> the cultivator of that burden of usury which he has borne so patiently throughout the ages. Knowledge of the co-operative system is now widespread; thrift is being encouraged; training in the handling of money and in elementary banking principles is being given. Where the co-operative movement 3 strongly established, there has been a general lowering of the rate of interest charged by moneylenders; the hold of the moneylender has been loosened, with the result that a marked change has been brought about in the outlook of the people.

The Commission, however, noted that except in the Punjab, Bombay and Madras, the movement had reached only a small part of the rural population, though in all the Provinces there were districts where considerably greater progress had been made than in others.

Enquiries made by the Commission revealed that the increase in the number of societies had not always been accompanied by improvement in quality. It found that in the Central Provinces and Berar, 'a thoroughly unsound system was allowed to develop into a top-heavy organisatin'. In the United Provinces, 'the condition of a large number of societies gave cause for anxiety'. In Madras 'considerable anxiety has been caused by the steady increase in overdue loans'. According to the Commission, the financia1 solvency of the movement was generally beyond dispute and that it was the working of the societies that was defective. It found that:

> The members of societies delay the repayment of loans even when able to repay; understanding of the principles of co-operation and knowledge of the essentials of rural credit are lacking; office-holders refrain from taking action against defaulters and the spirit of self-help is not as prominent as it should be, if the movement is to be a live force in village life. Even where defects are obvious and admitted, there is reluctance, as dangerous as it is regrettable, to liquidate societies whose condition is beyond remedy.

The situation deteriorated considerably during the period 1930-34 an account of the economic slump. Advances declined while over dues increased considerably, not only in respect of principal but also of interest.

Mr. (later Sir) Malcolm Darling, who was deputed by the Government of India to submit (i) a report on the condition of the co-operative movement in the major Provinces in 1935 and (ii) proposals for the organisation of the Agricultural Credit Department of the Reserve Bank, summarised the effects of the depression on the movement in the following terms:

> the fall in prices has had a shattering effect upon every form of agricultural credit except advances against gold and ornament. Whether we look to the Imperial Bank in Burma or to the Loan Offices in

> Bengal, the effect has been the same -an almost complete paralysis repayment with a corresponding restriction of credit. Making, however, full allowance for this, it must, I fear, be admitted that co-operation has not answered early expectations. Almost everywhere it is weak and halting and unequal to its task, and it is difficult to resist the conclusion that agricultural co-operative credit cannot stand on its legs, except perhaps in a period of rising prices. It requires the support of some ally which will either prevent waste, increase resources, or secure punctual payment. Thrift will do the first, and thrift and credit should always go hand in hand, but in India they have been the barest acquaintances. . . .Thrift has not been entirely ignored, but it has been far from playing its appropriate part in the movement.

Overdues of principal were everywhere high and in four major Provinces, namely, Bombay, Central Provinces and Berar, United Provinces and Madras, the over dues formed 69, 82, 58 and 6r per cent, respectively, of the outstanding loans. Owing to poor recoveries, which were mainly due to the fall in prices, advances had to be restricted considerably. Also, in a large number of cases, liquidation of societies had to be resorted to ; altogether, in eight major Provinces, over 25,000 societies, or roughly one-fourth, had to be liquidated since the movement was organised, representing ’ a prodigious waste of time, money and effort’.

Such was the state of the co-operative movement on the eve of the establishment of the Reserve Bank of India. Mr. Darling anticipated that on account of the unsatisfactory position of the co-operatives, the financial accommodation which the Reserve Bank could provide for agricultural purposes through the co-operatives would only be of modest dimensions, for some years. To quote him:

> One reason why high hopes have been raised in many minds by the proposed Agricultural Credit Department of the Reserve Bank is the belief that the Bank will be able to relieve the peasant of his burden of debt and raise his whole standard of living, to everyone’s advantage* . . . all I need say here is that for some years the help that the Reserve Bank will be able to give to the agriculturist is likely to be of the most modest description, and if there were no co-operative movement, it would probably be unable to help him at all. This then is a further reason for strengthening the movement, for it is no use attempting to fit an old bullock cart with a powerful engine.

The co-operative movement also attempted to provide long-term credit to the agriculturists through special institutions called land mortgage banks. The first of such banks was started in the Punjab in 1920 and a few banks had been established in the Punjab, Madras and Bombay by 1930, but progress in the field was noticeable only much later, i.e., in the late ‘thirties. Even so, the progress was confined mainly to Madras, which passed a special Co-operative Land Mortgage

Banks Act in 1934. The ninth and tenth Conferences of the Registrars of Co-operative Societies held in 1926 and 1928, the Royal Commission on Agriculture (1928), and the Central Banking Enquiry Committee (1931) all emphasised the need for organisation of a network of land mortgage banks under the co-operative system and made many recommendations indicating the guidelines for their working. These formed the basis for the organisation of co-operative land mortgage banks (now called land development banks) in India.

A brief reference may also be made to the role of the Government themselves in the provision of agricultural finance. Even as early as in 1793, the British administration in India framed various Regulations for the issue of taccavi advance to proprietors, farmers, subordinate tenants and ryots, for embankments, tanks, water courses, etc. These Regulations were followed by the Land Improvement Loans Act of 1883 and the Agriculturists Loans Act of 1884, which are still in operation. The former Act enables the Government to provide long-term loans, repayable within a maximum period of 35 years, for effecting permanent improvements in agriculture, while under the latter Act, short-term loans are granted, especially during periods of distress, for current agricultural needs, such as purchase of seed, cattle, manure, implements and any other purpose not specified in the former Act, but connected with agriculture. The extent of loans provided by Government under these Acts, in the years prior to the Second World War, formed a very small part of the finance required by the agriculturists, the annual loans given being less than Rs. 1 crore.

The Royal Commission on Agriculture found the working of these Acts to be satisfactory on the whole, but suggested that steps should be taken to make the benefits available under them more widely known to the cultivators, and also to avoid delay in sanction of loans. It suggested the retention of the second Act on the Statute-book until the spread of thrift or co-operative credit or both of them rendered it obsolete. Though there has been considerable progress in the co-operative movement since then, the stage of rendering this Act obsolete has not yet been reached. Government finance under these Acts has still an important part to play in supplementing co-operative finance, especially in areas where the co-operative movement is not adequately developed.

## THE UNORGANISED SECTOR

The unorganised sector of the money market may be divided into two broad categories, namely, the indigenous bankers (known by such names as Multani Shroffs, Marwari Shroffs, Gujarati Shroffs and

Chettiars) and the moneylenders. This sector was in itself heterogeneous, with a few indigenous bankers of fairly large resources, at one end, and the smallest of moneylenders financing petty personal needs, at the other. The extent of the unorganised money market has always been a matter of conjecture and was particularly so 30 or 40 years ago; it was generally believed that this was, at least, as large as the organised sector. In a large number of towns and the villages generally, the indigenous bankers and moneylenders constituted the main channels of credit.

The main features of the operations of indigenous bankers, as distinct from those of moneylenders, were as follows. They received deposits and had also credit arrangements with joint-stock banks, generally in the form of discounting of hundies. They financed mainly trade and small industry and also provided general banking facilities through buying and selling of remittances. The advances of indigenous bankers were mostly on a secured basis; their lending (discounting) rates were higher than the rates charged by the commercial banks, but were not by any means extortionate. The moneylenders, on the other hand, did not generally receive deposits, had very little borrowings from the organised banking sector and primarily financed nonproductive expenditure, the loans being generally unsecured and carrying exorbitant rates of interest. Many of the moneylenders in the rural areas were prosperous landholders, while the majority of indigenous bankers combined banking with some form of trade and the capital employed by them in banking was hardly distinguishable from that employed in trade. The operations of the indigenous bankers and the moneylenders were characterised by flexibility and easy accessibility, features which drew towards them the small borrower, rural and urban.

The Central Banking Enquiry Committee, which made a detailed study of the unorganised sector, noted a decline in the banking business of indigenous bankers, largely as a result of competition from joint-stock and co-operative banks. The Committee, however, considered that their activities should not be allowed to decline further and that ‘ some action should be taken to improve the position of the indigenous banker and to make him a useful member of the Indian banking system ‘, the aim being ’ to try to restore these bankers to the place which they enjoyed in India until the middle of the last century ‘. It, therefore, suggested that as soon as the Reserve Bank of India was established, the indigenous bankers should, along with joint-stock and co-operative banks, be brought into direct relationship with the Reserve Bank and thereby provided with rediscount facilities. The Committee, however, recommended that only such of the indigenous bankers, as were engaged in banking proper or were prepared to shed their non-banking business, should be brought into such direct relationship with the Bank. Accordingly, one of the first activities to be undertaken by the Reserve Bank after its establishment was the preparation of a scheme for implementing this suggestion of the Central Banking Enquiry Committee.

The moneylender remained the most important constituent in the rural credit machinery of the country, both from the point of view of number and volume of business. The main reasons for his importance in the credit system are best stated in the words of the U.P. Banking Enquiry Committee:

> It is to him that the needy peasant turns for help in every trouble. It is he who finances the marriage ceremonies and law suits -one almost as inevitable as the other. He does not keep the borrower waiting for his money till the time for its profitable spending has passed. He does not press for repayment at due date, if he knows such repayment is inconvenient. He does not conduct embarrassing enquiries into his client's haisiyat (financial condition) ; for what it is worth, he knows it already, and the element in it to which he attaches most importance is the client's reputation for prompt and regular payment.

This almost indispensable position occupied by the moneylender made him really extortionate; his rates of interest were unconscionably high. The rates, which varied a great deal from Province to Province, ranged between I 2 and 24 per cent, though after x931, under the impact of the economic depression, they declined to some extent. Besides, he indulged in malpractices of various sorts. To quote, again, from the report of the U. P. Banking Enquiry Committee:

> He is certainly no philanthropist, his object is to make money, and he is always not particular regarding the means by which he does it. He will deduct future interest from the principal before he pays it; he will debit his client with all incidental expenses. We will cause an illiterate borrower to put his thumb impression on a blank form and subsequently fill it with a sum in excess of the amount actually lent. He charges a rate of interest which is always high and often extortionate and compounds it at frequent intervals.

The protection of agriculturist debtors from the malpractices of moneylenders and the provision of relief to them engaged the attention of Government right from 1879. The Deccan Agricultural Debtors' Relief Act of 1879 authorised the courts of law to examine the history of a farmer's debt and determine the amount due from him, to withhold payments of unreasonable rates of interest, and to protect the agriculturist from arrest and sale of land, unless the land was specifically mortgaged. This was followed by Land Alienation Acts passed in some Provinces, for instance, the Punjab, United Provinces and Central Provinces & Berar, with similar provisions. The Usurious Loans Act of 1918 sought to protect the debtors against hard and unconscionable bargains by allowing courts to reopen, on their own, old cases and settle the terms equitably. The rule of Damdupat, under which no debtor was liable to pay by way of interest an amount exceeding the principal of the loan, also came to be applied.

While the above steps represented the early attempts to protect the agriculturists from the malpractices of the private lending agencies, the problem of the accumulated debt burden, most of which was inherited, remained to be tackled. The Royal Commission on Agriculture felt strongly that the ‘worst policy towards debt is to ignore it and do nothing’. In this connection, it recommended a simple Rural Insolvency Act, the object of which was to relieve the debtor of what he could not pay, whilst insisting on his paying the utmost he could within a reasonable time. It also suggested the appointment of debt conciliation boards or committees, but left it to the Governments to decide whether they should be in addition to the Rural Insolvency Act or as an alternative to it. The problem became acute during the period of the depression, when on account of the steep fall in agricultural prices, the agriculturists were unable to meet even their current debt obligations, not to speak of old debts. A spate of suits for attachment of land and execution of decrees followed. The Provincial Governments considered that special steps were necessary to protect the agriculturists from these conditions; the United Provinces, Punjab,C. P. and Berar and Madras Governments issued notifications declaring a moratorium on the execution of decrees. Taking the clue from the recommendation of the Royal Commission on Agriculture referred to above, the C. P. and Berar Government took the lead in passing a Debt Conciliation Act in 1933, followed by the Punjab (1934), Assam (1935) and Bengal and Madras (1936) Governments. These Acts facilitated the adjustment of debts and their repayment in a reasonable number of installments, although certain debts like rent, debts to Government, co-operative institutions and banks were either partially or wholly exempted from their purview.

Legislation was also undertaken during this period to regulate the activities of moneylenders. The Punjab Regulation of Accounts Act of 1930 and the Moneylenders Acts passed by the various Provincial Governments fall under this category. These laws, though not uniform in all respects, generally provided for the maintenance of proper registers of transactions by moneylenders, furnishing debtors with statements of accounts in respect of each transaction with the principal and interest shown separately, and issue of receipts for all payments made by the debtor. Some of the later Acts provided for the compulsory registration and licensing of moneylenders, the unregistered moneylenders being debarred from recourse to courts of law for the recovery of their dues. The regulation (i.e., fixation of maximum) of rates of interest charged by moneylenders was carried out by the Provincial Governments under the Usurious Loans Act of 1918, with suitable adaptations.

The legislative measures referred to above had many loopholes and the moneylenders took advantage of them. Further, the agriculturists were generally unwilling to expose the offending moneylenders, to whom they had to go back again, in the absence of an alternative credit agency. However, as the Central Banking Enquiry Committee noted, there was a gradual decline in the business of professional moneylenders mainly as a result of the agricultural slump and the growth of co-operative societies. The Committee was not in favour of either voluntary or compulsory licensing of moneylenders, and felt that a rigorous enforcement of existing legislation, together with the extension of joint-stock and co-operative banking and better education of the people, would bring about a reduction in the rates of interest charged by moneylenders. In regard to their future role in the credit system of the country, the Committee desired consideration of their suggestions that (i) moneylenders be brought within the fold of the co-operative movement, and (ii) their activities be dovetailed to those of the banking system on an agency basis or through development of partnership on the lines of the 'Kommandit ' * practice prevalent in Germany.

## POSTAL SAVINGS BANKS

Before concluding this account of Indian banking, a brief reference may be made to postal savings banks, which also played some role in mobilising savings and developing the banking habit. Savings bank business in India was conducted by Government right from the time of the East India Company. Government savings banks were established first in the three Presidency towns between 1833 and 1835 and later at selected district Treasuries in 1870. In 1882 and 1883, savings banks were opened at post offices throughout the country and these took over the business of the district savings banks in 1886 and of Presidency savings banks in 1896. The rate of interest on these deposits was reduced steadily from 41/s per cent in 1879 to 3 per cent in 1905 and to 2 1/2 per cent in 1933. The growth of postal savings banks, which were particularly meant to mobilise the savings of the middle and lower classes, is indicated in the following table.

* Under this system, a bank, instead of opening a branch, became the financing partner of a local moneylender whose advantages of unlimited liability and local knowledge were thus retained without involving the bank in the expense and heavy liabilities of a new branch.