

Chapter-I

INTRODUCTION

GEOGRAPHICAL SETTING IN BARODA STATE

The first civilisations seem to have arisen in regions with a healthy climate, productive soil and adequate water supply. It is a stage in human historical development when writing has been used to a considerable extent; progress has been made in the arts and science; and political, economic and social institutions have developed sufficiently to conquer at least some of the problems of order, security and efficiency in a complex society. But, favourable climatic and geographical conditions do not always induce a superior level of achievements. The other decisive component, necessary for the functioning of the civilised society, is the requisite physical and mental endowments of the human beings.

However, geographical importance cannot be overlooked. The causes which contribute to the rise of the civilisations to much higher levels of development are the factors of geography (climate and soil), economic resources, food supply, contact with other civilisations and the conditions of hardships or adversity.¹ Therefore, in order to understand the history of a region, it is essential to take a look into the geographical surroundings.

¹ Burnes E M , & Ralph P L , *World Civilisations*, Vol-A, New Delhi, 1991, pp-1-18.

The territories of the Baroda State in 1923, were lying between 20-45' and 24-9'N. Latitude and between 69-5' and 69-20'E. Longitude (see Map 1.1),² along with Okhamandal.³ These territories were interspersed with the British Gujarat and other Princely States.

The Baroda State was divided into four divisions viz., Kadi, Baroda, Navsari and Amreli. Out of these Kadi, Baroda, and Navsari were situated in the mainland Gujarat and Amreli in the peninsular Gujarat (Kathiawad). Mainland Gujarat can be sub-divided into north (Kadi), central (Baroda) and south Gujarat (Navsari). Each of these divisions, thus, had its own peculiarities and they were detached from each other.⁴

Geologically, four main rivers of Gujarat, Narmada, Mahi, Sabarmati and Tapti passed through the Baroda State. Besides these, there were also smaller tributary rivers like Vishwamitri, Orsang, Unchh, Heran, Dhadar, etc. The surface of the State was largely flat and plain and a greater part of the State laid within the area of the coastal bank of alluvium, which was formed by the encroachment on the shallow Gulf of Cambay. The soil in the State was alluvial, except in the hilly areas of the Navsari and Amreli districts. The alluvium soils of the Baroda State may be roughly divided into— *gorat* (sandy loam), *kali* (black) and *besar* (those formed by the intermixture of the two). The average annual rainfall was the heaviest in the southernmost districts and went on diminishing from the

²Note The information, regarding the geography and history of the State is taken from two sources a) Imperial Gazetteer of India, Bombay presidency, Vol – VII, Baroda, 1881.b) Clarke and Desai, Gazetteer of Baroda State, Vol I and Vol II 1923

³ Note This region was under the jurisdiction of the British till 1920

⁴ *Ibid*, p-6

south towards the north. It was considerably heavier in mainland Gujarat than in Kathiawad. The principal crops grown were cotton, tobacco, oil seeds, *juwar*, *bajri*, rice and pulses.

The main occupation of the people was agriculture. According to the census report of 1921, 64% of the population was involved in agriculture.

The other important occupation, which comes into focus, was that of banking activities especially money-lending. To finance the agriculturists, the State was largely dependent upon the indigenous bankers at all levels. The local *baniya* was advancing loans at the village level and in urban areas there were *shroffs* and *sahukars* who loaned funds to the State to meet their daily requirements. This was the case till 1875, when the State took up the responsibility of handling finances and as a result, co-operative and agricultural banks were established.

Throughout the 19th century, the indigenous banking community struggled to maintain their influence and position in the State vis-à-vis the Gaikwads and later the British. In order to understand this relationship, it is essential to understand the history of the Gaikwad State in relation to the emergence of indigenous banking community.

A BRIEF HISTORICAL SURVEY OF THE BARODA STATE

Karen Leonard in her theory of the decline of Mughal Empire had suggested that one of the major causes of its decline was the appearances of regional alliances between the “great firms” and the ruling groups.⁵ This holds quite true for the emergence of the Baroda State, (which was formed, as a result of loosening of central control earlier of the Mughals and later of the Marathas.).

The Baroda State was founded by Pilajirao Gaikwad who was earlier just a *mutalik* in the services of the Raja of Satara. However, during the rule of the Peshwa, due to his hard work and bravery, he rose to prominence and earned the position of sub commander-in-chief, under the commander, Khanderao Dabhade. His Son Damajirao-II extended his acquisitions and gained influence in Gujarat. By virtue of his abilities and skills, he was able to oust the contending Maratha parties of Udaji Pawar and Kantaji Kadam Bande. But due to his increasing influence in Gujarat, he came into conflict with the Peshwa (who had emerged as the *de facto* ruler of Maratha confederacy). The Peshwa had sensed that Damajirao-II's rising powers, if not controlled, could prove dangerous to his position in Gujarat. On that account he came into a direct conflict with the Gaikwads. Damajirao-II, on the other hand, also contributed to this animosity by siding with the opposite camps of the Peshwa. For, instance, in 1865 he openly supported the cause of Rajaram (the last successor of Shivaji), who was reduced by the Peshwa to a limited influence at Satara. But his hostile attitude proved detrimental and he was consequently arrested by the

⁵ Karen Leonard, “The great firm, theory of the decline of Mughal Empire, *Comparative Studies in Society, and History* – XXI, No. – 2, April, 1979, pp-157-67.

Peshwa. Nevertheless, the successors of Damajirao – II, followed suit. They sided with Raghunath Rao, the treacherous uncle of Peshwa Madhavrao and Aba Shelukar, the agent of Nana Fadnavis, the guardian of Bajirao – II. The open hostility against the Peshwa, on the part of the Gaikwads had weighed heavily on their exchequer, as the Peshwa had demanded huge sums in the form of fines, old debts, *nazar*, tributes etc. It could have been impossible for the Gaikwads to sustain themselves without the aid of a financing agency, which could extend their financial assistance, as and when the need arose.

The Marathas followed a tradition of taking financiers on their military expeditions. These financiers later graduated to the indigenous bankers. The role of these bankers was to supply ration to the armies and to provide them with the ready monetary assistance. This was beneficial to both the parties. The Marathas were free from the hassles of financing the armies and the bankers in return gained in terms of landed territories (i.e. revenue farms which were assigned to them, in return of loans extended) and the deposits, which were made sometimes by the soldiers from their exploits and plunder of the wasted territories. There were instances when the soldiers did not survive the battle or war and thereby the exploits became the property of the banker. This tradition was adopted by the Gaikwads also.

The earliest example of any banker accompanying the Gaikwad armies is that of Mairal Narayan. He had accompanied the armies of Damajirao-II Gaikwad in 1763, from Maharashtra. After that he had settled at Baroda. The other bankers within Gujarat were HariBhakti Samal Bechar, Mangal Sakhidas and Khushalchand and Ambaidas and others.

This was in concurrence with the changing trend in the functioning of the bankers in the 18th century Gujarat. The decline of (earlier) Cambay and (later) Surat, had forced many merchants to change the trend of financing the trading activities to finance the defence of the newly emerged Princely States. The shifting trend had resulted in their essentially becoming banker-merchants, i.e., trade became their subsidiary occupation and banking came into prominence. Many such banking firms like Arjunji Nathji Travadi of Surat, Wakhatchand Khushalchand of Ahemdabad and Hari Bhakti of Baroda emerged. The emergence of Baroda State under Gaikwad and their need for a constant flow of cash had provided the indigenous bankers with ample opportunities to make profits.

After the death of Damajirao-II, in 1768, there ensued a struggle of succession between his four sons, Sayajirao (the eldest one), Govindrao Gaikwad (born to the eldest wife) Manajirao Gaikwad and Fatehsinghrao. Though Fatehsinghrao could not succeed directly, he was able to buy the claim of Sayajirao-I from the Peshwa and became the Regent himself. He consolidated the territories of his father and made Baroda his capital. Fatehsinghrao was able to 'buy' the claim with the support of the bankers, especially that of Mairal Narayan. Govindrao Gaikwad, though a strong contender, was unable to do so, because he could not arrange funds. Therefore from 1770 onwards the agency of bankers had become mandatory. The bankers constantly intermediated between the Gaikwads and the Peshwa.

Fatehsinghrao was able to rule earlier as a Regent and later as the ruler, till his death in 1789. Along with the indigenous bankers, he had promoted two other agencies, those of mercenaries and the British. The Arab mercenaries had their loyalties towards their paymasters instead of the rulers. Their paymasters were the indigenous bankers who on their account in turn had gained more power.

The British (new rising power) on the other hand had more interests in those territories which were beneficial for their trade. The territories like Bharuch and Surat were under the occupation of Fatehsinghrao Gaikwad. The only way left open for them without drawing any hostilities was to side with the Gaikwads. The British were able to obtain that by providing support to Fatehsinghrao in the battle against the joint forces of Raghunathrao and Govindrao Gaikwad. However, they were not yet ready to take on the Gaikwads and therefore the matters were left at that. After that their participation was minimum till the year 1800.

The next ruler Manajirao Gaikwad (1789-1793), in order to get his claims recognised, against the natural successor Govindrao Gaikwad, had to pay huge sums to the Peshwa. This was again done through the agencies of the bankers. Govindrao Gaikwad was eventually able to succeed after the death of Manajirao in 1793. He was the only legal surviving heir of Damajirao – II, yet, he had to pay huge sums to the Peshwa in form of *nazar* and other related expenses. It appeared that, Govindrao had learnt a lesson from earlier experience and therefore, had made arrangements with the bankers, and had remitted an amount of over a crore of rupees, to the Peshwa.

The reign of Govindrao Gaikwad was dominated by his efforts to defeat his own rebellious son Kanhojirao Gaikwad who was in alliance with Malharrao Gaikwad, the son of his uncle, Khanderao Gaikwad of Kadi. The indigenous bankers had played a crucial role in this struggle as the armies were funded by them. During the reign of Govindrao Gaikwad, his Dewan Raoji Appaji also had gained considerable influence at the *Darbar*. He had increased the mercenary forces to keep the Maharaja under control.

In 1800, Govindrao Gaikwad died and once again there ensued a struggle for succession. With the support of the bankers Samal Bechar and Mangal Sakhidas, Raoji Appaji and the Arab mercenary troops, Anandrao Gaikwad succeeded to the *gadi*.

In the Baroda State the 19th century marks a transition from old traditions to adoption of modern institutions and technologies. The involvement of the British in the politics of the State, had given a new angle to the existing relationships of the Gaikwads and the bankers. This study is based on the changes in the relationships and the resultant shifting trends of the indigenous banker's fortunes. In order to understand the process, it is essential to briefly survey the historical developments of the 19th century.

The reign of Anandrao Gaikwad (1800-1819) witnessed the induction and deduction of important agencies. The British, under the Resident Major Walker⁶, were able to pressurize Raoji Appaji, the Dewan of the State, into signing a Subsidiary Alliance treaty (1802). The terms and conditions of this treaty were confirmed in the Treaty of 1805 and

the Supplemental treaty in 1817. Through these treaties, the Gaikwads had virtually surrendered their internal as well as external authority. The only factor that had hindered the British control was the bankers. The first two decades witnessed a few transformatory political events like the Baroda – Poona relations, the disbandment of *sibandi* forces and the Baroda reforms with the bankers as the force to reckon with. Due to the rule of the weak-minded ruler Anandrao Gaikwad, the British acting in a manipulative manner, were able to acquire substantial hegemony in the affairs of the State. Consequently, the indigenous banking community considered it as a grave threat to their sway over the Maharaja and the *Darbar*. This had resulted in some sort of an indirect conflict between the British and the bankers. Nevertheless the British brought these bankers under their ‘protection’ through diplomacy, and some sort of an alliance was struck between them.

The indigenous bankers during the time were supporting the State administrative system in various capacities i.e. as the State *potedars* (i.e. the treasurer), *kamavisdar* (the revenue farmers), *bakshis* (military paymasters) and *sarrafs* (regulating coins and currencies) etc.

The next Maharaja Sayajirao – II, however, was not to fall into the category of his brother.⁷ His reign (1819-1848) was marked by constant conflicts between the British, the bankers and the Maharaja himself. The indigenous bankers under the protection of *bahendari* of the British disobeyed the order of the Maharaja, and consequently faced his wrath. The Maharaja decided to take over the office of *potedari*, started his own a

⁶ Note Later referred as Colonel Walker due to the change in his official status

⁷ Note In absence of any legal male heir, Sayajirao-II, was placed on the *gadi*

banking firm and became the *potedar*, that is, he assumed the role of the *potedar* and thus reduced the reliance on the bankers. His sons Khanderao Gaikwad and Malharrao Gaikwad consolidated this.

The British, in order to suppress the Sayajirao-II, had attempted to confiscate his territories twice (1828 and 1830). However, they were unsuccessful. Their attempt had resulted only in the embitterment of relationships. The banking community also did not derive any benefits out of it, but had to face the hostilities of the locals. Later there occurred a division within the community that resulted in a rupture within the institution which could never be repaired. Therefore this period was the climax of indigenous banking in the State, after that the bankers, were never able to recover and regain the same position.

It is believed that, the next Maharaja Ganapatrao Gaikwad, the son of Sayajirao-II, was anxious to come to power and perhaps had done so, by killing his father. However, there were no grounds to prove it. Ganapatrao Gaikwad succeeded to the throne in 1848, and reigned till his death in 1857. This period was marked by social welfare activities, conceptualizing the introduction of railways, Khatpat Report of the Resident, Col. Outram. In the 'Khatpat' report of the Resident Col. Outram, to the Governor of the Bombay Presidency, it was reported about the corruption prevalent in the Baroda *Darbar* and at the level of Bombay Government. In his report the names of the involved bankers were highlighted. The banking family firms on the other hand were going through the process of degeneration from within and outside. This process had continued throughout the 19th century and had resulted in their eventual displacement.

The next Maharaja to succeed was Khanderao Gaikwad, the brother of Ganpatrao, in 1857. The country was undergoing an upheaval, which has been defined variedly as war of independence 'Mutiny', 'Revolt' and 'Uprising' by the historians. The Gaikwads, throughout the time, remained loyal to the British. Therefore, no major change was seen in the Baroda State.

From 1860 to 1865, due to the American Civil war, there had occurred a cotton boom in Gujarat. The Baroda State also shared the benefits of it, though in what terms, still remains to be seen. However, the changes that occurred after that lead us to believe that the banking community might have gained quite a lot of benefits out of it, as an attempt was made by a prominent banking firm i.e. HariBhakti in 1865 to establish a bank based on western lines. Though they failed in their attempt, this initiation on their part shows their effort to again change the trend, i.e. from financing the administration of the State to getting involved in purely banking activities and accept changes. In 1861, there was a proposal to initiate the B.B.& C.I. Railways, but due to the policies of the British, it was not done, with the local capital. Except for one banker, nobody could use his capital, which also was utilized to lend to the Maharaja, so, as such there was direct involvement.

Khanderao Gaikwad had twice faced murder attempts by his brother Malharrao Gaikwad, whom he had placed under house arrest. Khanderao died without any male issue (1870). Therefore, Malharrao Gaikwad succeeded to the throne. Perhaps due to the step-motherly treatment meted out to him, Malharrao Gaikwad was unsure of the continuance of his reign, so he was busy accumulating wealth through all means and depositing it, out of the

jurisdiction of the State and out of the control of the bankers. He strove to achieve this way through his way) through) by way of exploitation of the bankers. This had given a setback to the indigenous banking community as they were accustomed to the State support. As has been rightly said in a Gujarati proverb,

'Sarkar chadhe tyan sahu kar rade'

{Where the government reigns (in terms of money), the banker cries}

Along with the bankers, the Maharaja had also come in to conflict with their allies the British. Malharrao had especially fallen out with the then Resident Col. Phayre. The matters had reached a high point, when the Resident accused the Maharaja of poisoning him. A commission was set up by the British Government under Sir Richard Meade and two other native princes. Though the charges were not proved, Malharrao Gaikwad was deposed on the grounds of misrule. In the absence of any male successor, Jamnabai, the wife of the previous Maharaja in consultation with the British, was permitted to choose a boy for adoption from the lineage of the Gaikwads. An eleven year old boy named Gopalrao was Chosen to be the next Maharaja and was named as Sayajirao-III. Since the boy was a minor, a minority administration was set up under the Dewan T. Madhavrao, who had, especially been called from Travencore.

Under the Dewanship of T. Madhavrao, the administrative structure was overhauled. The old institutions were replaced by proper hierarchical management. This was done also in the case of the State banks or *sarkari pedhis* i.e., the *potedari* concerns of the Maharaja were all closed down and a Central Treasury was established. The indigenous banking

community continued to function, but at a different level. The funds generated out of the revenues of the State were either deposited in the central treasury, or were deposited with the branches of the Bank of Bombay, in British Gujarat. The bankers adapted these changes. At State level their function was to remit funds, to these branches established at various places, through *hundis*.

III/Maharaja Sayajirao-II/ (1881-1839), was in favour of modernization, but not without the local support. He made one last attempt to revive the indigenous institution of banking. However, the times had changes, and along with it, perhaps, the attitude of the bankers had also changed. But they half-heartedly got involved in it. The *pedhi* known as the Baroda Pedhi Company was a mixture of the old and new institutions. The *pedhi* proved to be a failure. The various banks of Bombay made constant offers to open their branches in the State. This could have meant remittance of the funds outside the State. This was unacceptable to the government as well to the bankers. The only solution was to institute a modern bank within the Baroda State. Once again it was the firm of HariBhakti that took up the initiative, under the instigation of an American W.C. Whitenack, the Economic Advisor of the State. This bank had found the support of the State and eventually in 1908, the Bank of Baroda was founded.

CHAPTERISATION

The first chapter is the introduction of the topic of the study, with a brief geo-political account of the processes of formation, establishment and consolidation of the Gaikwad State vis-à-vis the bankers. This is followed by a brief overview of the political and economic developments of the 19th century.

The second chapter is divided into three parts; The first section lays focus on the process and development of indigenous banking in India traced from ancient to the modern phase. Special attention is paid to the expansion of these in Gujarat and Maharashtra in the 18th century. A brief note is presented regarding the evolution of the banking practices in the Baroda State in the 18th century. The next section, discusses the political changes and the role of the indigenous bankers, in the first two decades of the 19th century. It tries to study the growing nexus of banker-Gaikwad- British associations. The following section consists of detailed information about the six banking family-firms, their history and their rise to prominence especially in the context with of the first two decades of the 19th century. The last section discusses the functions performed by the indigenous bankers in the first two decades of the 19th century.

The third chapter covers a vast period from 1819-1875. The first section gives a brief account of the political changes that took place in the reign of Sayajirao-II Gaikwad. The part played by the bankers in bringing about these changes. A succinct analysis of the involvement of the British in the political crisis, which evolved in the second decade of

the 19th century, is made and an attempt made by them to consolidate their sway by patronising the bankers. The reactions of the ruler and other elitist groups are briefly explained. Also, giving up of the patronising attitude of the British, towards the bankers, construct the next part of the section. The second section enumerates the growth of the *sarkari pedhis* and the resultant changes on the indigenous banking community. The next section discusses briefly the family –firm crises within and outside the families of the indigenous bankers. The following section is regarding the changes, which could have effected growth and modernisation in the State, for instance, the formation of the Bank of Baroda in 1865 and the introduction of the railways. The last part focuses on the impact on the indigenous banking community of the policies of Malharrao Gaikwad.

The fourth chapter is about the transformation that was ushered in with the change in the progressive governments, in succession, in the State and the resultant impact on the indigenous banking. The first part discusses the reign of T. Madhavrao and the changing face of the indigenous banking. The next section discusses the attempt by the Maharaja to restore the lost position of the bankers and to establish an intermediary institution. The last section lays focus on the culmination of indigenous banking into a modern form of institution.

The fifth chapter is about the social participation of the indigenous bankers in the Baroda State. Their business procedures, their accounting and their mercantile systems in the social set up are discussed briefly in the first part. The next section is an analysis of the religious activities of the bankers. The following section pays attention to the

participation of women in the banking business. The last section, is an evaluation of the various relationships, which these indigenous bankers shared with each other, with the Gaikwads, with the British and with the Dewans.

The sixth chapter is the conclusion and the findings of the research work.