

CHAPTER – IV

THE WANING INSTITUTION OF INDIGENOUS BANKING AND ITS REPLACEMENT BY MODERN BANKING

The following sections focus on the replacement of the indigenous banking by the modern banking, resulting in the formation of the Bank of Baroda. The process had begun with the deposition of the Maharaja Malharrao Gaikwad in 1875. His government was replaced by the administration of T. Madhavrao during the minority of Sayajirao-III. He brought many changes like closing down of *Sarkari pedhis*, establishment of central treasury and remittance of funds in the various branches of the Bank of Bombay. With the resumption of the rule by Sayajirao-III in 1881, there began a new era of progress and development. The Maharaja had no interest in doing away with the indigenous banking community, which had provided valuable assistance during the past one century. Therefore he made a last attempt to establish an intermediary agency based on the earlier set up and tried to modernize it. However his attempts failed and he realised that the initiation to adapt to changes should come forward from the banking community. Therefore, only when the bankers came out with the proposal to open a bank of Baroda within Baroda, the Maharaja agreed to support it. Along with the association of the bankers, the Bank of Baroda came into being in 1909.

SIR T. MADHAVRAO AND HIS REFORMS

The deposition of Malharrao Gaikwad in 1875 A.D. had provided an ideal opportunity for the British to gain influence in the affairs of the Baroda State, but this had more of a positive effect on its future. The State from then on had experienced an all round modernization. This process had begun with the appointment of T. Madhavrao as the *Dewan* of the State in the minority period of Sayajirao-III (1875-1881), the next Maharaja of the State.

T. Madhavrao, who had previously worked as the *Dewan* of the Princely State of Travancore, used his experience to overhaul the administrative structure i.e., Firstly systemisation of administrative divisions by organizing the *talukas* into more compact and effective administrative units; secondly, defined jurisdiction and other scope of activities; thirdly, he created a central treasury, in which all the funds were to be remitted and lastly, the previous accounts were settled. The Maharaja was the topmost authority, followed by the *Dewan* and below them was constructed a systematic hierarchy. T. Madhavrao had also brought, about changes in the social as well as educational aspects of the Baroda State.¹

T. Madhavrao had introduced modifications in the financial management of the State. His first aim was to regularize the revenue administration. He tried to control expenditure

¹ G S.A, H.P.O. Section No. – 44, Daftar No.56, File No. – 1 Miscellaneous Department

incurred on the revenue and tried to balance it with the surplus. The limit of expenditure in each branch was fixed. It was arranged that the State would not make sanctions over and above the *nemnook*² except in cases where it was absolutely essential. The payments which were made yearly, earlier, were now disbursed monthly or at least quarterly. These changes had benefited the State as it had removed the necessity of maintaining large accumulations in the treasury, which had blocked the free circulation of money. Also, it had enabled the authorities to understand the true condition of finances in the State.³

ABOLITION OF STATE BANKS

*Devdwijvanijam dharmadhvarparijananupayogi
Dravyaparibhage radhya vidhvaviniyogi
Gramkutganikasangha pashandivibhavansha
Pratyadane samradhe Pavrjanpaddravin
Samvibhaga prarth nairnu pakshya shri
Karanmantri purohit shotniyamitra samantant
Palanunayd pragrahan ganayabhaya kshinkoshah
Kosham kuryat*⁴

[The Ruler whose treasury is empty should pursue the following ways to replenish it:

*Borrow from temples, Brahmins and traders; take funds of the courtroom, widows
(without sons), rich men, headmen of the villages, servants, institutions and institutions of
non-believers; in form of tax from the public; and voluntary donations from the soldiers,
ministers, rajpurohit and Kshtriya]*

² Note The grants sanctioned by the State.

³ Gazetteer of the Baroda State Vol-II, Op. cit., pp-430-432

⁴ *NitikavyaVrata* p-82.

The Gaikwads had followed almost all these ways to replenish their treasuries but perhaps they were unacceptable by the British government by their supporters within the Baroda State. Thus the changes pioneered by T. Madhavrao had ushered in a new era in the history of banking in the Baroda State. The process had begun with the abolition of, the Old State Banks or the *dukans*, whether belonging to the Gaikwads or to the other bankers, replacing them with the State treasuries, which were established at important places in the State. The reason assigned to close down the State Banks was because of its malfunctioning. According to Balvantrao Kirtane,

*"...that the State Banks as they then constituted were on no single occasions superintended over by any responsible person. The entire management was vested in the hands of few selfish and disinterested sycophants who looked more anxiously to their own purse than to that of the State. The system of credit and check which was indispensably essential to the proper accounting of funds, was unknown here and the natural consequence which followed therefrom was that monies were paid upon the presentation of chitthis without any objection being taken and without any inquiry being made as to the purpose for which it was required. I cannot believe that the previous sanction of the Maharaja was not obtained in all cases for such were the case large amounts which have been drawn therefrom could not have passed out of the banks, merely upon the authority of the managers of the firms."*⁵

⁵ G. S. A., H. P. O., Section No – 98, Daftar No – 455, The Miscellaneous Etc., Accounts Department, File No –1, 1875.

Hereafter all financial work of the Government was done through them.⁶

This had given a setback to indigenous firms, which had sustained and grown with the support of the State. The closing of the *dukans* had terminated one epoch in the history of indigenous banking. The financial resources of the State and the personal funds of the Maharaja and the royal family were earlier junctioned in the *dukans* and they were made available for satisfying the banking requirements of the whole State. The *dukans* were affected to a larger extent because they were totally dependent upon the State and had very little dealing with the support at local level. But this had also affected the small bankers indirectly because they had some sort of dependence on the big *sahukars*. In 1894-95, Sheth Maganlal Haribhakti had commented that

*"The funds of the State were once at the disposal of the local merchants and shroffs and they could get easy and timely credits from the dukans. Government also realized better rates of interest than now when the funds are invested in the current account of the Bank of Bombay. Our shroffs and people did flourishing business at distant centres like Gwalior and Hyderabad (Deccan). But now all that is a past story. Ever since T Madhavrao closed the Dukans, the trade, the industry of Baroda and its Raj have declined and its merchants and shroffs have gone insolvent. A time was when Baroda gloried in having several multimillionaires. Now in 1894-95 it is hard for a well established firm to get a credit of five lacs or even a lac."*⁷

⁶ *Ibid.*, p-433.

This had also affected the banking processes outside Baroda State. For instance, there had emerged a feeling of mutual distrust; the bankers of the State took a long time in dispatching the receipts of the *hundis* of the tributes from the three States of Mahikantha, Rewa Kantha and Palanpur. The reason was chiefly owing to the

*"Hoondies being drawn payable after specified period and to their being often dishonoured by the drawers in case there are no sums with the former at the credit of the latter."*⁸

T. Madhavrao went on with his reforms, in spite of the opposition and non-cooperation of the *sahukars* and the *shroffs*.

*"... that some of the Native Bankers might not like the proposed measure. But I feel sure that the measure will prove a public benefit. I do not think even some of the native bankers will really suffer to any material extent. But even if they did it would be no more an objection than that cart owners suffer by the opening of a Railway!"*⁹

The Sarkari *pedhis* established outside Baroda State were also closed down. For instance, the *dukan* of Narsidas Lakshmidas was abolished at Bombay.¹⁰ The institutions of the abolished *pedhis* were turned into government offices. For this purpose, Madhavrao had appointed, Mr. Balwant Kirtane, as special officer (his task was to close down the *pedhis* and report to the Dewan about its details regarding articles, funds, and accounts etc).

⁷ Government of Baroda, *Baroda Banking inquiry committee – Report*, Baroda State Press, 1930, p-45.

⁸ H.P.O., Section No-116, Daftar No-208, Revenue Department, Tribute, File No –1.

⁹ *Ibid*, File No-2, 24th May 1875

CLOSING ACCOUNTS OF THE STATE BANKS IN 1875¹¹

No	Bank	Babashahi Coin			Queen Coin			Bharuch Coin			Total Coins		
1	Ganesh Ishwar	208985	8	9	820			900			210705	8	9
2	Kutub Rubani	62429	13	10	1724		8	900			64153	14	6
3	Maula ali	32914	2	3	561		3	900			33475	2	6
4	Mehbub Subani	67866	5	6	55	9	0	900			67921	14	6
5	Malharrao Ishwar	160270	1	6	262	2	6	712	8	-	161244	12	0
6	Mahalar Kant	75164	15	6	129	6	0	712			75294	5	6
7	Parvati Kant	133775	3	3	5			712			133780	3	3
		741406	2	7	3557	2	5	1612	8		746575	13	0

The Dewan, in consultation with the Resident, decided about the future course of action.¹² They decided that the furniture was to be reused in the newly formed offices; the

¹⁰ G.S.A, H.P.O., Accounts Department, Section-98, Daftar No-455, The Miscellaneous Etc, File No-1, Baroda 15th July 1875.

¹¹ *Ibid.*, Dated August 1873, Baroda

¹² *Ibid.*,

coins, ledgers and other accounts were deposited with the Huzur Treasury Office and the employees were to be discharged.¹³

AN EXPERIMENT WITH THE SERVANTS BANK

These policies of Madhavrao were supported by the British, and at times were at the behest of the British, who were ready to exhibit the benefits of the modernized form of banking to him. In doing so, they had their interests. Previously, the British had made a proposal to Madhavrao to open a branch of Bank of Bombay at Baroda. Though, Madhavrao had assented to the proposal, no further steps were taken in its favour. Therefore, the British might have thought to demonstrate to him the benefits of the new institution. As a result an experiment was conducted at Madras by opening a "Servant Deposit Chest" for the servants of the deposed Maharaja Malharrao. Though the Baroda branch of the Government Savings Bank had already existed since 1873, perhaps it was not a success.¹⁴

Malharrao, who had been deported to Madras, was allowed to carry along with him his followers and servants. To look after his arrangements and maintenance, G.E. Seaward, an officer on Special Political Duty was appointed. Owing to the corruption and disarray of finances prevalent in the camp, Seaward had made a proposal of opening a bank and thereby streamlining the expenses of the servants. The British agreed to the proposal and the Servants' Bank was successfully institutionalised, with the facilities, that of a

¹³ *Ibid*,

¹⁴ M.S.A. Financial Department, No-30, 1878

passbook and unhindered transfer. A monthly audit was carried out by the officer, along with the examination of cash balances. The interest rate was 3% p.a. on the total deposits.¹⁵ Therefore the first successful modern bank for Baroda was started at Madras. But, within the Baroda State, modern banking began with the operation of the Bank of Bombay branches.

THE BANK OF BOMBAY, ITS BRANCHES AND RESPONSE OF THE INDIGENOUS BANKERS

The modern institutions of banking within the Baroda State were yet to emerge, but a process was started by establishing the branches of the Bank of Bombay in the British Gujarat, especially in Bharuch, Ahemdabad and Surat. From 1876, the various transactions of the State were carried out through these branches. This process of remittance of money into these banks had continued till 1903-04. The funds obtained from the Navsari division were remitted into the Bharuch branch of the Bank of Bombay. These revenue collections of Navsari district were exchanged into the currency of Government of India and were later transferred to the Head Office at Bombay into the account of the Baroda State. The same practice was started at Amreli in 1877, which was followed by the opening of the account of Baroda State at Ahemdabad.¹⁶ The revenues of the Amreli division were transferred to the Bhavnagar branch and the Ahemdabad

¹⁵ H.P.O., Section No.8, Daftar No. 10, File No. 8/4, Khangi Department, Ex-Gaikwad, Vol-2, Dated Madras May 11, 1876.

¹⁶ H.P.O. Section No-95, Daftar No-452, File No-1, Accounts Department, The Broach Bank, 1875-80; Letter Dated 7th March 1876; Letter Dated 7th March 1877; letter Dated 15th July 1876.

branch; that of Kadi division to the Ahmedabad branch. However, the revenue and the incomes generated out of the Baroda division were deposited in the Central Treasury.

These developments led to the absorption of the old practice of revenue – farming, into the systematised forms of administration. The remittance of the funds into the branch banks or with the Central treasury meant that there would be less capital of the State with the *sahukars*, as also the powers of revenue collections were curtailed with the appointment of the *suba* of the different divisions. It was observed that,

“...of the 1007 villages above entered, there were 393 which had been formed out.... has been symptomatically discontinued by the present administer action, so that there is not now a single talooka not managed by direct government agency.”¹⁷

This had given another setback to the institution of indigenous banking, as the bankers were quite dependent upon revenue farming and had derived huge profits out of it, thus forming their central capital base.

The British government had derived maximum benefits out of these new developments, whereby a major portion of the capital of the State was deposited with them, which had enabled them to have an easy access to the large amounts for their use. Besides this, the British had realized the financial potential of the State and were looking for means and ways to control it. The State, (T. Madhavrao) on the other hand invested its income in the securities of the British government. In 1875, the total investment was of rupees

¹⁷ G S A., Sarsubah Records, Daftar No-107, File No-631, Political branch, correspondence reply: Administration Reports 1875-94

40,97,500/-. This amount was issued from the State treasury, instead of borrowing from the *sahukars*. The securities were also in the name of the *Dewan* and the Resident. In 1876, further thirteen lakhs were invested by him at the rate of 4% interest. This amount was remitted by Bank of Bombay (10 Lakhs) and its Broach branch (3 lakhs).¹⁸ Therefore, the money which had earlier stayed with the *sahukars* was later transferred out of the State. This gave a further setback to the *sahukars* as they were left with lesser powers. Still, the support of the indigenous bankers to the State had continued to exist. At various levels, it was difficult to function without the *sahukars*, especially the function of coin-changers or *sarraf*. For instance in 1876, the Dewan had intended to liquidate the *Babashahi* currency, accumulated in the Central Treasury, by converting them into British rupees. Two *sahukars* had offered to purchase the amount, and transfer it to the Bank of Bombay at Bombay, by using the agency of different *sahukars*. The first remittance to be made was of 1,50,000 rupees. Eventually around four lakhs were transferred within a year. The *sahukars* at Baroda had issued *hundis* on their agents at Bombay and the payment was made accordingly.¹⁹

The British on the other hand were finding new ways and means to gain greater control over the financial resources of the State, which might place them in a more prominent position in the administration of the State. Therefore, on 9th April 1878, they proposed to the Dewan, to open, a branch of the Bank of Bombay at Baroda. The government of India

¹⁸ H.P.O. Section No-90, Daftar No-443, File No-1, Accounts Department, Investment and Promissory Notes, 1875-79.

¹⁹ H.P.O. Section No-91, Daftar No-447, File No-26, Accounts Department, Dated 5th July 1876; Dated 13th November 1876.

and the management of the Bank of Bombay, were interested in making a few benefits for themselves, therefore they laid down the conditions that: -

- a) They should function as the State banks, with the State treasury retained with them;
- b) A minimum balance of twelve lakhs should be maintained;
- c) If the balance came down to the basic six lakhs, then 5½ percent interest, would be charged.²⁰

Though T. Madhavrao did not object to these conditions, the Baroda administration had put its foot down and instead laid down their own conditions i.e.

- a) The minimum balance would be one lakh of rupees
- b) If this was not kept, then the rate of interest could be increased.²¹

Later however, T. Madhavrao opposed, in a docile manner. He reasoned that:

- a) There was limited trade in the city,
- b) *Sardars* and other officials still obtained loans from the local *sahukars* on traditional manner and terms.
- c) Hostile attitude of the *sahukars* would not allow such an institution to be successful.

However, he assured the British, that the branches of the Bank of Bombay, would be utilised to its maximum.

"It must be remembered that there are already branch banks quite close to Baroda, namely at Branch of Ahmedabad. These are very easily accessible...super cedes the

²⁰ H P O section No-98, Daftar No-455, File No-2, Accounts Department, The Miscellaneous Etc., Dated 9th April 1878

necessity of a branch at Baroda itself. This place has been working quiet satisfactorily and I think the Bank of Bombay will have no difficulty in acknowledging the benefits accruing to it therefore."²²

THE SAHUKARS AND THE DEALINGS WITH THE BANK OF BOMBAY

The indigenous bankers by this time had somewhat got adapted to the changes. From 1877, onwards, they began to deposit *hundis*, or began to remit amounts to either the Bank of Bombay, or its various branches established in Gujarat. These *hundis* were drawn by the *sahukars* of various regions on *sahukars* at Bombay, who then had the responsibility of converting them and then depositing them in the Bank of Bombay. The commission charge in 1877 was ¼% per *hundi*, by this way from 4th May 1877 to 7th July 1877, (within a space of 3 months) nearly a lakh of rupees had been remitted from Amreli alone.²³ This system is enumerated here by taking one case. On 13th April 1877, an arrangement was made with the Parekh Laxmanrao Mairal, a firm at Rajkot. They were to transfer to the branch of Bank of Bombay at Ahmedabad, British rupees 80,000, the total amount being rupees 80,429-3-2 (429-3-2, was the commission charge of the firm). This amount was credited into account of the Rajkot tribute. The terms and conditions for such a transaction were

²¹ *Ibid.*,

²² *Ibid.*,

²³ H P O, Section No-91, Daftar No-447, File No-28, Accounts Department, Realisation of Hoondies on payment of tribute, 1877-1881.

- a) The amount should be paid into the bank within 25 days, which was inclusive of instalment (if there was any), which should not be of less than 10,000 rupees;
- b) After the production of the bank's receipts, by the firm, *hundis* would be drawn on their agent at Rajkot;
- c) The British should be paid a commission charge for remission at one *anna*, fifteen percent;
- d) To credit the amount to account of the State, the Bank had to send advice of each day's receipt separately.

Therefore, the aforesaid Parekh had issued *hundis* on his agents at Bombay. These agents paid the sum at the bank or its branch. The bank issued two receipts; one in favour of the *sahukar* and the other to the Baroda State. The *sahukar* sent his receipt to the State. On getting the same, the State, then directed the treasury to make payments to the *sahukar* (which the tribute payer either deposited with the *sahukar*, or deposited with the government's agent, with the region, in the treasury). The *sahukar* or his brokers were allowed the discount of Rs. 0-10-6 i.e., ten *annas* and six pies, but this percentage varied with the amount transacted.²⁴

*"...I have this day arranged with Parekh Laxmanerao Mairal firm here, on the same terms as those enumerated in my letter for the transfer, to the Branch Bank of Bombay at Ahemdabad, a further sum of British Rs. 13,677-8-11 subsequently received at Rajkot by the same firm...."*²⁵

²⁴ H.P.O., Section No-94, Daftar No-451, File No-1, Accounts Department, The Ahemdabad Bank, Dated 12th October 1878.

Besides tribute, the other payments were received under the head of revenue collections from the *subas* of various divisions and *vahivatdars* of the sub-divisions. The *vahivatdars* used to write to the Huzur Treasury Office and make the payments only after the correspondence between the treasury and the Bank, which entailed unnecessary correspondence and delay. Therefore, in 1879, this practice was discontinued and direct correspondence was ensured.²⁶ In 1877, the *sahukars* who had actively participated in these transactions were Prabhudas Sakhidas, Icharam Harjivandas, Maganlal Pushottamdas and others, etc. Therefore in 1877, through the agency of these *sahukars*, nearly about 2,50,000 were remitted to the Bank of Bombay.²⁷

Besides the remittances by *sahukars* and *vahivatdars*, the officials were also depositing many payments, due to the State, in the bank. For instance, in 1878, the *Sarkari vakeel*, had made a deposit of around 64,000 rupees into the Ahmedabad branch of the Bank of Bombay.²⁸ Another example was that of the cheque drawn by the executive engineer of Rajpootana State Railway, Sidhpur Division in the favour of its *vahivatdars* for rupees 10,135.²⁹ The Baroda Mill also had made payment into the account of the State at Bombay.³⁰ In the same year, Navsari Sugar Mill also had deposited the money into the Bank.³¹ Thus, with each increase in the extent of the activities of the modern banks, the indigenous bankers lost some ground, thereby paving way for the new changes. Though,

²⁵ *Ibid.*,

²⁶ *Ibid.*, Dated 8th July 1879

²⁷ H.P.O. Section No-91 Daftar No-447, file No-26, Accounts Department, letter Dated 14th June 1877, 16th June 1877p, 20th June 1877, 25th June 1877, 4th July 1877.

²⁸ H.P.O. Section No-94, Daftar No-451, File No-1, Accounts Department, the Ahmedabad Bank, Dated 29th May 1878 & 27th June 1878.

²⁹ *Ibid.*, dated 11th July 1879.

³⁰ H.P.O. Section No-91, Daftar No-447, File No-28, Accounts Department, Dated 30th May 1892.

³¹ *Ibid.*, Dated 17th June 1892.

they also had more or less attuned themselves to this changing mode of the banking system.

By 1880, Parekh Harilal Kalidas and Laxmanrao Mairal had emerged as two major *sahukars*, who conducted the major operations.³² The task performed by Parekh Harilal Kalidas was that of accepting *hundis* from Laxmanrao Mairal or any other *sahukar*, through his agent Chotalal Girdhar at Bombay. For that, he received the commission charges as well as exchange rate. These dealings were with the Bank of Bombay and the *sahukars* of the State. Laxmanrao Mairal, on the other hand had to deal with the *sahukars* and Huzur Treasury Office. The commission which was received by him was 0.56% (as mentioned earlier).³³ The Baroda State in turn had to pay to the agent through *hundis*.³⁴ The systematic and efficient working of the system was ensured by charging fines. If the delay had occurred on the part of the State, the pressure of the *sahukars* on the Baroda Office to issue the *hundis* was so great³⁵ that at one point of time the Baroda Office had removed the agency of the middle-men or agents and had dealt with them directly.³⁶ From 1880, onwards, the other *sahukars*, besides Laxmanrao Mairal and Harilal Kalidas, had also begun to remit money into the Bank through issue of *hundis*, on their various agents. A mention is made of a *sahukar* of Baroda, Bechar Soorchand, remitting huge sums into the Bank.³⁷ The *hundian* charges on the *hundi* were 80-6-11. Bechar Soorchand

³² H.P.O. Section No-91, Daftar No-447, File No-26 Account Department, 1875-89 Dated 23rd February 1880.

³³ *Ibid*, No-148 of 1879-80, Dated 20th February 1880

³⁴ *Ibid.*, Dated 25th February 1880; 28th February 1880

³⁵ Note: The Phrases used were "presses me much to get the *hundi*", "The Parekh is after me for a *hundi* on Rajkot"; the Parekh gets anxious to get the *hundis* today for the amounts".

³⁶ *Ibid.*, Dated 20th March 1880.

³⁷ *Ibid.*, Dated 19th March 1881.

in 1881 had also honoured the *hundis* of *ghasdana* charges obtained from Mahikantha.³⁸ However, these accounts only show their changed role, i.e. inspite of the transactions carried out by the *sahukars* on behalf of the State had increased, they were used as a mediatory agency, rather than the suppliers of money, which was their earlier role. The revenue – collections i.e. the large amounts were deposited by the government officials i.e. *subas* directly into the bank. In the year 1881, the *suba* of Navsari had deposited about 4, 00,000 into the bank directly.³⁹ Therefore, the *sahukars* had accepted the new systems adopted by the State, but the State did not use their credit and money in its total capacity. Nevertheless, they continued to perform their tasks in the following years. The following table indicates their participation, in the functioning of the branches of the Bank of Bombay, within Gujarat.

**COMPARATIVE STATEMENT OF THE REMITTANCES OF FUNDS INTO
BRANCHES OF THE BANK OF BOMBAY IN GUJARAT**

SAHUKARS						
S. NO.	YEAR	AHEMDABAD BRANCH	BHARUCH BRANCH	SURAT BRANCH	BHVNAGAR BRANCH	TOTAL
1.	1877	93,000	-			93,000
2.	1878	66,000	-			66,000
3.	1879	92,000				92,000
4.	1880	-				
5.	1881	-				
6.	1882	-				
7.	1883	-				

³⁸ *Ibid*, Dated 11th April 1881, Gujarati Letter.

³⁹ *Ibid*., Dated 23rd April 1881.

8.	1884	-				
9.	1885	-				
10.	1886	-				
11.	1887	20,000				20,000
12.	1888	5,02,756				
13.	1889	4,92,000				
14.	1890	-				
15.	1891	-				
16.	1892	3,22,739				
17.	1893	99,500				
18.	1894	-				
19.	1895	-				
20.	1896	-				
21.	1897	-				
22.	1898	-				
23.	1899	-				
24.	1900	-				
25.	1901	-				
26.	1902	-				
27.	1903	-				
28.	1904	-				

This amount includes Rs. 90,982 from Baroda Pedhi Company, the agency of the *Sahukars*.

GOVERNMENT APPOINTED AGENCIES						
S. NO.	YEAR	AHEMDABAD BRANCH	BHARUCH BRANCH	SURAT BRANCH	BHVNAGAR BRANCH	TOTAL
1.	1877	3,09,000	10,85,479			13,94,479
2.	1878	2,48,896	11,55,000			14,03,896
3.	1879	3,05,575	2,00,000			5,05,575
4.	1880	3,09,775	5,25,000			8,34,775
5.	1881	2,14,920	11,24,900			13,39,820
6.	1882	2,24,503	4,49,900			6,74,403
7.	1883	2,80,000	-			2,80,000
8.	1884	3,51,992	-			3,51,992
9.	1885	2,75,000	6,00,000			8,75,000
10.	1886	4,20,000	5,75,000			9,95,000
11.	1887	1,97,000	14,00,000			15,97,000
12.	1888	5,27,308	8,75,000			14,02,308
13.	1889	5,46,000	12,50,000			17,96,000
14.	1890	4,76,000	6,50,000			11,26,000
15.	1891	25,000	-			25,000
16.	1892	3,70,000	50,68,000			54,38,000
17.	1893	3,60,000	14,89,000			18,49,000
18.	1894	2,18,000	9,84,000		75,000	12,77,000
19.	1895	1,00,000	8,23,000		-	9,23,000

20.	1896	3,13,250	17,73,000		1,20,000	22,06,250
21.	1897	1,60,000	14,94,000			16,54,000
22.	1898	2,49,000	16,39,000	3,00,000		21,88,000
23.	1899	1,71,000	2,00,000	10,56,000		14,27,000
24.	1900					
25.	1901	-	4,00,000	10,40,000		14,40,000
26.	1902	1,84,990	6,00,000	25,000		8,09,990
27.	1903	7,71,050	-	13,63,000		21,34,050
28.	1904	2,69,807	-	2,28,000		41,97,807

This amount includes Rs. 90,982 from Baroda Pedhi Company, the agency of the *Sahukars*.

The other function of the indigenous bankers out of which they made profits was that of *sarrafi*, i.e. currency exchangers. The charge of conversion of bullion into coin was four *annas* per hundred rupees, also due to the crudeness of the coins assistance was taken from the *shroff* to test the authenticity⁴⁰. The rate of exchange of *Babashahi* coins to British rupees, in the year 1882, was 116:100. In the year 1883-84, the average rate of exchange was *Babashahi* rupees 117-3-2, per British Rupees 100, in the year 1884 to 1885, the exchange between *Babashahi* and British rupees were higher than those quoted above i.e., *Babashahi* 118½ per 100 British rupees.⁴¹ This rate had continued till 1887.⁴²

⁴⁰F A.H Elliot, *The Rulers of Baroda*, Baroda State Press, 1936, pp 233-234.

⁴¹ H P O Section No-95, Daftar No-452, File No-2, Accounts Department, *The Baroda Bank*, 1880-1886, Letter to Sarsubah from Huzur Treasury Office, Dated 26th December 1884.

In the year 1888, the exchange had changed to 100 British rupees for 105-3 *Shikai* rupees.⁴³

In 1892, Baroda Pedhi Company Limited also remitted money into the Ahmedabad branch. Parekh Maneklal Ghelabhai was the agent of the Baroda Pedhi Company, in handling the affairs with the bank. It dealt with another Parekh, Parekh Bechar Soorchand, along with Girdhar Bhudhar, Govindram Purshottam and Bhagwandas Jivandas.⁴⁴

Till 1892, the payments were realised through the *hundis*, however, later on the system of cheque was followed. This had added to the decrease in the demand for the need of the indigenous banker, especially to issue *hundis*. This had also lessened the demand for the *sarraf*, for the exchange of the currency. Still the indigenous bankers had continued to remit money in the Bank, on behalf of the State.⁴⁵ In 1894, Bhavnagar branch of Bank of Bombay was opened. This had enabled the *suba* of Amreli, to transfer conveniently the funds generated out of the revenue collection into it.⁴⁶ In the remittance of the funds, the medium of the Parekh or the banker was still availed by the State,

⁴² H P O Section No-94, Daftar No-451, File No-3, The Accounts Departments, The Ahmedabad Bank, Dated 10th May 1887.

⁴³ *Ibid.*, Dated 16th July 1888

⁴⁴ *Ibid.*, File No-5, The Ahmedabad Bank, Dated 21st September, 1892.

⁴⁵ *Ibid.*, Dated 11th January 1898, 27th January 1893; 31st May 1893.

⁴⁶ H P O Section No-97, Daftar No-454, File No-1, Accounts Department, The Bhavnagar Bank, Dated 19th July 1894 and 8th October 1894.



"Receive the sum or sums of money which the vahivatdar of Amreli will cause to be paid into your Bank through the medium of any Parekh or merchant, and credit the same to the account of His Highness Government with your Bank".⁴⁷

The Baroda State till 1903 carried on the account with Bhavnagar bank. However in the two years i.e. 1900-1902, the State did not remit any funds into the Bank. This was due to a disagreement, which had occurred between both the parties. The Bhavnagar Bank had charged unreasonably for the delay in remittance of the funds. The Baroda government had a valid reason for it, i.e. the Bhavnagar season had closed late, and this had delayed the process of revenue collection, hence they were unable to transfer the money.⁴⁸

The transactions between the Baroda State and the branch at Surat had begun in 1898,

"On account of the recent opening of the Tapti Valley Railway, it will be convenient for us to send remittances from some of our Navsari Division treasuries to the Surat Branch of the Bank of Bombay."

For that purpose, the Huzur Political Office was issued *chitthis* to instruct the *vahivatdars* of Palsana, Gandevi and Vyara prant, to remit funds to Surat. The rate of interest changed was 5%.⁴⁹ The *hundis* were in regular use as the bills of exchange. They were now defined by the government as *hundi* is when

"...one amaldar of khajani when draws hundi on one's own firm to be encashed by the other khajani amaldar "

⁴⁷ *Ibid.*, Huzur Treasury office to Bhavnagar branch, Baroda 25th April 1895

⁴⁸ *Ibid.*, Letter No 6691, Dated 23rd May 1895.

The rate of *hundiwan* one *anna*, was charged on every ten rupees. For the amount to be remitted from Khativadi Pedhis to the people, the rate for every twenty-five rupees, an *anna* was charged. When the dealings were done with the *sarkar* no *hundiwan* was charged. The advices of the receipt or non-receipt of the *hundis* was to be sent immediately. The term of the validity of the *hundi* was fixed at two months from the date of issue. If the hundi was transacted after that, then that transaction and the *hundi* were considered null and void. As far as the exchange of *hundis* was concerned the *khajina* was to maintain a *hundi petha rojmel* and note down the transaction regarding the exchange of hundis. At the end of the month the *khajina* was to prepare proper accounts and send it to the in charge of the treasury.⁵⁰ However, it was difficult to maintain such a cumbersome system, but the *Sarkar* had more interest in establishing a bank of its own, than opening an outside bank or its branch.

In 1901, once again a proposal was made by the Bank of Bombay to establish a branch at Baroda. They had emphasized by stating that,

"The government of India transacts all its banking business with this bank. It would

probably suit you to entrust the Bank with conduct of your

*Treasury in Baroda on same lines...."*⁵¹

The British government had shown the advantages i.e.

⁴⁹ H.P.O. Section No-96, Daftar No-453, File No-1, Accounts Department, The Surat Bank.

⁵⁰ Nagadi Hisab Niyam Sangrah, Vol-I, Baroda State Press, 1930, pp-53-54.

⁵¹ H.P.O., Section No-98, Daftar No-455, File No-2, The Miscellaneous etc, letter from A.G.G. to the Maharaja, Dated 5th February 1901.

*"The State would be relieved of the cost of cashiers and Shroffi Department of the Treasury and the risks connected with Shroffing and handling of coin, while the money would be under the direct care & supervision of the Bank thus releasing your treasury officers from serious responsibility."*⁵²

They had insisted that Banks could induce the trade and commerce of the State.

*"The trade and industries of Baroda would be encouraged and promoted through the ordinary operations of the Bank".*⁵³

However once again the Maharaja politely but firmly declined the proposal, by stating that, there was no need for such a kind of a bank, as of then.

*"...There already exists a local Bank called the Baroda bank or the Baroda Pedhi, and that it did not find sufficient demand for its capital, it had to reduce it. The Babashahi currency has lately been substituted by the British currency and it is desirable to watch the effect of the change of the currency. It will take some time to ascertain whether the local shroffs are able to adequately finance the local business, or whether the establishment of a Branch Bank of Bombay is a necessity. Under the circumstances the undersigned is of opinion that the consideration of the proposal made by the Bank of Bombay should be postponed for a year at least."*⁵⁴

⁵² Ibid.,

⁵³ Ibid.,

⁵⁴ Ibid., Maharaja to A G.G, Dated 25th February 1901.

The Maharaja was in favour of supporting and improving the economy of the State with its own capital. Thereby, ensuring the fructification of its capital, within the State, for the betterment of the society.

The next step in the modernisation of banking was the establishment of an intermediary agency, which was a 'transitional' institution-the Baroda Pedhi Company.

THE BARODA PEDHI COMPANY

Though the attempt to start an indigenous institution on modern lines had been initiated by the indigenous bankers themselves in the 1860's, nothing concrete had been achieved.⁵⁵ (See Appendix no 3.1)

Renewed efforts were made at the initiative of Sayajirao-III and thereby a Baroda Pedhi Company was established in 1884 A. D. This institution had emerged as some kind of a fusion between the traditional and modern systems.⁵⁶ The *pedhi* was registered as 'The Baroda Pedhi Company Limited'. It had a formally drawn-out memorandum of association and articles of association. A detailed policy frame-work had been worked out and all articles especially with regard to granting loan were clearly stated. For

⁵⁵ Collection of *Haribhakti Records*, Department of History.

⁵⁶ *Baroda Banking Inquiry Committee*, *Op. cit.*, p-46.

instance, the nature of the commodities to be taken as security, the amounts of loan to be given against a particular security were all clearly specified.⁵⁷

The *pedhi* was started with a share capital of three lakh *Babashahi* rupees divided into six hundred shares of five hundred *Babashahi* rupees each. The State had the maximum i.e. half the number of shares. Therefore, it had obtained the privilege of appointing the President. The audit of the accounts was to be carried out by the auditors of Public Works Department. The State had also granted other minor but crucial concessions such as giving a free land to house the *pedhi* building. Therefore, the Company had become a kind of Joint Stock Company by obtaining banking facilities as a part of the infrastructure.

However, the scope of functioning of the *pedhi* was limited, as, the bankers involved were not yet fully open to the idea of any kind of institution with the State's support, which would take away their hereditary powers. Due to the threat of competition they were facing in the form of the branches of the Bank of Bombay, they still were only slightly convinced of the need of such an institution within the State. However, the founders of the *pedhi* were forced to retain the features of the traditional banking and the main activity of the *pedhi* was to be: - money lending, instead of accepting deposits.⁵⁸

⁵⁷ Priti Mishra, *The Baroda Pedhi: Rise and Decline of An Intermediate Urban Agency*, in *Urbanization in Western India – Historical Perspective*, (ed) Makrand Mehta, Gujarat University Ahmedabad, 1988, pp 169-170.

⁵⁸ *Ibid*, p-171

The *pedhi* had three branches, one at Baroda and the other two at Kadhori and Amreli. The extent of business at Baroda branch was the largest. The deposits accepted were few, and there were rules for making a deposit. They were:-

- (a) The deposits below rupees 300 were non-interest bearing.
- (b) The time period of the deposits and the rate of interest were left to the discretion of the Directors (generally the rate conformed with that of the money lenders)
- (c) Premature withdrawal invited a penalty at the rate of 6%, which was charged on and deducted from the principal.

The common people had yet to accommodate with the strict rules of a modern bank. Therefore they did not come forward with the deposit and the *pedhi* had a very small deposit base.⁵⁹

As far as giving of the loans was concerned, the Baroda *pedhi*, like the moneylenders had also followed a short term loaning pattern. The terms were:-

- (a) The loans were given, maximum for a year, with the rate of interest charged at 3% or more.
- (b) Short term loans carried an interest rate of about 2 %.

The amount of loan given, the duration of the loan and the rate of interest charged depended on the nature of security. In general the higher the market value of the security, the greater was its liquidity. The amount of loan and its duration also depended upon the

⁵⁹ *Ibid.* pp. 170-171

security provided. But if seen in general the rate of interest in an absolute sense was marked out to be higher.

These types of lending and deposits terms had made it very difficult for the *pedhi* to expand and increase the scope of the activities. Moreover, the management's constant complaint was that the *pedhi* had found it extremely difficult to invest the funds throughout the year. It usually ran out of its funds in the harvest season and had to resort borrowing from the treasury at a two percent rate of interest. During the off season, the *pedhi* had funds lying with its treasury thereby supporting only agriculture. It did not make attempts to tap the other avenues of business, which had by this time, emerged in the State.

The Baroda State had begun to adopt the technological advancements i.e. initiatives had been taken to set up some sugar, brick, cotton, woollen and such other mills. Various parts of Baroda were experiencing increased transportation and communication changes. These developments could have been corroborated by the Baroda *pedhi*. However, the management of the Baroda *pedhi* had no intentions to take undue risks. Therefore, funds accumulated in their treasury remained unutilised for a number of years and after just about ten years of its inception, the *pedhi* had to resort to the option of reducing the capital in order to show profits in its books. This became a regular feature after 1893.

The reason for this stagnated performance was the inexperience of the business community (of the 1890's) and a dearth of experienced and modernised expertise. The

management of the Baroda Pedhi Company constituted mainly the indigenous bankers (mostly *potedars*), who had functioned more or less as moneylenders and had believed in hoarding capital rather than utilizing it for profitable investment in the modern sense. The other reason being that the President of the *pedhi* was a senior government official, who could not devote sufficient time and attention to the *pedhi's* activity. This duality of functions, at the highest level, impeded the growth and development of the *pedhi*, thus making the State equally responsible for the *pedhi's* failure. Furthermore, the State had established its own departmental (developmental and agricultural) banks which limited the role of the *pedhi*.⁶⁰

Though the reasons were obvious, the management and the shareholders refused to acknowledge their drawbacks, which had resulted in a consistently bad performance of the *pedhi*. By 1904, the *pedhi's* financial situation had deteriorated. Even a small base of Rs.1, 60,000 (1,00,000 as capital and 60,000 as reserve fund) was found unremunerative, as there were idle funds lying in the treasury of the *pedhi*. General economic depression in the State, too had affected the *pedhi*.

In the memorandum of 28th February, 1907 R.C. Whitenack, the Economic Advisor of the State, reviewing the performance of the Baroda Pedhi Company, observed that,

"...the existing bank is quite inadequate in capital and facilities, that its management is not enlightened and progressive, that its patronage is largely confined to the bazaar, that

⁶⁰ *Ibid.*, p-173.

*the nature of its organization, management and supervision is not, in brief, such as to give it a dignified status in the business community".*⁶¹

He also had made a proposal to absorb the Baroda Pedhi into the impending "The peoples Bank of Baroda".⁶² This proposal was accepted and the Baroda Pedhi Company, automatically dissolved, upon the birth of The Bank of Baroda in 1909.

5

THE FORMATION OF BANK OF BARODA

The failure of Baroda Pedhi Company Limited had brought forth the realisation that a retrograde hurdle had been created in the modernization process to the Baroda State. Under the aegis of Maharaja Sayajirao—III, the State had experienced expansive progressive changes. To facilitate smooth progression, an attempt was made to revive a few institutions. One such attempt was the establishment of the Baroda Pedhi Company by the State. However, the internal as well as the external factors had rendered it almost impossible to succeed. Its failure brought the indigenous banking to the threshold of establishing a new banking institution. This modern institution could either have been a branch of another bank or a formation of a new bank of the State. The choice was with the Maharaja and the elite section of the society (who were largely bankers). They decided in favour of a new bank and as a result The Bank of Baroda was established in July 1909. However, the process of the formation of the bank was not a smooth and easy one. It had required a lot of convincing, especially to the traditional order of the bankers.

⁶¹ Selections from *The Records of the Baroda Government. The Bank of Baroda*, Baroda Press, 1909, pp-11-12

The State had accumulated a large surplus, a part of which was invested in the security of the Government of India. The balance had remained idle as the investment opportunities in Baroda were extremely limited. This had resulted in a decline in the value of *Babashahi* rupee. Priority had to be accorded firstly, to the decline and secondly, to increase the carrying capacity of the economy to absorb the surplus. To look into the economic progress, an Industrial Commission was appointed in 1894. It consisted of three officials and one non-official. This proved to be an important stage in the history of banking. It recommended that the opening of a government bank in each *mahal* would create efficient credit facilities. The first step towards implementation this recommendation was taken in 1899-1900, when two agricultural banks were started in Navasari. Between the years 1890-1900, seed-depots were organized all over the State. But due to their unsatisfactory performance they were closed down one after the other. Some of these were converted into *sadai* or chief banks, with the clientele of the old ones as their members. These were subsequently transformed into *pedhis* or agricultural banks or *khetivadi pedhis*.⁶³ In order to support them, the State had granted them a few concessions. But before these institutions had a chance to prove their worth a severe famine had swept Gujarat and had thrown the economy of the State, in a total disarray. As the *khetivadi pedhis* were found insufficient to give relief to the farmers, it was decided that the peasantry should be made self-reliant to confront such crisis. This could be done through exertions and savings by its own members. Therefore a co-operative bank was started at the initiative of some enthusiastic officers. In 1905, the Co-operative

⁶² *Ibid* , p-16

⁶³ Baroda Banking Inquiry Committee, *Op. cit.*, pp-46-47.

Societies Act was passed which allowed only the credit giving activities. In 1913, another Act was passed, which allowed the non-credit work.⁶⁴

Sayajirao-III then renewed his attempts to institute a banking agency which would enable an easy availability of finance, for the industrial development of the State. Meanwhile, a proposal was made by the Bank of Bombay, to open its branch at Baroda. But it was rejected, as they had made a demand for unreasonable concessions.

Having heard of the failure of these negotiations, to avail the financial opportunities in the State, another Bombay-based institution - The Indian Specie Bank, had come forward with a proposal to open a branch of its own at Baroda, with one modest demand i.e. the freedom to move its funds between the proposed branch at Baroda and its offices elsewhere. The State had no objections to the opening of its branch, but the banking community had serious objections,

*"With the true instinct of good business men they saw that if they became a party to the acceptance of such a scheme, they should be prepared to see the branch develop into nothing short of a feeder to its parent at Bombay and that in the near future it would suck up all the reserves of the State and its people to the lasting benefit of the trade and industries of Bombay only".*⁶⁵

The leading members of the banking community had therefore,

⁶⁴ *Ibid.*, pp-50-51

⁶⁵ *Ibid* , p-187

“Memorialized to Government that they would be only too willing to be partners to a scheme to bank up the financial resources of the State if the Government showed their willingness to support it and they submitted a tentative scheme of their own for the consideration of the Maharaja”.⁶⁶

The banking community had made the proposal that a bank should be started by local men out of the local resources and aided by the State. This bank would then take the shape of a national bank. They had conceived such a bank which would make it easy to carry,

“...its operations even to the remotest corners of His Highness's territories by making its branches, bringing banking facilities, within the easy reach of all classes of people, that the funds of such an institution would circulate more effectively from district to district, and that in course of time its branches could be utilized by the State for the movement of its own funds, thus replacing the Taluka treasuries”.⁶⁷

Certain erstwhile *potedars* such as C.M. Samal Bechar, Trikamlal Dalpatabhai Parbhukasi, Parekh Jhaverchand Lakshmichand Motilal, Maganlal Kantalawala and Dalal Chotalal Hargovan from the banking community had got alarmed at the prospectus of an outside bank extending its sway.⁶⁸

⁶⁶ *Ibid.*

⁶⁷ *Ibid*

⁶⁸ *Selections from the Records of the Baroda Government, The Bank of Baroda, Baroda, 1909, p-*

To represent their case, they were guided by Ralph C. Whitenack (an American). He was picked by the Maharaja Sayajirao-III, during his trip to United States in 1906. He was appointed as the Economic Advisor of the State. In this capacity, he was to act as an expert in matters relating to the industrial development of the State and he was authorised to report directly to the Maharaja. Thus, the Maharaja had eliminated the possibility of mediatory forces and obtained direct control.⁶⁹

Whitenack had developed very close contact with the gentry of the city including the *shroffs* who were opposed to The Indian Specie Bank proposal. Perhaps it was upon his insistence that the banking community had reacted positively and unhesitantly. On 29th January 1907, a meeting was held at the office of the Economic Advisor in which the banking community passed the resolution that a native State Bank of the Baroda State was required. This bank if allowed and supported by the State might meet with success. The Bank should start with a capital of 10 lakhs, of which 5 lakhs to be subscribed by the public. Fifty per cent of the capital should be used at the time of the opening of the business in Navsari, Kadi and Amreli districts and in Bombay and Ahemdabad. The Board of Directors should consist of seven members, three appointed by the State, i.e. the Accountant General and the non-officers selected from the citizens of the State, and four others to be elected by the shareholders.

The last condition revealed that they would embark upon a change only if

⁶⁹ Dwijendra Tripathi & Priti Mishra, *Towards a New Frontier – History of the Bank of Baroda, 1908-1983*, Manohar Publications, New Delhi, 1985, p-47

*"... should it receive the sanction of this highness the Maharaja Saheb".*⁷⁰

On 3rd February 1907, Whitenack wrote to HariBhakti, who was the representative of the citizens of Baroda, that he had obtained a permission to draft a bill for the organisation of a Bank. But for that he had desired to confer with a committee of at least four to five members, who had been appointed by the bankers. He had intended to discuss the moderate terms, which would be highlighted to them. He insisted that only if the banking community was willing to take any steps, they would obtain the support of the State. He had assured them of the interest of the Maharaja in this project.⁷¹ However, the State was not yet willing to bind itself in any way, till the terms were settled and discussed.⁷² This was perhaps because the State had still not recovered from the bitter failure of the Baroda Pedhi Company.

Whitenack was in favour of the establishment of a native bank instead of opening a branch bank. He argued that more than 150 lakhs of the State's money, both private and public, had been utilized for enriching of the industries and commerce of Bombay, Ahemdabad and other centres, while the struggling industries within the State were starved of capital. He was also considerate of the fact that the banking community was also opposed to the opening of a branch bank,

*"Besides the native bank will tend to attract investors to Baroda State"*⁷³

⁷⁰ Selected from the records of the Baroda Government, The Bank of Baroda, *Op. cit.*, p-1.

⁷¹ Selected from records of the Baroda Government. The Bank of Baroda, *Op. cit.*, Letter to Sheth HariBhakti re. terms on which financial community would cooperate, Baroda 3rd February 1907, p-3.

⁷² *Ibid*, Permission received from H. H. the Dewan Saheb to continue regulation for Bank in Baroda, Baroda, 6th February 1907, p-4.

⁷³ *Ibid.*, Memorandum by Whitenack, Baroda, 28th February 1907, pp 8-10.

In this there was a benefit even for the State, by way of enabling an easy remittance of funds from one place to another, which it could fructify in numerous other ways.

Whitenack had strongly believed that with the support of the State, the business and banking community would have more faith in the institution.⁷⁴ This encouraged them, and the banking community responded by withdrawing a few of their claims. For instance, after Whitenack issued the memorandum, HariBhakti and other bankers withdrew their request for concession regarding the minimum rate of dividend to be guaranteed by the Government.⁷⁵ The Maharaja had been willing to bring about changes but he had demanded complete cooperation of the *sahukars*. In a Memorandum issued by Kersasp Rutomaji, the *Dewan*, dated 22nd March 1907, the Maharaja had ordered,

*“...the opinions of the sowkars may be taken in writing on the above recommendation of the council, and if necessary a fresh discussion held with them by that body. The sowkars may be asked to make any suggestions they deem fit”.*⁷⁶

Whitenack therefore had urged HariBhakti to,

*“...drop all minor differences of opinion existing between them and the council”.*⁷⁷

⁷⁴ *Ibid*, p-13

⁷⁵ *Ibid*, Append & C and Final Huzur Order, p-39

⁷⁶ *Ibid*, Memo issued by the Dewan, 22nd March 1907, p-41.

⁷⁷ *Ibid.*, Whitenack to HariBhakti, Baroda 24th March, 1907, p-44.

However, he assured them that the State also would not be given any unnecessary benefits. Therefore the banking community wrote a letter on 5th April 1907 expressing their willingness to cooperate. They accepted the title of the Bank as “The Bank of Baroda”. They wanted an assurance that the State should turn to the bank for all its business, thus retaining the State as their major client. Besides this, they wanted the complete involvement of the State in the bank, by investing a sum (free of interest) equal to one-fourth of the paid up capital of the bank. They accepted that the State would not contribute a capital of more than three lakhs of rupees. But if the capital fell below the paid up capital, then an interest would be charged on them. They even asked for an assurance that the State would not forward any loan of its own to any agency or institutions. Also, for their own accounts, the audit would be carried out by the State, at their own expense. The Banking community had added their own clause, to the ones submitted by Whitenack. The operation undertaken by the bank on behalf of the State should be kept under a separate current account and the bank would not pay any interest. In case the State overdraws the current account, it will have to pay the Bank, the current rate of interest.⁷⁸ HariBhakti signed this letter along with the other leading citizens of Baroda. The bankers were so enthused by the idea that they were willing to make any kind of offer to ensure the success of this institution. For instance, Bhaisheth Ishwardas of Petlad and Bombay was one of the signatories, who had showed his willingness to undertake the financing of the whole institution, if the need arose.

⁷⁸ *Ibid.*, the Reply, Baroda, 5th April 1907, pp 45-47.

Whitenack was too happy to accept the above demands. The fourteenth clause was introduced for the first time, according to which, when the bank would commence its operations, the Baroda *pedhi* would be voluntarily wound up.⁷⁹

A meeting was held on 11th August 1907, attended by the promoters and organizers. Amongst those who had participated, were Seth Chimanlal Nagindas of Ahemedabd, Maganbhai Pushottambhai HariBhaktiwala (the *Nagarsheth*), Seth Chimanlal Motila,l Samal Becharwala, Seth Chimanlal of Jhaver Lakshmichand & Co., Seth Motilal Gordhan, Seth Himatlal Hargovind of Dabhoi & Jhaveri Lilabhai and others. Sheth Hari Bhakti proposed the contribution of about eight lakh rupees of capital by the chief promoters, whereas 10 or 12 lakhs could be contributed by the State. Eventually, it was decided that requests would be made to the Maharaja to deposit rupees 10 lakhs at 4%.⁸⁰

The Maharaja approved the draft of a detailed prospectus at this stage. Both, the local promoters and the government of the State, thought it appropriate to expand the promoting group, with a view of associating with the scheme, some competent people from outside the State. Sir Vithaldas Damodar Thackersey and Sir Lallubhai Samaldas both of Bombay and Ambalal Sakerlal Desai and Chimanbhai Nagindas of Ahemedabad were invited to assist. All of them were Gujaratis, where-in Lallubhai, in fact, hailed originally from Baroda. They had strong business interests. They were also persons of pronounced nationalist views and ardent champions of the cause of Swadeshi. They were closely associated with the rulers of Baroda and besides supporting the interest of the

⁷⁹ *Ibid*, p-53.

⁸⁰ *Ibid.*, Minutes, Dated 14th August 1907, pp 57-60.

State, they also had intentions of boosting the spirit of economic nationalism.⁸¹ Soon due to their liberated yet strict functioning, they superseded the position of the Baroda *sahukars*. From then on, they played a critical role in the proposed institution. A committee, consisting of Vithaldas, Samaldas and Whitenack was appointed to draft the prospectus. Many of the Baroda bankers were included in this group. Though they had taken a back seat, they continued to submit their valuable opinions in favour of the bank. An unexpected development, had created a new controversy and had almost razed the project, i.e. the committee had erroneously assured that the deposits of the State were to be limited to Rs. 2.5 lakh only, also,

"... the Baroda Government's balances are ordinarily deposited with Bank in Bombay, the fears expressed in regard to an institution which will have its centre and head-office in Baroda, seems rather far-fetched".⁸²

Also, they had insisted that the State should be approached

"...to promise the Bank deposit of up to 10 lakhs of rupees at 4 per cent which the bank might draw upon at any time in order to increase the scope of its business".⁸³

The *shroffs* also had supported the committee and Hari Bhakti on 14th September 1907, laid down his opinion, that,

" If this concession of 10 lakhs will not be made, it will not be possible ,, to proceed further with project, for, when the Government cannot have confidence in this Bank, a

⁸¹ Dwijendra Tripathi & Prithi Mishra, *Op cit.*, pp 52-52.

⁸² Selection from The Records of the Baroda Government, The Bank of Baroda, *op. cit.*, Ministers of the meeting of the promoters and organizers of a Joint Stock Co. Re : concessions, and correspondence pertaining to it, p – 68.

*creature of its own, it is impossible that people of this State, will have enough trust to deposit their money freely in this institution".*⁸⁴

The Council then realized the meaning of these threats and it expressed its willingness to meet the demand half way but the promoters did not accept even that.⁸⁵ Even Whitenack eventually agreed to the objections of the promoters.⁸⁶

Compromise was reached and the Council had to agree to reconsider its decision. They agreed to grant 10 lakhs in all, 7.50 lakhs at 4%, 2.50 lakhs without interest for the period of fifteen years.⁸⁷ On 30th October 1907, the Council had forwarded the scheme for royal assent. Before according his approval, the Maharaja wanted to be clear about all the facts and implications of the project. With this end in view, he asked Whitenack to submit a detailed report. All relevant papers concerning the scheme were also placed before the Maharaja, who gave his approval on 16th December 1907.⁸⁸

On 7th March 1908, a meeting of the Provisional Board of Directors was held, which was attended by the body of the *sahukars* and Whitenack, now the Director of Commerce and Economic Advisor. It was decided that the Company should be registered after the minute details were settled upon. Amongst these, Thakersey, Samal Bechar, Magan Purshottambhai, HariBhakti and Chunilal Nagindas proposed that Whitenack be made the

⁸³ *Ibid.*, p – 59-60

⁸⁴ *Ibid.*, Hari Bhakti to Whitenack, Baroda, 4th September 1907, pp 74-75.

⁸⁵ *Ibid.*, pp 76-83.

⁸⁶ *Ibid.*, Whitenack to the Dewan, Baroda 17th September 1907, pp 79-80.

⁸⁷ *Ibid.*, Whitenack to the Dewan, Baroda, 2nd October 1907, pp- 91-94.

⁸⁸ *Ibid.*, pp- 115-166

Director of the Bank. It was approved by the Maharaja.⁸⁹ By July 1908, all preparations for registering the Company were completed.

All discussions about the bank scheme had been confined to the officials and the promoters. For a period of eighteen months, only a very small section of the financial circles in the State had meagre information about the project. The general public was almost entirely ignorant of it. If the bank was to succeed, it was necessary for the people to know about it, only after it came into existence. Thereafter, it was decided to hold a public meeting with a view to educating the people about the aims, objectives and usefulness of a modern bank. On 19th July 1908, such a meeting was held, which was attended by prominent *sahukars*, financiers, industrialists and government officers. Maharaja Sayajirao was present in person as the most conspicuous symbol of his government's support to the new venture.⁹⁰

He claimed that the Government was not in need of such an institution to meet its financial requirements, as they had sufficient funds of their own but the bank was for the betterment of the people and,

*"This institution should be, ..., a great object lesson in cooperative enterprise and a constant educator in modern methods of commercial intercourse".*⁹¹

⁸⁹ *Ibid.*, Tippan regarding granting permission to Mr. Whitenack to serve as private Director in the Bank of Baroda Ltd. and Huzur orders passed there on, Baroda 3rd May 1908, pp-130-134.

⁹⁰ Dwijendra Tripathi & Priti Mishra, *Op. cit.*, p-57.

⁹¹ *Speeches & Addresses of this Highness Sayajirao – III, 1877-1927*, Mac Millan & Co. London, 1928, PP 221-223, No XLI, Swadeshi & Western Methods.

Besides these, he had also made a reference to the economic movement known as Swadeshism. For him Swadeshi had a different connotation,

"To acquire economic freedom is the end and aim of Swadeshism.

And this can only be done by mastering the technique of western industrialism".⁹²

Thereby, transforming the motives of the institution into a nationalist spirit and providing new dimensions to it.

A day after the meeting, i.e. on 20th July 1908, the Bank of Baroda Limited was formally registered under the Baroda Companies Act of 1897. According to the prospectus issued, the bank was to operate throughout, Gujarat, Kathiawad and Bombay. Amongst the Board of Directors were prominent *shroffs* and financiers of the State along with the four promoters, Accountant General of the State, Sampatrao Gaikwad and Whitenack. Vithaldas Thakersey was the first Chairperson.⁹³ Charles. E. Randle was appointed as manager and he had joined office on 1st September 1908.

The Bank Baroda was successful and it soon had established its branches at a lot of places within Baroda State and even outside it.

After making an evaluation of the impact of and on the indigenous banking institution on the political and economic set up of the Baroda State, a very important angle remains to be understood and analysed and that is the social aspect. The following section focuses on this very aspect.

⁹² *Ibid* , p-224

⁹³ Dwijendra Tripathi & Priti Mishra *Op cit* , pp- 53-59.