

History of Money Lending and Debt Instruments in India

Abstract

This paper aims to trace the history of money lending and debt instruments in India, focusing on the development and use of such instruments as loans, deposits, bonds, etc. The study covers the period of Ancient India (i.e., from the Pre-historic Era to 700 AD) encompassing the ancient civilizations of the Maurya, Gupta empires and also the Delhi Sultanates and Mughals of Medieval India (i.e., 700 AD to 1857 AD). The paper draws from secondary sources to provide a comprehensive overview of the financial instruments in practice at the time. The study will focus on mapping the development and use of debt instruments, as well as the various regulations and policies that governed their use. The paper concludes by analysing the impact of these instruments on the broader economy and society, and their significance for the development of modern financial systems.

Introduction

Debt instruments have played a critical role in the growth and development of economies throughout history. The development and use of various debt instruments, such as loans, deposits, bonds, have enabled individuals and institutions to efficiently allocate resources and manage risk. The study of the history of these instruments provides insights into the evolution of financial systems and their impact on society.

In this paper, we focus on the history of lending and debt instruments in India, covering the period of Ancient (i.e. from Pre-historic Era to 700 AD) and Medieval India (i.e 700 AD to 1857 AD). This era was marked by the origin on many scriptures, texts, rise and fall of several powerful empires, sultanates. Despite the lack of direct evidence and the fragmentary nature of available sources, we can still trace the evolution of financial practices during this time through various ancient texts. Through this analysis, we aim to shed light on the unique financial practices of ancient India, their significance for the development of modern financial systems, and the broader historical and cultural contexts in which they emerged.

Debt Instruments

Debt instruments are financial instruments that represent a loan made by an investor to a borrower. The borrower agrees to pay back the loan amount with interest over a specified period. Debt instruments are widely used in financial markets to raise capital

for various purposes such as funding business operations, financing government expenditures, or investing in projects (Chen, 2022).

There are several types of debt instruments, including bonds, debentures, promissory notes, commercial paper, certificates of deposit, and more. These instruments differ in their terms and conditions, such as interest rates, maturities, and repayment structures (Corporate Finance Institute, 2023).

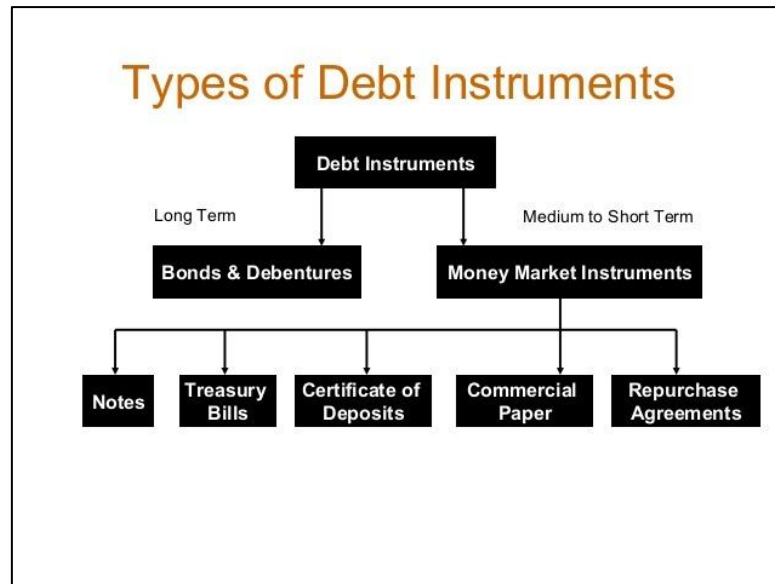


Fig: Types of Debt Instruments
Source: (Ahaduzzaman, 2020)

Debt instruments are typically considered less risky than equity instruments, as they provide a fixed income stream and have a priority claim on the issuer's assets in case of default. Investors who are risk-averse and seeking steady income often invest in debt instruments.

However, debt instruments are not without risks, such as credit risk, interest rate risk, inflation risk, and liquidity risk. It is important for investors to carefully consider these risks and their investment objectives before investing in any debt instrument.

Prehistoric Era

The Palaeolithic period in India, which is believed to have lasted from 500,000-10,000 BC, was characterized by the existence of primitive humans who were hunters and gatherers. They did not engage in any form of agriculture or manufacturing, and their food supply was mostly dependent on hunting, fishing, and gathering wild fruits (*India / History, Map, Population, Economy, & Facts*, 2023). There is no evidence to suggest the existence of any form of currency or financial instruments during this period .

The Neolithic period, which lasted from 6,000-1,000 BC, saw the emergence of agriculture and animal domestication. People began to use pottery and kept domestic animals. They also engaged in pearl finishing and gold mining (*Neolithic Age in India -- Tools, Neolithic Sites, Art, Burials*, n.d.). However, there is still no evidence of financial instruments such as money lending or debt instruments during this period.

The Chalcolithic period, which lasted from 3,000-500 BC, saw the emergence of copper tools and the use of cowries as currency (*Chalcolithic Period - INSIGHTSIAS, 2022*). However, there is still no evidence of financial instruments such as money lending or debt instruments during this period.

Throughout these periods, there is no evidence to suggest the existence of any kind of financial instruments, including debt instruments or money lending. The use of currency was primarily limited to the exchange of goods and services. It was only in later periods, such as during the Mauryan Empire, that more sophisticated forms of currency and financial instruments began to emerge.

Vedic Age 1500 BC – 600 BC

Vedic literature has specified agriculture a lot. Agriculture and Pastoralism had become the backbone of the local village economy. The concept of money when introduced in the Indian society gradually started asserting its place replacing the exchange tendency of the society. Traders quickly adopted themselves in the new system and also typically localised its use while guiding its development. In meanwhile people learned the importance of money, we find them engaged in money lending where the system of indigenous banking started taking a shape. But before money lending, there's interesting service rendered by the specialised association of skilled workers engaged in commerce. They are known as guilds. But scholars and historians form different opinion on the existence of such organisation. Some consider Vedic society to be advanced enough to support an economic programme while other opines that the society was rural with nomadism. (Mali 2020)

Loans and usury were well known in the Rig Vedic Age. Rishis sometimes regretted their state of indebtedness. Money lending has been part of the Indian economy since the early Vedic period. The first Indian text talked about usury or “Kusidin” – translated to “usurer”. At the time usury was the practice of making unethical or immoral monetary loans. (Mali 2020)

Some scholars are of the opinion that it is during the times when Rigveda was scripted, the term **Rina** meaning **debt** was coined. Other terminologies such as **Rinapatra, Rinalekhya, Kusidin (“usurer” or “soodhkhor”)** etc. often found in the **Manusmiriti and has its reference in Bhagwad Gita, Sutra [700-100 BC]**. (Mali 2020)

In Vedic period we do not find any evidences of open loans as such or written documents for granting loans. Manu was first to describe the order of written document in form of Rinapatra (loan deeds) for loans granted by bankers. (Mali 2020). The trend of lending and borrowing are stated in Vedas. Thus, it becomes clear that when Rigveda and other texts can mention the commerce of banking clearly, it should have emerged much earlier. We also find reference to banking and bankers in the epic period. Ramayana and Mahabharata have specific instances that signify that the activities were also performed under the state. (Mali 2020)

Shukranitisara, an early medieval text, suggests **absolute limits on payment of total interest and principal to address the moral hazard issue between the borrowers and the lenders**. Author suggests that one may help a friend with an interest free loan as a moral commitment, however, he also gives the practical advice alongside that like any other contract, householder should have a proper documentation of that loan contracts. (Deodhar, 2020) For the smooth functioning of businesses, the author lays down various rules that are instituted to maintain property rights and legally binding contracts. Here are a few examples –

A **samayika patra** is a corporate deed among individual shareholders who have pooled their capital together for business purpose (2.627-628). **Kraya patra** is a contract of sale and purchase of property mentioning value and the witnesses (3.617-618), a **rina lekhyā** is a loan document which gives account of the money borrowed at interest and the witness thereof (2.623-624). When a loan contract is to be executed, it is expected that business qualification of the borrower is to be studied, and, the document should also mention any property pawned and the names of persons who become guarantors (3.384-386). Shukra stipulates that if a loan is given without interest, then the lender may share in the profits of the commercial enterprise of the borrower. Moreover, if a borrower has already paid interest twice the amount of the principal borrowed, then only the principal be paid (4.5.630-632). Furthermore, if the interest paid has reached four times the principal, nothing more be paid (5.192-193). (Deodhar, 2020)

This idea of **qualified loan forgiveness** from Shukranitisara seems to strike a balance in the lender-borrower relation. Such arrangement protected the borrowers from the rapacity of the lenders. In the Indian tradition, principle of pious obligation used to work where sons were expected to pay for the **father's debt (pitru rina)**. Therefore, there would have been no incentive for lenders to put efforts to choose good borrowers, for even if father failed, son would pay. By capping the repayable amount, lenders would make efforts to look for good borrowers and monitor their business efforts. Similarly, while taking loan, good borrowers would not be worried, for they would be confident about efficient use of the funds and not requiring the repayment cap. In fact, good borrowers could view repayment cap as an insurance against vicissitudes of business prospects (Deodhar, 2020).

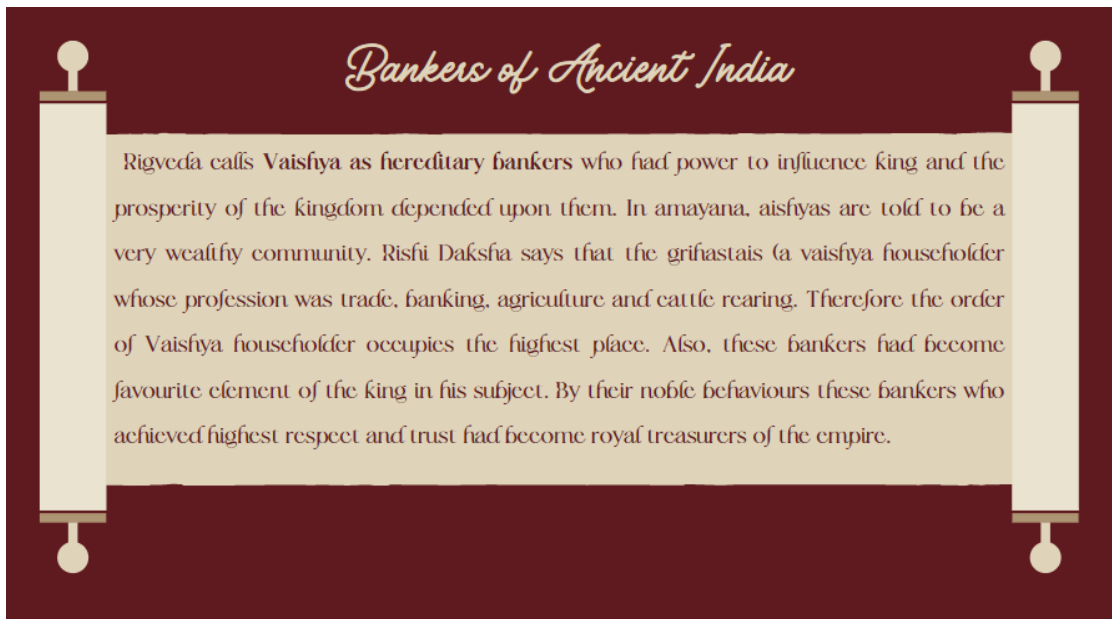


Fig: Bankers of Ancient India
Source: Mali 2020

The Age of Gautam Buddha 600 BC – 321 BC

The chief sources of our knowledge of the economic conditions prevailing in this period are the Jatakas or the Birth stories of Buddha and to a more limited extent the Vinaya and Suttapitakas. The evidence is drawn very largely from stories.

The economy of India in this period was mainly rural, based on a system of village communities of peasant proprietors. Instances of collective initiative reveals a relatively advanced sense of citizenship in the village. The villagers had a nominal head in the **Bhojaka or headman who was paid by certain dues and fines (Das 1925)**. In **Buddhist** literature we find mention of loan deeds that were executed taken by needy or poor person. Jataka mentions two examples of loan deeds that were executed. They were known as Innapanna. In ancient India, loan deed forms called **rnapatra or rnalekhya** were in use. These contained details such as the name of the debtor and the creditor, the amount of loan, the rate of interest, the condition of repayment and the time of repayment. The deed was witnessed by a person of respectable means and endorsed by the loan-deed writer. Execution of loan deeds continued during the Buddhist period, when they were called **Innapanna**. (*Evolution of Payment Systems in India, n.d.*)

The act of exchange between producer and consumer or between either and a middleman was a free **bargain**, a **transaction unregulated** with one notable exception by any system of **fixed prices**. It was left free for the producer and dealer to prevail by competition and also by adulteration (Das 1925).



Fig: Two Stories from Jataka Tales

Source: (Das,1925)

Besides the regular currency, there was a very large number of *instruments of credit*, e.g.,

(1) **signet rings used as deposit or security,**

(2) wife or children pledged or sold for,

(3) debt-sheets called **innapannani**. In Jataka Tales, **a bankrupt asks his creditors to bring with them debt-sheets**

Nevertheless, money was *lent on interest*. There is a tolerant tone concerning the money-lender in Jataka stories where money-lending together with tillage, trade and harvesting are called four honest callings. Gautama is equally tolerant, though Vasistha and Baudhyayana condemn it. Hypocritical ascetics are accused of practising it. Vasistha and Gautama name **six different kinds of interest**, viz.,

- compound
- periodical
- stipulated
- corporal
- daily
- use of a pledge

The **legal rate of interest is set at 15% per annum** (Five mashas a month for 20 karshapanas). But according to Vasistha "two, three, four, five in the 100 is declared in the Smriti to be the monthly interest according to caste. Again, articles such as gold, grain, flavouring substances, flowers, roots, fruits, wool, beasts of burden without security could be lent at an **enormous rate of interest which could lie increased six or eight fold (Das 1925)**.

In **Vinaya Pitaka Shreshthi** (rich bankers) like *Ragaga Shreshthi* and *Anatha Pindika* who are quite influential and provide money for building Dwelling homes and Viharas for the Sanghas are noted. After some years they began to extensively professionalise their business of banking which led to the **formation of guilds** (as in banking) and association of partnership called *Shrenis and sambhuyasamathuna*. Important Bankers of that time lived in Champa, Pali, Rajagraha, Avanti, Sravasti, Kausambi, Malpura and Ujjaini which were important trade centres too. By this time, they were identified as a separate class of mahajans or bankers and thus the term Shreshthi came to be used for the ones who would possess a vast amount of capital and re earn the same by performing special activities related to banking (Mali, 2020).

The Maurya Period. (321 BC - 186 BC)

It is a well-known fact that the socio-economic structure of ancient India was based upon the village. We find that the trade-guilds were already an important factor in the economic life of the people. The reputed wealth of the guilds and the way in which they were sometimes exploited by unscrupulous kings may be gathered from Kautilya's Arthashastra. Three commissioners enjoying the confidence of the guilds were appointed to receive the deposits which could be taken back in times of distress. Special privileges were accorded to a merchant belonging to a trade-guild. We are told that "such merchants belong to a trade-guild need not restore even the value of that merchandise that is lost or destroyed owing to its inherent defects or to some unforeseen accidents". Similarly special concessions were made regarding law-suits between trade-guilds. The power and influence of the guilds at this period also appears indirectly from Arthashastra, where the point is seriously discussed whether the troubles caused by a guild or its leaders are more serious. Kautilya in opposition to his predecessors declares in favour of the latter (Kangle,2010).

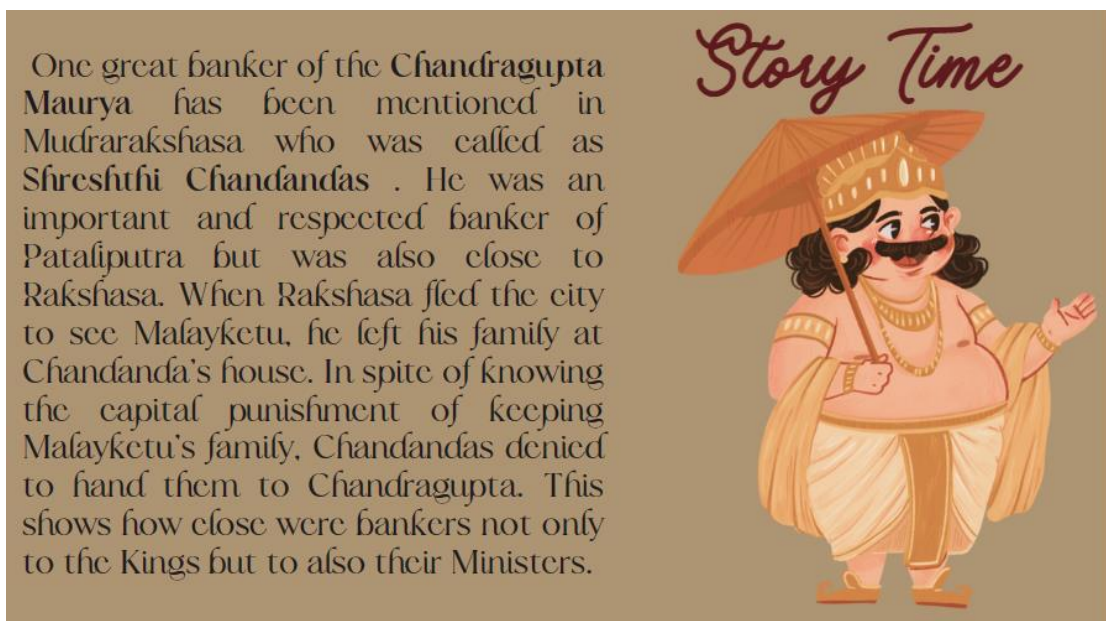
Thus Kautilya in his Arthashastra refers to "traders who unite in causing rise and fall in the value of articles and live by making profits cent per cent in panas and kumbhas (measures of grain)". This activity, seems to be, very much like the modern 'corner' or 'trust system'. (*Corporate Life in Ancient India*, 1920.)

Besides the coins, there was a very considerable use of **instruments of credit**. The merchants no doubt gave **letters of credit** on one another. Again, we find that in Kautilya's time there was a system **called Adesha**—somewhat akin to **a modern bill of exchange** in its simplest form. An Adesha is literally an order to a third person to pay up a sum of money on behalf of the sender of the order. (*Evolution of Payment Systems in India*, n.d.)

In the Mauryan period, an instrument called **Adesha** was in use, which was an order on a banker desiring him to pay the money of the note to a third person, which corresponds to the definition of a bill of exchange as we understand it today. During the Buddhist period, there was considerable use of these instruments. Merchants in

large towns **gave letters of credit** to one another. There are also numerous references to **promissory notes**. During the Mauryan age, Kautilya's texts are the firsts to mention the existence of a systematised lending structure – these scriptures **mention Rnapatra, Rnapanna, or Rnalekhaya**, different forms of **loan deeds**. They were prevalent and acceptable during the Mauryan empire (321 – 185 BCE) (Wikipedia contributors, 2023).

The day has not yet come when the guilds would perform roughly speaking the functions of modern banks. Whether they had begun to receive deposits is not known but we have a reference in Arthasastra to their lending out money (Kangle 2010).



*Fig: Story from Arthasastra
Source: (Kangle 2010).*

Story of a King

When a king finds himself in financial trouble and needs money, he may employ a spy in the garb of a rich merchant or a real rich merchant famous for his vast commerce who would borrow from corporations bar-gold and then allow himself to be robbed of it the same night. (Das, 1925)

We shall now touch on the rules regulating loans which are justly recognised to be of great importance, for on them depends to a large extent the economic welfare of the country as Kautilya puts it. The **legal rate of interest for money lent is per cent per month, that is, 15 percent per year**. But the rate is allowed to increase in view of the risks to which the investment of the money lent and consequently its realization are exposed. Accordingly, money is borrowed by persons. Going **to forest for trade is**

allowed to return an interest of 10 percent per month, while on the same principle the interest payable by merchants who trade by sea is allowed to mount up to the maximum rate of 20 per cent per annum. A disregard of the maximum limits is punished with fines to be paid not only by the moneylender but also by the witnesses to the transaction interest in grains in seasons of good harvest should not exceed more than half when valued in money. **Interest on stocks shall be one-half of the profit and be regularly paid as each year expires. If it is allowed to accumulate owing either to tire intention or to the absence abroad (of the receiver or payor) the amount payable, shall he equal to twice the share or principal. Sons of deceased debtor shall pay the principal with interest. (In the absence of sons) kinsmen claiming the share of the dead man or sureties such as joint partners of the debt shall pay the same. Cultivators or government servants shall not be caught hold of for debts while they are engaged in their duties.**(Das, 1925)

Andhra-Kushana Period (200 BC - 300 AD)

The Age of the Mauryas was followed by the age of the Andhras of the South and Kushanas of the North which witnessed an equal, if not a greater economic development of the country. These evidences are corroborated by the Sanskrit, Pali and Tamil works and are further strengthened by definite evidences from foreign works. The early Tamils divided arts into sis groups: ploughing (agriculture) handicrafts, painting, commerce, the learned arts and fine arts. Of these ploughing and commerce, which were of such authority that the King was not allowed to establish any laws repugnant to the rules of these trade-unions.

The heads of guilds are mentioned next after the priests as objects of a King's anxious concern. The power of these guilds may be guessed from the fact that the Epic recommends the King to circumvent them by bribery and dissension since "the safeguard of corporations is union." (Hopkins, 2017)

Such a **brisk and well-regulated trade would invariably presuppose a stable currency.** Among the **instruments of credit, we find references to debt-sheets in the Milindapanha where the bankrupt makes a public statement of his assets and liabilities.** (Mendis, 2007)

But the most interesting feature of the system of exchange in this period is that guilds served roughly speaking the **functions of modern banks.** Thus No. 12 of the Nasik Cave Inscriptions records that Usavadata, son-in-law of King Nahapana has bestowed this cave on the samgha generally, he has also given a perpetual endowment --- 3000 Kahapanas. Of these 2000 have been invested in a guild at Govardhana fetching **interest at the rate of 1 pratika per 100 monthly.** This interest is to be used **as cloth money by the monks.** The remaining 1000 was deposited in another weaver's guild fetching interest at the rate of $\frac{3}{4}$ padika. for the hundred per month. This interest is to be used as pocket money. Here we have a reference to two guilds of weavers **"which, like banks, received permanent deposits which they held as trust funds, the principal of which they were to keep intact and be responsible for and might invest in their own way subject to that responsibility, as banks do with their**

deposits but for the use of that money, they had to pay interest at certain stipulated rates to the beneficiary named in the grant. The low rate of interest (12 % per annum and 9% per annum) is an index at once of the security and stability of the banks, their efficiency, permanence and prosperity which attracted to them even royal deposits and benefactions. (Das,1925)

Moneylending was an approved line of business. Among the seven modes of acquiring wealth usury finds a place:—

- (1) inheritance
- (2) gift from a friend or depositor
- (3) purchasing
- (4) conquering
- (5) usury
- (6) labour
- (7) presents from the good (Manu)

Usury also finds a place among the ten approved means of livelihood enumerated in Manusmriti. Nevertheless, a usurer was not to be invited to a Sradha and a Brahmin, is forbidden to take food from a usurer (Manu IV. 210). The following rules regarding interest are worthy of note: —

- (1) 5% a month is the highest rate of interest (Manu V III. 112,152).
- (2) Interest on money if paid all at once and at the same time as debt should. not exceed double the principal (Manu V III. 151).
- (3) Interest on corn, fruit, wood or draught animals and debt (principal) should not exceed 5 times the principal (Manu V III. 151).
- (4) Renewal of the principal was allowed (Manu V III. 155).
- (5) When a debtor acknowledged in court that a debt is due, he deserves a fine of five in the hundred.
- (6) If he has denied the debt he should be fined twice as much.
- (7) A money-lender should take a monthly interest of 2%, 3%, 4% and 5% according as the debtor is a Brahmin, Kshatriya, Vaisya and a Sudra respectively.
- (8) Interest over a year was not permitted.
- (9) Nor interest unrecognised by law.
- (10) Wheel interest (compound interest?), periodical interest, stipulated interest and corporal interest were also prohibited (Manu VIII. 153).

(11) A witness to a loan transaction had to incur the whole of the debt and a tenth of the whole sum or fine if he failed to attend the court when summoned in suits for the debt (Manu V III. 107). These elaborate rules regarding interest, taxes, trade and wages of laborers all go to show that the economic organisation of India in this period was as complete as ever.

The Gupta Period. (320 AD - 500 AD)

The Golden Age of the Guptas is equally characterized by a remarkable economic development of the country.

The immense volume of trade as seen in the Gupta Period would necessarily presuppose the existence of a good system of exchange. And we find from Yajñabalkya that there existed in this period also a large variety of gold, silver, and copper coins. Thus, there were the golden dinar and suvarna, the mashas and krishnalas which were both silver and copper coins. According to Narada, in the south the currency consisted of subarna and dinar, mashas, kakani and silver karshapanas (Maity 1970).

We find from the inscriptions of the period that the **guilds performed the functions of modern banks by allowing investment of money and property in it and giving interest thereon.** Thus, the Indore Copper Plate Inscription of Skandagupta (Fleet, Gupta Inscriptions No. 16) dated in the year 465 AD records the gift of an endowment, the interest of which is to be applied to the maintenance of a lamp which has been established in a temple for the service of the Sun-God.

We shall now touch on a few **rules regarding loans and interests** which are undoubtedly of great economic importance. According to Sukra, moneylending was an approved line of business (Sukra III. II. 365-67) and the following points are to be noted regarding **a loan transaction**: —

- (1) The business qualifications of the debtor are to be studied.
- (2) There are to be pawns or securities.
- (3) There must be men who stand bail.
- (4) There are to be witnesses.
- (5) receipts for value received as well as documents mentioning other conditions should be prepared.

It is further laid down that when the amount drawn from the debtor in the form of interest has reached twice the principal, then the king shall make the debtor pay only the principal to the creditor and nothing more than that. If four times the value have been received by the creditor from the debtor, the former is to receive no more. Again, it is said that creditors take away people's wealth by compound interest. So, the king should protect the people from them ill. But, if somebody does not return the money to the creditor when he is able, the king should make him pay that back by the methods of Sama Danda etc (Das, 1925).

The Age of Harsha. (600-647 A. D)

Besides a regular system of metallic currency, we find on the authority of Hiuen Tsang that cowries and beads were used as media of exchange in Kong-tutu (Ganjam). According to the same authority gold coins were used in Nepal According to Arab historians the Roman dinars were used in Gujrat.

We do not know whether the guilds performed the functions of modern banks by accepting endowments and giving interest as they have done in the previous periods but we have got an inscription at the Vailla-bhatta-Swamin Temple of Gwalior which shows that as late as 877 AD endowments were made with the guilds as of old. Thus, it records an endowment made with the guilds of oil-millers and gardeners who should give one palika of oil per oil mill every month and fifty garlands every day respectively for the temple out of the interest of the endowment. (*Epigraphia Indica vol.30*)

Medieval India (AD 700 – AD 1857)

With the fragmentation of power, the volume of internal as well as external trade diminished and highways deteriorated. As in western Europe, the monetary economy contracted. Gold coins were rarely issued after the fall of the Guptas and even the silver and copper coinages are scarce and poor. This was notwithstanding the very great quantities of precious metals which entered India, and were either hoarded or employed in the adornment of religious establishments or the palaces and persons of the dominant classes.

The trade guilds which were such a prominent feature of ancient Indian society declined and, in some cases, **vanish from history**.

The loan deed continued into the Mughal period. The deeds were called **dastawez** and were of two types:

- 1. Dastawez-e-indultalab** which was payable on demand
- 2. Dastawez-e-miadi** which was payable after a stipulated time

In the Mughal period, we have the testimony of foreign travellers regarding the use of bills of exchange in the then great commercial centres. From their writings, it may be noted that **Indian bankers also issued bills of exchange on foreign countries, mainly for financing sea-borne trade. These bills were widely accepted and were traded at high discounts, as the discounts included the insurance premium covering the risk representing safe arrival of goods.**

Another instrument in use during the **Muslim period was the Pay order**. Pay orders were issued from the Royal Treasury on one of the District or Provincial treasuries. They were called **Barattes** and were akin to **present day drafts or**

cheques. The most important class of credit Instruments that evolved in India were termed **Hundis**. Their use was most widespread in the twelfth century, and has continued till today. Hundi was a paper document/letter of credit/bill of exchange promising payment of money after a period of time at a certain place at a discount. The hundis often included insurance (*bima*) which was charged at different rates based on the value of the goods, destination, means of transport (land, river or sea) etc. Financial system like hundis facilitated the movement of goods as it permitted easy transmission of money from one part of the country to another.

In a sense, **they represent the oldest surviving form of credit instrument.** Hundis were used as:

- a) remittance instruments (to transfer funds from one place to another)
- b) credit instruments (to borrow money [IOUs])
- c) for trade transactions (as bills of exchange)

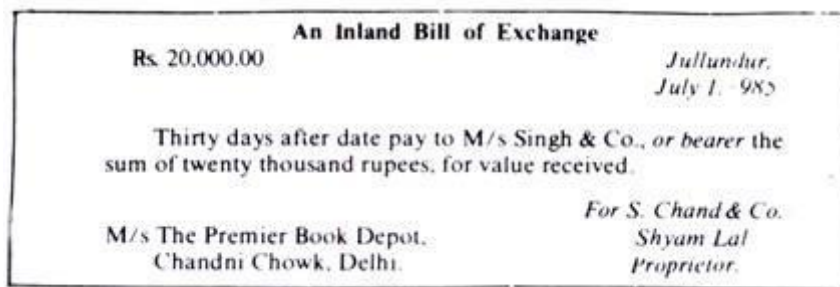


Fig: Bill of Exchange

Source: (*Various Types of Credit Instruments – Explained!* - 2014)

Hundis were of various kinds and each type had certain distinguishing features:-

1. **Darshani Hundi:** This was a **demand bill of exchange**, payable on presentation according to the usage and custom of the place. This is a hundi payable on sight. It must be presented for payment within a reasonable time after its receipt by the holder. Thus, it is like a demand bill. These were mainly of four types –
 - **Sah-jog / Sahyog Hundi** - This was a hundi transferable by endorsement and delivery but payable only to a Sah or to his order. A Sah was a respectable and responsible person, a man of worth and substance who was known in the market. This is drawn by one merchant on another, asking the latter to pay the amount to a third merchant. In this case the merchant on whom the hundi is drawn is of some 'credit worthiness' in the market and is known in the bazaar. A sahyog hundi passes from one hand to another until it reaches the final recipient, who,

after reasonable enquiries, presents it to the drawee for acceptance of the payment. Sahyog means co-operation in Hindi and Gujrati, the predominant languages of traders. The hundi is so named because it required the co-operation of multiple parties to ensure that the hundi has an acceptable risk and good likelihood of being paid, in the absence of a formalized credit monitoring and reporting framework (Martin, 2012).

- ***Dhanni-jog Hundi*** - This was a demand bill of exchange payable only to the Dhanni, i.e., the payee. This hundi was not negotiable. The hundi is payable to the holder or bearer, it is similar to an instrument payable to bearer.
- ***Firman-jog Hundi*** - Firman is a Persian word meaning order and therefore, firman-jog hundis were payable to the order of the person named. These hundis could be negotiated with a simple or conditional endorsement. This hundi can be paid either to the person whose name is mentioned in the hundi or to any person so ordered by him. Such a hundi is similar to a cheque payable on order and no endorsement is required on such a hundi.
- ***Dekhavanhar Hundi*** – This hundi was a bearer demand bill of exchange payable to the person presenting it to the drawee. Thus, it corresponded to a bearer cheque.

2. Muddati Hundi : This is a usance bill and is payable after stipulated time or on a given date or on a determinable future date or on the happening of a certain stipulated event. Muddati hundis of Sah-jog, dhanni-jog and firman-jog types had the same features as those attached to the same types of darshani hundis.

However, the most important type of muddati hundi was the **jokhami hundi**, which was a documentary bill of exchange corresponding to the **present-day bill of lading**. This had been in use for centuries and payment was conditional on the safe arrival of goods. A muddati or miadi hundi is payable after a specified period of time. This is like a time bill.

3. Nam-jog Hundi - This hundi is payable only to the person whose name is mentioned on the Hundi. Such a hundi cannot be endorsed in favour of any other person and is akin to a bill on which a restrictive endorsement has been made.

4. Jokhim Hundi - Normally a hundi is unconditional but a jokhim hundi is conditional in the sense that the drawer promises to pay the amount of the hundi only on the satisfaction of a certain condition. Such a hundi is not negotiable, and the prevalence of such hundis is very rare these days because banks and insurance companies refuse to accept such hundis.

5. Jawabi Hundi - If money is transferred from one place to another through the hundi and the person receiving the payment on is to give an acknowledgement (jawab) for same, then such a hundi is known as a Jawabi Hundi.

6. Khaka Hundi - A hundi which has already been paid is known as a Khaka Hundi.

7. **Khoti Hundi** - In case there is any kind of defect in the hundi or in case the hundi has been forged, then such a hundi is known as a khoti hundi (Wikipedia contributors,2022).

Muddati (or Miadi) Hundi	
No.....M/s. Dinanath Kasturilal Stamp Vendors	<p>No. 469 Rs. 1,000.00</p> <p style="text-align: right;">Due Date <i>June 28, 1985</i> Date <i>April 28,</i></p> <p>(60) Sixty days khara after this date I/we M/s S. Chand & Co., promise to pay Messrs. Singh and Co., or order in <i>Delhi</i> the sum of Rs. 1,000.00 only for value received in cash.</p> <p style="text-align: right;">(Signature) <i>Shyam Lal,</i> <i>Per Pro</i> <i>M/s S. Chand & Co., Delhi</i> <i>Through Krishan Chand Ahluwalia</i> <i>(Broker)</i></p>
Darshani Hundi	
<p>On demand please pay to <i>M/s. S. Chand & Co., Delhi</i> the sum of Rs. 1,000 only for value received in cash.</p> <p>To,</p> <p>M/s. S. Chand & Co., Delhi, <i>Drawer's</i> <i>Rajendra Kumar Gupta</i> Chandni Chowk <i>Signature</i></p> <p>Delhi</p>	

Fig: Muddati and Darshani Hundi

Source: (*Various Types of Credit Instruments – Explained!* - 2014)

Reasons for widespread popularity of Hundis

The practice started because of the problems involved in carrying large amounts of cash for commercial transactions. The merchant was to present it to the agency of the sarraf at his destination and encash it with a sarraf who would issue a hundi to the merchant. The merchant was to present it to the agent of the sarraf at his destination and encash it. This started as a safe and convenient method of transferring money. In due course, hundi itself became an instrument of transaction.

- It could be presented against a transaction.
- It could also be freely bought or sold in the market after endorsement.

Hundi as practised by Indian Merchant Communities		
<i>Dhani-jog</i>	<i>Darshani</i>	Payable to any person—no liability over who received payment.
<i>Sah-jog</i>	<i>Darshani</i>	Payable to a specific person, someone 'respectable'. Liability over who received payment.
<i>Firman-jog</i>	<i>Darshani</i>	<i>Hundi</i> made payable to order.
<i>Dekhan-har</i>	<i>Darshani</i>	Payable to the presenter or bearer.
<i>Dhani-jog</i>	<i>Muddati</i>	Payable to any person—no liability over who received payment, but payment over a fixed term.
<i>Firman-jog</i>	<i>Muddati</i>	<i>Hundi</i> made payable to order following a fixed term.
<i>Jokhmi</i>	<i>Muddati</i>	Drawn against dispatched goods. If goods lost in transit, the drawer or holder bears the costs, and the Drawee carries no liability.

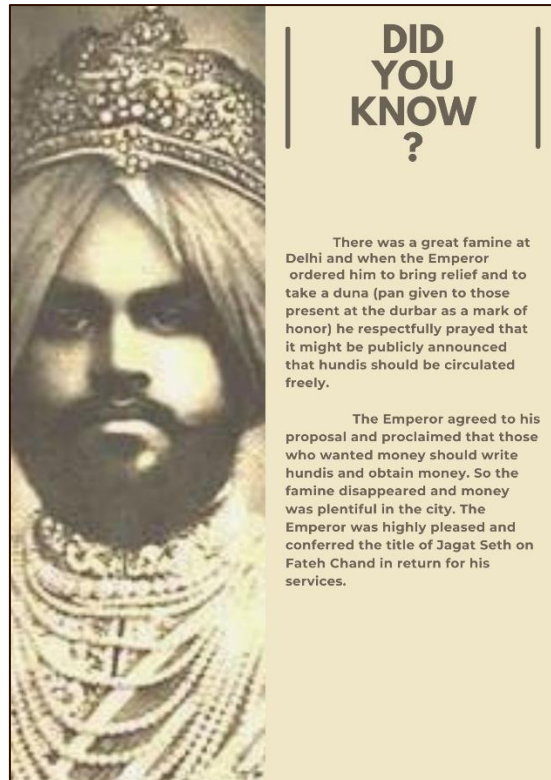
Fig: Hundis and their description

Source: NCERT

According to *Irfan Habib* “the negotiability of hundi led to a situation in which large number of hundis without the intermediation of actual cash payments.” In this process, it became a medium of payment.

The use of hundi was so widespread that even the imperial treasury and state were using it. Even nobles used the hundis for payment of salaries to the soldiers. In 1599, the state treasury sent Rs.3,00,000 to the army in Deccan through a hundi. Tributes paid by Golkunda (Rs.10,00,000) and Ghakkar Chief (Rs.50,000) to the Mughal Emperor were also transferred through hundi.

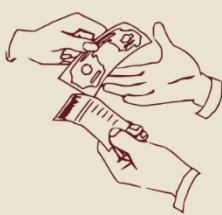
We get quite a few references where provincial officials were instructed to transfer the revenue through hundis. The surplus of the land-revenue from Bengal or from khalisa lands amounting to over a crore of rupees, was sent in the middle of the century by Jagat Seth by a hundi. Even the senior nobles would take the help of the sarraf to transfer their personal wealth.



*Fig: How Jagat Seth Got His Name
Source: Little, 1967*

Muqarrab Khan, the governor of Bihar, when transferred to Agra, gave Rs.3,00,000 to the sarraf of Patna to be delivered at Agra. Many big merchants issued hundi. Such merchants and sarraf had their agents at important commercial centres. At times, members of one family (father, son, brother, nephew) worked as agents for each other. Big firms had their agents even outside the country. So brisk was the use of hundis that in the Ahmedabad market merchants made their payments or adjusted their obligations almost entirely through hundis.

**Sarrafs -
Personal
Bankers of
Medieval India**



The sarrafs who specialized in changing money, also specialised in dealing with hundis

In the process, they also acted as private banks: they kept money in deposit from the nobles, and also lent it to traders

By means of hundis they created credit which supplemented the money in circulation and financed commerce, particularly long distance and international trade

A commission was charged by the sarrafs on each hundi.

The rate of exchange depended on the rate of interest prevalent and the period for which it was drawn


The period was calculated from the date of issue to its presentation for redemption

The rate fluctuated as it also depended on the availability of money at the time of issue and maturity

Fig: Sarrafs – Bankers of Medieval India

Source: selfstudyhistory,2020

Relationship of Hundis and Sarrafs



If money supply was good, the rate would drop. In case of scarcity, the rate rise

A sudden spurt of payment in any direction might create pressure upon the sarrafs for cash at one place, while leaving more in their hands at another, a situation that they could rectify by discouraging remittances from the former to the latter and encouraging reverse remittances by modifying the exchange rate

To get a rough idea a few rates are provided

In normal times 1.5% was charged for hundi from Patna to Agra and 7-8% from Patna to Surat

For the hundi drawn at Ahmedabad for Burhanpur 7.25% was charged in 1622

Fig: Sarrafs and Hundis
Source: selfstudyhistory,2020

Some other commercial practices employed in trade and commerce during this period are:

Banking

In addition to issuing bills of exchange, the sarraf also accepted cash for safe deposit. On request, this was given back to the depositor. On his deposits, the depositor received some interest. The amount of interest paid to depositors was constantly fluctuating. The available rates for Agra for 1645 and Surat during 1630 equate to about 9.5% annually. The bankers would then lend the needy people money at a higher interest rate. There are numerous instances where state officials gave these bankers money from the treasury while keeping the interest with them.

When writing on the Jagat Seth of Bengal, Tapan Roy Chaudhuri claims that " *their rise to financial eminence was partly due to the access they had to the Bengal treasury as a source of credit.*" Sujan Rai (1694) says that the sarrafs who accepted deposits were honest in dealings. Even strangers could deposit thousands for safekeeping and demand it any time (selfstudyhistory, 2020).

After the decline of the Jagat Seths, indigenous banking also degenerated into small scale business in money; "In every large town shroffs dealt in hundis in much the same manner in which the bill broker of today buys and sells commercial paper. Indigenous banking business was largely restricted in issuing and discounting of hundis. There is no evidence that the shroffs and mahajans were prepared to receive deposits from their clients or the public at large. The hundi was the chief credit instrument in financing the movement and storage of agricultural produce." (Little, 1967)

Usury and Rate of Interest

Money lending for personal needs and commercial purposes was an established practice. Much of trading was conducted through the money taken on interest. Generally, the *sarrafs* and merchants both indulged in money lending. Sometimes the moneylending was called Sah, a distinct category.

The loans were taken for various purposes. The money was taken on loan by peasants for playing revenue and repaid at harvest (selfstudyhistory, 2020).

Bottomry

Long-distance sea trips were full of risk and uncertainty. Due to these ambiguities, a new practice known as *avog* or bottomry emerged. It was a form of speculative investing that was very common at the time. At Bottomry, interest rates on loans ranged from 14 to 60%. The money was lent to be used to purchase a shipment for a specific location. The risks involved affected the interest rate. All travel hazards were to be borne by the lenders (selfstudyhistory, 2020).

Conclusion

The history of money lending and debt instruments in India is a long and complex one, with roots dating back to ancient civilizations. There are still yet gaps in the research yet to be fulfilled through credible deciphering of ancient scriptures. Throughout history, money lending has played an essential role in economic development, but it has also been associated with exploitation and abuse.

Debt instruments, such as bills of exchange, promissory notes, and bonds, have evolved over time to provide a means for borrowers to access capital while also providing investors with a means of earning returns on their investments. Today, the use of debt instruments is widespread, and the financial industry continues to innovate new products to meet the ever-growing demand for credit. However, as we have seen throughout history, the use of debt instruments can also lead to financial crises and economic instability if not properly regulated. Further research on these topics can help us learn from commercial practices of ancient India and improve our current financial practices.

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Comprehensive overview of the literature that is referred and cited in the study:

1. *Neolithic age in India -- Tools, Neolithic Sites, Art, Burials*. (n.d.). www.india-a2z.com. <https://www.india-a2z.com/neolithic-age.html>

About: This article discusses the tools and technologies used during this period, including polished stone tools and pottery. It also highlights some of the important Neolithic sites in India, such as Burzahom and Chirand. The article explores the art and culture of the Neolithic people, including their pottery designs and rock art. Additionally, it provides information about Neolithic burial practices, including both individual and collective burials.

2. Deodhar, S. Y. (2020). *Shukranitisara: An early medieval treatise on economic policy*.

About: "Shukranitisara: An early medieval treatise on economic policy" focuses on the text from early medieval India that provides guidance on economic policy. The article discusses the context and background of the text, as well as its content and relevance to modern economic thought. It explores the author's ideas on taxation, trade, agriculture, and other economic policies, and how they relate to broader social and political goals. The article also examines the historical context of the text, including the political and economic conditions of medieval India, and the influence of earlier economic treatises.

3. Das, Santosh (1925). *The Economic History of Ancient India* (First Edition). Santosh Kumar Das, 5/2, Ananda Dutt Lane, Howrah.

About: *The Economic History of Ancient India*, written by Santosh Kumar Das in 1925, explores the economic development of India from ancient times to the medieval period. The book provides a comprehensive account of the economic conditions, production and trade, social and political factors, and the monetary system of India from the Harappan civilization to the Mughal era. It examines the various factors that influenced economic growth, including technological advancements, government policies, and the impact of religion and culture. The book also discusses the role of agriculture, industry, and trade in shaping the economy of ancient India.

4. *Evolution of Payment Systems in India*. (n.d.). Reserve Bank of India. Retrieved February 27, 2023, from <https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/4452>.

About: The article "Evolution of Payment Systems in India" published by the Reserve Bank of India discusses the transformation of payment systems in India over time. It provides an overview of the payment landscape in India and highlights the key factors that led to the evolution of payment systems. The article describes the various payment instruments that were prevalent in the past, such as coins, banknotes, cheques, and demand drafts. It also discusses the emergence of electronic payment systems, including credit and debit cards, online banking, mobile banking, and digital wallets. The article further explores the challenges faced by the payment systems in India and the steps taken by the Reserve Bank of India to address these challenges, such as the

implementation of the National Payments Corporation of India and the Unified Payments Interface

5. *Corporate Life in Ancient India*. (n.d.). INDIAN CULTURE. <https://indianculture.gov.in/rarebooks/corporate-life-ancient-india>

About: "Corporate Life in Ancient India" explores the concept of corporations and their role in ancient Indian society. It describes how corporations were formed and managed, and how they played a crucial role in economic and social development. It discusses the various types of corporations that existed in ancient India, such as guilds, merchant associations, and religious institutions. It also highlights the functions of corporations, including trade, production, and social welfare. It also discusses the legal and regulatory framework that governed the activities of corporations, such as the laws of inheritance, property rights, and taxation

6. Kangle, R.P. (2010). *The Kautiliya Arthashastra [by] R. P. Kangle: An English translation with critical and explanatory notes*.

About: The book provides an English translation of the ancient Indian text, Arthashastra, written by Kautilya, also known as Chanakya. The Arthashastra is a comprehensive treatise on statecraft, economic policy, and political theory. Kangle's translation includes critical and explanatory notes that provide readers with a deeper understanding of the text's historical, political, and cultural context. The Kautiliya Arthashastra is a valuable resource for scholars, researchers, and students interested in ancient Indian history, political theory, and economics.

7. Hopkins, E. W. (2017). *India Old and New: With a Memorial Address (Classic Reprint)*. Forgotten Books.

About: The book is a collection of essays and speeches by Hopkins, an American scholar of Indian culture and history. The book examines India's past, present, and future, and highlights the country's rich cultural heritage, diverse religious traditions, and vibrant intellectual history.

8. Mendis, N. K. G. (2007). *The Questions of King Milinda: An Abridgement of the Milindapañha*. Buddhist Publication Society.

About: "The Questions of King Milinda" is an abridged version of the "Milindapañha," a Buddhist text composed in the first century BCE. The book presents a series of philosophical dialogues between King Milinda and the Buddhist monk Nagasena. The dialogues cover a wide range of topics, including the nature of self, the nature of reality, the existence of past and future lives, and the workings of karma.

9. Maity, S. K. (1970). *Economic Life in Northern India in the Gupta Period, Cir. A.D. 300-550*. India: Motilal Banarsidass.

About: "Economic Life in Northern India in the Gupta Period, Cir. A.D. 300-550" by S.K. Maity is a study of the economic conditions and practices in northern India during the Gupta Empire, which ruled from the 4th to the 6th century CE. The book examines various aspects of economic life, including agriculture, trade, crafts, and taxation, based

on a variety of sources including inscriptions, coins, and literary texts. It analyzes the economic structures and systems that supported the Gupta Empire and how they evolved over time

10. *Epigraphia Indica vol.30* : Rao, N. Lakshminarayan : Free Download, Borrow, and Streaming : Internet Archive. (1953). Internet Archive.

<https://archive.org/details/in.gov.ignca.35546>

About: "Epigraphia Indica Vol. 30" is a collection of ancient inscriptions from different parts of India, edited and compiled by N. Lakshminarayan Rao. The inscriptions are written in various scripts and languages, including Sanskrit, Prakrit, and Tamil, and cover a wide range of topics such as religious donations, land grants, and administrative orders. The inscriptions date from different periods of Indian history, ranging from the 3rd century BCE to the 16th century CE.

11. *Business Studies: Textbook for Class XI*. (2019). India: National Council of Educational Research and Training.

About: It is aimed at students in the 11th grade and covers a wide range of topics related to business and entrepreneurship. The book covers various aspects of business such as business organization, marketing, financial management, and business ethics. The textbook includes case studies and examples to help students apply the theoretical concepts to real-world situations.

12. Martin, M. (2012). *An economic history of Hundi, 1858-1978* (Doctoral dissertation, London School of Economics and Political Science).

About: It is a doctoral dissertation by Martin, submitted to the London School of Economics and Political Science in 2012. The dissertation focuses on the economic history of Hundi, a financial instrument used in India for centuries. Martin examines the origins and development of Hundi, tracing its evolution from a simple IOU to a sophisticated instrument used in international trade and finance. They analyse the economic, political, and social factors that shaped the use of Hundi over time, and discusses the role of Hundi in facilitating economic transactions in India and beyond. It also explores the regulation and control of Hundi by the British colonial authorities and the Indian government, and the impact of these policies on the use and popularity of Hundi.

13. *Various Types of Credit Instruments – Explained!* - Bing. (2014). Bing.

<https://www.bing.com/search?q=Various+Types+of+Credit+Instruments+%E2%80%93+Explained!&cvid=5d407ca099d54590abddfdeeb672ddf2&aqs=edge..69i57j69i61.318j0j1&pglt=131&FORM=ANNTA1&PC=LCTS>

About: The article "Various Types of Credit Instruments - Explained!" provides an overview of different credit instruments used in the financial industry. The article explains how credit instruments work and their various types, including loans, bonds, credit cards, and letters of credit. The article also provides information on the features and benefits of each type of credit instrument, along with their advantages and disadvantages.

14. Little, J. H. (1967). *House of Jagatseth*. India: Calcutta Historical Society; [selling agents: Das Gupta.

About: "House of Jagatseth" is a book written by J.H. Little and published by the Calcutta Historical Society. The book describes the history and architecture of the famous House of Jagat Seth, which was a prominent banking house in Bengal during the 18th century. The book traces the origins of the Jagat Seth family, who were originally Jain merchants from Rajasthan, and their rise to prominence as bankers to the Nawabs of Bengal. The book provides a detailed account of the construction and design of the House of Jagat Seth, which was renowned for its ornate decoration and exquisite craftsmanship. Little also explores the cultural and social aspects of the House of Jagat Seth, including the family's patronage of the arts and their involvement in religious and charitable activities. The book includes illustrations and photographs of the House of Jagat Seth, making it a valuable resource for those interested in the history and architecture of Bengal.

15. Ahaduzzaman, M. (2020, March 8). *What are the types of Debt Instruments?* - *BBA Lectures.com*. BBA Lectures. <https://www.bbalectures.com/what-are-the-types-of-debt-instruments/>

About: The article, provides an overview of different types of debt instruments used in finance. The article explains that debt instruments are a type of financial security that represents a debt obligation of the issuer, and the borrower is obligated to repay the principal and interest. The article lists different types of debt instruments, including bonds, debentures, notes, commercial paper, and certificates of deposit. The article also discusses the features and benefits of each type of debt instrument, including the issuer, interest rate, maturity, and credit rating.

16. Mali, P. (2020, September 22). *Banking in Ancient India Prachi Mali Paper II MA SemII*. https://www.academia.edu/44139785/Banking_in_Ancient_India_Prachi_Mali_Paper_II_MA_Sem_II

About: The paper "Banking in Ancient India" by Prachi Mali provides an overview of the banking system that existed in ancient India. The paper explores the origins of banking in India, tracing its evolution from the Vedic period to the Gupta period. The paper examines the role of various financial instruments and institutions, such as hundis, shroffs, and sarafs, which were used for moneylending, exchange, and banking services. The paper also discusses the social and economic factors that contributed to the growth and development of banking in ancient India, including the expansion of trade and commerce and the emergence of urban centers.

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About: The article "Indian Mercantile Classes, Banking, Insurance And Credit Systems In Mughal India" published on SELF STUDY HISTORY provides an overview of the banking and financial systems that existed in Mughal India. The article explores the

role of Indian mercantile classes, such as the Marwaris, Agarwals, and Baniyas, in the development of the banking system in India. It explains how these mercantile classes engaged in various banking and credit activities, such as hundis, loans, and bills of exchange, which helped to promote trade and commerce

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<https://www.insightsonindia.com/ancient-indian-history/prehistoric-period/chalcolithic-period/>

About: The article on INSIGHTSIAS explains the significant features of the Chalcolithic period, such as the development of agriculture, the domestication of animals, and the growth of trade and commerce. The article also discusses the unique features of the Chalcolithic cultures that emerged in different parts of India, such as the Indus Valley Civilization, the Ochre Colored Pottery culture, and the Black and Red Ware culture. The article highlights the importance of the Chalcolithic period in the development of Indian civilization and the emergence of various cultural practices and technologies that continue to influence Indian society today.

19. Chen, J. (2022, September 26). *What Is a Debt Instrument? Definition, Structure, and Types*. Investopedia.
<https://www.investopedia.com/terms/d/debtinstrument.asp>

About: The article, explains the concept of a debt instrument, which is a financial contract between two parties where one party borrows money from the other party and agrees to pay it back with interest over time. The article goes into detail about the structure of debt instruments and the different types of debt instruments, including bonds, notes, bills, and certificates of deposit. It also provides information on the benefits and risks associated with investing in debt instruments.

20. Wikipedia contributors. (2022, October 18). *Hundi*. Wikipedia.
<https://en.wikipedia.org/wiki/Hundi>

About: The Wikipedia article on "Hundi" describes a financial instrument commonly used in South Asia and the Middle East, which functions as a type of informal promissory note. The article explains the origins and history of the hundi, as well as its usage and legal status in different countries. It also provides information on the different types of hundis, including shah-jog hundi, darshani hundi, and muddati hundi. Additionally, the article explores the advantages and disadvantages of using hundis, including their flexibility and convenience, but also the risks associated with fraud and non-payment.

21. Corporate Finance Institute. (2023, January 13). *Debt Instrument*.
<https://corporatefinanceinstitute.com/resources/fixed-income/debt-instrument/>

About: The article on "Debt Instrument" explains the concept of a debt instrument, which is a type of financial security that represents a loan made by an investor to an issuer. The article provides an overview of the different types of debt instruments, including bonds, notes, bills, and certificates of deposit, and how they differ in terms of their structure, maturity, and interest rates. It also explains the various features and

terms associated with debt instruments, such as credit ratings, covenants, and yield-to-maturity.

22. *India / History, Map, Population, Economy, & Facts*. (2023, March 8). Encyclopedia Britannica. <https://www.britannica.com/place/India/The-Indian-Paleolithic>

About: The Encyclopedia Britannica article on India provides an overview of the country's geography, history, population, economy, and culture. The article also discusses India's modern history, including its struggle for independence from British colonial rule and its subsequent development as a democratic nation. Additionally, the article covers India's diverse population, economy, and cultural heritage, including its religious traditions, artistic achievements, and technological advancements.

23. Wikipedia contributors. (2023, March 10). *History of banking*. Wikipedia. https://en.wikipedia.org/wiki/History_of_banking

About: The article on the "History of Banking" provides a comprehensive overview of the evolution of banking systems throughout history.. It covers the rise of medieval banking in Europe, including the emergence of the first banks and the establishment of international trade networks. The article also discusses the advent of modern banking systems, including the creation of central banks and the growth of investment banking and electronic banking. Additionally, the article explores the role of banking in shaping the global economy, including its impact on economic growth, political power, and social inequality.