult to lower these borrowing rates. Over these rates there must be a decent margin which a society must keep in order to realize working expenses and to build up a reserve fund. The aim of a Co-operative Society is not primarily to make profits, there would indeed be no point in doing so, considering that borrowers themselves are the owners.

850. We quote below the rates charged in India by the primary societies:—

Rate charged to Cultivators by Primary Societies. Per Cent.	
Ajmer-Merwara ..	.. Generally 9 to 12
Assam ..	.. 15½ or 18½ (generally 12½ in the case of old societies in the Assam Valley)
Bengal ..	.. 7½ to 15½
Bihar and Orissa ..	.. 12½ to 15½
Bombay ..	.. 9½ to 12½
Burma ..	.. 15
Central Provinces ..	.. Generally 12
Madras ..	.. 9½ to 10 15/16
Punjab ..	.. 9½ to 12½
United Provinces ..	.. 15

851. Societies are expected to keep a strict eye on the use Supervision on use.
of monies. of the loan. We should like the watchfulness of the societies to be stiffened in this respect. At present no statistics are published about loans misused and recalled. We do not know if any report is now made by the societies to the Registrar about misapplication of loans, but it would be desirable to collect some information about the extent of such misuse. We are told that so far recalls have been only few and far between.

Defaults.

852. In 1932-33 defaulting for the whole island was only 14 per cent. of the total amounts to be collected. This is the percentage for all types of societies including thrift societies. If we exclude thrift societies, which are not meant really for lending, the figure stands at 15.33 per cent., which too is quite creditable. In the previous year the percentage of overdue to total outstandings to be recovered stood even lower, namely, at 12.4 (excluding thrift societies). This little increase between these two years in overdue was only to be expected in view of the lengthening shadow of the depression over the Island and, if anything, it speaks well of the strength of the co-operative movement and the watchfulness of the Registrar's Department that it has not been more. Conditions in different parts of the Island naturally must be different in this respect and Hambantota District had the minimum percentage of default with .06 per cent. on Rs. 16,000 of its outstandings. Comparisons, however, are apt to be deceptive owing to the differences in the strictness with which applications for extension of the period of loans are treated.

853. In any case the Ceylon figures compare very favourably indeed with those in some of the Provinces in India. The Registrar gives in his report for 1932-33, the latest figures available:—

	Per Cent.
Bombay Presidency ..	48
Bihar and Orissa ..	27 (Agricultural only)
Madras Presidency ..	62.95 (do.)
Bengal Presidency ..	68.3 (do.)
Central Provinces ..	58.4 (do.)
Berar ..	64.9 (do.)

Difficulties in legal recovery.

854. In cases of unmerited misfortune, the Committee of the Society usually allows a suitable extension of time. If all methods fail, the society has to take recourse to the court of law for the recovery of the money. The trouble and inconvenience involved in this process of recovery are not small. The Registrar says in his memorandum "Fiscal's officers do not appear to be invariably anxious to serve process, while debtors show an ingenuity in frustrating the execution of writs which would be admirable in a better cause."

Surrendering of shares in settlement of dues.

855. Our attention has been drawn to an undesirable practice by which members in some cases try to liquidate their dues to the society. They resign membership and ask the society to appropriate the amount contributed by them as share capital, in part or complete settlement of their debts. In other words they run away from the society leaving behind their shares. Although this is against the rules and by-laws, we learn that a Supreme Court decision has permitted this procedure. We agree with the views of the Negombo Co-operative Union that the "Law should be amended so that such appropriation cannot be allowed unless the member in question has discharged not only his debt to the society but is free from obligation as a surety for the debt of other members. His liability to the society being unlimited, in reality his shares stand as security for the liabilities of the society and unless such liabilities are wholly liquidated allowing him to set off his shares against his liability weakens the position of the society."

Societies protected by law as creditors.

856. As creditors, co-operative societies are better protected by law than other classes of lenders. Section 18 of the Ordinance of 1921 gives the societies priority of claims as regards crops,

over all other creditors, save and except Government. Of course such priority is effective only when the society has already filed a suit and in any case it cannot be enforced against land but only the produce of land.

857. Section 55 of Ordinance No. 9 of 1934 has strengthened the position of the co-operative societies still more in the matter of realization of their dues. Village tribunals can now settle claims up to Rs. 100 where co-operative societies are creditors. Ordinarily their jurisdiction is up to Rs. 25. At these courts no lawyers are admitted and proceedings are simple, inexpensive, and quick.

858. There is also provision for settlement of disputes by the Registrar. No use, however has been made so far of this provision. The main difficulty is not the obtaining of a decree, but its execution and the Registrar is unable to help in this.

LIMITED CREDIT SOCIETIES.

859. The form of organization that suits the village is not one that exactly suits the town. There are many classes of people in the towns who may profitably organize co-operative credit societies among themselves. The small artisans, the better paid labourers, the members of the various professions, the petty traders and shopkeepers, and all other people who are not rich enough to secure their loan requirements otherwise may band themselves together to form their own banks. Urban banks.

860. These town banks are organized with a limited liability. The reasons are clear. The class of people who join them can generally manage to raise sufficient capital by shares and deposits. They are not quite so helpless as village cultivators. They not only command more wealth but also better education and abilities. The ties that bind them together are not, however, so strong as to justify their acceptance of unlimited liability. That would, on the contrary, scare many of them away. Reasons for limited liability.

861. Their position is summarized in the following figures taken from the last annual report (1933-34):—

Limited Credit Societies, 1933-34.

Province.	No. of Societies.	Share Capital.		Deposits.		Reserve in Bank.		Loans due by Members.		Profits.	
		Rs.	c.	Rs.	c.	Rs.	c.	Rs.	c.	Rs.	c.
Western	9	88,830	57..	7,109	28..	14,145	42..	83,701	92..	3,699	20
Central	8	27,219	29..	3,420	90..	3,863	30..	31,139	68..	2,266	4
Southern	2	4,196	0..	1,276	84..	1,127	33..	4,400	95..	58	56
Northern	8	22,187	79..	6,602	91..	925	27..	28,414	59..	977	39
North-Western	2	2,549	0..	333	24..	12	14..	2,354	0..	15	17

862. There is no doubt that this type of society meets a real need of the country. The boutique-keepers, among whom they have been mainly started, have decidedly benefited by them. The two societies at Vavuniya are regarded by the Co-operative Department as the prize societies of their kind. There is considerable room for more of these societies among traders in all parts of the Island. The small shopkeepers in provincial towns are, speaking generally, very badly served in regard to credit Difficulties in the way of extension.

facilities. The chief difficulty according to the Registrar in organizing co-operation among them has been the idea that they can only usefully borrow for periods extending over two years or more. Societies also in giving out loans seem to have been guided in some cases by this impression. Not only is such long accommodation difficult for co-operative banks to grant, but it is really not wanted. Traders want the money mostly for dealing in commodities in which the turnover takes perhaps a month or six weeks. The practice of giving long period loans by the societies leads to the borrower using the money over and over again before he repays it, and then, as the Registrar rightly remarks "The fortunes of the society become bound up for an unreasonably long time with those of a trade over which it has no control and about which it has little or no information." Societies and their members should, therefore, be disabused of this idea. We understand the Registrar is trying to spread the true idea of the nature and function of an urban bank.

Co-operation
should replace
cheetu clubs.

863. Not only to the boutique-keepers, but also to other classes of people in towns co-operation is now making an appeal. We were interested to learn that at Gampola a society has recently been registered which has enlisted among its members a number of lawyers and other professional people of the town. They have called the society the "Gampola Co-operative Urban Bank", which perhaps is a mere dignified and high sounding title than a "limited credit society". The unhealthy growth of cheetu clubs in various cities shows that there are exceedingly needy people in towns who are prepared to borrow at desperately high rates of interest, even by offering sureties. The cheetu moneys are provided by its members. We think it very desirable to replace these cheetu clubs by the Co-operative Urban Banks.

Thrift societies.

864. Another type of society is the thrift society. It collects the savings of the members in the form of regular compulsory contributions, and it lends only to a limited extent against those contributions. The object is primarily to give the members an opportunity for saving, rather than for borrowing. There are many classes of people like mercantile clerks who have little will and perhaps less power to practise the virtue of thrift. A little wholesome compulsion to deposit a certain percentage of their salaries is good for them in the long run. While much may be said in favour of promoting thrift by itself, by paying one-sided attention to saving and neglecting the loan requirements of the members, the thrift society in our opinion has narrowed unduly its scope of usefulness. Both functions can be easily combined. Indeed there is not much point in pooling the savings of all if that cannot be utilized for the benefit of some, and the principle of co-operative finance is only carried to its logical conclusion when both borrowing and lending are combined in the same society. We are afraid many people keep out of the thrift society owing to its making such poor provision for loans. We do not see any strong reason why a more liberal loan policy should not be pursued by such a society along with the usual co-operative safeguards. We recommend, therefore, that the thrift society should be developed into Urban Co-operative Bank. It is really an anomalous situation that the class of people, whom thrift societies encourage in the matter of saving, cannot now find any institution to help them in regard to their borrowings.

865. The existing position of the thrift societies in the Island is summarized below:—

Thrift Societies in the Island in 1933-34.

Province.	No. of Societies.	Deposits.		Reserve Fund in Bank.		Loans due by Members.		Cash in Bank.	
		Rs.	c.	Rs.	c.	Rs.	c.	Rs.	c.
Western	15	283,731	23	4,512	35	143,683	13	97,560	0
Central	14	30,870	53	790	56	6,535	59	25,008	91
Southern	1	2,806	49	—	—	452	62	2,463	69
Northern	3	17,292	88	922	21	14,413	1	2,938	3
North-Western	5	732	0	—	—	391	0	245	50
North-Central	1	3,809	42	—	—	1,411	50	2,283	75
Uva	1	7,910	15	222	25	2,821	50	5,314	86
Sabaragamuwa	8	3,663	62	—	—	142	0	3,558	12

MARKETING SOCIETIES, STORES, AND OTHER NON-CREDIT SOCIETIES.

866. It remains for us now to deal briefly with the various other types of societies, which cannot be strictly called credit societies. They lend valuable support to the Co-operative credit machinery.

867. The business of a sale or marketing society is to collect the produce of members, store it in its godowns as long as necessary and ultimately arrange to dispose of it on the best possible terms. The members, meanwhile, are advanced a certain portion of the price of the commodities. The security of the society is the produce which it holds. Such societies are organized with share capital and limited liability and they operate partly with their own money and partly with borrowed funds. The benefits that such a system of sale brings to the producer are quite apparent.

868. Of the two Jaffna societies, the Malayalam Tobacco Co-operative Sale Society, Ltd., was registered on April 26, 1934, while its sister institution The White Burley Co-operative Sale Society, Ltd., was organized in March, 1933. The White Burley variety of tobacco is exported to England. The Malayalam tobacco as the name indicates, has a market in Travancore. The Malayalam society has a capital of Rs. 250,000 made up of 50,000 shares of Rs. 5 each payable by members in instalments.

Apart from share capital, the society has been put in funds by a loan from the Local Loans and Development Fund. The White Burley Society was fortunate in getting a building for its godown from the Agricultural Department. The Malayalam, we understand, has rented a godown to store its produce.

869. The following are the terms of the Agreement that is made between the member and the White Burley Society:—

- (1) The member is to deliver for sale to the society as his Agent all the White Burley tobacco grown by him.

This stipulation is important, otherwise the member may sit on the fence and try to play the society against private dealers in order to obtain the most profitable terms.

- (2) The society agrees to accept and sell the tobacco. It agrees to give the grower an advance the amount of which is to be decided by the society according to its bye-laws and the market conditions.

We may observe that at present both societies have decided that the advance is not to exceed 60 per cent. of the estimated value of the produce.

- (3) The member gives power to the society to grade the tobacco and bulk it with that of other members.
- (4) On receipt of sale proceeds, the balance of the members' dues will be paid to him after deducting advance, interest, warehouse rent, commission insurance, cost of grading, packing, transport and other charges.
- (5) For any quantity of White Burley tobacco disposed of by the member outside this agreement, a liquidated damage of 10 cents per pound is to be paid to the society.

870. We understand from the Registrar that his department is now engaged in marketing investigation at various stages, apart from tobacco, arecanuts, coconuts, fruits, vegetables, and cacao. The co-operative marketing of the coconut and various kinds of coconut produce seems to hold out good promise and sound marketing may do much in mitigating the depression in the industry.

871. While we fully realize the value and potentiality of co-operative methods of marketing, we feel that co-operation by itself cannot solve the question. We make certain specific suggestions about marketing in another section.

Stores.

872. Another type of non-credit society is the store or the Co-operative Supply Society. The experience that has been gained in Ceylon shows that they may also be successfully run, but that various difficulties tend to limit the field.

Moor and Indian traders.

873. In Ceylon, the enterprising and hardworking Moor and the Indian small trader have taken shopping facilities to the villages at competitive terms, and there is not much scope for co-operative stores, run exclusively by and for the members. It will not be easy for them to compete with the boutiques. One great attraction of the boutique is the credit which the boutique-keeper allows to his customers. Besides, a store calls for considerable business ability to decide about what goods should be stocked and what qualities and quantities. Frequent and careful checking of stocks is also necessary. All this would be quite outside the ability of the honorary manager whom the society would appoint and if a good remuneration is to be paid to him the business may not be worth while undertaking.

874. These difficulties explain for the fewness of this kind of societies in this country. In 1932-33 there were nine registered stores, five in estates, three in towns, and one school supply society. In 1933-34 the total number of these societies grew to be twelve. The estates stores are doing well, because they have a compact membership with a strong community feeling, they are away from the competing bazaars and they are helped by the estate staff. But for this assistance the labourers themselves would have found it extremely difficult to supply office-bearers of these societies. The stores run by the Passara Group labourers has been the object of envy, fear, and even protest by the old and established boutiques of the locality.

875. The town stores lack in some of these strong points and consequently they have had a struggling existence. The competition of neighbouring shops is very acute and cash payments are very unpopular. Two of these societies have been working at a

loss, while another has stopped working. We recommend caution in registering more town stores. But since the field is promising in the estates, a forward policy is desirable there. The Agent of the Government of India is willing to co-operate, and planters, we understand on the authority of the Registrar, are very helpful and sympathetic.

876. It is neither possible nor necessary for us to deal with all types of non-credit co-operative societies.

877. All we have wanted to show is that there is a wide field for the beneficial application of the co-operative principle which extends far beyond the problems of debt.

GOVERNMENT AND THE MOVEMENT.

878. Government's attitude to the co-operative movement has been actively friendly. Government help the movement in two ways (1) by acting as its adviser and friend and (2) by giving it financial assistance. It is a dual role. The administrative part played by the State is no less important than the financial. The necessary implication of this assistance is a certain amount of Government control. We would advocate the continuance of this official control and official guidance for some time to come, but we realize and we may repeat the conclusion of the Royal Commission on Indian Agriculture that "whenever co-operators are in a position to supply from within their ranks the leadership and the technical knowledge required for the movement, we should be the first to suggest the removal of redundant external control." In Ceylon public-spirited men are coming forward more and more to assist the movement, although nearly all the witnesses who appeared before us agreed that progress in this direction has been very slow so far. The Registrar has categorically stated that "It is work not money which is required. Co-operation is an ideal field for unofficial activity." (Manual of the Department.) Pending such improvements, Government assistance in education, supervision, and audit and certain other facilities will have to be continued.

879. Speaking before the Ceylon Economic Society in 1927 the present Registrar, Mr. W. K. H. Campbell, said, "Borrowing from the Government at an uneconomic and semi-charitable rate means sacrificing the self-reliance and independence which is the choicest gift co-operation has to bestow." No Government in the world have enough money to finance a co-operative movement in full working order, nor have they perhaps the moral right or the economic justification to attempt to do so.

880. The amount of money that Government have lent out to the movement has varied from time to time. The figures for the last three years have been as follows:—

Loans to Co-operative Societies.

Years.	Amount lent.		Amount repaid.		Amount outstanding at end of Year.	
	Rs.	c.	Rs.	c.	Rs.	c.
1931-32	22,950	0	190,974	32	157,989	31
1932-33	8,615	0	53,748	36	104,240	95
1933-34	12,600	0	44,039	63	77,996	32

881. We do not suggest the sudden and absolute withdrawal of all Government funds from the co-operative movement. That is impracticable as well as undesirable. If money can be spared, there is some justification for lending a certain amount to the

Gradual reduction of Government help desirable.

peasants whose cause Government must always have at heart. In nearly all countries Government give direct monetary assistance to the peasantry in one form or another. In India, there are, for instance, the loans given under the Land Improvement Loans Act and the Agriculturists Loans Act. Since in Ceylon, co-operation is the only channel through which such help is given to agriculturists, we do not want to see it entirely removed immediately. But gradually it will be possible to reduce it.

882. Next, in the matter of supervision and audit, the movement should try to outgrow the official control of the Registrar. We do not think a reduction in Government help in this direction will have any unfavourable effect on the movement.

CENTRAL BANKS.

883. The capital of a central bank is owned partly by individuals and partly by primary societies of the locality. In Ceylon, apart from a very small number of individual members, the members of co-operative central banks are societies. A provision in the bye-laws (No. 10) reserves at least half the shares for society members. The bank gets funds in the form of share capital, deposits and loans from members and non-members. It is organized with a limited liability. Its constitution and resources attract money more easily to it than to the primary societies.

884. With a limited liability and the existence of some individual shareholders, the central bank rather approximates a commercial bank, yet its co-operative character is ensured by the fact that loans can only be made to shareholding-member-banks, and to no one else.

The Batticaloa
paddy bank.

885. The three central banks in Ceylon are the Jaffna, Kandy, and Colombo Central Banks. The Batticaloa paddy bank, which has an interesting history, is gradually being wound up. It has functioned as a central bank for some years. Originally, however, it was more a fund than a bank. The profits that were made in the Batticaloa District during the rice control period were handed back by Government to a Committee for the purpose of giving the money out as loans to people within the district. These profits were really due to the paddy growers of the district but they were held back and formed into a fund. At first loans were given out only to individual borrowers for various objects, not necessarily for growing paddy, as the name of the institution might suggest. But later a number of co-operative societies were organized, rather hastily we are afraid, to take advantage of the fund. The fund thus assumed the character of a central bank. In subsequent years Government placed some more money into the bank. It was still called the paddy bank to recall its origin from the profits of paddy sale. It was not a full-fledged or a properly-grown central bank. The affiliated societies were started on poor soil, and the loans given out to them, as well as those given to individuals, were unduly liberal. The whole experiment has proved an unhappy failure. Many of the debts have had to be written off. From the evidence placed before us at Batticaloa, we are inclined to conclude that the chief cause of the failure of the bank was the conversion of long-period credit into short-term credit, under co-operative societies. The major portion of the societies, hurriedly created had to be liquidated, and out of the original 48 only about three societies now exist. The bank is now collecting its dues, and, as soon as the balance is recovered, it would

be wound up. If it were possible, the best thing would have been to convert the paddy bank into a regular central bank. But co-operation has not taken strong root in the Eastern Province. There are very few societies in the Batticaloa and Trincomalee Districts, and these are insufficient to support a central bank. That region is now without a central bank. It will, of course, take some time to retrieve the position and attempt creating a new central bank.

886. In the financial year 1932-33 the Batticaloa paddy bank recovered Rs. 18,692 of its loans. It has still an outstanding of Rs. 41,958. The bank has ceased to issue loans and is concentrating on the recovery of its outstandings. Growth and present position of central banks.

887. The Jaffna bank has 172 primary societies affiliated to it, the Kandy bank has 181 members, and the Colombo bank 125.

888. The following table summarises the growth and present position of the central banks of the Island:—

Central Banks.

Year.	No.	Share Capital.		Reserve Fund.		Deposits.		Loans (due end of Year.)	
		Rs.	c.	Rs.	c.	Rs.	c.	Rs.	c.
1928-29	.. 1	1,500	0..	—	..	380	0..	—	
1929-30	.. 1	7,100	0..	—	..	52,392	7..	64,047	30
1930-31	.. 2	19,588	75..	*102	15..	221,463	24..	174,023	21
								†359,016	60
1931-32	.. 3	55,650	0..	*1,129	98..	385,782	16..	381,255	64
				*1,074	11			†251,094	97
1932-33	.. 3	63,100	0..	1,129	98..	433,150	93..	369,918	92
				*1,820	0			†304,716	91
1933-34	.. 3	73,140	0..	2,204	9..	397,848	71..	364,572	56

889. In Ceylon the Central Banks have been rather late in appearing and even now their number is not large. While the first society was formed in 1913, the first Central Bank was formed only in 1929, sixteen years after, when the total number of societies stood at 383. The formation of Central Banks seems to have given an impetus to the movement. The rate of growth of societies in the post-Central Bank period has been much faster than in the pre-Central Bank period.

890. We are glad to find that the three Central Banks in Ceylon are all able to get most of their deposits in the form of fixed deposits. Indeed, of the three, only the Jaffna Bank accepts current deposits, the two others do not seem to make any provision for them. The rates of interest given for deposits are now as follows:— Deposit rates of central banks.

Colombo Central Bank .. 4 per cent. on reserve funds of societies. 2½ to 5 per cent. on fixed deposits. No current deposits.

* Reserve Fund due.

† Loans issued during the year.

Kandy Central Bank	..	Fixed deposits 3 per cent. for 1 year. Current deposits, nil. Reserve fund, 3 per cent.
Jaffna Central Bank	..	Fixed deposits: 3 months 2 per cent. 6 months 3 per cent. 1 year and over 4 per cent. Reserve fund, 4 per cent. Current deposits—accepted from societies only, 1 per cent.

891. These rates are in general much lower than what the Central Banks in India pay. The Central Banks here are evidently in the good books of the depositors.

Savings deposits desirable.

892. At present, Central Banks do not take any savings deposits, but we would like to suggest the introduction of Savings Bank accounts in Central Banks in place of current accounts. The argument that Central Banks should not be allowed to compete with Postal Savings Banks does not, in our opinion, carry much weight. The country can still afford to multiply facilities for savings, and Central Banks will supplement and not supplant the effort of the existing Postal Savings Banks. Even if no new savings are attracted, we do not see any harm in diverting some of the Postal deposits to the Co-operative Banks. Postal deposits are not directly or even mainly utilized for the assistance of agriculturists. The Postal Savings Bank is not a lending but a saving institution, while every rupee put into the Central Bank is guaranteed to be utilized by co-operators.

Loans issued.

893. The Central Banks' lending rates to societies, who are their only clients, are now as follows:—

Jaffna Central Bank	..	6 per cent.
Colombo Central Bank	..	7 per cent.
Kandy Central Bank	..	8 per cent.

894. The loans, recoveries and balances outstanding of the three Central Banks during 1933-34 are shown separately below. These figures show how the volume of business done by the Jaffna Bank is several times more than that of either of the other two:—

	Issued.		Recovered.		Balance Outstanding.	
	Rs.	c.	Rs.	c.	Rs.	c.
Jaffna Central Bank	..	199,909 89	..	191,065 65	..	153,279 65
Kandy Central Bank	..	41,759 52	..	38,508 64	..	56,690 37
Colombo Central Bank	..	63,047 50	..	80,519 88	..	72,602 54

Need for more central banks.

895. We have given careful consideration to the question of the establishment of more Central Banks in the Island. Many witnesses have pressed for them. We fully realize the benefits that they would bring to the movement. The Central Bank is the life and soul of the village society. There are certain regions in the Island, which do not enjoy at present any central banking facilities. For instance, the Eastern Province and the North-Central Province. But in these provinces the number of primary village and urban societies is so small that the Central Bank cannot be fed with adequate business. For the Southern Province the question of a separate Central Bank has been under consideration for some time, but there again the smallness of business has stood in the way. There is a certain minimum amount of business which a Central Bank must have in order to be a paying concern. To put these Southern Province Societies formally under the Colombo Central Bank may be a

possible solution, but the contact between the Central Bank and the societies cannot be, in view of the distance, very live and effective. A Central Bank should not cover an unmanageable ambit.

896. The difficulty is that without a sufficient number of primary societies, and without a sufficient demand for loans, a secondary financing institution like the Central Bank cannot function successfully.

897. Again, the existing Central Banks in Ceylon have been overstocked with money. Even on the good terms which they get, the affiliated societies have shown little inclination to borrow. The problem, therefore, is not the want of creditors but the want of borrowers. In some cases the Central Banks have to woo their societies for taking loans. It would seem, therefore, that there was hardly any scope for fresh Central Banks. It may be that the Central Banks being established at an unlucky time during the depression have, naturally, had few calls for productive lendings. In India also the volume of business done by Central Banks has contracted appreciably during the last few years. It is possible that with the advent of better times the Central Banks will be besieged with loan applications and the three banks in Ceylon may prove to be too few. They, however, have all of them such a reserve of borrowing power that it is doubtful if they will be unable to cope with the demand. If necessary, they can also borrow from Government. If again, as we have provided, the State-aided Bank comes into existence soon, they will find in it a strong supporter. Besides, a general boom period will bring in more capital, more deposits, and more profit to the Central Banks, and their loanable funds will grow correspondingly with the demand for loans which they will have to face. It is doubtful, therefore, if an increase in the number of Central Banks is immediately wanted on this ground. If business flourishes, each of the existing Central Banks can also rise with it. Indeed, the average size of a Central Bank in Ceylon is yet much smaller than that in India. A Ceylon Central Bank can manage with one or two clerks, but an Indian Bank usually has a dozen men working in its office. How many societies a Central Bank should embrace is difficult to say with arithmetical precision. Ceylon has not yet reached the limit of size and all its Central Banks are perhaps much below the optimum size. Our biggest Central Bank, namely, the Jaffna Bank has 172 societies affiliated to it. In Madras in 1932-1933 there were 32 Central Banks looking after 11,919 non-central societies of various kinds. The average Central Bank in that Presidency thus embraced 372 societies. Judged by this standard, the Central Banks in Ceylon have still much room for increase in size, before an increase in number is called for.

898. We would not, therefore, straightaway recommend the formation of more Central Banks, but we would ask the operative Department to watch the situation carefully with a view to add to their number when conditions demand. Situation should be watched.

899. No link exists at present between a Central Bank and joint stock commercial banks. There has been such a poor demand for loans that the Central Banks have hardly ever thought of approaching the outside money market for additional accommodation. In case of need, financial assistance may be quite easily obtained from Government. So long Government have given loans directly to the societies, but the new policy is Replacement of Government loans by central bank loans.

rightly to ask societies to go to Central Banks where they exist. In Jaffna for instance the Central Bank has taken over much of the original loans given out by Government. What has happened is that the societies have been called upon to repay Government money by borrowing from the Central Bank. Government loans bore a 5 per cent. rate of interest, while the Central Bank gave the money at 7 per cent. Such a conversion is good for the Central Bank though it is rather costly for the societies, and it is not surprising that some societies have not fallen in with the new arrangement. But since, sooner or later, Government loans have to be returned, and since the strength of the Central Bank is also ultimately the strength of the affiliated societies, the conversion has been generally welcomed.

SUPERVISING UNIONS.

900. Apart from the Central Bank, there is another type of secondary society, the supervising union. The chief objects of the union are as follows:—

- (1) To develop the work of affiliated societies and to settle all matters of common interest.
- (2) To advise financing institutions on the grant of loans applied for by affiliated societies.
- (3) To exercise regular and careful supervision over affiliated societies and to make frequent and careful inspection thereof.
- (4) To act as agent for the affiliated societies and to arrange on their behalf for the purchase of agricultural, domestic, and other requirements in bulk, and for the sale of agricultural produce to the best advantage.
- (5) To organize free societies and to diffuse knowledge of co-operation in the area of operations.
- (6) To maintain a library of co-operative literature.

Chief work is financial supervision.

901. It cannot be said that equal attention has been paid by the unions to all these objects. A certain amount of agency work has been done by some unions on behalf of their affiliated societies. Manure and other requirements have been bought and supplied to the member societies. The Bomiriya Union in the Western Province has undertaken the laudable work of marketing vegetable and other produce supplied by member societies and for that purpose a sale organization has been built up at the old municipal town hall in Colombo. The scheme, however, has not been doing well. The unions also have done a certain amount of work in regard to diffusion of co-operative knowledge. But on the whole the chief work so far has been general inspection of the affiliated societies with special reference to finance. The credit-worthiness of a society is determined in consultation with the union, and the union's advice is always sought in giving out loans to societies. For this purpose a regular exchange of notes between the union, the Registrar, and the Central Banks takes place.

902. A union is made up of a number of societies within a certain area. Its funds are raised by contributions from the affiliated societies. The union levies a small supervision fee on the member societies. The union appoints honorary supervisors, who are vested with official powers to inspect societies in their area. Government pay all travelling expenses of honorary supervisors in non-union areas. In union areas the union pays the whole or a part, Government paying the rest.

903. We attach considerable importance to the work of the unions. It is through them that co-operation can progress towards the cherished goal of internal supervision and control. In a country like Ceylon, Government of course must help the movement in its initial stages, but it is time the societies themselves took a hand in the task of supervision and education. Otherwise the danger of over-officializing, and consequent devitalizing of the movement would be difficult to prevent. Through a union a group of societies can pool their common talents and experience for their common benefit. Importance of unions.

904. In Ceylon, the work of formation of these unions has proceeded steadily from year to year and the number now stands at 32. All the provinces except two, where co-operation has not made much progress are well served by unions.

905. Unions vary in regard to the number of societies affiliated to them, ranging from 35 in the case of the Negombo union to only 5 in the case of Galle Gravets.

906. We do not think that there is any immediate necessity of increasing the number of these unions. What is wanted is not more unions, but an improvement in the quality of the work they do and perhaps an extension of the field of their operations. We may particularly emphasize the need of increased attention to education and propaganda. Much remains to be done in this respect. We also suggest that for providing for common consultations the unions be at the earliest opportunity federated into an All-Island Apex Union. Such a federal body would strengthen the position of these institutions, and it would also serve as a clearing house for information and propaganda.

907. In a later section, where we discuss the question of the reform of the co-operative system as a whole, we suggest that unions be given the work of auditing the societies also. We believe they can gradually take over this part of the work of the Registrar without any undue risk. If necessary, for some time we would even countenance dual audit, one by the Registrar and another by the union, but the experiment should still be conducted. It cannot be said that unions are overworked at present. Auditing is a legitimate province of their work. We have considered the question of *ad hoc* auditing unions, but a multiplicity of secondary societies will not be desirable in a small country like Ceylon.

GENERAL REVIEW AND RECOMMENDATIONS.

908. In the preceding sections we have attempted to give a descriptive and critical account of the various parts of the co-operative movement. It now remains to make our observations on the system as a whole.

909. We recommend certain changes in the general co-operative frame-work. Ever since 1913, when it was first introduced, the movement has been steadily growing, but neither in its anatomy nor in its physiology has it perhaps attained full or ideal maturity yet. Its evolution has been haphazard rather than deliberately planned out. Secondary financing institutions have been rather late in coming, and the question of centralization and co-ordination of finance has not been fully worked out. The organization at present stops rather abruptly with the Central Bank. The Government's part in financing the movement has not been quite well defined. In India, as we know, the architecture of co-operation has been elaborately built up with Changes in structure.

primary societies at the base, secondary societies for finance and supervision in the middle, and an apex bank at the top. Various supporting arms for marketing, production, and non-credit purposes have also been developed, and logically linked to the rest of the structure. Long-period mortgage credit, instead of being mixed up with short-period personal credit tends to be organized as a separate and independent movement. Most important of all, co-operation is developing a real and active link with the outside money market. There is provision in the Reserve Bank of India Act for accommodation for the co-operative movement.

910. In Ceylon, it is time the lines of a permanent structure were laid down definitely. We recommend, in conformity with our general scheme of reorganization of credit institutions in the country, two main changes. First, the Central Banks, existing and prospective, should be further co-ordinated. We link them up, for this purpose, to the proposed State-aided Bank. Secondly, we recommend that a halt be cried with the work of the co-operative institutions for long-period credit, namely, the Co-operative Land Mortgage Banks, and, instead, the work be entrusted to branch boards of the State Mortgage Bank.

911. We are aware that the structure we recommend is different from what obtains in India. There in most provinces the Central Banks have been further federated into Co-operative Provincial Banks. Co-operators in Ceylon also have perhaps generally looked forward to that type of organization being established here some day. In the report that the present Registrar submitted after his study of co-operative systems in different countries he wrote " I think that there is no doubt that Ceylon ought to aim at ultimately building up a co-operative edifice consisting of primary societies of limited and unlimited liability (for agricultural and non-agricultural purposes). On the side of finance they should be affiliated to Central Banks which will some day need to be united in a Apex Bank for the whole Island " (Report in 1926). We have thought fit to deviate from what may be called the established conventions of co-operative structure, because we feel that in a small country like Ceylon there should not be a multiplicity of stages and of banks. The State-aided Bank could well serve as the Apex Bank of the co-operative movement. If we had linked co-operation to an entirely private commercial bank, there might have been some confusion of principles. But there is, we feel, nothing revolutionary in linking co-operation ultimately to a State-aided or a State Bank. There is no conflict between the State and co-operation, as there is between joint stock banking and co-operation. We believe and anticipate that the directorate of the proposed State-aided Bank will deal sympathetically with the co-operative institutions under their care.

Financial
co-ordination.

912. We contemplate the following kind of connection between the Central Banks and the State-aided Bank. The Central Banks will deposit their surplus funds with the State-aided Bank. When necessary they will be allowed to borrow from the State-aided Bank on the strength of co-operative paper. That necessity may not arise immediately, indeed for some years more the Central Banks may not want any financial accommodation at all. All that the proposed arrangement suggests is to make provision for meeting that necessity if and when it arises. No regular arrangement now exists between the Central Banks and the Commercial Banks, apart from facilities in one or two cases of

temporary overdrafts against their fixed deposits kept in the commercial banks. Even in India the problem has not been satisfactorily solved. The Co-operative Central or Provincial Banks there have made arrangements for cash credits and overdrafts from the Imperial Bank for various amounts. Due to the depressed condition of co-operative societies, however, the Imperial Bank has been calling back recently these loans and refusing to extend facilities. In Madras, for instance, "Central Banks are granted cash credits on the security of rural credit societies' pro-notes both for the purposes of granting short-term agricultural loans and for being utilized as fluid resources. The credit so made available was at a flat rate of 6½ per cent. The Imperial Bank of India has recently notified its intention to discontinue the accommodation for fluid resources on the security of agricultural societies' pro-notes and it has required the substitution in five years at the rate of Rs. 20 for each year of Government paper in place of societies' pro-notes. The rate of interest is no longer a fixed one, but is the fluctuating bank rate. During the last two years two-fifths of the accommodation for fluid resources on co-operative paper has actually been withdrawn." (Report of the Central Banking Inquiry Committee, page 142.)

913. The State-aided Bank will be more sympathetic and dependable. The primary societies in the first instance will borrow from the Central Bank by means of bonds or Demand Promissory notes. Some of these D.P. notes in its portfolio the Central Bank will be able to offer to the State-aided Bank for obtaining liquid resources from it. Speaking generally, a Central Bank can meet most of its loan applications from its deposits and share capital, but since the deposits are likely to be called back in part it must keep liquid cash or resources to some extent. It is for this purpose that assistance is wanted from commercial and outside agencies and not actually for increasing its loanable funds.

914. Co-operation has not thrived equally in all parts of the Island. Particularly bad has been the soil in the Eastern and North-Central Provinces. Mr. Freeman, who can speak with authority about the latter Province, says that the "co-operative movement does not work well there because of the absence of business habits and because unlimited liability is a danger to such people with its possibility of selling them up, field, garden, and house. About half of the North-Central Province Co-operative Societies have gone into liquidation." Where along with unbusiness like habits poverty is also widespread co-operation is not easy to organize. In the Eastern Province a too hasty and indiscriminate starting of societies has given the movement an additional setback. Much of the damage has to be now undone in that Province and the movement restarted on new principles. We are, however, inclined to be hopeful. We believe that "the borrowing habit and the non-paying habit", which Mr. Freeman deplors as a bad feature of his Province, will correct itself to some extent under well conducted Co-operative Societies.

915. We are inclined to think that on the whole the movement has developed at a good rate and on sound lines. There is undoubtedly room for expansion, but care must be taken to see that safety is not sacrificed to speed of growth.

916. Judged by the number of societies perhaps the growth of co-operation in Ceylon has been slow, but it must be

remembered that it is a slow growing movement. There is perhaps more need now for consolidation of the ground than expansion.

Grade distribution of societies.

817. All the societies in Ceylon are divided into four classes according to their merits and strength. A class societies are regarded as the model, B good, C poor, and D on the verge of liquidation. The grading is done on a number of tests such as capital and deposits, reserves, regularity of repayment, overdues, knowledge of co-operative principles exhibited by the members and other points. To become a B class society all the members must cease borrowing from outside money-lenders. The standard of these tests is kept unchanged from year to year. There has been, during the last few years, a distinct improvement in the quality of the societies as the following table prepared by the Registrar shows:—

Grade Distribution of Societies.

Year.	Percentage.			
	A	B	C	D
1928-29	.. —	.. 30·0	.. 36·8	.. 12·8
1929-30	.. 1·9	.. 31·3	.. 30·1	.. 8·1
1930-31	.. 3·1	.. 39·1	.. 23·5	.. 7·7
1931-32	.. 4·8	.. 50·2	.. 36·8	.. 6·3
1932-33	.. 6·2	.. 47·3	.. 38·4	.. 7·9
1933-34	.. 9·2	.. 46·3	.. 35·9	.. 8·5

918. Although comparison is not easy, these figures compare favourably with similar figures, compiled in India. In India the latest classification has been as follows:—

	A		B		C		D	
	Per Cent.	Per Cent.	Per Cent.	Per Cent.	Per Cent.	Per Cent.	Per Cent.	
Madras	.. 2·7	.. 17·2	.. 67·1	.. 12·9				
Bengal	.. ·5	.. 2·5	.. 73·8	.. 32·1 (D & E)				
Central Province and Berar	.. ·05	.. 6·4	.. 74·2	.. 19·2				
Bihar and Orissa	.. 3·8	.. 13·6	.. 69·3	.. 13·3 (D & E)				
Bombay	.. 5·6	.. 67·5	.. 22·7	.. 4·1				

919. The quality of co-operation in Ceylon cannot be said to have been bad. As for quantity, much has been done and the number of societies has grown steadily. We might, however, point out certain directions in which there is appreciable room for expansion.

Societies among estate labourers.

920. One important field which co-operation does not seem to have seriously invaded yet is that of the estate population. There are well over 600,000 estate labourers in the Island nearly all of whom are immigrants from India. They are generally a thrifty lot and co-operative institutions started among them are likely to be well patronized. There are some stores, which have been started among them, but that does not meet the situation completely. The estate worker does occasionally have to borrow money, although his position as a debtor is not perhaps so bad as that of the native agricultural worker. A society in an estate can mobilize much of the savings of the labour population both members and non-members, and suitable productive opportunities for lending out these amounts to the members can be easily opened out. In his spare hours the labourer is engaged in vegetable gardening, poultry farming, and other productive undertakings. He wants frequently to invest in a cow or a couple of goats. Better credit facilities will stimulate all this. Loans that the labourer now obtains for necessary, if not for strictly productive purposes, from outside lenders may then be obtained from banks of his own.

921. It is idle to contend that the Indian labourer wants only facilities for investing his savings and not for borrowing. He borrows quite often from the "kangany", the pawnbroker, and the boutique-keeper at oppressive rates of interest. Indeed, the hold that the kanganies in some cases have on the labourer is due to the credit which they freely give. The labourer is not there quite a free agent. The Agent of the Government of India in a circular letter which he recently submitted to the planters on this subject observes "The most distressing thing in the life of the Tamil estate labourer is his perennial indebtedness." The few supply societies started for his benefit are good as far as they go. But they do not go far enough. He wants some borrowing facilities too. For mere savings he can of course depend to some extent on the Post Office Savings Bank, but at present his borrowing sources are few and unsympathetic. The existence of cheetu clubs on several estates shows how badly the labourer needs a credit society for himself.

922. We agree with the Agent of the Government of India that in organizing such societies, the assistance of the Superintendent and other estate staff is essential. The Superintendent may be made the President and Treasurer, at least during the initial stages. To discourage premature borrowing, a provision may be made, not to give out any loans to any member till 12 months after his admission to the society. His monthly contribution may be directly cut off from his check roll.

923. Co-operation we understand has thrived well among the estate labourers in Malaya (F. M. S.). The movement was started only in 1926 and in March, 1929, there were 59 societies registered with a membership of 5,300. In 1932 the number of societies increased to 106 and membership to 12,577. Total paid-up capital was 174,100 dollars. There is no reason, therefore, why the same degree of success should not be achieved in the estates in Ceylon. Illiteracy should prove no obstacle to the running of such societies. People with shrewd business ability can always manage their affairs, and, if necessary, a literate secretary will not be difficult to recruit from within the estate or from the neighbourhood. We are confident that enlightened planters will help in the formation of Co-operative Societies on their estate, because it is to their own interests to see that their labourers are contented and free from debt.

924. We have also been struck with the comparative absence of co-operation among the fishermen in the coastal villages. They are a class of people who would be eminently benefited by co-operation. In his report on studies in co-operation Mr. Campbell has given an account of the remarkable success of co-operative fishing in Roumania. We see no reason why an attempt to start suitable societies for production or for pure credit should not be made in Ceylon.

925. Our survey has shown that co-operation in Ceylon has developed more in certain directions than in others. Almost one-sided attention has been given to organizing credit societies. Even here, urban credit societies have not received so much attention as the rural societies. As for marketing and other non-credit types of societies only a start has been made. Although credit societies are more needed and are easier to organize than other kinds of societies, it is time that co-operation broke new ground.

Audit.

926. We are satisfied that the existing system of audit of the societies is reasonably efficient. The primary societies at present have one interim and one final audit, the central banks have four interim audits and one final audit during a year. For the present, all auditing is done by the Registrar's Department free of charge. With the increase of societies, however, the task will be getting heavier. The three functions of audit, supervision, and inspection are, more or less, allied, and, since the supervising union in Ceylon has already been well received we would recommend the latter to take over gradually the business of auditing the societies within its ambit. It will be another step towards deofficializing the movement. The representation of the society in the union would ensure local touch and knowledge. The Registrar will see to it that the staff employed by the union for auditing is properly qualified. A certificate or licence from him should have to be obtained for this purpose. Beyond this, there should not be any further interference in the internal management of the union. The auditors should be paid by the union out of a special audit contribution obtained from the affiliated societies, as well as from subsidies given by Government. We assume of course the continuance of the existing close connection between the union and the central bank, between whom there should be a regular interchange of report and statement whenever necessary.

927. We understand that the Registrar has been already considering the question of the creation of certain audit areas for a system of internal audit on a contribution basis by the societies. Official auditing has been so far quite good, but, sooner or later, an attempt will have to be made for deofficialization and it is with that in view that we make the above suggestions.

Supervision and education.

928. We must also say something on the subject of supervision, education and propoganda. As we have more than once indicated, it is impossible and also unwise to expect the Registrar's Department adequately to supervise all aspects of the movement. However efficient, such outside supervision would prevent a sturdy independent growth of the movement.

929. The supervising union may be given greater responsibilities. A division has to be made between external and internal guidance and control. Externally, the Registrar may be entrusted with registration, liquidation, and audit, though in the matter of audit as we have just observed the Registrar may be gradually relieved of his duties. Supervision, education, and propoganda may be left to be done internally. At present practically both are being done by the official staff.

930. We may add a few words more about education and propoganda. The price of existence in the modern world is eternal advertisement. In attracting new recruits and in seeing to it that they are properly acquainted with the principles of co-operation, co-operation must take a leaf out of the book of modern business. Along with the official inspectors and supervisors, there must grow up powerful unofficial organizations.

931. In this respect much remains to be done. In India there are Provincial Organization Societies or Provincial Co-operative Institutes, which broadcast knowledge by holding conferences, organizing public lectures, publishing co-operative journals, issuing leaflets and conducting co-operative training classes. These organizations have both individuals and societies as members. Universities in most provinces collaborate by giving special

courses in co-operation. A steady stream of literature is issued partly by the Registrar's Department and partly by the movement and its supporters. Co-operation has even harnessed the stage. In 1925 a co-operative drama depicting the growth and various phases of the movement was staged in Bombay and also drew full houses in other parts of the province.

932. Quite recently an important step with regard to the training of co-operators was taken by the Madras Government, who have, we learn, decided to open a Central Co-operative Institute at Madras for co-operative training classes. The period of the course will be for ten months. Admission is restricted to those eligible for Government Service. Fifty candidates will be admitted for the session. The students will be given training in co-operation, auditing, bookkeeping and banking. It will also comprise a study of rural economics. The institute will be under the general control of the Registrar of Co-operative Societies. We believe it started work about the end of July of this year. Besides this, there will be two peripatetic schools also in the province. These two schools will be under the general control of the Provincial Co-operative Union.

933. We suggest that the co-operative department should open classes at a central place where the necessary education and training may be imparted. The syllabus of study should include:—

- (1) Principles of co-operation.
- (2) Various forms of co-operative enterprises, including those relating to credit, both of rural and urban types, production, marketing, and consumption.
- (3) Elementary principles of accountancy and auditing.
- (4) Elements of office and business organizations.
- (5) Elements of banking and commercial practices and law.
- (6) Co-operative law in Ceylon and the rules framed by the department thereunder.
- (7) English and correspondence.
- (8) Publicity and propaganda.

934. We have already pointed out the anomalous legal situation with reference to the reserve fund. All types of societies, whether they require it or not, are now compelled to transfer 25 per cent. of their profits to the reserve fund. Even thrift societies have to subscribe to it regularly. In our opinion the provisions of the law should be made more elastic in this respect. The reserve fund.

935. We learn that in Madras in the case of unlimited liability societies the rule is that not less than one-half of the profits are to be carried to the reserve fund until that fund is equal to one-half of the total liabilities of the society other than reserve and share capital. There is really no point in inflating the reserve fund to an indefinite extent. Since it is created to meet liabilities, it should bear some relationship to the total of these liabilities. The suggestion has been made before us that no further contribution should be made to the reserve fund when it reaches an amount equal to the share capital subscribed. In our opinion the better method would be to relate the reserve fund to the non-share liabilities of the society as in Madras.

936. We understand that a revision of the Co-operative Ordinance is in preparation by the department and the Ministry. It deals mainly with administrative details and no vital changes are contemplated. We hope an attempt will be made to incorporate some of the recommendations that we have made in the proposed legislation.

PART IV.

CHAPTER XV.

MISCELLANEOUS.

937. There now remain only a few important questions which directly or indirectly relate to credit problems. It has not been possible to include them in any of the previous chapters. We, therefore, propose to deal with them under the head "Miscellaneous", as without their consideration our task would be rather incomplete.

(a) *Currency.*

938. The relation of currency to banking and credit is very intimate. But the matter has not been specifically included in our terms of reference. We, therefore, do not feel called upon to examine in detail the currency problem of the Island. We, however, wish to emphasize that the present position under which the Indian rupee is the legal tender in Ceylon appears to be satisfactory and no change should be introduced. Any alteration at the present moment, when the monetary systems of the world are in a chaotic state, would merely worsen the difficulties of the export and import trades and make the external capital already employed or likely to come afresh more nervous. Currency system.

939. Ceylonese demand to have their own legal tender coin seems to arise from the consideration that profit on the minting of silver rupees is solely retained by India. But what is the volume of silver rupees in circulation or held as currency reserve, and what is the extent of loss suffered by Ceylon through the present arrangement? There are no statistics of silver rupees in circulation but in everyday life one hardly comes across them. One-rupee paper notes of the Government of Ceylon are the common form of loose rupees that are handled in practice and they are quite popular for internal purposes. Shroffs and Chettiers occasionally send for silver rupees to meet the estate labourers' demand for this currency, when they are about to leave for their homes. Such an import would continue even when the Island introduces its own coin. Ceylon money would be of no use to the Indian when going out of the country. Sometimes banks and financiers import rupees, if there is shortage of money in relation to economic activity. But this money does not remain long in the Island and is repatriated at the earliest possible moment. However, need for such temporary bringing in of rupees can be obviated without Ceylon having its own rupee, if a little elasticity can be introduced in her currency system. The major item of the retention of Indian rupees is found only in the currency reserve. The size of this at the end of September, 1933, was Rs. 13,852,132 and it formed 32.95 per cent. of the total reserve. The maximum profit that the country would hope to make would be only in respect of the coinage of this amount. On the present price of silver this will be about 50 per cent. of this figure. If Ceylon had started the minting of rupees when silver was high, and the bullion and monetary value of the rupee approximated, there would have been not much gain. Demand for Ceylon money examined.

940. In reality Ceylon's currency system, although having the same import and responsibility as the Indian money, is independent of the latter. Notes, which form the chief money in circulation, are the obligations of the Ceylon Government. Reserves mostly consist of securities, which yield interest and are not unremunerative. If any portion of these is substituted by the proposed new coins, that would mean not gain but loss of income. Ceylon's currency is in reality independent of India.

How present loss
can be reduced or
avoided.

941. As explained in a previous paragraph, the only loss to the Island due to the Indian rupee being legal tender is in respect of the same being retained in the currency reserve. This can, however, be reduced by substituting Indian Government or other external gilt-edged securities. In times of unprecedented demands for conversions, the reserves could be sold and the proceeds paid out against the surrender of internal notes. That would be a better and more remunerative arrangement than having Ceylon's own rupee. Although putting of coins in circulation and keeping them as reserve against the note issue create a non-earning currency asset, they nevertheless inspire considerable confidence in paper currency issue. A slight modification of the present currency obligation may be necessary so as to permit payment of Indian rupees in India instead of rupees in Ceylon only as at present. There is nothing strange or objectionable in this, for wholesale demand for conversion arises from the desire to export funds and this would be satisfied if rupees are paid out also in India. Currency systems of the world are increasingly resorting to such a provision. The rupee would, in such an event, be merely a measure of external value of the Ceylon currency and be like any other standard to which the exchange value of a domestic monetary unit may be linked.

Advantages of
rupees as basis of
money.

942. The advantages of having the Indian rupee as the basis of money are, however, many and indisputable. There is no responsibility on the Island to watch the foreign exchange value of its monetary unit. In times of stress, this obligation becomes very onerous. Ceylon is a small country and largely depends upon foreign capital. If Indian reserves were not behind her money, foreign capital would not so readily flow in. A slight disequilibrium in the foreign trade would manifestly increase this anxiety. There is a large trade between India and Ceylon, which would be disturbed by divergence in the monetary systems. The Indian labourers compute their income and expenses on the basis of the rupee and may ask for more to compensate them against risk in the exchange fluctuation, if a separate unit is introduced, as is the case in Malaya. Prices of rice and curry stuffs, the staple food of the Island, which are mainly bought from India would be disturbed by the exchange variations, or the fear of such changes, and adversely affect the poor people as well as lead to profiteering. Banks would be reluctant to bring in funds as and when required, as they do now, because of the possible danger of loss when sending them back. There would, consequently, be periods of tight money, which would increase cost to trade. On account of her vast economic resources and her increasing capacity to be independent of foreign imports, India's position to maintain the exchange value of her money is becoming every day greater. With the establishment of the Reserve Bank at an early date, the management of the rupee would be in the hands of experienced financiers, and, therefore, its value would be more assured. Ceylon is able to take the fullest advantage of all these benefits without contributing a single cent to the upkeep of the Indian monetary machinery; as explained already, the little loss on having to keep silver rupees in the currency reserves can be avoided. Bankers and others experienced in financial matters appear to be unanimous in their view that no change is called for. The question of a special coin for Ceylon has been considered by several Commissions in the past, but they have all come to the conclusion that the link with the Indian rupee is the best. No new circumstances have arisen since then, which can indicate the

need of disturbing the present foundation of the country's currency.

943. Some witnesses have urged before us that the Island Bank of issue for should have a bank of issue to manage her currency. We think Ceylon. that the demand is much too premature. The task of a central bank is not merely to issue notes, but its chief responsibility lies in controlling and unifying credit; and there should first be a well-developed banking system, particularly of the indigenous variety with its roots spread all over the soil, before these highly technical duties can be undertaken. We are, therefore, not in favour of recommending any move in this direction.

944. The only defect that can be reasonably pointed out in the present currency system is its want of elasticity. But, unlike in currency. other agricultural countries, there is uniformity in the movement of goods throughout the year, and there are no seasonal increases in the demand for money or periods of oscillations towards high and low intensities. There is, however, no objection to providing an arrangement for expanding currency, as and when need may arise. That would also remedy the slight disturbance that has been introduced by the periodic demands of the Income-Tax authorities, as well as provide the means to satisfy emergent demands for money.

945. The usual method of effecting an automatic power of expansion and contraction in a currency system is through the open market operations of a bank of issue. Variations of this in the case of countries where the State has assumed the note-issuing functions are found in the histories of India and Canada. In the former the Imperial Bank of India can get loans up to a certain amount and on paying certain interest from the Currency Department on endorsing over bills of exchange. In Canada banks could get loans from the Government by depositing Government securities. In both these countries loans are made from new currency created for the purpose and supported by the securities lodged. When the loans are repaid, the created currency is cancelled and the securities returned. If arrangements similar to these are introduced in Ceylon, that would satisfy the complaints made in this respect. That would also help banks in the avoidance of large cash balances, as is the case at present, and would release more money in the service of credit. The necessity of periodically importing funds from India would also become less, if not disappear altogether.

946. There is no money market in Ceylon in the real sense of the word. The first condition of its existence is the easy flow of funds from point to point according to requirements. This implies free or cheap remittance facilities. We visualize that in course of time the State-aided Bank, if properly governed and suitably encouraged, would assume the hegemony in banking and finance, and through that office bring about the formation of a true money market. It should play the same part in Ceylon as the Imperial Bank has been playing in India.

(b) Banking Education.

947. Banking is getting to be more and more specialized and the need for competency in those connected with its working is becoming increasingly visible. On account of complexities in law even ordinary money-lending requires greater capacity. For the proper progress of indigenous banking in Ceylon the value of banking education and training on the part of her people cannot be over emphasized.

Existing facilities.

948. There are no commercial institutions that specialize in imparting banking knowledge. The Indian and British Institutions of Bankers hold their examinations in India, but, as far as we are aware, no such examinations are held in Ceylon. If enough candidates come forward there would be no difficulty in arranging for these examinations in Colombo.

Restricted admission.

949. Only members of the Institute of Bankers can sit for its examinations and membership is restricted to bank employees and those actively connected with banks. It will, therefore, be not possible for anyone not serving in a bank to qualify for these tests. This restriction is evidently imposed because the institutes aim at making efficient practical bankers, and no one could hope to be such unless he supplements theoretical study by actual experience, which can be only obtained through working in a bank.

Available opportunities.

950. Employees of banks can avail themselves of membership and can better their qualifications by studying and passing these examinations. The proposed State-aided Bank and the local banks will also increase the number of eligible persons acquiring such qualifications.

Means for acceleration of employment of Ceylonese in higher grades.

951. In order to accelerate the employment of Ceylonese in higher grades in the proposed national banks we suggest that a few intelligent graduates should be selected for training in banking. They may be given scholarships to study for these examinations and at the same time to work in some banks. We do not think that it will be difficult for Government to persuade local commercial banks to provide facilities in this connection. They enjoy the hospitality of the Island and the deposit of public funds. They would be ill advised to arouse any hostility of the people by refusing a simple request of this nature. Some of the banks in India may also be successfully approached to offer facilities for the training of Ceylonese.

Advanced study.

952. We recommend that for careers of responsibility and high administrative positions in banks the syllabus prescribed by the Institutes of Bankers should be supplemented by a course of special study in the advanced theories of credit, currency, and banking. Those who are ambitious to fill the top posts must know what the fundamental conceptions of these subjects are and what shapes they have assumed in different countries. They should study the financial and banking systems prevailing all the world over and how modifications have been introduced to meet varying conditions. It will be necessary for them to learn different forms which banking has assumed, when called upon to serve any particular economic activity, like commercial banking, industrial banking, agricultural banking, mortgage banking, central banking, &c. Arrangements for giving this tuition can be made with the Economics Department of the University College. A few hours' teaching every week should be enough. In order to facilitate the taking up of this course by bank employees it would be desirable to have evening and night classes. At the end of the period of study the college should hold examinations and issue diplomas. Some external examiners should also be invited to increase respect for the diploma.

Arrangements for study of Institutes' examinations.

953. In course of time private institutions would spring up to prepare candidates for the examinations of the Institutes of Bankers. Until they are started, students can take lessons through post from some of the schools in India and England, which specialise in imparting knowledge through correspondence courses.

Government can also make local arrangements at a small additional cost. As an arrangement for direct teaching is obviously preferable to a tuition course in absentia, we suggest that ways should be explored to establish an institution for this purpose in Colombo. An arrangement outlined in the following paragraph appears workable and the cost involved would not be excessive.

954. Subjects to be studied for the two parts of the British and Indian Institute of Bankers examination are more or less alike and can be grouped under the following heads:—

- (1) Theory of Banking Law and Practice.
- (2) Banking Accountancy, including Commercial Arithmetic.
- (3) Foreign Exchanges.
- (4) English, Essay, and Precis writing, including commercial and banking correspondence.
- (5) Economics including Principles of Currency.
- (6) Commercial Geography.

955. Most of the above subjects are taught in one or the other of the existing institutions. The Law College can be made to assume the responsibility of teaching the subjects in the first group. Bankers may be occasionally invited to elucidate points of practical importance. The departments for the teaching of English and Economics in the University College can be asked to teach subjects 4, 5, and 6. If there is any school which teaches accountancy, the preparation for the second group can be entrusted to it, but if there is no such arrangement in existence some accountants can be engaged to take up this work. Foreign exchange may present some difficulty, but if a manager of a local exchange bank or the head of the proposed State-aided bank is approached for assistance we feel hopeful that none of them would refuse his co-operation. So far as the theoretical part of the subject is concerned the Department of Economics of the University College will be able to give a helping hand. Each of the above agencies will be hardly required to give more than a few hours every week, and the time table can be so arranged as to suit their convenience. A small honorarium may be paid to the tutors. Fees received from students would go to diminish the expenditure involved by the acceptance of the proposal.

(c) *Economic Study and Research.*

956. We have stated elsewhere how much handicapped we have been in the pursuit of our task in the absence of economic data. The value of reliable information is of the highest importance in the formation of economic policies. Every country is devoting increasing attention to the determination of facts and figures and research into economic problems. Ceylon must also make a move in this direction in the interests of the general welfare and prosperity of her people.

957. In Ceylon, however, the study of economics is still in the stage of infancy and there is a dearth of competent scholars to undertake research. There is everywhere a growing recognition of the importance of economic knowledge not only because it helps a proper understanding of the functions and the operations of modern society, but also because a knowledge of economics is now admitted to be the soundest theoretical basis for a successful commercial career. Partly for this reason, and partly because present day Governments are concerned more intimately with the economic life of the community, the State

Outline of local teaching scheme.

Economic data and research.

attempts by direct intervention to foster the growth of economic knowledge by the grant of scholarships and subsidies for economic study and research. We consider that a wider acquaintance with economics as a branch of knowledge and its application to Ceylon conditions will be essential if the State is to take a larger share than in the past in the future development of the country, and we, therefore, recommend that Government should promote and encourage economic study and research by granting scholarships for study abroad to competent students.

Statistical
information.

958. The other matter calling for attention is the supply of accurate statistical information regarding the economic activities of the country. The need for information of this type was expressed by the Industries Commission as far back as 1921 in the following words:—

“ At the outset of the Conference and throughout the meetings of the Industries Commission difficulty was experienced in obtaining any reliable statistics in concise and useful form of the industrial position and resources of the Colony. These figures are doubtless available somewhere, but in the absence of any office or bureau of statistical information whose duty is to collect, co-ordinate, and publish figures and information of this kind, they are hard to come by, and are not readily available to the general public. The Conference considers this a matter of considerable importance in the interests of the Colony—the necessity for an office of statistical information has been recognized and supplied in India and elsewhere—and the Conference recommends the establishment of a like office here, whose duty it shall be to collect and publish statistical information in regard to all matters of industrial and commercial interest.”
(Sessional Paper VI. of 1921, page 5, paragraph 12.)

959. About the same time, Government created a separate Statistical Department which continued to function till 1931 when, with the introduction of the new constitution, it was abolished, and the subject of statistics was placed in charge of the Department of the Registrar-General and Director of Commercial Intelligence.

960. At present, the collection of statistics plays a rather unimportant part in the programme of a large Government Department already burdened with multifarious duties. The importance of reliable quantitative knowledge concerning the chief elements of the economic structure of a country is so universally acknowledged that it is not necessary on our part to explain at any length the need for a separate Government Department solely entrusted with the task of collecting, analysing, and interpreting the national statistics of Ceylon. We need merely mention that an intimate acquaintance with the economic activities of a country is essential before Government policies can be formulated for the economic betterment of the people. Apart from their value to the State, statistics are also extremely useful to the business community, in so far as they indicate the state of trade or afford a guide to the prosperity of the people. As the MacMillan Committee on Finance and Industry points out, the ideal should be that “ We should aim at obtaining a complete inventory of the economic life of the community under its several aspects in such a form that we could cross-check the accuracy of our information by being able to work up to the final totals from more than one direction.” (Paragraph 405.)

961. We, accordingly, recommend that a separate department should be formed and placed in charge of statistics, which could with advantage be also entrusted with the functions of trade and commerce. The new department may be appropriately styled as the Department of Commercial Intelligence and Statistics, and there should be close co-operation between this department and the Departments of Agriculture and of Customs and the Department of Industries, the creation of which we have recommended.

Department of
Commercial
Intelligence and
Statistics
recommended.

962. The functions of the Department of Commercial Intelligence and Statistics, in the sphere of statistics would *inter alia* be:

- (1) To achieve uniformity, accuracy, and completeness in the statistics already compiled by Government for administrative purposes.
- (2) To collate as well as collect statistics concerning the more important economic activities of the community.
- (3) To analyse and interpret statistics collected under (2).
- (4) To undertake census of population.
- (5) To conduct, after the department has continued to function for some time and gained experience, detailed economic surveys.

963. The above list is not exhaustive, but merely indicates the more important functions of the department. We should add that, as the value of statistics lies principally in their analysis and interpretation, those responsible for the collection of statistics should have an intimate knowledge of the theory and practice of economics.

964. In order to keep fuller and comprehensive statistics, it would be necessary to pass a special Ordinance empowering the Statistical Department of Government to collect such of the figures from individuals, firms, and industries as may appear important from the public point. This agency should prove of considerable value to Government and the public.

965. The work of the Government Statistical Department should also be supplemented by an Economic Advisory Council to assist Government in understanding economic problems. As its name implies, its functions would be advisory and not administrative. It will collect and study economic data, carry on research in economic problems and advise on and investigate into such questions as may be submitted by the executive for its consideration. A good deal of valuable information is no doubt available in Government reports and publications, but it is mostly in undigested form, unconnected and uncorrelated. In a majority of cases they do not lend to statistical analysis. It will be the task of this Council to suggest improvements in the forms and methods of their presentation and what further information should be given. It will carefully study and analyse these reports and give the net result of its research in a presentable form.

Economic Advisory
Council.

966. The Council can employ special collectors of information from time to time, as well as call upon various Departments to supply statistics. It can invite co-operation of private firms and business concerns in the procurement of material. College students, specially those qualifying for degrees in economic subjects, can be invited to undertake specified investigations during vacations, on payment of a small stipend or out-of-pocket expenses. That will give them a good deal of experience and

Agency for
collection of
information.

provide them with an active interest in their study. Economics will then be to them not merely a bookish study, but a live subject full of meaning and purpose. A little actual work involving application of their theoretical knowledge will reveal to them the immense importance and possibilities of their subject. At the same time, the arrangement would provide, at a nominal cost, a band of keen and enthusiastic workers in the service of this most essential branch of public work, and whose interest in the work would not be limited to the amount of remuneration.

Constitution of
council.

967. It is not our intention to go into the details of the constitution of the Council or what funds should be provided for its working. These are matters of detail. But we wish to point out that two fundamental conditions should be observed in the composition of the Council. They are:—

- (1) There should be an arrangement for the combination of a small whole-time paid staff with others who would advise, guide, and supervise the work, without remuneration.
- (2) The membership should be composed not merely of theoretical or practical persons, but there should be a union of both. This arrangement would provide a necessary corrective of theory to practice and of practice to theory.

Composition of
members.

968. Keeping the above principles in view we recommend that the paid staff of the Council should consist of a paid Chairman, a paid Secretary, and a few stenographers and clerks. The first two should be men of experience possessing sufficient knowledge of economic theory. The paid staff of the Council should be assisted by University students, as suggested above, or by other paid employees as occasions may demand. For the other honorary members of the Council we suggest that they should be nominated by the Government out of the following groups:—

- (1) Government officials in charge of agriculture, industry, commerce, co-operation and finance.
- (2) Professors of Economics in the University College.
- (3) Representatives of the Council of State.
- (4) Representatives of the Chamber of Commerce.
- (5) Manager of the Proposed State-aided Bank.

It is not necessary that everyone in the above groups should be nominated to the Council, but one or two from each group and a periodic rotation amongst them should be enough.

969. The Economic Council and the Government Statistical Department would then combine to present a correct picture of economic problems of the country, as well as indicate the lines on which policies should be formulated and improvements effected. As builders of national prosperity their value will be indeed great.

CHAPTER XVI.

SUMMARY AND ACKNOWLEDGMENTS.

970. We now proceed to summarize the report. The summary, however at best focusses attention on some of the important points dealt with in the inquiry, so that those interested in any particular problems may, if they so like, first devote their attention to those questions.

HISTORY OF THE INQUIRY.

971. The report opens with the warrant of appointment and the history of events which led up to it. Mr. George E. de Silva's resolution is the immediate occasion for the coming into existence of the Commission. The terms of reference require the Commission "to inquire into and report upon the existing conditions of banking and credit in Ceylon and to consider the steps if any that are feasible and desirable in respect of the provision of banking and credit facilities for (a) agriculture, (b) industry, (c) trade, and also to make recommendations regarding the desirability of establishing a State-aided Bank and sound local banks". In all 38,000 copies of the Questionnaire in English and Vernaculars were distributed. The Commission toured throughout the Island to take evidence.

THE SALIENT FEATURES OF CEYLON.

972. The report then proceeds to give a brief outline of the main features of the Island. The increasing population, and the difficulties revealed by the present depression as being associated with the countries engaged in agriculture and production of raw materials are referred to as creating new problems whose consideration is becoming daily urgent and compelling. The financial position of the Island is quite healthy.

ECONOMIC BACKGROUND.

973. In order to provide a proper setting for the problems of inquiry there is given a picture of the economic background. There is predominance of agricultural production and dependence upon external markets. There are practically no industries in the accepted sense of the term involving radical alteration of raw materials into consumable shape through the process of manufacture. The Island depends for food and clothing on outside sources. The range of production is limited. The report emphasizes the instability of the economic equilibrium of Ceylon on account of insufficiency of diversification in her economic enterprises and inability to influence prices, because the purchasers of her goods lie outside the Island and world factors have the greatest say under such circumstances. There is danger to natural production through scientific and technical progress which tends to create artificial substitutes and revolutionize the process and methods of cultivation. The fall in the price of raw materials has been relatively greater than that in the manufactured goods. The position of rubber and tea has been rehabilitated to some extent by restriction in their production through world-wide arrangements but the condition of the coconut industry continues to be depressing and a source of great anxiety. There is general dissatisfaction among the local intelligentsia with the existing economic order and the increasing consciousness that the solution of the present defects lies in widening the sphere of national activity so as to embrace industrial production on a progressive scale.

974. A good deal of prominence is given in some quarters to the inability of the Ceylonese to carry on successfully business, banking, and industrial undertakings. Want of punctuality in meeting their obligations is frequently urged as an argument of unfitness. There is nothing inherent in the indigenous people, which makes them unfit for these pursuits. They are only victims of past circumstances, which have created a situation wherein

Chapter I,
paragraphs 1-17.Chapter II,
paragraphs 18-42.Chapter III,
paragraphs 43-62.Handicaps of
Ceylonese.

most of those activities are monopolized by foreigners, who have built up unassailable positions. Not only is there strong competition to be faced, but a considerable leeway has to be made up in training, experience, and credit and financial methods.

EXISTING BANKING AND CREDIT AGENCIES.

Chapter IV.,
paragraphs 63-277.

975. The report then proceeds to describe the early history of banking in Ceylon and causes of banking failures. On account of the nervousness caused by the collapse of the indigenous Bank of Colombo, which is still greatly visible, the irregularities connected with its working and the reason of its failure are gone into. Loans were made to shareholders on the security of bank shares, which negated the security provided by capital. Four-fifths of the bank's capital and 50 per cent. of deposits were lent to Directors against bank's shares and immovable properties. There was absence of qualified and experienced staff. Malicious propaganda and want of public confidence also contributed to the downfall.

Commercial banks. 976. The report discusses the activities of existing credit agencies, how far they supply the credit wants of the country and in what respect they are found wanting. The commercial banks form the most important part of the credit structure of the Island. Their activities are operated through Colombo and mostly confined to the people in the capital city. The older of these banks have materially contributed to the building up of economic Ceylon. It must also be said to their credit that although they generally engage in short-period commercial credits they have not hesitated to lend on mortgages and other securities or for longer periods. In adopting such a courageous policy, they have mitigated the seriousness of absence of other types of credit institutions.

Exchange banks

977. Under the group of commercial banks are discussed the activities of the exchange banks, the Imperial Bank, the Indian joint stock banks, and the indigenous joint stock banks. The exchange banks confine their activities mainly to the financing of the foreign trade of Ceylon but their participation in the internal and mortgage credit is also substantial. In so far as applications from the indigenous community are concerned, their working is unfortunately not free from complaints. There is no direct contact between the Ceylonese clientele and the exchange bank management. This has introduced the need for the intervention of the shroff. This extraneous link has not only led to the indefensible practice of payment by borrowers of commission, both authorized and unauthorized, but also introduced a good many abuses in the working. When a shroff's guarantee is insisted upon, he becomes the sole arbiter of the non-European needs for bank credit and requires a price for agreeing to back a proposal with his signature. Necessity for some sort of additional cover may be understandable where clean advances are made, but when guarantee is asked for even where there is ample security, the question becomes incomprehensible. The cost of borrowing to the Ceylonese becomes greater and interferes with successful competition with their foreign rivals.

Discrimination.

978. Serious complaints were brought to the notice of the Commission about the discrimination of these banks in the matter of distribution of credit. It is difficult to adjudicate upon these grievances. Every dissatisfied applicant thinks, rightly or wrongly, that he has not been fairly treated. There are several

subtle considerations about character, business efficiency, and capacity to repay, which a bank manager has to take into account before deciding on a credit proposal. The matter becomes more complex because the debtors are reluctant to accuse openly their creditors, because of the fear of victimization, and bankers categorically deny these accusations. However, reading between these divergent statements, it is not difficult to see that, although in some cases dissatisfaction is due to ignorance of principles which govern commercial advances and even though there may be no intentional racial discrimination on the part of the bank management, in practice, it somehow comes into operation. Absence of direct points of contact, requirement of approach through the shroff, his guarantee, his commission, and the higher rates of interest have created sufficient grounds for genuine complaints and not unjustifiably created the popular impression of discrimination.

979. The working of the Imperial Bank is restricted, to some extent, by the provision of the Imperial Bank Act. In other respects its policy of lending and working resembles that of the exchange banks. The major portion of Government surplus funds is deposited with this bank. Roughly Rs. 20 million of Government and public deposits lie with the banking system of the Island. The Imperial bank of India.

980. The Indian joint stock banks do business on a modest scale and are chiefly concerned with the finance of the Indo-Ceylonese trade. The indigenous joint stock banks are mainly interested in the supply of remittance to planters. Their contribution to the supply of credit, in the accepted sense of the term, implying lending for short or long periods, is almost negligible. Indian and Ceylonese joint stock banks.

981. Credit provided by the State Mortgage Bank is briefly referred to. Complications in title have materially reduced the scope of its usefulness. It should take greater responsibility for converting the present floating agricultural debt into long-term debt so as to lighten its burden and facilitate its liquidation. The debentures of the bank are a popular form of investment. Its annual working has so far resulted in loss which would disappear with increase in business. State Mortgage Bank.

982. Reference is also made to the Loan Board and its importance from the credit point of view. It provides expert financial management of funds which temporarily come into the hands of the judiciary and the officials allied to it. Instead of earmarking the lapsed amounts for the purposes cognate to or connected with the administration of justice, it is recommended that the matter should be left to the discretion of the Legislature. Loan Board.

983. The report then goes on to discuss the activities of cheetus and the injury which they cause to the public in their present unregulated state. They are full of abuses which call for early legislation. Recommendations as to what should be the basis of this law, among other things, require that every cheetu company should have a minimum paid-up capital of Rs. 10,000, and the total collection of cheetus outstanding at any time should not be more than ten times the paid-up capital. With the starting of a cheetu the company must deposit with Government twice the value of the cheetu offered. Provisions are also suggested in regard to the inspection of their books by Government, keeping of minutes, intimation to Government of defaults, reporting of names of successful bidders, and introduction Cheetus.

of the system of tenders along with that of the present method of auction. Chettus provide a crude, but perhaps a necessary, form of borrowing and lending suited to a certain section of the community in debt, but they will disappear with the growth of national banking.

Chettians.

984. Among the private credit agencies, Chettians play the most important part. They have played no mean part in the economic development of the Island. They have formed an indispensable link between banks and the vast body of the Ceylonese borrowers. Without their intervention, considerable portion of the indigenous business activities would have remained without financial facilities. Their total lending business at one time amounted to Rs. 150 million, but it has now come down to Rs. 100 million. Out of this, Rs. 54 million represents actual loans outstanding and Rs. 46 million is the amount invested in business and properties purchased in satisfaction of debt. On account of the depression they have been considerably hard hit. In several cases the value of their securities is less than the debt due. In order to safeguard their interests and to prevent the piling up of debts, they have been reluctantly compelled to purchase mortgaged lands in settlement of their claims. But they are ready to return them back to their original owners on being paid even a sum smaller than what they paid for the lands. Most of the witnesses were emphatic that Chettians did not want to lock up their money in lands.

Inquiry into rural debt.

985. In the absence of reliable statistics it is difficult to disprove figures supplied by the Chettians' Association. No doubt there is a wide gap between the popular figures of indebtedness and what would appear to be justifiable on the basis of the Chettians' figures. It is recommended to Government to institute an inquiry into rural debt and to find means to help the agriculturist.

Shrinkage of Chettians' business and unscientific basis of their work.

986. The Chettiar system of business has been badly shaken by the depression and there is a considerable shrinkage of their business. Their association gives a number of reasons in support of their reluctance "to extend, nay even continue, their money lending business". There is a rude awakening of both, the banks and the Chettians, to the fact that it is fundamentally wrong to finance long-term activities, or where the prospect of repayment within a reasonable period is uncertain or remote, out of short period borrowings. A change in their methods of working and the creation of a new agency which would work on a scientific basis are called for.

Complaints against Chettians.

987. The complaints against the Chettians are examined. They all move round the pivot of the high rate of interest. But when this is examined in conjunction with the working expenses, imperfection of security and the risk involved in money lending, much of its force disappears. Leaving aside the case of petty Chettians, the business methods of the community are clean and free from malpractices. The greatest drawback in their organization is the provision of facile credit which is injurious in the long run both to the creditor and the debtor.

Pawnbrokers.

988. The working of the pawnbrokers and how far the present Ordinance controls their business are examined. Complaints against this credit agency relate to the high rate of interest, both authorized and unauthorized, bogus auctions and unlicensed shops. Law is already strict in respect of these matters and it lies with the borrowers to remedy these defects. Formation of honest agencies through Municipalities and local bodies is suggested.

At present the pawnbroker can usurp any surplus in an auction sale that remains unclaimed for two years. A recommendation is made for the deposit of all such excesses with the Post Office Savings Bank, and, if money is allowed to lapse, it should be in favour of the State, and utilized for public purposes. The supply of essential statistics of their business in public interest is also recommended.

989. On account of the great importance of the boutique-keeper in the rural life of the country, the report examines at length his credit operations and their reactions upon the economic life. In spite of the disadvantages of high cost and all that is said against him, there is no doubt that, under the present conditions, he fills an important place in village life and he cannot be easily displaced. Boutique-keepers.

990. Activities of money-lenders and the provisions of the Money-lenders' Ordinance are then examined. Money lending is an ancient business and any one can engage in it. Wealthy persons and retired officials do not hesitate to engage in this activity. The landlord's advances to his tenants and to his neighbouring land-owners are well-known. The agriculturist, who lends with a view to getting the land of his debtor, is a hard-hearted creditor. Advances by amateur money-lenders and other financiers like the Incorporated Trustees of the Church of England in Ceylon and the Charity Commissioner are also discussed. Money-lenders.

991. Sufficient safeguards exist to protect the debtors from the malpractices of the creditors. If abuses are still found in practice they are inseparable from the nature of private lendings and indicate difficulties of legislation in these matters. It is impossible to save a person by law who refuses to take advantage of measures designed to help him or desires to commit economic suicide. Safeguards against malpractices.

992. Under the Ordinance it is penal to take blank promissory notes or enter fictitious amounts. The judges have discretion to open the question of rates of interest and to lower them even under the legal rates. The Commission recommends that this discretion be freely used under the present easy money conditions. A recommendation is made that the legal rates be lowered in the case of secured advances. Rates of interest.

993. The section dealing with private money-lenders ends with the description of the operation of the Afghan. He is a most rapacious type of money-lender. The Commission recommends that if it is possible he should be banned from coming into the Island or engaging in money lending. The Police should be on the lookout for the detection of malpractices by Afghans and ask for exemplary punishments where offence is proved. Afghans.

994. Government play an imperceptible but nevertheless a very important part in the supply of credit to the market. They keep large deposits with banks, which are utilized in widening the basis of financial help. It is computed that approximately Rs. 20 million are supplied by Government and semi-Government departments to the banking system. Through the Local Loans and Development Fund credit is supplied to the local bodies and the co-operative system. Government's position as a borrower through direct loan operations and the Post Office Savings Bank is also discussed. Examination of the national debt of the country discloses an extremely satisfactory position. Instead of there being a debt burden, there is a net surplus capital saving. Government and credit system.

NEED FOR A NATIONAL BANK.

Chapter V.,
paragraphs 278-303.
Defects of existing
banking system.

995. The Commission then goes on to analyse the defects of the existing credit system and whether there is need for national banking institutions. Reduction in the Chettiars' operations and the displacement of the Shroff, as guarantor for advances referred to by the bank Managers, have created conditions in which there may be shrinkage in credit. The high price and facile credit of the Chettiars' financial machinery are too well-known and injurious. The existing banking organization with its nerve centre thousands of miles away and whose management lacks intimate touch with the population is unfitted to meet reasonable indigenous demands for credit. There is no branch banking and most of the present banks have their business concentrated in Colombo. In the matter of internal finance and inland remittances, the present banks are found grossly wanting. They are mainly interested in the finance of foreign trade and there is danger of interference in their financial operations from foreign trade rivalry, wherever there is conflict of interest with the internal business. National banking has proved a boon in every country and it is also essential for the economic advancement of Ceylon. Foreign banks and foreign business houses naturally view with apprehension new banks coming into the field. They think that the existing banks would be able to cope with all the demand for credit. This is not denied, but they are temperamentally and constitutionally unsuited to help the country's operations to any great extent. Powerful indigenous banks are always helpful not only to the commercial community, but also to Government in their hour of need. National banking will lower rates of interest.

PROPOSED BANKING STRUCTURE: A NATIONAL BANK FOR CEYLON.

Chapter VI.,
paragraphs 304-358.
Stated-aided
bank.

996. The Commissioners then discuss what form national banking activity should take. The relative advantages of the State Bank and the State-aided Bank are examined and it is shown how the proposal of the State-aided Bank is preferable. Arguments of foreigners who deprecate participation by the State into banking are analysed, and they are shown to be untenable. Examples of other countries confirm that there is no hard and fast rule when Government assistance should be given or for what purpose it should be given. Every project has to be considered on its merits and in the light of surrounding circumstances. Under the present position of Ceylon, unless the State comes forward to supply deficiency in the public subscription of capital the ideal of national banking must ever remain an unrealizable dream.

Constitution.

997. Recommendations are made in regard to the capital and constitution of the bank, which, among other things, provide that the initial capital of the bank should be Rs. 10 million, out of which the State should subscribe Rs. 8 million. The public should be offered 40,000 ordinary shares of Rs. 25 each for the present and thereafter the remaining 40,000 ordinary shares should be issued at bank's option. Ways and means of Government are discussed for providing this money, and it is clear that there are ample resources from which the capital can be found. When things improve Government may sell off their holdings. Government are not required to assume any other responsibility in regard to the liabilities and deposits of the bank. With a properly regulated constitution and efficient management there should be no risk of loss of capital contributed by the State.

998. The Commissioners recommend that the capital of Rs. 10 million should be divided into Rs. 8 million worth of 3 per cent. cumulative preference shares of Rs. 100 each and Rs. 2 million worth of ordinary shares of Rs. 25 each, on condition that the preference shareholders may convert their shares into ordinary shares, if they so desire, at the end of 5 years. The State should subscribe to the preference shares. Advantages of Government taking up preference shares with the option of conversion into ordinary capital are discussed and it is further provided that if the working of the bank should, at any time, disclose a loss of one-third of the capital and reserve, it should stop its activities in the interests of preservation of the capital put in by Government. In order to facilitate Government subscription it is proposed that only 50 per cent. of the amount payable on preference shares should be called up in the first year and the balance in two instalments of 25 per cent. each, at intervals of not less than six months each. In regard to the ordinary capital, it is suggested that only half should be offered to the public in the first instance and the balance kept over until some favourable opportunity arises. Rs. 15 is to be called up on application and allotment, and the balance in two calls of Rs. 5 each, at intervals of not less than six months. Voting power of shares is restricted—one vote for the first five shares and thereafter one additional vote for every subsequent 25 shares.

999. It is recommended that 7 or 9 Directors from Europeans, Indians, and Ceylonese in a certain proportion should be appointed to control the bank and that the selection of the first Directors should be made by the Governor. In order to select the right sort of people, it is suggested that the Governor should invite nominations from the four principal Chambers of Commerce, but his choice need not be confined to the names recommended by them. Qualifications to be possessed by the Directors are prescribed which, among other things, require the holding of shares of the face value of not less than Rs. 5,000, residence of five years in Ceylon, active engagement in trade, industry, or agriculture for over ten years and non-membership of the State Council. Directors.

1000. The Commission recommends the appointment of a Manager on Rs. 2,000 to Rs. 3,000 per mensem, a Sub-Manager on Rs. 1,200 to Rs. 1,500 per mensem, an Accountant on Rs. 750 to Rs. 1,000 per mensem, and Secretary on Rs. 500 to Rs. 750 per mensem. Banking experience of ten to fifteen years is prescribed for the holding of any of these appointments. It is also suggested that Government should appoint a Financial Adviser to the bank at least for the first five years. He need not be a full-time person and may be consulted occasionally.

1001. Suggestions are also made in regard to the business of the bank, audit, and other important matters. Business, audit, &c.

1002. The case for Government representation on the Board of Directors is fully discussed and in view of the safeguards provided in the constitution of the bank, such representation is not deemed necessary. Government representation.

1003. A chart showing the proposed banking structure and the inter-relationships of the various credit agencies is attached. Chart of the proposed banking structure.

LOCAL BANKS.

1004. Facilities to be created by the State-aided Bank are to be supplemented by the establishment of local banks in important places. It is explained in the report why this mode of expansion Chapter VII., paragraphs 359-381.

is to be preferred to the development of branch banking of the State-aided Bank; but if later experience warrants that the Commissioners' expectations in regard to the inauguration of local banking are not satisfied there should be no bar to the expansion of the activities of the State-aided Bank. Chief responsibility for the promotion of these banks is imposed upon the State-aided Bank which is to be their banker, friend and guide. Suggestions are also given as to the principles on which these banks should be founded and worked. The Commissioners think that no such bank should have a subscribed capital of less than Rs. 500,000, half of which should at least be paid up. No statutory limitation is imposed upon the distribution of dividends, but as a word of advice it is said that before distributing dividend 15 to 25 per cent. of the net annual profits should be transferred to reserve, until it equals 50 per cent. of the paid-up capital.

State-aided bank
and the banking
structure.

1005. It is also recommended that the State-aided Bank should assume the principal responsibilities of providing credit for internal economic activities whether related to agriculture, commerce, or industry.

BANKING REGULATIONS.

Chapter VIII.,
paragraphs 382-424.

1006. In view of the great importance of banking regulations, the Commissioners have gone thoroughly into the existing Banking and Joint Stock Companies' Ordinances and shown how deficient they are. Laws in India, England, and other countries in this respect are referred to and recommendations made as to the improvements which should be introduced. It is suggested that banks should be required to observe certain conditions in regard to their incorporation, commencement of business, publication of financial statements and balance sheets and their audit, and supply statistics. Both indigenous and foreign banks are required to take out a licence, and the conditions on which licence should be given are laid down in the report. There is to be a Register of Banks in which the name of every such licensee is to be entered. It is recommended that no bank should be allowed to advance against its own shares. Some suggestions are also made as to the diversification and liquid nature of bank assets. Provision is also made for investigation by Government into affairs of a bank on a complaint by shareholders and depositors. In order that banking enterprises may not be withered by blasphemous reports and *malâ fide* complaints, a procedure is suggested whereby preliminary inquiry would be held by the Registrar of Joint Stock Companies and the offence would be triable by the magistrate only if such an inquiry gives necessary permission. Alternatively, it is recommended that the defending bank should be reimbursed with its costs in case of vexatious proceedings by the complainant, and the latter should be required to make a deposit in court in advance. An arrangement is also suggested to stop bear raids on bank shares.

LEGAL HANDICAPS OF CREDIT AGENCIES.

Chapter IX.,
paragraphs 425-458.

1007. Interest represents not merely the charge for the hire of the use of money, but it also covers compensation for loss or delay in getting back the principal. On account of many complaints that the present commercial law is grossly inadequate from the point of credit, the Commissioners have minutely examined this question in consultation with Government law

officers. There is no doubt about the deficiencies in the law and the handicaps it imposes upon credit operations. The legal machinery requires to be overhauled. Various legislative enactments which impinge upon credit are examined and suggestions made as to their improvements. The Civil Procedure Code and Joint Stock Companies' Ordinance appear to be out of date. There is a great delay in the disposal of suits. Recommendations are made about the legal permissibility of equitable mortgage and the creation of a simple law in regard to the hypothecation of movables, securing of advances by shares and assignment of policies, bankers' lien and the rights of pawnee to sell the mortgaged goods under certain conditions without applying to the court. It is found that in general the Roman-Dutch law is too antiquated to meet the demands of present day commercial and banking activities and that the legal system of Ceylon governing them should be carefully revised.

INVESTMENTS AND SAVINGS.

1008. On account of the importance of investments and savings upon the banking and capital system the various agencies of promoting thrift are discussed. Land has, until now, formed the most attractive investment for the Ceylonese. There is absence of indigenous investment in stock exchange securities and the chief reason for this state of affairs can be ascribed to there being no Ceylonese as share brokers. The rigidity of the rules of the Share Brokers' Association in making it impossible for the sons of the soil to get into this business is referred to and recommendations are made as to how this state of affairs should be remedied.

Chapter X.,
paragraphs 459-514.
Various saving
agencies.

1009. It is urged that the State should take advantage of the present easy money conditions and arrange for voluntary conversion of its external debt into rupee commitments. The Commissioners do not anticipate that Government would not find enough money or will have to pay a higher price for rupee loans, but, even if it does cost a little more, that should not stand in the way of the adoption of the policy of internal borrowing. There would be ample compensation in the avoidance of risk of exchange fluctuation inseparable from foreign borrowing and the formation of indigenous investment habits and capital markets. Government's policy in not floating its loans inside the Island is also responsible for the non-existence of suitable investments and the non-development of the security habit.

Government rupee
securities.

1010. An amalgamation of the Ceylon Savings Bank and the Post Office Savings Bank, decentralization of the working of the Post Office Savings Bank and the liberalization of the rules of withdrawals are recommended in the interests of popularity, efficiency, and unification of the Savings Banks working in the Island.

Unification of the
savings banks
working in Ceylon

1011. The creation of new channels of saving in the shape of Postal Cash Certificates, Treasury Bills, and investments in building societies is also suggested. The question of investment trusts for the Island is also considered, but it is thought desirable that its introduction should be postponed until the establishment of the State-aided Bank. The question of opening of cheque accounts in Post Offices and permitting local bodies to open savings bank departments is also examined, but it is considered too premature to start these activities immediately. The machineries of provident and mutual societies as aids to savings have also been looked into, and abuses connected with the working

New channels of
savings.

Insurance
Companies.

are pointed out. It is urged that the law in this respect should be strengthened. Misrepresentations and misunderstandings caused by the Business Names Ordinance are referred to and suggestions made as to their remedy. The abolition of the stamp duty on cheques is recommended. On account of the importance of insurance as a medium for beneficent investment, the Report deals with the necessity of its regulation. The absence of legislation for incorporation of local insurance companies is deplored and suggestions are made for the introduction of a special Ordinance to control the working of insurance companies both indigenous and foreign. It is recommended that every insurance company should deposit a minimum sum of Rs. 25,000 on its incorporation which must be gradually increased to Rs. 2 lacs from premium income and insurance fund reserve. The Commission does not agree with the demand that all the premia received by insurance companies in Ceylon should be invested locally, because several of them have to reinsure their risk outside the country and all the premium income received by them does not remain in their hands. A number of requirements in connection with the preparation of balance sheet, its audit, rights of shareholders and policy holders, the preservation of life fund for the sole benefit of policy holders, &c., are suggested to be incorporated in the proposed legislation.

AGRICULTURAL FINANCE.

Chapter XI.,
paragraphs 515-725.

1012. The agriculturists form the bulk of the population of Ceylon and the problem of agricultural finance is minutely examined. The business of agriculture is analysed to determine what risks it involves and whether there are any special handicaps in Ceylon to make lending difficult and costly to the peasantry. The precarious nature of agriculture on account of its dependence on weather conditions and the meagre margin in production, which mostly disappears and even becomes negative, are the greatest hindrances in the matter of rural credit. The position is made worse in Ceylon because of the confusion in titles. A historical examination of systems of land tenure reveals how the chaotic state in ownership of lands has arisen.

Recommendations
for registration of
titles.

1013. The activities of the Land Settlement Department, in so far as it has bearing on this problem, are analysed. It is recommended that the organization of the Land Settlement Department should be widened so that its inquiry may relate not only to the clearance of disputes between the Crown and the public but between all the private claimants *inter se* as well. A part of such expenses may be recovered by a small levy on the land whose title is cleared. Future complaints regarding title are to be avoided by the introduction of the system of title registration in a special register. Prohibition of fragmentation of land and consolidation of existing fractional holdings are also recommended.

Finance for
colonization.

1014. The scheme of colonization of new waste lands on the basis of peasant proprietorship is examined from its financial aspect. A special form of organization to provide credit for the development of these lands is recommended.

Recommendations
to alleviate rural
debt position.

1015. A short description of the tea, rubber, coconut, and paddy cultivations is given. The present indebtedness of owners of coconut land is described and owing to the precarious position of coconut land-owners, the Commission suggests an Ordinance to restrict the rate of interest on mortgaged coconut land to 7 per cent. This will bring an annual saving of approximately Rs. 5 million a year to the owners of mortgaged land without putting

the mortgagees to much inconvenience. The Commission also discusses the general rural indebtedness of the country and suggests the formation of Conciliatory Boards in different districts to register individual indebtedness on mortgages of land and bring about a reconciliation between the debtors and the creditors in respect of their borrowings and lendings. It is also recommended that Government should come forward to institute "Agriculturists' Redemption Fund" to help the rural debtors.

INDUSTRIAL FINANCE.

1016. On account of the need of industrial expansion to provide means of subsistence for increasing population, as well as to mitigate the present utter dependence upon foreign markets, the question of industrial finance is considered. The financial requirements of major industries are of two kinds:—

- (a) For capital purposes.
- (b) For working expenses.

In so far as the first demand is concerned, it must be mainly provided through the capital market. Investors should come forward to take shares in industrial enterprises. The provision of working capital can be arranged with or facilitated through commercial banks and the State-aided Bank.

1017. There would, however, be certain types of industries which, on account of their pioneer nature or large scale, would require financial aid from the State. Such assistance may be given through the agency of the State-aided Bank. This bank can be asked in the first instance to ascertain the commercial possibilities of the project. If it is established that the industry has a fair chance of success the State may decide what aid to give. Instead of making direct advances and undertaking responsibilities of supervision and the collection of instalments towards payment of debts, Government may delegate its functions in these respects to the State-aided Bank. Government may give their guarantee to the bank and on the strength of this security, the bank can supply the necessary capital to the industry. An arrangement like this would prove businesslike. The State will not be faced with the problem of finding the money and the bank will have scope for utilizing its funds. Being in touch with business, it would be able to better supervise the working of the industry.

1018. With regard to the demand for an industrial bank, the Commissioners think that this is premature. They think that the arrangement suggested by them would in practice prove equally efficacious. When an industry has demonstrated its profitableness the State-aided Bank could help it in the floatation of debentures and their underwriting.

1019. The finance of cottage industries should be mainly provided through industrial co-operative banks and urban credit societies. In the matter of providing working credit, these banks can supplement their resources from the State-aided Bank.

MARKETING FINANCE.

1020. On account of the importance of marketing finance, prices the existing financial methods are examined from this angle and suggestions made for their betterment. Credit systems for the movement of goods from the field or factory to the seaboard or consuming store and for the distribution of imports into the hinterland are described and discussed. At present there is no organized machinery. Remittance facilities are prominent by their absence.

Warehouses and warrants. 1021. Creation of respectable warehouses and warehouse warrants, for the purpose of facilitating marketing credit is recommended.

Marketing societies. 1022. In order to assist the farmer to get a fair price for his crops, formation of marketing societies is recommended. They should be formed on joint stock principles and be under the supervision of the Agricultural Department. There is greater contact between the producers and this department than between them and the Co-operative Department. It is recommended that they should receive aid from the State in the initial stage of their formation. In order to minimize the opportunities of the cultivators falling into the hands of the boutique-keepers, it is suggested that these societies should not merely aim at selling the produce but also supply necessary materials to the peasantry in the same way as the present boutique-keepers do.

Advisory board. 1023. It is recommended that an Advisory Board should be formed at Colombo to co-ordinate the activities of the various marketing societies as well as to guide them in their work. The Ministers in charge of the portfolios of agriculture and commerce, the Director of Agriculture and the Registrar of Co-operative Societies should form this Board.

CO-OPERATION.

Chapter XIV., paragraphs 805-936. 1024. A brief history is given of the co-operative movement in the Island. Its importance in agricultural finance is undoubted. But the movement is as yet in its infancy. It has merely touched the fringe of the rural economic life. There does not appear to be much enthusiasm for its progress. Reasons for the feebleness of the movement are determined and analysed. Recommendations are made to overcome the present deficiencies and to vitalize the institution.

MISCELLAENEUS.

Chapter XV. paragraphs 937-969. 1025. The Commissioners finally discuss sundry important matters, which directly or indirectly relate to credit.

Currency. 1026. The first matter discussed is that of currency. It is not considered desirable that any change should be introduced in the present basis of the monetary system of Ceylon, particularly in view of the chaotic conditions which prevail to-day in the world in regard to international trade and monetary matters. The rupee has successfully worked as the standard of external measure of Ceylon's currency. The only demand for change in the present arrangement is on the ground of loss of profit on minting which at present is solely retained by India. The Commission analyses at length the truth of this charge and shows how this loss can be avoided by substituting Indian and other gilt-edged securities for the rupee portion of the currency reserve. The value of the present monetary connection to the economic life of Ceylon is discussed in detail and shown how a change would disturb the Indo-Ceylonese trade and the labour problems of the Island, lead to profiteering and high rates of interest and cause nervousness in external capital at present engaged in the Island or likely to come in for the service of future economic advancement. In making this recommendation the Commission is also supported by the conclusions of previous Currency Commissions.

1027. Recommendations are also made for the introduction of currency chests at the Kachcheries to facilitate internal remittances and for imparting elasticity to the currency system

through recognized arrangements of automatic expansion and contraction. It is hoped that by bringing into the banking system, through the State-aided Bank, the Treasury balances which are now hoarded in the Kachcheries, there would be a widening of the basis of credit and the enlargement of the money market.

1028. The second question which has been dealt with is that Banking education. of banking education and training. Importance of these problems to the development of indigenous banking is unquestionable. Ways and means are suggested to accelerate education and training of Ceylonese in banking. It is also urged that arrangements should be made to provide education in co-operation so as to quicken and expand the co-operative movement.

1029. A number of pressing economic problems face the Island. In order to consider satisfactorily these questions, it is suggested that facilities should be provided for economic study and research and that an Economic Advisory Council should be established. The main function of this Board would be to study economic questions and to carry on research in these matters. It will be one of its responsibilities to collect economic data and economic information. Suggestions are offered as to the composition of this Board and as to the reformation of Government Statistical Department. It is suggested that with a small paid staff there should be associated honorary members from amongst the officials and non-officials. There should be a combination of theory and practice, so that there should be a corrective and harmonious blending of the two. Agency of students of economics should be invited for assistance during vacations on payment of actual out-of-pocket expenses.

1030. The last question dealt with is the collection of statistics. The lack of reliable figures has handicapped the Commission in certain respects in the pursuit of its task. It is recommended that a separate department be created and a special Ordinance be passed empowering the Statistical Department of the Government to collect such information as may be necessary from the public point. It is hoped that the combined agency of the Economic Advisory Council and the Statistical Department will materially assist in the formulation of correct economic policies and the building up of national prosperity.

ACKNOWLEDGMENTS.

1031. We are thankful to the Hon. the Financial Secretary, the Deputy Financial Secretary, the Registrar-General and Director of Commercial Intelligence, the Director of Agriculture, the Land Commissioner, the Government Agents, and other Government officers for giving us all information and assistance in our work.

1032. Our thanks are due to the Ceylon Daily News, the Times of Ceylon, the Ceylon Observer and the Ceylon Independent and the vernacular papers for publishing detailed reports of evidence given before us. This publicity has stimulated the interest of the general public in the work of the Commission.

1033. We appreciate the help of the Government Printer in publishing expeditiously in the midst of his other onerous calls the two volumes of our bulky report.

1034. We wish to take this opportunity of acknowledging the assistance that we have received from Government publications, Mr. Turner's Handbook of Ceylon, Mr. Nicholas' "Commercial Ceylon", and Ferguson's Directory in the preparation of our Report.

CEYLON SESSIONAL PAPERS, 1934.

1035. Our acknowledgments are due to our Secretary, Dr. B. B. Das Gupta, and Assistant Secretary, Mr. N. U. Jayawardena, for the assistance they were able to give us. We wish to place on record our appreciation of the able help that we have received from our Assistant Secretary with his knowledge and experience of Government Departments and statistics.

1036. Mr. B. T. Thakur acted for some time as Secretary to the Chairman and accompanied us on all our tours in the absence of our Secretary who could not join us outside Colombo and who could only attend to his duties part-time even when in Colombo. Our thanks are due to Mr. Thakur for the interest he took in our work and we wish to place on record our appreciation of the able help that we have received from him.

1037. We submit our Report in the earnest hope that some of our recommendations, if not all, will find favour with Government, and that they will usher in Ceylon an era of economic independence and financial stability which form the backbone of every progressive country. And for this, Ceylon will be indebted to the Hon. Mr. Perí Sundaram, Minister of Labour, Industry and Commerce, and to all those responsible for the appointment of this Commission.

S. N. POCHKHANAWALA,
(Chairman).

H. MARCUS FERNANDO.

S. C. PAUL.

B. B. DAS GUPTA,
Secretary.

N. U. JAYAWARDENA,
Assistant Secretary.

Colombo, November 26, 1934.

APPENDICES.

Appendix 1.—Questionnaire.



CEYLON BANKING COMMISSION.

QUESTIONNAIRE.

Commissioners.

Sir SORABJI N. POCHKHANAWALA, Kt., C.A.I.B. (London).
Managing Director, Central Bank of India, Ltd., Bombay. (Chairman.)

Sir MARCUS FERNANDO, Kt.
Chairman, State Mortgage Bank, Ceylon.

Dr. S. C. PAUL, M.D., F.R.C.S.

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June, 1934.

TERMS OF REFERENCE OF THE COMMISSION.

"To inquire into and report upon the existing conditions of banking and credit in Ceylon and to consider the steps, if any, that are feasible and desirable in respect of the provision of banking and credit facilities for—

- (a) Agriculture,
- (b) Industry,
- (c) Trade,

and also to make recommendations regarding the desirability of establishing a State-aided bank and sound local banks."

CONTENTS OF QUESTIONNAIRE.

- I.—Banks and Credit Facilities for Trade and Main Industries.
- II.—A State or a State-aided Bank.
- III.—Banking Regulations.
- IV.—Savings and Investments.
- V.—Banking Education.
- VI.—Finance and Currency.
- VII.—Co-operative Credit Banks and Land Mortgage Banks
- VIII.—Agricultural Finance.
- IX.—Small Industries and Retail Trade.

NOTE.

THIS Questionnaire is issued by the Commission for obtaining information, views, and suggestions from the public. It is not to be regarded as exhaustive. The Commission will welcome information and suggestions on other matters relevant to the inquiry which are not covered by the present Questionnaire.

In submitting replies, as far as possible the order of the questions should be maintained. It is not necessary that all the questions be answered.

Persons or associations willing and in a position to help the Commission by separate statements or memoranda on any particular subject contained in the Questionnaire are invited to do so.

All papers should reach the Secretary of the Ceylon Banking Commission, P. O. Box No. 500, Colombo, on or before July 1.

Oral evidence will be called for on the basis of, and as required by, the replies and statements received. Persons willing to appear as witnesses are requested to inform the Secretary before July 1.

The Commission desire to collect information from all quarters. Persons not already supplied can obtain copies of this Questionnaire on application to the Secretary of the Banking Commission.

QUESTIONNAIRE BY THE CEYLON BANKING COMMISSION.

I.—Banks and Credit Facilities for Trade and Main Industries.

- (1) What is the approximate amount of local and foreign capital invested in Ceylon in tea, rubber, coconut, and other important industries, respectively? What is the proportion of foreign capital invested in them? To what extent are the different industries managed and run by the Ceylonese and non-Ceylonese, and with what results? Please give your personal views on the above subjects.
- (2) What are the principal industries in Ceylon owned or run by Ceylonese and non-Ceylonese which in your opinion suffer at present for want of credit facilities, with special reference to:—
 - (a) Fixed capital expenditure (purchase of land, block, &c.),
 - (b) Current requirements of working capital (raw materials, improvements in land, cattle, working expenditure, &c.)?

What would be the best method of securing working and fixed capital for them in Ceylon?

- (3) State how far trading and industrial concerns owned or run by Ceylonese and non-Ceylonese receive financial assistance from the Imperial Bank, Exchange Bank, Indian Banks, Indigenous Banks, Co-operative Banks, Chettiars, and other Money-lenders. Do you know of any instances where trading and industrial concerns have materially been handicapped for want of credit facilities?
- (4) What average rate of interest is charged to trade and industries where finances are made available or credit facilities provided by banks and money-lenders? Are these rates higher than what trade and industry can bear?
- (5) What kinds of securities are generally offered to banks and money-lenders when moneys are borrowed for trade and industries? State whether in your opinion such securities are safe and adequate.

- (6) State what difficulties are experienced by persons engaged in trade and industries to procure adequate banking and credit facilities from banks and what principal objections are raised by them while considering applications for such advances. To what extent have banks and money-lenders suffered losses by extending credit facilities to trade and industries in Ceylon owing to trade depression and low prices of produce and commodities during the last few years?
- (7) If banks in Ceylon have not financed trade and industries quite freely at times, to what causes do you attribute their reluctance? Has it been due to fraud or malpractices committed by borrowers or to heavy losses incurred as a result of severe fall in prices of commodities?
- (8) Do banks in Ceylon give ample credit facilities on personal security to merchants engaged in trade and industries and lend freely on stocks of goods pledged or hypothecated with them?
- (9) Is short term or long term credit more easily available to trade and industries from banks and money-lenders in Ceylon?
- (10) What are the credit instruments in use with regard to internal and foreign trade to secure advances from banks and individual money-lenders?
- (11) Have you any suggestions to make to improve the present methods of financing produce, import and export of Ceylon and the different classes of documents now in use in connection therewith so as to benefit the different classes of producers, buyers, sellers, bankers, middlemen, merchants, and the community at large?
- (12) What part do the Imperial Bank of India and the other foreign banks take in financing the internal trade, and the imports and exports of goods, and discounting of trade bills? How do they help in the movement of crops from the village to the market and from the market to the exporting ports? Besides banks, what are the other agencies that take part in this kind of finance?
- (13) Do you think there is a good field for encouraging inland trade bills in Ceylon in the purchase and sale of goods and in everyday mercantile transactions? What steps should be taken to create a bill market in Ceylon?
- (14) What are the difficulties of Ceylon producers, shippers, and merchants who are not associated with European export houses in obtaining credit facilities? Can they get their clean or documentary bills discounted at any of the banks? Are bills drawn for goods exported from Ceylon mostly against confirmed letters of credit? What must be the proportion of such bills to bills against consignment or bills partially drawn against documents?
- (15) Have you heard of any complaint about racial discriminations by banks while financing trade and industries, discounting of bills, fixing of exchange rates and advancing of moneys against movable and immovable properties and providing any kind of business facilities to merchants in Ceylon?
- (16) Is it within your knowledge that some of the foreign insurance companies have advanced large amounts on mortgages of movable and immovable properties in Ceylon? Do you know of other agencies in Ceylon which lend considerable amounts against (1) immovable properties, (2) rubber, tea, and other produce?
- (17) How do Chettiars help trade and general business of the country? Can you give a short account of their financial activities in the last ten or twenty years?
- (18) What privileges and concessions, if any, do the Imperial Bank of India and some of the Exchange Banks doing business in Ceylon enjoy from the Ceylon Government, railway, municipal, port and other local

authorities? State whether in your opinion such facilities and concessions should be allowed to continue as at present, or, if to be restricted, to what extent. What services are these banks rendering to the Ceylon Government and the other public bodies for the above facilities and concessions enjoyed by them? Have any of these banks ever come forward to finance the Ceylon Government or help it in the floatation of their loan requirements? Have they helped the railway, municipal, and port authorities in any schemes of public utility? Have they encouraged any big industrial or commercial project, private or public, with financial help?

- (19) Can you give some idea of the total deposits of banks in Ceylon? Are there any reliable statistics available of the interest these banks have in the country so far as their deposits and advances in Ceylon are concerned?
- (20) Could you suggest some scheme by which credit facilities could be more easily available through banks, and at cheaper rates, to those engaged in trade and industries of Ceylon?
- (21) How far and in what ways, in your opinion, should the Government give financial assistance to encourage and develop industries in Ceylon?
- (22) What special credit facilities should be provided for pioneer industrial undertakings? Can you give any information on the following industries, describing the financial and other difficulties in the way of their establishment and successful working and the remedies you propose to overcome them, viz. :—

- (a) Cement,
- (b) Soap,
- (c) Sugar,
- (d) Bricks,
- (e) Tiles,
- (f) Paper,
- (g) Matches,
- (h) Biscuits,
- (i) Plumbago,
- (j) Cigars and Cigarettes,
- (k) Canning and food preservation, and
- (l) Wood distillation and industrial alcohol.

- (23) (a) Can you give a short history of the textile industry in Ceylon?
- (b) What are the circumstances in favour of and against starting spinning and weaving mills in Ceylon?
- (c) With the proposed restriction on the import of foreign piece goods, do you think a profitable field will be opened up for starting textile factories? Would this not encourage cotton cultivation in the country?
- (d) What special financial assistance would you recommend for building up this industry?
- (24) In view of the present depression in the coconut industry, what steps in your opinion, should be taken by the Government and by those interested in the industry to improve its general economic condition and to put it on a sound financial basis?
- (25) Do you know of industries in Ceylon which have succeeded or failed after receiving financial help from the Government?
- (26) (a) How are banks and money-lenders secured when lending moneys on produce? What is the usual custom in regard to produce over

- (b) How does the law in Ceylon with regard to mortgages compare with that in India and England? Does it require any amendment? Does it prevent banks from giving financial aid? Have banks or commercial chambers or the commercial community drawn the attention of the Government to this matter and requested some amendment?
- (27) Are there any difficulties in arranging fire and marine insurance on merchandise and other securities while offering them to banks against loans and advances?
- (28) Do banks in Ceylon freely accept policies of British, Indian, and other insurance companies, irrespective of their nationality?
- (29) Indigenous insurance companies, if established on sound lines and under experienced management, should do well in fire and marine insurance in view of the large foreign trade and local business of the country. What are the difficulties in their way, and what means would you suggest to establish indigenous insurance companies in the country?
- (30) What part do indent agents take in the financing of rice, piece goods, and other manufactured goods imported into the country?
- (31) What part do the export agencies take in the financing of local produce?
- (32) What part do the guarantee brokers of banks and import and export firms take in obtaining credit facilities for the commercial community of Ceylon?
- (33) Describe the shroff system at banks and what part it takes in financing trade and industries. What are its defects?
- (34) (a) What are your views on the "Cheettu" business and the system of auction sales? What real advantage do the members borrowing and investing moneys from or with them derive from them?
 (b) Should in your opinion this method of raising and investing moneys be discouraged? What precautions should the Government take to safeguard the interests of poor and illiterate classes who may suffer loss in such schemes?
- (35) What steps do you consider necessary to induce capitalists and men of enterprise to take to trade and industries?
- (36) Tea and rubber being under restriction, there would be hardly any new companies formed to extend their cultivation. The present conditions would bring in good income to those already interested in these two industries and large sums would be available out of their savings for new investments. There would be no new demand for extraordinary credit facilities by these two industries, but, on the contrary, moneys already lent to them would soon get free: what would be the outlet for investments in Ceylon for these surplus balances gradually getting free? Do you not think that this would be the right time to start a State Bank or a State-aided Bank and other indigenous banks, insurance companies and industrial concerns under efficient management and provide a proper channel for the mobilization of public savings and create credit facilities for trade and industries in Ceylon?

II.—A State or a State-aided Bank.

- (1) Are you in favour of establishing for Ceylon—
 (a) A State Bank under a special charter or
 (b) A State-aided Bank?
- (2) What should be the capital of the above banks? If you recommend a State Bank or a State-aided Bank, will you determine its capital, keeping in view the fact that it should be such as to command the confidence of the Government, the public and the foreign banks now

- (3) Would you prefer the capital of such a bank to be subscribed by the public or by the Government or by both jointly? Do you anticipate any difficulty in getting this capital subscribed?
- (4) The reserves of the Ceylon Savings Bank amounted to about Rs. 500,000 on December 31, 1932. This amount, along with the amount at credit of the depositors (viz., Rs. 8,734,000), was invested in fixed deposits with the banks (viz., Rs. 2,275,000) and in Indian and colonial investments comprising Straits (3½ per cent.), Nigeria (4 per cent.), Tasmania (3½ per cent.), Kenya, Barbados, Fiji, New Zealand, Western Australia, Queensland, Uganda, Northern Rhodesia and other such colonial securities. A sum of Rs. 1,439,000 was lent on Colombo house property. Would you agree to this reserve of Rs. 500,000 and any part of the deposits, being utilized by the Government for investment in shares or debentures of the State Bank or State-aided Bank if started under a constitution approved by the Government? What objections could be raised against the conversion of a part of the above colonial securities into shares of a national bank which would yield perhaps a better rate of interest than some of the securities mentioned above?
- (5) The total funds of the Loan Board and the deposits of the Post Office Savings Banks amount to over Rs. 21,000,000. More than Rs. 13,000,000 of these funds are invested in Indian and colonial securities: would you recommend some part of these securities being invested in the capital of the proposed State or State-aided Bank?
- (6) What part would you suggest the Government should play in the promotion of such a bank and in its future working and management? What privileges would you ask from the Government for such an institution?
- (7) Will it not be expedient, in your opinion, that political interests and party politics should remain outside the constitution of such a bank? What form of representation of the Government would you suggest to safeguard the Government's financial interests in it?
- (8) What restrictions in business would you insist upon in the constitution of (a) and (b) banks in question (1) for the safety of the Government's money and public deposits? Would you agree to give it a free hand to do the following banking business (viz.)?
- (a) Act as bankers to Government, Railway and other Government departments and local bodies;
 - (b) Open current, fixed and savings accounts;
 - (c) Discount local and foreign bills of one or more parties;
 - (d) Buy and sell Ceylon Government and foreign Government securities and bullion;
 - (e) Underwrite, subscribe, and invest in shares of joint-stock companies registered in Ceylon;
 - (f) Agency business;
 - (g) Deal in local and foreign currencies (i.e., foreign exchange business);
 - (h) Lend moneys on—
 - (i.) Immovable properties,
 - (ii.) Agricultural produce and manufactured goods,
 - (iii.) Bills of lading and documents of title,
 - (iv.) Promissory notes and bills of exchange,
 - (v.) Ceylon Government and foreign Government securities,
 - (vi.) Debentures and shares of joint-stock companies registered in Ceylon and elsewhere.

(9) In what other parts of the country besides Colombo would you recommend

- (10) Would you put any restriction on the capital of the bank being subscribed by non-Ceylonese? What proportion of Ceylonese directors would you recommend on the board of such a bank if the capital is kept open for subscription to Ceylonese and non-Ceylonese?
- (11) If a State Bank is started would you recommend the power of note issue to be given to it?
- (12) Will you suggest ways and means to bring about some kind of co-ordination between the proposed State Bank or State-aided Bank and the State Mortgage Bank, co-operative banks, Imperial Bank and other banks doing business in Ceylon?
- (13) What are your views about organizing—
- (i.) A bank or banks on joint-stock principles independent of Government aid and control,
 - (ii.) An industrial bank with or without Government support,
- with regard to—
- (a) Capital,
 - (b) Constitution,
 - (c) Privileges,
 - (d) Nature of business to be allowed or disallowed?
- (14) If indigenous banks are started in the country with a capital of from 5 to 10 lacs, under a sound constitution and efficient management, would the public, in your opinion, subscribe to their capital and deposit freely their savings with them, or would they hesitate to do so owing to the past failures of one or two banks in Ceylon?
- (15) What protection, if any, would you recommend for the State Bank, State-aided Bank or indigenous banks against the competition of powerful foreign banks in the ordinary course of their business?

III.—Banking Regulations.

- (1) What restrictions would you suggest for the use of the word Bank? Would you allow the word Bank to be used by—
- (a) Any individual or firm,
 - (b) Any joint-stock company registered in Ceylon or elsewhere,
- doing borrowing or lending business, along with other classes of business such as insurance, trading, commission, agency, brokerage, &c.?
- (2) Can you tell the causes which, in your opinion, have led to the failures of banks registered in Ceylon? What remedies would you suggest to stop such bank failures in future? Do you recollect any instances of failures of banks registered outside the country but doing business in Ceylon and in which the Ceylon public have lost their deposits? What remedy would you suggest to prevent the recurrence of such an event?
- (3) Is there any special legislation regulating banking business in Ceylon? Would you suggest any modifications? Would you care to have special legislation to protect the interests of the depositors and to safeguard the business of indigenous banks against the competition of non-indigenous banks?
- (4) Is every company in Ceylon—whether banking or trading, joint-stock or private, with limited or unlimited liability, and whether registered in or outside Ceylon—allowed to take deposits from the public in current accounts and borrow moneys without submitting to any restrictions? Do you suggest any changes in the present system of their dealings with the public so far as their business in Ceylon

- (5) What do you know of various "mushroom" foreign and local companies doing business in Ceylon with little or no capital of their own, styling themselves as banks or financial companies and inviting the public to open savings and other deposit accounts with them by advertising "get-rich-quick" schemes? What steps have been taken by the Government, commercial chambers and other public bodies to warn the public against such concerns and save the people from losing their life-long savings by investing with them?
- (6) What is your estimate of the total amount of public deposits with the institutions in question (5), and what particular classes of people in your opinion patronize them? Do you see any danger in allowing them to continue their business in Ceylon? What remedy would you suggest to safeguard the interests of the poor and illiterate public who are generally the victims of such schemes?
- (7) What view do you hold with regard to auditing and examination of accounts of banks, joint-stock companies and other institutions inviting public deposits? What should be the qualifications of such auditors?
- (8) Do you think that banks and financial houses borrowing moneys in Ceylon from the public but registered outside Ceylon should also get their business in Ceylon audited by auditors licensed by the Ceylon Government or should they in the alternative be made to supply to the Government statistics of their business in Ceylon?
- (9) At present no statistics of the business in Ceylon of banks and financial houses registered outside Ceylon are available in respect of deposits, cash, loans, advances, &c. Should not these particulars be supplied to the Government for the information of the commercial community?
- (10) What general alterations and modifications would you suggest in the present Joint-Stock Companies Ordinance which was passed in 1861, to better regulate their business and in particular to make them supply more information in their reports and balance-sheets so as to command greater confidence with banks in getting credit facilities?
- (11) (a) What difficulties are met with in connection with the different kinds of negotiable instruments in use in Ceylon?
(b) What amendments to the Negotiable Instruments Ordinance do you consider desirable in the interests of either the public or the bankers?
(c) What kinds of documents representing goods are used for the purpose of obtaining credit? Are any difficulties encountered in their use? How can the difficulties be removed?
- (12) What difficulties have banks experienced in realizing their dues through law courts? What suggestions would you make to simplify the procedure and remove the difficulties?
- (13) (a) In what languages are promissory-notes, demand and time, written?
(b) What advantages or disadvantages would result from the increased use of time notes by traders and agriculturists?
(c) How would trade, industry and agriculture benefit by the reduction in or the abolition of the stamp duty on time notes.
(d) Do you think the abolition of the stamp duty on cheques would lead to an increase in the banking habit among the public? What further means would you suggest for increasing the use of cheques?
(e) What suggestion would you make to meet the loss of revenue resulting from the abolition of the stamp duty on cheques and time notes?

- (f) Do banks in Colombo discount freely time notes drawn at 2, 3, and 6 months' sight and endorsed by approved Chetties, Indian or Ceylonese merchants, shroffs, &c.?
- (14) What legislative safeguards would you suggest to promote the establishment of sound indigenous banks and at the same time prevent undesirable institutions with very small capital and doubtful organization starting business in Ceylon and becoming a source of danger to the country in general and the interests of indigenous banking in particular?
- (15) Are you in favour of giving licences, under a special banking Ordinance, to banks, indigenous and non-indigenous, doing banking business in the country? What should be the terms of these licences? and who should be empowered to issue, renew or cancel such licences?
- (16) For the better working of indigenous banks would you suggest special provisions in law with reference to—
- (a) Proportion of paid-up capital to nominal or authorized capital,
 - (b) Minimum amount of subscribed and paid-up capital before a bank starts its business,
 - (c) Proportion of its capital to be held by Ceylonese,
 - (d) Proportion of Ceylonese on the board,
 - (e) Provision of reserves out of profits before dividend is paid,
 - (f) Proportion of cash to be maintained against demand and time liabilities,
 - (g) Nature of business to be allowed and disallowed,
 - (h) Restrictions on trading in any form,
 - (i) Form of its balance-sheet disclosing its position, and its publication,
 - (j) Periodical audits,
 - (k) Qualifications of managers?
- (17) In some of the balance-sheets issued by banking and financial companies now doing business in Ceylon " Goodwill " appears on the " assets " side. Are you in favour of allowing payment for " Goodwill " in cash, paid up shares or any other form when a private company doing trading or banking business is transformed into a limited one with the designation of a bank?

IV.—Savings and Investments.

- (1) Is the habit of thrift widely practised in Ceylon, especially among the middle and poor classes? What are the institutions in existence for encouraging thrift?
- (2) To what extent do people in Ceylon keep their savings hidden away in notes, gold, silver, jewelry, &c.? Is the practice increasing or decreasing?
- (3) Can you give a rough estimate of the savings of—
- (a) An owner-cultivator,
 - (b) A tenant-cultivator,
 - (c) An agricultural labourer,
 - (d) A labourer in a tea or rubber estate,
 - (e) A small artisan,
 - (f) A shopkeeper,
- in your district, held in Post Office savings banks, gold, silver, or jewelry?
- (4) In what kind of securities would a Ceylonese with limited or small means ordinarily prefer to invest his savings?
- (5) Do you think that Post Office cash certificates for 3 or 5 years would appeal to the investing public in Ceylon if they are issued by the

- (6) Do you think that the introduction of home savings boxes would make the Post Office savings banks and the Ceylon Savings Bank more popular than at present?
- (7) Do you think that the introduction of cheques and the use of vernaculars in writing slipbooks, passbooks, &c., would make the Post Office savings banks and the Ceylon Savings Bank more popular among the poor and middle classes than at present?
- (8) The Ceylon Government has not issued any local rupee loan since a very long time, though there have been several sterling floatations in London on account of the Ceylon Government. Is it not in the interests of the country that a part of their sterling debt should be converted into rupee loans and the people given an opportunity to invest their savings in them?
- (9) Do you not think that the public would come forward to invest in such an internal loan if issued on terms, same or similar to those of the Indian Government securities?
- (10) Have the people of Ceylon invested largely in Indian Government securities? What would be the total of such investments? Are they not likely to increase unless good investments are offered to them locally?
- (11) Can you suggest any methods by which the public may be induced to invest more of their savings in the shares of good local enterprises and thereby support the industrial development of Ceylon?
- (12) (a) What improvements would you suggest in the present methods of buying and selling stocks and shares in Ceylon?
 (b) What steps should be taken to establish a regular stock exchange which would be popular with the investing public and closely connected with money-market conditions?
- (13) Would not public savings freely flow to raise capital for a State Bank or State-aided Bank, indigenous banks and insurance companies if such concerns were floated under Government protection with a trusted board of directors and experienced and efficient management?
- (14) Do you think that the habit of depositing moneys with banks should be encouraged, in preference to that of opening savings-bank accounts with the Post Office, as moneys deposited with banks, especially indigenous banks, help the trade and industries of the country?
- (15) What classes of people are generally in the habit of depositing moneys with Chetties, merchants, brokers, and other individuals and firms? Is a high rate of interest the only attraction for such deposits?
- (16) (a) What are the scope and prospects of an investment trust, under efficient management, created in the interests of small and big investors seeking profitable investments for their savings? What agencies are there now to help and guide the investors?
 (b) Is it possible to raise capital of about 25 lacs for such an investment company? And could a manager and suitable directors be locally found to conduct such a company in Ceylon?
- (17) To what extent have people with small savings deposited their moneys in debentures of the State Mortgage Bank?
- (18) How do you explain the fact that in spite of the generally defective and complicated nature of titles to land, people prefer investments in land to other kinds of investments? Do they buy land by raising moneys on their other securities in addition to the security of land newly purchased? Has not this method of doing business brought many of them into the present debts and difficulties?
- (19) Apart from the Ceylon Savings Bank and the Post Office Savings Banks, what other convenient channels exist in the several districts of the country for the people to invest their savings?

- (20) Do you recommend the opening of savings banks by local bodies? Would you also recommend them to open pawnbrokers' shops in their districts, with a guarantee broker to value the security and determine the loan amount?
- (21) Should not facilities be provided for compulsory or systematic savings by labourers and wage-earners working in tea, rubber and other agricultural and industrial areas?
- (22) To what extent do the educated classes in Ceylon invest their savings in life assurance? Why are there no indigenous life insurance companies in Ceylon? Is there not a very large field for life insurance business in the country?
- (23) Would not the successful floatation and working of indigenous banks and insurance companies in Ceylon give a great impetus to the saving and investing habit, besides retaining in the country, for its own benefit, the large profits which are now being carried out of the country by non-indigenous concerns?
- (24) Is it the general opinion in Ceylon that if the Government were to float a big insurance company for life, fire, marine, and accident insurance, it would, besides helping the habit of thrift, bring an increased revenue to the State if managed under efficient hands?
- (25) Are you in favour of or against the State participating in banking, insurance and industrial business and competing with private enterprises?
- (26) Before any indigenous insurance companies are allowed to be floated in Ceylon with limited liability should not a well conceived and elastic Insurance Ordinance more or less on the lines of the Insurance Act in England or India, with modifications to suit the conditions in Ceylon, be passed at the earliest opportunity? Should not such an Ordinance also contain certain provisions applicable to indigenous and non-indigenous insurance companies doing business in Ceylon, in order to give greater safety and security to those insuring and investing with them? Will you give your views on this subject?
- (27) Have you any other suggestions for extending and improving the banking, saving and investing habit among the Ceylonese?
- (28) Do you think that the introduction of income tax in Ceylon will deter many people from depositing moneys with banks, merchants, and private money lenders? Do you think that a part of the capital will flow out of the country for investment in foreign securities to avoid local income tax?
- (29) Have you any suggestions to make about the constitution and the working of the Ceylon Savings Bank and the Post Office savings banks, respectively? What improvements would you suggest to increase their usefulness to the public?
- (30) (a) What observations have you to make about the activities of the various kinds of provident societies in the country?
 (b) Do you think that the present Societies Ordinance protects the interests of the public adequately? What suggestions have you to offer?

Y.—Banking Education.

- (1) What are the existing facilities in the schools and colleges of Ceylon for commercial and banking education? How far are they sufficient and satisfactory?
- (2) Are there any special institutions in Ceylon for preparing students for examinations in banking and commercial subjects? For what parti-

- (3) Do banks in Ceylon provide opportunities to those desirous of getting practical training or of preparing for banking examinations?
- (4) Are examinations of the London Institute of Bankers and the Indian Institute of Bankers held in Ceylon? If not, was an effort ever made to request these bodies to hold their examinations in Ceylon?
- (5) With the hundreds of clerks working in the seven banks in Ceylon, would not the establishment of an Institute of Bankers on the lines of the English and Indian Institutes have, in your opinion, an educative value of its own and encourage the students for training in banks?
- (6) Is there any co-ordination between commercial institutions and banks for giving practical training to students in banks?
- (7) Are any responsible positions now held by Ceylonese assistants in the Imperial Bank of India and other banks in the country, except those of cashiers? How many of them hold higher positions than head-clerks in these banks, and on what salaries? Are they qualified to take independent charge of departments in a bank?
- (8) Do banks encourage their staff to obtain higher qualifications in banking and commercial subjects by giving them good salaries and promotions?
- (9) Have you any suggestions to make to increase the facilities for training of boys to qualify themselves for higher positions in banks and commercial houses?
- (10) Do you think that the slow development of indigenous banking in Ceylon and the bank failures are generally due to absence of trained and efficient men?
- (11) Can you give an idea of the number of trained and well qualified Ceylonese having practical training in banks and who, you consider, could hold responsible posts in indigenous banks if started in the country in the near future? Would you agree to the employment of non-Ceylonese Bankers for such banks until at least such time (say, five or ten years) as the Ceylonese get themselves more trained and qualified to conduct the affairs of such banks?
- (12) In view of the large Government balances deposited with certain banks, should not the Government induce them to provide facilities for higher training in banking to enable qualified Ceylonese to hold responsible bank appointments?

VI.—Finance and Currency.

- (1) What in your opinion are the defects in the present financial and currency system of the Island? What changes, if any, would you recommend?
- (2) In Ceylon Indian silver rupees, as well as the currency notes issued by the Ceylon Government, are legal tender. What are the financial and economic consequences of Ceylon's attachment to the Indian standard? What are the advantages and disadvantages of issuing an independent rupee coin as currency of the country—
 - (a) In place of the Indian rupee,
 - (b) Side by side with the Indian rupee?
- (3) In the Ceylon currency reserve are held Indian silver rupees to the extent of over Rs. 13,000,000. The intrinsic or bullion value of this reserve is considerably less. If the Ceylon Government coins its own rupee of the same weight, fineness and silver contents as the Indian rupee and holds that in the reserve, replacing a portion of the holding of the Indian rupees, the process will yield a fairly large profit to the Ceylon Government, which if invested in Indian or Colonial gilt-edged securities will bring in an additional revenue to the State and which could be utilized for the economic development of the country. Will you give your views on this subject?

- (4) Have you any suggestions to make relating to the investment of the paper currency reserve so as to create better banking and financial facilities?
- (5) The total issue of currency notes in circulation on 31st March, 1934, was Rs. 42,060,944, against which the Treasury held securities to the value of Rs. 33,786,224 at cost and Rs. 13,884,013 in Indian rupees. This shows a surplus of over Rs. 5,000,000 in the Currency Reserve Account which has been invested in gilt-edged securities. Considering that the market value of these securities held in Reserve Account is Rs. 38,318,695 as estimated by the Government, *i.e.*, is more by over Rs. 4,500,000 than the cost, and which excess is not taken into consideration in the Currency Reserve Account, would you advise the Government to sell Indian and Colonial securities constituting a part of the Rs. 5,000,000 surplus mentioned above and utilize the proceeds in subscribing to the capital of a State Bank or State-aided Bank started under a constitution approved by the Government? This would mean a conversion of Indian and Colonial securities into securities of shares of a national institution which would play a very important part in the economic development of the country. Such an arrangement may help in the early establishment of a State Bank or State-aided Bank. Will you give your views on this subject?
- (6) Are you in favour of adhering to the present rupee-sterling ratio as fixed by the Indian Government? Would you advocate any change in it in the interests of your country?
- (7) If joint-stock banks and an increased number of co-operative banks are opened in different districts they must be provided with funds for their day to day transactions from their head office and branches. At present there are hardly any facilities to draw and remit funds from the different parts of the country, there being no branches of the Imperial Bank and other banks outside Colombo, Kandy, Nuwara Eliya, and Galle: unless the Treasury Department helps them in the transferring of funds from one part of the country to another the proposed banks will hardly be encouraged to open such branches. What means would you suggest for an easy transfer of funds from one part of the country to another at the cheapest possible rates?

VII.—Co-operative Credit Banks and Land Mortgage Banks.

A.

- (1) Can you supply any data on the extent of rural indebtedness in your district?
- (2) Is the Ceylon cultivator more in debt than cultivators elsewhere?
- (3) To what extent has the Co-operative Movement helped the agriculturists, small traders and industrialists in your district?
- (4) For what purposes do people in your district mainly borrow from co-operative societies? If the societies lend money for strictly limited objects how is the deadweight of old and unproductive debts to be reduced? Are the current needs of the members of the societies adequately supplied, or have they to go to Chetties and other money-lenders to make up the deficiency?
- (5) What is the average amount that a member of a co-operative society receives as a loan?
- (6) What is the rate of interest and the period of such a loan? How does this rate compare with the rate charged by Chetties and other money-lenders of your district?

- (7) Are rice milling, dairy farming, jaggery making, fruit growing, hand spinning, and other cottage and small industries, in existence in your district, and how far are they financed by co-operative societies and banks?
- (8) Are there any Ordinances protecting the agriculturists against their creditors? How far have they proved detrimental to the interests of co-operative banks and other money-lenders? Is any special machinery provided under law for the benefit of co-operative societies, to realize their dues speedily and without unnecessary costs?
- (9) For what purposes are moneys advanced by co-operative societies, and on what securities?
- (10) Do co-operative societies lend on produce or only on the joint signatures of members?
- (11) If co-operative societies are not lending moneys against produce, crops, land, &c., and are simply financing against the promissory notes of borrowers and their guarantors, what useful purpose do they serve for agriculturists requiring help in those directions?
- (12) Is there any prejudice in your district against borrowing from co-operative societies?
- (13) Are the societies of your district founded with limited or unlimited liability? Is unlimited liability an obstacle to their expansion?
- (14) Do the workers and organizers of co-operative societies do honorary work, or are they paid servants? Is there much difficulty in getting honorary workers to take interest in the Co-operative Movement?
- (15) Has there been any kind of defalcation so far in any of the societies within your district?
- (16) Are all members or only the borrowers of each society required to take up a certain part of the capital of their society?
- (17) Who does the periodical audits of the co-operative societies and the central banks? Are they done by paid servants or honorary workers? How many times in a year are such audits made? Is the present system working satisfactorily?
- (18) Are there professional sureties in your district who stand as guarantors for the borrowers from the societies? Is there any limit fixed in your district for a guarantor beyond which he cannot guarantee the borrowings of other members?
- (19) How many societies are there in existence, and how many have been wound up in your district during the last five years?
- (20) From the report of the Registrar of Co-operative Societies, it appears that the Co-operative Movement is progressing satisfactorily? What is your opinion, from the experience of your district?
- (21) Is it true that the better class of people in your district remains outside the co-operative societies lest the unpunctuality of members in the payment of their dues should bring them personal liabilities?
- (22) Is there any class of people whom the co-operative credit society is not reaching?
- (23) Is there any central co-operative bank in your district? Does it come into direct contact with the agriculturists, or does it deal through co-operative societies only?
- (24) For what period and at what rate of interest do co-operative societies and the central co-operative banks receive moneys? Do they open savings-bank accounts?
- (25) What is the average number of societies working under a central bank? What are the average requirements of each society from its central bank and how far are they supplied?

- (26) Are the three central banks working profitably?
- (27) How much is lent by the Government to the Co-operative Movement? Does it stand to lose any amount?
- (28) What has been the experience of the co-operative societies in your district during the last five years with regard to—
- (a) The amount of deposits,
 - (b) The number of applicants for advances and loans allowed,
 - (c) The number of defaulters and their respective outstandings,
 - (d) Recoveries through courts,
 - (e) Failures of borrowers?

Are such failures due to circumstances beyond the control of the borrowers or to dishonest concealment of assets?

- (29) Do the societies get adequate financial help from the central banks? Or is the central bank flooded with money and the societies are wanting in funds to satisfy the demands of their members? Is there proper co-ordination between the societies and the central banks?
- (30) How do the central banks get their funds? And how do they use or invest their surplus?
- (31) In giving out loans, is the question of the economic utilization of the money and the capacity of the borrower to pay the agreed instalments always kept in view by the societies?
- (32) Do the Imperial Bank and other banks holding Government balances accommodate the co-operative societies or co-operative central banks on the security of co-operative paper? Could a link be formed between the banks and the Co-operative Movement in Ceylon?
- (33) Have you any suggestions to make to improve the marketing of produce in your district by co-operative methods? To what crops would your suggestions apply, and how would you finance these operations?
- (34) What interest has the Planters' Association in your district taken to establish suitable co-operative societies for the benefit of the estate labourers?
- (35) Can you suggest some ways and means to make the Co-operative Movement more popular and effective and so that it may fulfil the wants and requirements of those for whom it works?

B.

- (1) Are State Mortgage Bank debentures a popular form of investment among all classes of investors, or do they attract only a certain class of investors? What are the holdings of—
- (a) Ceylonese investors,
 - (b) Banks and insurance companies,
 - (c) Noni-Ceylonese individuals and firms?
- (2) What is the total amount of advances by the State Mortgage Bank on—
- (a) Agricultural lands,
 - (b) Properties situated in towns and used as offices or dwelling houses?
- (3) Out of 334 applications received during the last two years by the State Mortgage Bank loans to only 34 applicants are said to have been granted, the chief difficulties in the way of advancing moneys being the want of marketability of titles and the want of sufficient margin in the securities offered. The Co-operative Land Mortgage Bank at Negombo in 1932-33 out of 58 applications granted only 8 loans "owing to difficulties in the title or inability on the part of the applicants to fulfil the promise of repayment". What suggestions would you offer to remedy this defect and make the Land Mortgage Banks more popular and useful than at present?

- (4) (a) Are the two co-operative mortgage banks recently started at Kandy and Negombo working satisfactorily?
 (b) What amount has so far been advanced by these banks?
 (c) What are their special problems and difficulties?
 (d) In what ways could the Government assist these banks?
 (e) Could any link be established between the co-operative land mortgage banks and the State Mortgage Bank?
- (5) The State Mortgage Bank can legally lend only for strictly agricultural purposes such as—
 (a) Purchase and development of agricultural land,
 (b) Liquidation of old agricultural debts.

Is it true that moneys borrowed from the bank, particularly against the mortgage of town properties, are widely utilized for trade and money-lending purposes? What effective machinery would you suggest to stop such abuses?

- (6) (a) What has been the experience of the State Mortgage Bank with regard to the collection of instalments from borrowers?
 (b) What has been the number of defaulters? And what have been their outstandings?
 (c) Has the bank been reasonably prompt in exercising its right of foreclosure?
- (7) (a) What is your opinion of the present land ownership system?
 (b) Are there any facilities for the registration of titles of lands as distinguished from deeds?
- (8) The highest sum a co-operative society advances to its members is seldom more than Rs. 1,000. The lowest sum which the State Mortgage Bank advances to an applicant is Rs. 5,000. Should there not be co-operative agencies to supply the gap for advances between Rs. 1,000 and Rs. 5,000? Can you suggest any means to improve the situation?
- (9) The State Mortgage Bank has issued debentures some at 5 per cent. and some at $4\frac{1}{2}$ per cent. per annum. In view of the Government guarantee of interest and principal, these debentures may find a market even at 4 per cent. in the present circumstances. The debentures are redeemable within 20 years at bank's option, but only out of moneys returned by the bank's borrowers; this restricts the bank from issuing debentures at a lower rate and substituting them for those issued at higher rates. Do you not think that the bank should be given power to convert, at any time it thinks proper, the debentures bearing a higher rate into those carrying a low rate of interest? Would this not be in the interests of the banks and its borrowers?
- (10) Are there not enough facilities for getting loans against immovable property, considering that they may be obtained from banks, insurance companies, foreign firms and individuals through their lawyers, Chettiars, the State Mortgage Bank, the Loan Board, the Ceylon Savings Bank, and private money-lenders?

VIII.—Agricultural Finance.

- (1) Can you give an estimate of the total indebtedness of agriculturists in Ceylon? Can you give an idea of the annual financial requirements of agriculture in your district? Has the total debt increased or decreased during the last five years? What percentage of the agriculturists are in debt? What measures in your opinion are necessary for lightening the burden of this debt?
- (2) What is the number of cultivators in your district? In what ways do they at present obtain financial assistance for—(a) Cultivation, (b) Improving land, (c) Repaying old debts, (d) Special needs?

What part do the Government, co-operative banks, foreign banks, the Imperial Bank, insurance companies, private money-lenders, Chetties and other organizations play in giving financial facilities to agricultural enterprises in your district? Do agriculturists borrow and lend money among themselves, and to what extent?

- (3) Is it true that the village agriculturist does not receive a square deal and a fair share of the value of his produce? Is crop handled and sold by money-lenders, there being no proper marketing or storing facilities at the disposal of the agriculturist to get better prices?
- (4) What steps have the Government taken to improve the lot of the agriculturists? Have any efforts been made to educate the rural population in agriculture and promote their welfare? Have you any suggestions in this matter?
- (5) The rural classes principally get into debt as a result of various causes, such as—
 - (a) The extremely small size of land holdings,
 - (b) The excessive fragmentation of holdings,
 - (c) Social customs which encourage extravagant expenditure,
 - (d) Agricultural losses due to heavy mortality among cattle,
 - (e) Absence of by-occupations and other sources of supplementary income,
 - (f) The very low market price of produce (which at times is lower than the cost of production).

How far have these factors operated in Ceylon? What other causes in your opinion are responsible for the poor condition of agriculturists in your district? Can you suggest any remedy?

- (6) (a) Is land in your district heavily mortgaged?
 (b) Have there been many cases of foreclosure?
 (c) What remedies do you suggest to save the agriculturists in debt from losing their lands?
- (7) Can the headman system be utilized in any way to improve the credit facilities open to agriculturists?
- (8) In view of the extreme complications in titles, would the introduction of a land tax, establishing a record of clean titles, materially improve the credit facilities of the agriculturists? Do you consider such a tax desirable and feasible? Would you prefer such a tax to export duties?
- (9) (a) What amount of exporting is done by the producers themselves, and what percentage goes through local or foreign agents?
 (b) Do the agents who handle the exports finance the producers temporarily on their crops?
- (10) What is the average area of land held by agriculturists in your district? And what is the average value of yield per acre under each of the various crops?
- (11) (a) What are the main agricultural products in your district?
 (b) Is there scope for the introduction of any other products such as cotton, groundnuts, &c., into your area? If so, please supply short notes on each of them.
- (12) How far does the present irrigation policy assist the cultivator in your district?
- (13) What special credit facilities should be provided for pioneer agricultural enterprises?
- (14) What are the main obstacles in the way of the increased production of rice, oilseeds, and other food crops?

- (15) Is it not possible to make Ceylon self-supporting in respect of rice and other foodstuffs?
- (16) Is it true that sometimes a ring is formed by foreign export houses and that, except through a certain agency, it is not found possible either to market the crops or to ship them to foreign countries?
- (17) In countries like South Africa, Australia, and New Zealand there is an organized system to find money for agriculture and discount agricultural paper. In Ceylon the rural credit agencies are very little connected with the banking system of the country; there is no co-ordination among the various credit institutions. Have you any suggestions to offer to improve the present position?
- (18) The co-operative societies lend moneys usually for not more than one year, and the State Mortgage Bank lends for not less than five years; what agencies provide facilities for obtaining intermediate credit for periods between one year and five years? What suggestions have you to offer?
- (19) The small producer sells his produce at deflated prices either to the local money-lenders or to the middlemen in the nearest marketing centre. Some crops are sold through forward contracts to foreign houses who advance capital and arrange shipments. Are there any possibilities in your district for the formation of pools for the marketing of crops, the grading of crops and the system of auction?
- (20) (a) What proportion of tenants borrow money in your district from their landlords?
 (b) What rate of interest is charged, and what security is taken?
 (c) Do some landlords, instead of lending money of their own, stand as surety for their tenants?
- (21) (a) What difficulties do owners of land, cultivators of land and tenants of land in your district meet in obtaining long-term or short-term loans? What remedies do you suggest?
 (b) What documents are executed for such loans? And in what language are they printed? Is any oral agreement made to supplement the documents?
- (22) Has the Ceylon Government at any time offered long-term credit facilities to cultivators in your district who want to buy Government waste lands and improve them for cultivation?
- (23) (a) If the Government were to construct godowns or warehouses to store produce in some of the principal parts of the agricultural districts and issue receipts or warrants (by making a small nominal charge), for the goods held by them on account of individual owners, any persons holding in good faith such receipts or warrants duly endorsed would have a good title to the goods. Do you think that such a method would not only help the buyer and the seller of the produce but would be a satisfactory security for bankers and that banks, co-operative societies and money-lenders would come forward to lend moneys, at cheap rates, on such receipts or warrants? Would this not increase considerably the credit facilities in such districts?
 (b) Will you name some of the districts where such warehouses may be opened?
- (24) Is it not necessary that Government should conduct rural (economic) surveys? On what lines should they be carried out?

IX.—Small Industries and Retail Trade.

- (1) Are there any small industries, subsidiary to agriculture, in your district which require special financial assistance?

- (2) Has any attempt to start a new industry in your district failed because of difficulties in obtaining capital? Will you give some particulars?
- (3) Is it advisable to start local industrial banks on a small scale for lending moneys to small industries?
- What should be the capital of such a bank if it is to be started in your district?
 - Do you think such capital could be subscribed from your district?
 - Should it be started as a co-operative bank or a joint-stock bank?
 - Should it supply fixed capital or only working capital to the industry?
 - Should it grant loans on personal credit as well as against securities?
 - What maximum amount would you advise for a loan to individual borrowers?
 - Besides capital, would it attract fixed deposits and savings-bank accounts from your district?
 - Have you got any other plan in mind to encourage the small industries now working in different parts of the country and suffering for want of finance?
- (4) Do you know of industries in Ceylon which have succeeded or failed after receiving financial help from the Government?
- (5) What special financial assistance do you propose for promoting small and cottage industries like—
- Coir yarn and manufacture,
 - Carpentry,
 - Basket and mat weaving,
 - Cane and rattan work,
 - Lacquer work,
 - Lace making,
 - Toy making,
 - Pottery,
 - Gold-, silver- and brass-ware art work?
- (6) What difficulties do retail traders of your district meet with in obtaining moneys at a reasonable rate of interest for their business?
- (7) (a) Do the retail traders of your district generally buy their stocks on credit or borrow money to pay for them? How much of such moneys borrowed is provided by banks, co-operative societies, chetties and other persons?
- At what time of the year are such loans taken and repaid? What is the rate of interest on such loans?
 - Is a share of the profits claimed by the lenders? Are loans taken on promissory-notes?
 - What is the period of such loans?
 - What is the security given? What kind of document is generally executed?
 - Are the loans made on running account?
 - Do the lenders collect moneys from the daily turnover of the borrowers?
- (8) (a) Are there any brokers in your district who arrange finance for wholesale or retail traders?
- What commission do they charge?
- (9) What kind of credit facilities are available to merchants, small traders, shopkeepers, &c., at Kandy, Negombo, Jaffna, Galle, Kegalla, Kurunegalla, Batticaloa, Rathapura, Anuradhapura, Badulla, and other important towns? What suggestions have you to improve them?

Appendix 2.—List of Persons and Institutions who have submitted Memoranda.*

1. Abeygunawardena, D. C., Proctor, Supreme Court, Galle
2. Abeysekera, R. H., Mudaliyar, Pitigal Korale North, Chilaw.
3. Abeywardena, R. S. P., 47, Magalle, Galle.
4. Aitken, J. D., Imperial Bank buildings, Colombo.
5. Amerasekera, H. E., Mudaliyar, Hambantota.
6. Araratnam, C., Mudaliyar, Kalpitiya.
7. Bartholomeusz, A. E., "Uplands", Nugedoda.
8. Bassett, R. H., C.C.S., Assistant Government Agent, Nuwara Eliya.
9. Beer, W. A., Lloyd's buildings, Colombo.
10. Bibile, C. W., Ratemahatmaya, Wellassa, Uva, Badulla.
11. Bostock, N. S., Colombo Club, Colombo.
12. Botalawa, P. B., "Bowesland", Welimada.
13. Box, A. C., District Engineer, Ratnapura.
14. B. P. Nicholas & Sons, Jaffna.
15. Buultjens, Edward, Medagoda, Matara.
16. Catholic Home Literary Branch, Colombo.
17. Ceylon Benefit Co., Ltd., Colombo.
18. Ceylon Chamber of Commerce, Colombo.
19. Ceylon Desiccated Coconut Millers' Association, Colombo.
20. Ceylon Financiers, Baillie street, Colombo.
21. Ceylon Mercantile Service Association, Colombo.
22. Ceylon Merchants' Chamber, Colombo.
23. Ceylon Muslim League, Colombo.
24. Ceylon Nattukottai Chettians' Association, Colombo.
25. Chandran, T. L. R., I.C.S., Agent of the Government of India in Ceylon, Kandy.
26. Chinnetamby, K., Maniagar, Vadamarachchi, Karaveddi.
27. Colombo Co-operative Central Bank, Ltd., Colombo.
28. Commissioner of Excise, Colombo, (Mr. S. H. Wadia, C.C.S.)
29. Coomaswamy, V., C.C.S., Government Agent, Eastern Province, Batticaloa.
30. Cooray, M. E., 155, Maliban street, Colombo.
31. Dason, A. Maria, Proctor, Supreme Court, and Notary Public, Colombo.
32. De Alwis, J. W., Mudaliyar, Morawak Korale, Matara.
33. De Costa, Frank, Mudaliyar, Puttalam Pattu, Madurankuli, Puttalam.
34. De Mel, A. G., "The Parsonage", Horetuduwa, Moratuwa.
35. De Mel, Hector, "Melwin", Egoda Uyana.
36. De Silva, Charles, Deputy Fiscal, Avissawella.
37. De Silva, L. A. S., "Sirisara", Ambalangoda.
38. De Silva, O. B., "Watersmeet", Mutwal, Colombo.
39. De Soysa, L. W. A., "Newton", Torrington place, Colombo.
40. De Zoysa, H. W., Alutkuru Korale South, Ragama.
41. Deva Rajan, C. N., Public Auditor and Journalist, Manipay, Jaffna.
42. Dharmakirti, S. J. B., Matala.
43. Dias, C. E. A., "Savitri", Turret road, Colombo.
44. Dias, P. Alfred L., "Silumme", Panadure.
45. Divitotawela, R. D., Ratemahatmaya, Udukinda, Badulla.
46. Dyson, E. T., C.C.S., Government Agent, Central Province, Kandy.
47. Education Department Co-operative Society, Ltd., Colombo.
48. Elepata, S. A. I., Ratemahatmaya, Atekalani Korale, Ratnapura.
49. Ellawala W. T., Ratemahatmaya, Kolonna Korale, Ratnapura.
50. "Exportant", Colombo.
51. Fernando, J. Aloysius, President, Country Liquor and Liquor Products Association, Kalutara.
52. Fernando, W. M., Advocate, Marawila.
53. Freeman, H. R., M.S.C., Anuradhapura.
54. Fryer, L. A. H., St. John's Hill Estate, Madulkele.
55. Ginige, J., Elliott road, Galle.
56. General Manager, Ceylon Government Railway (Mr. E. W. Head).
57. Gonsalves, J. C., Gampaha.
58. Goonesekera, S. S. J., Advocate, Galle.
59. Goonetilleke, G. A. de S., Retired Attapattu Mudaliyar, Galle.
60. Goonetilleke, P. H. K., Barrister-at-Law, Kalutara.
61. Ignatius S. R., Public Auditor and Advocate, Jaffna.
62. Illangantilleke, J. H., Ratemahatmaya, Wannu Hatpattu, Kurunegala.
63. Indian Mercantile Chamber of Ceylon, Colombo.
64. Inspector-General of Police, Colombo (Sir H. L. Dowbiggin).
65. Jayasekera, J., Lunawa, Moratuwa.
66. Jayawardena, C. S., Old Kolonnawa road, Colombo.
67. Jayawardena, M. P. C., Charlington, Trincomalee street, Kandy.
68. Jaffna Co-operative Central Bank, Ltd., Jaffna.
69. Jaffna Co-operative Central Stores, Ltd., Jaffna.
70. Kahawita, S. C., "Sexville", Marawila.
71. Kandy Co-operative Central Bank, Kandy.
72. Kandy Co-operative Land Mortgage Bank, Ltd., Kandy.
73. Kandiah, V., Civil Hospital, Chavakachcheri.
74. Kannangara, R. C., Deniyaya Estate, Deniyaya.
75. Katugaha, H. B., Ratemahatmaya, Yatikinda, Badulla.
76. Kumbalwela, E. H., Ratemahatmaya, Viyaluwa Division, Badulla.
77. Leach, F., C.C.S., Assistant Government Agent, Hambantota.
78. Low-country Products Association of Ceylon, Colombo.
79. Luddington, N. J., C.C.S., Government Agent, Sabaragamuwa, Ratnapura.
80. Madawela, A. E., Ratemahatmaya, Dewamedi Hatpattu, Kurunegala.
81. Madukanda, S. M. U. B., Ratemahatmaya, Vavuniya South.
82. Madukanda, S. M. K. B., J.P., Dissawa, Vavuniya.
83. Malabar Tile Works, Colombo

84. Marikar Davud, M. A., Matara.
85. Marawila Co-operative Society, Marawila.
86. Marshall, E. F., C.C.S., St. Ives, Ward place, Colombo.
87. Medagama, M. B., Ratemahatmaya, Gravets, Badulla.
88. Mendis, B. D., Mendis Villa, Wilorawatta, Moratuwa.
89. Mendis, Rev. F. R. E., Moratuwa.
90. Millington, E. T., C.C.S., Government Agent, Uva, Badulla.
91. Moratuwa Mahajana Sabha, Moratuwa.
92. Moratu Sevaka Samitiya, Moratuwa.
93. Muller, Louis A., St. Clare, Dickman's road, Bambalapitiya.
94. Muttettuwagama, E. D., Ratemahatmaya, Demala Hatpattu, Anamaduwa.
95. Namasivayam, S., Vanniah, Manmunai North Pattu, Batticaloa.
96. New India Assurance Co., Ltd., Bombay.
97. Niles, W. D., Advocate, Jaffna.
98. Parakrama, J. S., Skinner's road south, Colombo.
99. Paris, M. M., Kattuwa, Negombo.
100. Peiris, H. W., Svasti, Bagatelle road, Colombo.
101. Perera, D. T., Mudaliyar, Alutkuru Korale North, Minuwangoda.
102. Perera, H. P. O., Mudaliyar, Matara.
103. Perera, W. A., Mudaliyar, Gangaboda Pattu, Matara.
104. Perera, Wilmot A., Hegalla Group, Horana, Panadure.
105. Postmaster-General, Colombo (Gate Mudaliyar A. G. Tillekeratne).
106. Ragnathan, C., Assistant Registrar of Co-operative Societies, Northern Division, Jaffna.
107. Rambukpota, A., Ratemahatmaya, Wellawaya.
108. Rambukwella, H. B., Ratemahatmaya, Uda Dumbara, Kandy.
109. Ranatunga, C., Kamburupitiya, Matara.
110. Ratnaswamy, S., The Creamery, Castle street, Colombo.
111. Registrar-General and Director of Commercial Intelligence, Colombo (Mr. J. C. W. Rock, C.C.S.).
112. Registrar of Co-operative Societies, Colombo (Mr. W. K. H. Campbell, C.C.S.).
113. Roberts, T. W., C.C.S., District Judge, Galle.
114. Rubaroc, R. P., Mudaliyar, Hewagam Korale, Homagama.
115. Rustonjee, F., Proctor, Supreme Court and Notary Public, Colombo.
116. Salt Adviser, Colombo (Mr. C. E. Foe-nander).
117. Samarakone, T. J., Talpawila, Matara.
118. Samarasinghe, S. D., Mudaliyar, Kurunegala.
119. Samaraweera, D. J. L., President, Hidellana Agricultural Association, Ratnapura.
120. Sandys, M. K. T., C.C.S., Assistant Government Agent, Trincomalee.
121. Shamsuddin Sahib, V. M., Maliban street, Colombo.
122. Silva, E. W., The Gradient, Alutkawata road, Colombo.
123. Silva, E. John, President, Kurana Young Men's Association, Negombo.
124. Sinnelebbe, A., Vanniah, Panama Pattu, Pottuvil.
125. Sinnappillai, S. K., Secretary of the proposed Co-operative Society, Vadukoddai East, Jaffna.
126. Sivaguru, V., Maniagar, Tenmaradachi, Pachchilaippali, Karachi, Jaffna.
127. Solomons, R. A., Richfio, Galle.
128. Southern Industrial Works, Ahangama.
129. Stevens, W. O., C.C.S., Assistant Government Agent, Matale.
130. Subramaniam, G., Maniagar, Jaffna Division, Jaffna.
131. Tambipillai, D., The Hermitage, Panadure.
132. Terrence Perera & Co., Bristol Buildings, Colombo.
133. Thirunelveli Ottumai Nithi, Ltd., Thirunelveli, Jaffna.
134. Time, A. D., Molligoda, Wadduwa.
135. Tyagaraja, J., Tyaganivasam, Ward place, Colombo.
136. Unamboowa, U. M., Neangandure Walauwa, Pundalnoya.
137. Venkadeswaram, N., Nirveli, Kopay, Jaffna.
138. Weerakoddy, George A., Hirewatta, Ambalangoda.
139. Wettawa, T. B., Ratemahatmaya, Uda Bulatwama, Watawala.
140. Wijesinghe, E. A., Proprietary Planter, Matara.
141. Wijetunga, S. P., Mudaliyar, Wellaboda Pattu, Matara.
142. Wijeyaratna, E. de S., Proctor, Supreme Court, and Notary Public, Galle.
143. Wikramanayaka, C. H., Proctor, Supreme Court, and Notary Public, Galle.
144. Youngman, Dr. W., Director of Agriculture.

Appendix 3.—List of Witnesses who have given Evidence.

1. Abdul Cader, U. L. M. S., Grand Bazaar, Jaffna.
2. Abeygunawardena, D. C., Proctor, Supreme Court, and Notary Public, Galle.
3. Abeygunawardena, E. Y. D., Matara.
4. Abeysekera, R. H., Mudaliyar, Pitigal Korale North, Chilaw.
5. Abeywardena, S. A., Chairman, Village Committee, Urubokke.
6. Adamalay & Co., E. G., Colombo, represented by Mr. Mohamed Bhai Adamalay, of Colombo.
7. Aitken, J. D., Imperial Bank buildings, Colombo.
9. Alutgama Agricultural Co-operative Society, Bandaragama Alutgama, represented by Mr. G. P. Abeysekera.
10. Amarasekera, H. E., Retired Pattu Mudaliyar, Hambantota.
11. Amarasekera, W. A., Mudaliyar, Four Gravets, Matara.
12. Amarasuriya, T., Engineer, Galle.
13. Antony Pillai, V. M., Proctor, Supreme Court, and Notary Public, Puttalam.
14. Appuhamy, A. M., Chairman, Village Committee, Kalagan Korale, Anuradhapura.
15. Armstrong, S., Batticaloa.
16. Arulampalam, C., Advocate, Jaffna.

18. Attygalla, A. C., Ratnapura.
19. Atukorale, A. W., Kachcheri Shroff, Kandy.
20. Balfour, D. H., C.C.S., District Judge, Negombo.
21. Balasubramaniam, T., Trincomalee.
22. Bastian, W. E., "Rikarton", Campbell place, Colombo.*
23. Beer, W. A., Lloyd's buildings, Colombo.
24. Bostock, N. S., Colombo Club, Colombo.
25. Boteju, W. Charles, Notary Public, Agalawatta.
26. Brayne, C. V., C.C.S., Land Commissioner, Colombo.
27. Brown, J. D., C.C.S., Government Agent, Southern Province, Galle.
28. Bulankulama, K. B., Inspector of Co-operative Societies, Anuradhapura.
29. Bulankulama, R. B., Ratemahatmaya, Nuwaragam palata, Anuradhapura.
30. Bury, Revd. Fr. H., S.J., Parish Priest, Kalmunai, Batticaloa.
31. Buultjens, Edward, Matara.
32. Cader, A. Majeed, Cader Stores, Galle.
33. Canagaratnam, S. O., Batticaloa.
34. Canagaratnam, V., J.P., U.P.M., Proctor, Supreme Court, and Notary Public, Jaffna.
35. Cangasingham, A., Vanniah, Tambalagam pattu, Trincomalee.
36. Candappa, M. R., No. 2, Kolonnawa, Colombo.
37. Captain, E. S., Ceylon Spinning and Weaving Co., Ltd., Wellawatta.
38. Cary, M. J., M.S.C., "Peak View", Alexandra place, Colombo.
39. Cassim Mohamed, Trader, Chilaw.
40. Ceylon Benefit Co., Ltd., represented by Messrs. A. H. Abeyratna and G. T. Vergis of Colombo.
41. Ceylon Brokers' Association represented by the Chairman, Mr. D. H. P. Abeyawardena.
42. Ceylon Chamber of Commerce, represented by Messrs. J. A. Tarbat (Chairman), H. G. P. Maddocks, C. J. Black, C.A., D. Doig, C.A., A. D. Learmond, H. F. Parfitt, M.S.C., and C. F. Whitaker (Secretary).
43. Ceylon Desiccated Coconut Millers' Association, Colombo, represented by Sir Henry De Mel (President), Messrs. Roslyn Koch, O. C. Fernando, Solomon Fernando, D. D. Hewavitarna, M. S. Albert Silva, and M. S. Fernando.
44. Ceylon Financiers, Baillie street, Colombo, represented by Messrs. Cyril S. Wijeyesingha and Arthur C. Heyzer.
45. Ceylon General Agency, Colombo, represented by Messrs. B. P. Kesani and A. G. D. Morris.
46. Ceylon Merchants' Chamber, Colombo, represented by Sir Henry De Mel (Chairman), Messrs. C. E. A. Dias, W. E. Bastian, J. S. Prakrama, J. A. Frewin, and E. C. de S. Wijeyeratna (Secretary).
47. Ceylon Muslim League, 213, Main street, Colombo, represented by Messrs. M. A. C. M. Saleh, A. C. M. Ghouse, C. M. M. Saheed, S. L. M. H. Ahamed, N. M. M. Sheriff, L. M. Haseem, M. Haniffa Ismail, and M. S. Abdurahaman.
48. Ceylon Nattukottai Chettiars' Association represented by Messrs. S. R. M. Valiappa Chettiar (ex President), O. A. P. R. M. A. R. Adai Kappa Chettiar, K. S. Aiyar, Advocate, and P. P. R. Supramaniam Chettiar (Honorary Secretary).
49. Chandran, T. L. F., I.C.S., Agent of the Government of India in Ceylon, Kandy.
50. Chellarajah, E., Secretary of the Urban District Council, Trincomalee.
51. Christoffelz, A. E., C.C.S., Assistant Government Agent, Puttalam.
52. Colombo Brokers' Association, represented by Messrs. L. O. Loeffe, N. S. Bostock, and J. Hood (Secretary).
53. Colombo Co-operative Central Bank, De Mel buildings, Colombo, represented by Sir Henry De Mel (Chairman), Messrs. F. Keragala, S. D. J. Arsecularatna, and S. F. Amerasingha, J.P. (Secretary).
54. Colombo Exchange Banks' Association, Colombo, represented by Messrs. C. E. Graham, Manager, National Bank of India, Ltd. (Chairman), and W. M. Moore, Manager, Mercantile Bank of India, Ltd.
55. Cooke, W. P. A., Divisional Agricultural Officer, Northern Division, Anuradhapura.
56. Coomaraswamy, V., C.C.S., Government Agent, Eastern Province, Batticaloa.
57. Co-operative Land Mortgage Bank, Kandy, represented by Mr. M. B. Neangoda (Secretary).
58. Corea, J. A., Proctor, Supreme Court, and Notary Public, Chilaw.
59. Corea, W. M. P., Acting Mudaliyar, Pasdun Korale East, Kalutara.
60. Country Liqueur and Liqueur Products Association, Kalutara, represented by Messrs. J. Aloysius Fernando (President), M. A. Cooray, M. V. E. P. Cooray, and M. F. Wanigaratna.
61. Dahanayaka, H. A., Mudaliyar, East Giruwa Pattu, Hambantota.
62. Dakunu Talangama Co-operative Society, represented by (Vice-President) Mr. D. D. Jayasingha.
63. Daniel and Motha, represented by Mr. V. Motha of Ratnapura.
64. Dason A. Maria, Proctor, Supreme Court, and Notary Public, Colombo.
65. David Marikar, M. A., Matara.
66. Dawood Saibo, M. T., Trincomalee.
67. De Croos, J. E., Proctor, Supreme Court, and Notary Public, Negombo.
68. Dematagoda Co-operative Credit Urban Society, represented by Mr. M. Gilbert Fonseka (Secretary).
69. De Silva, D. C., Revenue Inspector, Polonnaruwa.
70. De Silva, Geo. E., M.S.C., Kandy.
71. De Silva, L. M. D., K. C., B. A. (Cantab) Solicitor-General, Colombo.
72. De Silva, Mendis, P. H., Hambantota.
73. De Silva, O. B., "Watersmeet", Mutwal.
74. De Silva, S. J., Chairman, Urban District Council, Weligama.
75. De Silva, S. P. A., Chairman, Village Committee, Dondra.
76. Devar & Co., Colombo, represented by Mr. V. Devaraj Mudaliyar.
77. Deva Rajan, C. N., Public Auditor, Jaffna.
78. Dhanapala, J. A., Kotabena.

79. Dharmadasa, P. A., Chairman, Urban District Council, Ratnapura.
80. Dharmapala, C. A., Matara.
81. Dharmaratna, C. P., Kandy.
82. Dias, C. E. A., "Savitri", Turret road, Colombo.
83. Dias & Bros., H. W. J., Colombo, represented by Mr. L. M. M. Dias.
84. Dissanayaka, J. P., Honorary Supervisor, Co-operative Societies, Anuradhapura.
85. Diyalogoda South Co-operative Society, represented by Messrs. T. P. Jayawardena, K. Don Francis, and C. P. Perera.
86. Doole, T. Y., Hambantota.
87. Dyson, E. T., C.C.S., Government Agent, Central Province, Kandy.
88. Eastern Financiers, Ltd., represented by Mr. M. D. M. Sappramado of Colombo.
89. Education Department Co-operative Society, represented by Mr. Stephen F. Perera of Colombo.
90. Ekanayaka, T. B., Chairman, Village Committee, Mahimiya Korale, Anuradhapura.
91. Eliyatamby, K., Cereal Dealer and Money-lender, Anuradhapura.
92. Elkaduwa, M. B., Inspector of Co-operative Societies, Badulla.
93. Faridu Seyado, Oil Merchant, Anuradhapura.
94. Ferguson, G. H., representing the Inspector-General of Police, Colombo.
95. Fernando, Austin, Kurunegala.
96. Fernando, C. H. Z., St. Catherine's, Cambridge place, Colombo.*
97. Fernando, J. J., Proctor, Supreme Court, and Notary Public, Chilaw.
98. Fernando, James P., "Knowsley", Bagatelle road, Bambalapitiya.
99. Fernando, Maurice, Kurunegala.
100. Fernando, V. D. P., 166, Maliban street, Colombo.
101. Fernando, W. W. E. T., Chilaw.
102. Foenander, C., Acting Salt Adviser, Colombo.
103. Freeman, H. R., M.S.C., Anuradhapura.
104. Ginige, J., Elliott road, Galle.
105. Gnanapandithan, V., Trader, Badulla.
106. Gomis, V. I. V., Crown Proctor, Kurunegala.
107. Gonsalves, J. C., Gampaha.
108. Goonasekera, S. S. J., Advocate, Galle.
109. Goonetilleke, C. W. A., Mudaliyar, Pasdun Korale West, Kalutara.
110. Goonetillaka, G. A., de S., Retired Atapattu Mudaliyar, Galle.
111. Goonetillaka, P. H. K., Barrister-at-law, Kalutara.
112. Gunaratna, M. F. P., "Villa Firenze", Ward place, Colombo.
113. Gunasekera, H. M., 87, Union place, Colombo.
114. Guru Sree, M., Kandy.
115. Hadjar Pakeer Lebbe, Batticaloa.
116. Hanwella Co-operative Society, Kalugomuwa, represented by Mr. K. B. Deegala (Secretary).
117. Harrison-Jones, C., C.C.S., Government Agent, North-Western Province, Kurunegala.
118. Henty, Portland, Passara Group, Badulla.
119. Hunter, L. L., C.C.S., Assistant Government Agent, Matara.
120. Hussein, Mohamed A. S., Trader, Chilaw.
121. Ingledow, C. F., C.C.S., representing the Settlement Officer, Colombo.*
122. Ismail, H. S., Vice-Chairman, Urban District Council, Puttalam.
123. Ismail, M. H., 150/152, 2nd Cross street, Colombo.
124. Jaffna Benefit Co., represented by Mr. S. R. Ignatius (Manager).
125. Jaffna Co-operative Central Bank, represented by Messrs. J. C. Amarasingham (Director) and N. Muttiah (Honorary Manager).
126. Jaffna Mutual Benefit Fund, Ltd., represented by Mr. S. Sellappah (Manager).
127. Jaffna Trading Co., Ltd., represented by Mr. J. M. Thomas (late Managing Director).
128. Jainudeen, M. T., Proctor, Supreme Court, and Notary Public, Badulla.
129. Jayaratna, G. B. K., 10, Dam street, Colombo.
130. Jayasekera, Liyana Aratchige Don Harnis, Vidana Arachchi, Matugama.
131. Jayawardena, C. R. P., Ratnapura.
132. Jayawardena, C. S., 85, Old Kolonnawa road, Colombo.
133. Jayawardena, M. P. C., Kandy.
134. Kadurugama, M. B., Retired Ratemahatmaya, Badulla.
135. Kaduruwewa, K. B., Kachcheri Mudaliyar, Kurunegala.
136. Kalupahana-Horana Village Tribunal Co-operative Society, represented by Mr. H. D. P. Siriwardena.
137. Kalutara Totamune Co-operative Union, represented by Messrs. P. F. A. Goonetillake (President) and S. D. J. Arsecularatna (Secretary).
138. Kanabatipillai, M. Puloi East, Point Pedro.
139. Kanagasabai, K., Batticaloa.
140. Kanapathipillai, S., Government Pensioner, Jaffna.
141. Kandiahpillai, K., Trincomalee.
142. Karalappillai, T., Mudaliyar, "Chanmuga Lodge", De Saram place, Colombo.
143. Karayya, M. S., Chief Headman, Batticaloa.
144. Karunatileke, D. T., Kalawila.
145. Katugaha, H. B., Ratemahatmaya, Yatikinda, Badulla.
146. Keuneman, G. P., Matara.
147. Kudagammana Co-operative Society, Giriulla, represented by Mr. C. D. Basnayake (Secretary).
148. Kurien, Dr. C. G., Provincial Surgeon, Kurunegala.
149. Lanka Mahajana Provident Co., Colombo, represented by Mr. F. P. Elucksuriya of Wattala.
150. Leach, F., C.C.S., Assistant Government Agent, Hambantota.
151. Leisser, H. E., P. O. Box No. 390, Colombo.
152. Light, J., C.C.S., Assistant Government Agent, Kalutara.
153. Lord, L., Divisional Agricultural Officer, Batticaloa.
154. Low-Country Products Association of Ceylon, represented by Mr. R. Sri Pathmanathan (Chairman), Sir Henry De Mel, Mr. L. W. A. de Soysa, Dr. H. M. Peiris, and Messrs. J. Tyagarajah and Wace de Neise (Secretary).
155. Luddington, N. J., C.C.S., Government Agent, Sabaragamuwa, Ratnapura.
156. Macdonald, K., Planter, Negombo.

157. Mahadeva, S., District Engineer, Colombo.
158. Mahagama Co-operative Union, represented by Mr. P. C. M. Kularatne (President).
159. Mahagammeda Co-operative Society, represented by Mr. Arthur D. S. Jayasinghe (President).
160. Mahawaakaduwa Co-operative Society, represented by Mr. H. A. de Abrew (President).
161. Malabar Tile Works, represented by Mr. K. M. G. Kurup, Agent.
162. Marku, Philip, Coconut Planter, Chilaw.
163. Meaden, B. G., Director of Irrigation, Colombo.
164. Mediwa, H. W., Kandy.
165. Millington, E. T., C.C.S., Government Agent, Uva, Badulla.
166. Mithesena, P. A., Korala, Kalpe Korale, Anuradhapura.
167. M. M. L. Bros., represented by Mr. H. M. Abdul Cader of Jaffna.
168. Molegoda, Walter, Senior Agricultural Instructor, Kurunegala.
169. Moonesinghe, C., 170, Baseline road, Colombo.*
170. Moratuwa Mahajana Sabha, represented by Dr. K. J. de Silva (President), Mr. Alfred V. Fernando (Vice-President), Dr. H. I. Fernando, and Messrs. L. W. A. de Soysa and W. P. de Mel.
171. Moratuwa Sevaka Samitiya, represented by Dr. Walter Peiris of Moratuwa.
172. Muller, Louis A., St. Clare, Dickman's road, Colombo.
173. Muttiah, C., Batticaloa.
174. Muttiah Chettiar, S. M. S. P., Puttalam.
175. Muttukumar, W. A., Chairman, Urban District Council, Puttalam.
176. Naganather, A., Gate Mudaliyar J.P., Kopay.
177. Nagaratnam, P., Trincomalee.
178. Nataraja, S., Chairman, Urban District Council, Anuradhapura.
179. National Financiers Cheetu Bank, Badulla, represented by Mr. W. G. Udugama, Proctor, Supreme Court, and Notary Public.
180. Negombo Co-operative Union, Negombo.
181. Neil, Dr. Andreas, The Orient Club, Colombo.
182. Nesiah, K., Nallur, Jaffna.
183. Newnham, H. E., C.C.S., Commissioner of Local Government, Colombo.*
184. Niles, W. D., Advocate, Jaffna.
185. North-Ceylon Food Products Association, represented by Mr. V. Muthukumar, M.A. (Secretary).
186. Oriental Savings Society, Galle, represented by Mr. P. G. Punchihewa, Managing Director.
187. Pamunuwila Aaranasarana Samitiya, represented by (Hony. Secretary) Mr. P. D. D. Leander.
188. Parakrama, J. S., Skinners road South, Colombo.
189. Pararajasingham, S., "Pathmalaya", Flower road, Colombo.
190. Paulinus, B. F., Trincomalee.
191. Peiris, H. W., Bagatelle road, Colombo.
192. Perera, G. K. W., Barrister-at-law, M. S. C., Matara.
193. Perera, H. A., Horawala.
194. Perera, J. A., Proctor, Supreme Court, and Notary Public, Colombo.*
195. Perera, W. A., Mudaliyar, Gangaboda Pattu, Matara.
196. Perera, Wilmot A., Horana, Panadura.
197. Poholiyadde, T. B., Ratemahatmaya, Hurulupalata, Anuradhapura.
198. Ponniah, N., Supervisor of Co-operative Societies, Pungudutivu.
199. Prasad, M., C.C.S., District Judge, Kurunegala.
200. Proctor, R. C., Chundukuli.
201. Punchi Banda, J. E. M., Dekatana, Hanwella.
202. Pussegoda, G., Kandy.
203. Rangunathan, C., Assistant Registrar of Co-operative Societies, Jaffna.
204. Ramalingam, M., Trincomalee.
205. Ramalingam, S. K., Trincomalee.
206. Rambukwella, H. B., Ratemahatmaya, Uda Dumbara, Kandy.
207. Ranasinghe, P., Acting Mudaliyar, Raigam Korale, Kalutara.
208. Ranasinghe, D. A. P., Proctor, Supreme Court, and Notary Public, Negombo.
209. Ranaweera, D. A., Chairman, Village Committee, Yatiyana.
210. Rasiyah, M., Trincomalee.
211. Rasool, M. I. H., Trincomalee.
212. Ratnasabapathy, N., Kynsey road, Colombo.
213. Ratwatte, A., Dissawe, Ratemahatmaya, Ratnapura.
214. Ratwatte, J. C., Adigar, Kandy.
215. Registrar of Lands, Badulla.
216. Reid, A. H., Demodera Group, Badulla.
217. Rock, J. C. W., C.C.S., Registrar-General and Director of Commercial Intelligence, Colombo.
218. Rodrigo, E., C.C.S., Government Agent, Northern Province, Jaffna.
219. Rustonjee, F., Proctor, Supreme Court, and Notary Public, Colombo.
220. Saibo Nadar, Trader, Chilaw.
221. Samarakone, T. J., Talpawila.
222. Samaratunga, D. W., Proctor, Supreme Court, and Notary Public, Negombo.
223. Samaraweera D. J. L., President, Hidellana Agricultural Association.
224. Samaraweera, F. A. S., Shopkeeper, Anuradhapura.
225. Sandys, M. K. T., C.C.S., Assistant Government Agent, Trincomalee.
226. Sangarapillai, T., Batticaloa.
227. Santiappillai, M., Batticaloa.
228. Saravanamuttu, T., Trincomalee.
229. Sivasanamuttu, K., Trincomalee.
230. Schrader, R. H. Spencer, Planter, Negombo.
231. Selvanayagam, S. A., Batticaloa.
232. Senanayake, James, Arrack Tavern Renter and Landed Proprietor, Kandy.
233. Senanayake, R., Public Works Department, Kandy.
234. Senaratne, J. H., Kamburugamuwa.
235. Seneviratne, A. F., "Sirigiriya", Negombo.
236. Shamsuddin Sahib, V. M., 58, Maliban street, Colombo.
237. Silva, E. W., "The Gradient", Alutmalawata road, Colombo.
238. Silva, Piloris, Trader, Anuradhapura.
239. Sinnatamby, K., Maniagar, Vadamaradchi.
240. Siripalam, S., Trincomalee.
241. Sivaguru, V., Maniagar, Tenmaradchi, Pachchilaipalli, Karachchi.
242. Smith, K. Sentance, Telbedde Estate Badulla.
243. Southern Industrial Works, Ahangama, represented by Mr. P. A. Ediriweera (Managing Partner).

* Evidence not reproduced.

244. Southern Province Trust, Ltd., Galle, represented by Mr. A. Wickremetillake (Secretary).
245. Stewart, Ian, "Carlowrie", Thurstan road, Colombo.
246. Subramaniam, S., Maniagar, Kachcheri Mudaliyar, Jaffna.
247. Tambiah, S., "Rotherfield", Albert crescent, Colombo.
248. Tennekoon, B., Ratemahatmaya, Kalagan Palata, Anuradhapura.
249. Tennekoon, J. C., Frankfort place, Colombo.
250. Thaha & Co., S. L. M., Colombo, represented by Mr. A. W. Thaha.
251. Thambimuttu, E. R., Batticaloa.
252. Tillekeratne, A. G., Gate Mudaliyar, Acting Postmaster-General, Colombo.*
253. Tillekeratne, K. B. T., Chairman, Village Committee, Utalgala Korale, Anuradhapura.
254. Tirunelveli Ottumai Nithi, Ltd., Jaffna, represented by Mr. V. Somasunderam, Manager.
255. Tissera, M. E., Proctor, Supreme Court, and Notary Public, Chilaw.
256. Tyagaraja, J., Ward place, Colombo.
257. Ukkurala, K., Hony. Supervisor, Co-operative Societies, Anuradhapura.
258. United Motor Finance Co., Colombo, represented by Mr. B. Kitching.
259. Urban District Council, Kotte, represented by Mr. H. J. V. Ekanayake.
260. Vallipuram, G. W., Batticaloa.
261. Van Rooyen, Dr. G. St. Clair, "Wye", Bandarawela.
262. Van Sanden, J. C., 41, Victoria buildings, Colombo.*
263. Venkadeswaram, N., Nirveli Kopay.
264. Vytilingam, S. P., M.S.C., Talawakele.
265. Walbeoff, S., Visiting Agent and Valuator, Kandy.
266. Wanasundara, D., Kachcheri Mudaliyar, Ratnapura.
267. Warakaulle, L. B., Ratemahatmaya, Pata Hewaheta, Kandy.
268. White Burley Sale Society, Jaffna, represented by Mr. K. Saravanamuttu, Manager.
269. Wickramanayake, H. E., Proctor, Supreme Court, and Notary Public, Tangalla.
270. Wickremeratna, H. A., Mudaliyar, Weligam Korale, Matara.
271. Wickremeratna, N., Mudaliyar, Retired Assistant Registrar of Co-operative Societies, Kandy.
272. Wickremesuriya, F. A., Mudaliyar, Magam Pattu, Hambantota.
273. Wijegurusinghe, D. A. P., Horawella.
274. Wijemanna, J. H. P., Mudaliyar, Chairman, Village Committee, Dickwella.
275. Wijesekera, Alton, Broker, Chatham street, Colombo.
276. Wijesekera, O. B., 44, Castle street, Colombo.
277. Wijesinghe, C. W., Kamburupitiya.
278. Wijesinghe, W. V. P., Mudaliyar, Kachcheri and Gravets, Puttalam.
279. Wijewardene, D. P. A., Mohandiram, Bambalapitiya.
280. Wijeyaratne, E. de S., Proctor, Supreme Court, and Notary Public, Galle.
281. Wikramanayaka, C. H., Proctor, Supreme Court, and Notary Public, Galle.
282. Wille, G. A., Kensington Gardens, Bambalapitiya.
283. William Appuhamy, K. L., Trader, Kekirawa.
284. William Pedris & Co., Colombo, represented by Mr. D. L. F. Pedris.*
285. Wimalasurendra, D. J., M.S.C., "Queensdown", Cambridge place, Colombo.
286. Wirakoon, A., Chairman, Village Committee, Kamburugamuwa.
287. Yatawara, S. B., Assistant Registrar of Co-operative Societies, Kandy.

* Evidence not reproduced.

Appendix 4.—Distribution of Population.

(Vide paragraph 29 of the Report.)

Race.	Estimated Totals.*	Race.	Estimated Totals.*
Europeans ..	9,153	Malays ..	15,977
Burghers and Eurasians ..	32,315	Others ..	32,564
Sinhalese ..	3,473,030		
Tamils ..	1,417,477		
Moora ..	325,913		
			5,306,871

* Estimated totals for 1931, based on the Census of 1921.

Appendix 5.—Particulars required by "The Money Lending Ordinance, No. 2 of 1918".

(Vide paragraph 219 of the Report.)

Promissory Note given in respect of a Loan.

Stamp.

1. Capital sum borrowed, Ra. _____ On demand (or _____ months after date) I promise to pay
2. Interest, premium, or charges deducted or paid in advance, if any, Ra. _____ to _____, or order, the sum of Rupees _____, with interest thereon at the rate of _____ per centum per annum.
3. Rate of interest per centum per annum _____

(Signature of Borrower).

Appendix 7.—Investments of the Ceylon Savings Bank (December 31, 1933).

(Vide paragraph 337 of the Report.)

	Rs.	c.	Rs.	c.
3½ per cent. War Loan, 1952 or after ..	52,510	12		
3½ per cent. Straits, 1937-67 ..	263,972	63		
4 per cent. Nigeria, 1963 ..	136,219	9		
5 per cent. Nigeria, 1950-60 ..	150,951	72		
5 per cent. Kenya, 1948-58 ..	90,571	4		
4½ per cent. Kenya, 1961-71 ..	74,151	73		
4½ per cent. Kenya, 1950 ..	63,806	23		
5 per cent. Fiji, 1946-53 ..	60,910	35		
5 per cent. New Zealand, 1935-45 ..	114,267	42		
4½ per cent. New Zealand, 1947 ..	51,706	38		
4 per cent. New Zealand, 1933-43 ..	93,953	6		
3½ per cent. Western Australia, 1915-35 ..	66,868	97		
5 per cent. Queensland, 1940-60 ..	17,498	43		
5 per cent. Uganda, 1951-71 ..	154,084	52		
5 per cent. Northern Rhodesia, 1950-70 ..	71,358	89		
4½ per cent. Southern Rhodesia, 1958-68 ..	148,303	45		
3½ per cent. Jamaica, 1919-49 ..	189,233	32		
3½ per cent. Natal, 1914-39 ..	29,537	22		
3½ per cent. Natal, 1934-44 ..	80,432	34		
3 per cent. Natal, 1929-49 ..	83,198	24		
3½ per cent. Southern Nigeria, 1930-55 ..	376,325	24		
4 per cent. Canada, 1953-58 ..	269,182	79		
4 per cent. Canada, 1940-60 ..	107,849	67		
5½ per cent. New South Wales, 1947-57 ..	419,023	46		
6 per cent. Hertfordshire, 1940-60 ..	90,694	7		
3½ per cent. Hong Kong, 1918-43 ..	147,351	67		
4 per cent. Union of South Africa, 1943-63 ..	15,279	62		
3 per cent. India, 1948 or after ..	58,504	5		
3½ per cent. India, 1931 or after ..	25,153	86		
3½ per cent. India ..	473,861	25		
3½ per cent. India, 1947-50 ..	294,450	0		
4 per cent. India, 1960-70 ..	2,955,881	25		
4 per cent. Ceylon, 1942-44 ..	828,750	0		
5 per cent. Ceylon State Mortgage Bank Debentures, 17/12/58 or earlier ..	105,000	0		
			8,160,842	8*
Loans on Colombo house property, 7 per cent. and 8 per cent. ..	—	—	1,286,982	1
House properties held by the Bank ..	—	—	137,719	7
			<u>9,585,543</u>	<u>16</u>

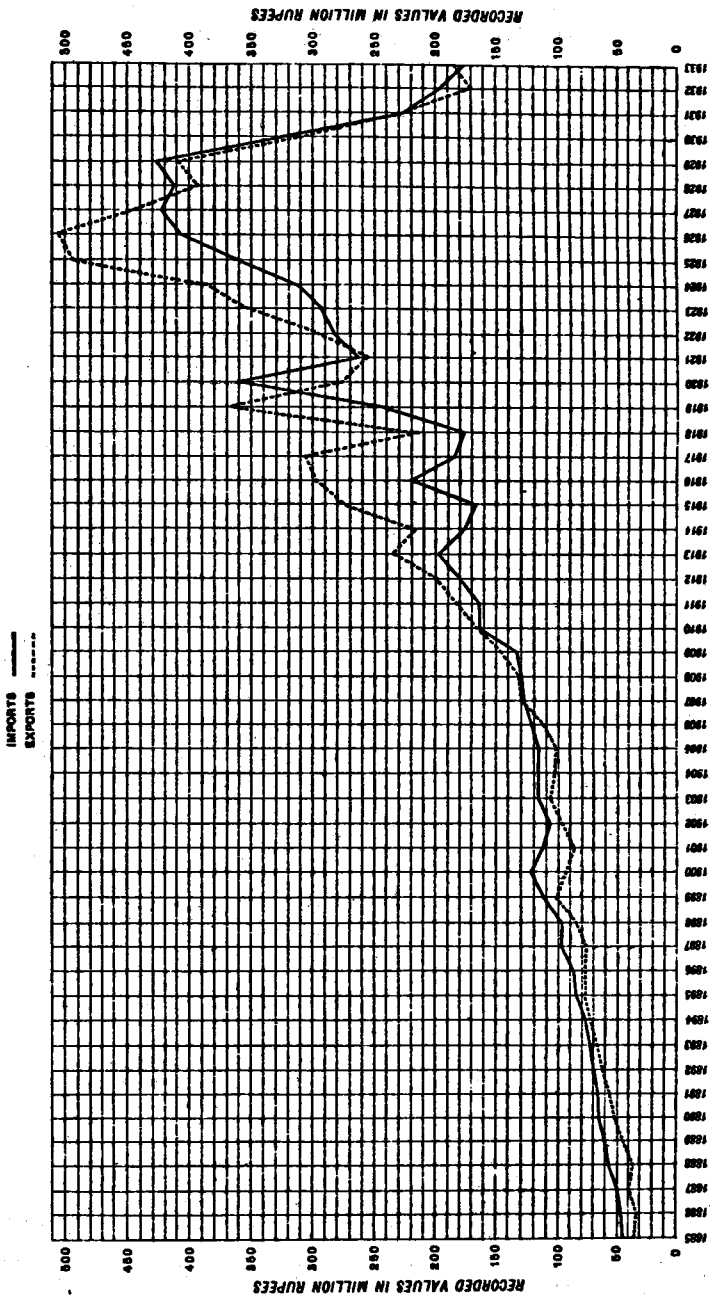
* Cost price, Rs. 7,809,989.96.

Appendix 7 (Contd).—Investments of the Loan Board (December 31, 1933).

	Rs.	c.
Loans on House Properties ..	5,427,426	58
Investments at Market Value on December 31, 1933:—		
Canada 4 per cent. Stock, 53-58 ..	55,642	21
Cyprus 4 per cent. Stock, 56-66 ..	69,517	25
Gold Coast 4½ per cent. Stock, 60-70 ..	75,475	87
Gold Coast 4½ per cent. Stock, 1956 ..	11,967	83
Kenya 4½ per cent. Stock, 61-71 ..	606,192	95
Natal 3½ per cent., 14-39 ..	28,118	18
Natal 4 per cent. Stock, 1937 ..	17,857	93
Natal 3½ per cent. Stock, 34-44 ..	9,005	57
New South Wales, 5½ per cent., 47-57 ..	146,979	31
New Zealand 5 per cent. Stock, 1949 ..	76,024	57
New Zealand 5 per cent. Bonds, 32-34 ..	43,696	55
Straits Settlements 3½ per cent. 37-67 ..	24,336	33
South Africa 5 per cent. Stock, 45-75 ..	52,719	17
Sierra Leone 4 per cent. Stock, 38-63 ..	23,832	50
Uganda 5 per cent. Stock, 51-71 ..	159,123	64
Indian Government 4 per cent. Loan, 60-70 ..	857,390	62
Ceylon Government Inscribed Stock 4 per cent. ..	387,840	0
Ceylon 5 per cent. State Mortgage Bank Debentures ..	105,000	0
	<u>8,178,197.</u>	<u>6</u>

TOTAL VALUE OF ANNUAL IMPORTS & EXPORTS.

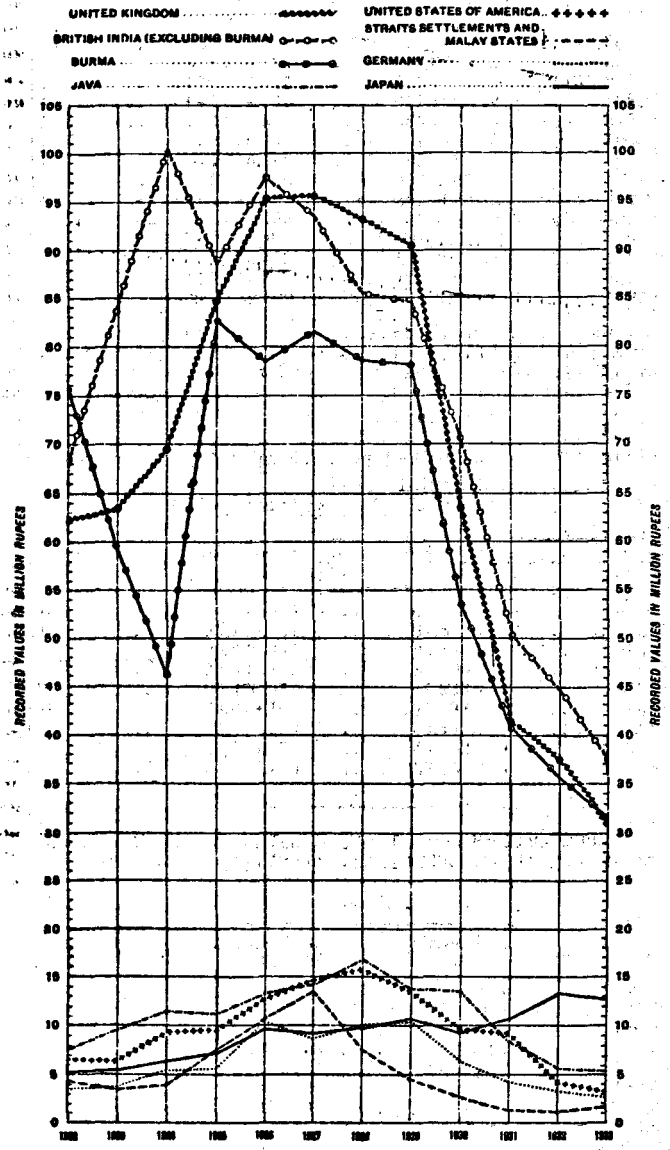
DIAGRAM No. 1.



Representative and Periodic for Bureau of Statistics, India, 1937.

DIAGRAM No 2.

VALUES OF IMPORTS BY PRINCIPAL COUNTRIES
1922-1933.



Appendix 8.—Tables and Graphs.

Values of Total Trade, Total Exports, and Total Imports, Ceylon, since 1920. (See Diagram No. 1.)

Year.	Total Trade.	Exports, viz., Ceylon Produce, Imports exported and Specie.		Imports including Specie.
		Rs.	Rs.	
1920	637,222,648	276,295,469	360,927,179	
1921	618,656,123	256,600,413	262,055,710	
1922	579,523,917	297,783,215	281,740,702	
1923	643,358,532	351,198,748	292,159,794	
1924	697,845,885	385,517,418	312,328,467	
1925	852,996,747	492,616,430	360,380,317	
1926	911,516,099	503,648,990	407,867,109	
1927	870,401,720	449,273,744	421,127,976	
1928	804,689,614	392,569,975	412,119,639	
1929	836,668,133	407,372,810	429,295,323	
1930	634,527,676	310,171,163	324,356,513	
1931	454,903,418	226,707,241	228,196,177	
1932	376,677,243	170,309,678	196,367,565	
1933	360,552,689	177,347,912	183,204,777	

NOTE.—The figures under Total Trade and Exports up to 1932 exclude the value of "bunker coal" reshipped to steamers, of Ships' Stores supplied to vessels, and of articles sent by post. In 1933 they exclude the value of Ships' Stores only.

Value of Imports by Principal Countries, 1922-1933. (See Diagram No. 2.)

Year.	United Kingdom. Rs.	British India (excluding Burma). Rs.		Burma. Rs.
		1922	62,073,675		68,488,207	75,573,859
1923	63,356,230	85,581,262	59,288,580	
1924	69,448,553	100,163,998	46,028,104	
1925	84,757,656	88,703,433	82,803,409	
1926	95,134,287	97,862,187	78,319,562	
1927	95,276,344	93,846,051	81,316,192	
1928	93,033,890	85,290,999	78,483,313	
1929	90,470,077	84,939,796	78,096,111	
1930	63,619,104	70,598,453	53,749,917	
1931	41,088,300	50,172,606	40,823,944	
1932	37,365,076	44,832,099	35,853,480	
1933	31,074,270	37,758,493	31,889,020	

Values* of the Exports of Tea, Rubber, Coconut Products, Plumbago, and Other Exports, Ceylon Produce, since 1920. (See Diagram No. 3.)

Year.	Quantity.		Total Value. Rs.
	Black Tea. lb.	Green Tea. lb.	
1920	181,566,097	3,204,134	80,781,537
1921	159,302,769	2,308,197	112,707,687
1922	169,689,289	2,118,192	146,036,443
1923	179,596,993	2,309,191	185,652,324
1924	203,210,185	1,651,831	214,892,692
1925	208,374,226	1,326,413	199,609,338
1926	215,718,431	1,364,217	213,063,798
1927	224,958,195	1,991,864	213,691,876
1928	234,802,977	1,828,623	201,235,039
1929	250,332,330	1,157,442	205,114,200
1930	240,826,758	2,194,490	181,974,157
1931	242,434,449	1,465,210	138,656,337
1932	252,294,176	462,566	107,662,702
1933	215,837,614	178,329	117,884,764

* Excluding values of Ships' Stores and Postal Articles.

		Rubber. lb.		Total Value. Rs.
1920	..	88,552,542	..	89,961,103
1921	..	88,125,425	..	51,601,518
1922	..	104,595,278	..	56,970,218
1923	..	83,816,228	..	73,594,349
1924	..	82,960,851	..	63,749,711
1925	..	102,185,442	..	169,992,247
1926	..	131,840,505	..	170,078,219
1927	..	125,062,078	..	119,174,347
1928	..	128,326,444	..	73,985,953
1929	..	180,632,140	..	86,630,874
1930	..	170,946,243	..	47,158,226
1931	..	138,004,736	..	19,841,665
1932	..	111,241,860	..	13,232,696
1933	..	142,317,027	..	22,995,245

Coconut Products.*

{Poonac; Fresh Coconuts; Desiccated Coconut; Arrack; Bristle and
Mattress Fibre; Copra; Oil; Coir-Yarn, Mats and Matting, Rope and Other.}

Year.				Total Value. Rs.
1920	..	..	..	70,852,487
1921	..	..	..	71,326,566
1922	..	..	..	69,840,446
1923	..	..	..	61,419,960
1924	..	..	..	77,636,986
1925	..	..	..	81,355,740
1926	..	..	..	79,146,085
1927	..	..	..	77,048,541
1928	..	..	..	78,875,126
1929	..	..	..	64,278,097
1930	..	..	..	46,779,594
1931	..	..	..	36,300,951
1932	..	..	..	35,050,547
1933	..	..	..	28,859,183

Plumbago.
Cwt.

1920	..	184,100	..	2,100,114
1921	..	86,996	..	757,917
1922	..	216,999	..	1,631,087
1923	..	213,383	..	1,548,877
1924	..	193,017	..	1,329,125
1925	..	308,523	..	2,983,389
1926	..	232,453	..	2,616,994
1927	..	257,686	..	2,525,700
1928	..	286,931	..	2,704,359
1929	..	254,776	..	2,729,639
1930	..	174,478	..	1,775,317
1931	..	134,413	..	1,225,331
1932	..	122,009	..	1,023,283
1933	..	191,173	..	1,213,561

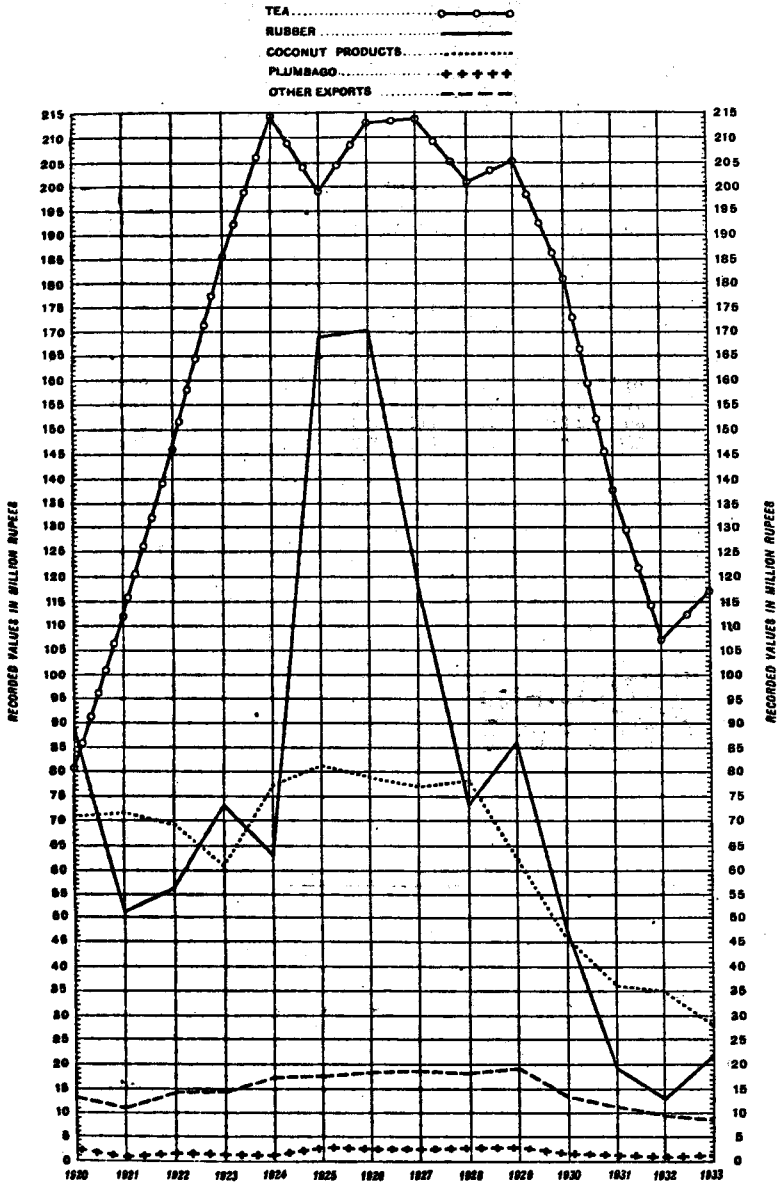
Other Exports. *

1920	..	..	..	13,483,647
1921	..	..	..	11,726,812
1922	..	..	..	14,472,971
1923	..	..	..	14,535,837
1924	..	..	..	17,773,736
1925	..	..	..	17,925,666
1926	..	..	..	18,683,468
1927	..	..	..	18,781,120
1928	..	..	..	18,310,873
1929	..	..	..	19,172,358
1930	..	..	..	13,696,601
1931	..	..	..	11,512,455
1932	..	..	..	9,492,092
1933	..	..	..	8,483,073

* Quantities not given owing to differing units of measurement of the different products included in the heading.

DIAGRAM No. 3.

VALUES OF MAIN EXPORTS (CEYLON PRODUCE)



REPORT OF THE CEYLON BANKING COMMISSION.

285

Year.	Java. Rs.	United States of America. Rs.	Straits Settlements and Malay States. Rs.
1922	7,517,320	6,694,428	4,385,495
1923	9,465,182	6,464,147	3,664,313
1924	11,731,075	9,180,299	4,040,732
1925	11,078,008	9,458,459	7,333,234
1926	13,384,998	12,800,428	10,976,387
1927	14,447,829	14,686,003	13,563,152
1928	16,958,539	15,708,818	7,749,056
1929	13,763,469	13,541,494	4,596,852
1930	13,576,451	9,421,941	2,839,575
1931	8,525,773	9,071,498	1,297,919
1932	5,739,076	4,272,021	1,108,182
1933	5,598,883	3,233,272	1,425,590

Year.	Germany. Rs.	Japan. Rs.
1922	3,697,918	5,180,702
1923	3,951,914	5,447,478
1924	5,426,655	6,425,177
1925	5,701,513	7,141,718
1926	10,350,451	9,766,541
1927	8,904,743	9,280,110
1928	10,000,302	9,856,383
1929	10,521,331	10,752,783
1930	6,624,936	9,246,910
1931	4,249,735	10,699,241
1932	3,258,208	13,231,206
1933	2,719,085	12,828,632

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2003-04

10212

Ceylon Banking
Commission

Name of borrower

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on

18/10/57

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