

GOVERNMENT OF INDIA.

# DECENTRALIZATION COMMITTEE

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FOR THE

## ROYAL COMMISSION

ON

DECENTRALIZATION.

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NOTE ON AGRICULTURAL LOANS

(WITH SUGGESTIONS)

BY

सत्यमेव जयते

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## CONTENTS.

	Page.
Early History ... ..	1
Act XXVI of 1871 (The Land Improvement Act) ... ..	1
Act X of 1879 (The Northern India Takavi Act) ... ..	1
Revision of these Acts in 1883 and 1884 ... ..	2
Decentralizing amendments of 1906 ... ..	2
Summary of policy laid down in 1905 ... ..	3
Simplification of accounts ... ..	4
Powers of local officers to grant loans and suspend or remit repayments ... ..	4
<hr/>	
Appendix ... ..	5



## AGRICULTURAL LOANS.

Early History.

The practice of making loans from public funds to landholders for works of improvement existed under Native Rule and was continued by the British Government. Such loans were authorized by the Government of Fort William by rules framed in 1791 which were subsequently embodied in Regulation 33 of 1793, and they were made recoverable like arrears of land revenue by Regulation 27 of 1803.

Revenue Pros., June 4th, 1870, No. 20.

2. No general legislation on the subject was, however, undertaken till three-quarters of a century later. Lord Mayo, who had turned his attention to agricultural improvement, recognized the value of State loans, if legitimately employed, as a means of promoting it. In a letter, dated 2nd June 1870, Local Governments were consulted on the possibility of extending and developing the system, and the purposes for and conditions on which loans might be given were sketched out.

"The system," it was observed, "under which *takavi* advances for permanent improvements have been given in many parts of India is identical in principle with that which has been carried out in the United Kingdom, with admirable results, by means of the Land Improvement Acts. The Governor-General in Council believes that this principle may receive a much wider and more systematic development in India than has hitherto been given to it; and he believes that no sounder or more useful principle could be acted upon by a Government which desires to make the resources of the State available for the promotion of the wealth and improvement of the people. There is no country in the world in which the State has so immediate and direct an interest in such questions. The Government of India is not only a Government, but chief landlord."

Act XXVI of 1871 (The Land Improvement Act).

Revenue Pros., May 13th, 1871, Nos. 25-49.

3. The Land Improvement Act, XXVI of 1871, was the outcome of the discussions which followed. This Act permitted the grant of loans by the Collector, or other authorized officer, for specified classes of improvements of a permanent character, such as reclamation and irrigation works, to both landlords and tenants, on approved security. Loans to tenants were made subject to enquiry into any objections raised by the landlord, and in the case of tenants without transferable rights in their holding, to his consent. All advances were recoverable by the same processes as arrears of revenue, and rules under the Act were subject to the previous sanction of the Government of India.

Act X of 1879 (The Northern India Takavi Act).

4. Loans for purposes other than those provided for in the Act of 1871, such as

the purchase of seed and cattle after famine, continued to be made, but with the repeal of the old Regulations no legal means remained in Upper India for their recovery by summary process. Act X of 1879 (The Northern India Takavi Act) was passed to remedy this, and Local Governments and Administrations of the northern Provinces were empowered to make rules, subject to the sanction of the Governor-General in Council, "as to advances to be made to owners and occupiers of arable land, for the relief of distress, the purchase of seed or cattle, or any other purpose not specified in the Land Improvement Act, 1871, but connected with agricultural objects."

Legislative Pros., June 1879, Nos. 142-166.

5. Eleven years' experience of the working of the Act of 1871 showed that the sums advanced under its provisions were insignificant, and that it had not been a success. It was the opinion of the Famine Commission of 1879 that the Act should be simplified, and Local Governments given more power to make the rules under the Act elastic and suitable to local peculiarities; and in 1883 the law was amended and re-enacted with this object (Act XIX of 1883). Provision was also made in the bill as drafted for the recovery by revenue process of loans made by State-aided agricultural banks, the establishment of which had been occupying the attention of the Government of India; but this feature was dropped at the instance of the Secretary of State. The new law, however, introduced a new and important clause (section 11) exempting profits from improvements made with loans under the Act from assessment to land revenue, in some cases permanently, and in others for such term as might be fixed by rules. The procedure in making enquiries, disposing of objections, and granting loans was made simpler and left more to rules; but all rules and notifications under the Act required, as before, the previous sanction of the Government of India.

Revision of these Acts in 1883 and 1884.

Legislative A. Pros., Nov. 1883, Nos. 79-172.

6. In 1884 the Northern India Takavi Act was also re-enacted, as Act XII of 1884 (The Agriculturists Loans Act), and made capable of extension to any part of British India by notification. The new Act also legalized the recovery by revenue processes of interest on loans, and provided for the principle of making loans on the joint responsibility of village communities.

Legislative A. Pros., Aug. 1884, Nos. 3-73.

7. In 1905, the Government of India reviewed the whole question of agricultural loans with reference to the recommendations of the Famine and Irrigation Commissions of 1901, and laid down the lines upon which

Decentralizing amendments of 1906.  
Resolution No. 6-204-16, dated 30th November 1905.

A. Pres., May 1906, No. 49.

A. Pres., July 1906, Nos. 49-51.

Summary of policy laid down in 1905.

A. Pres., March 1906, Nos. 2-16.

\* The system has already expanded considerably since 1883. On the 31st March 1904 the outstanding loans exceeded 2½ crores and the average annual expenditure for ten years had been 86 lakhs including, and 57 lakhs excluding, four famine years.

Paragraph 3. Resolution No. 6, dated 30th November 1905.

Paragraph 4.

Paragraph 5.

Paragraph 6.

Paragraph 7.

Paragraph 8.

Paragraph 9.

the *takavi* system should be expanded and developed. They also decided that general principles and instructions having been prescribed, the previous sanction of the Government of India was no longer necessary to rules and notifications under the Acts of 1883 and 1884, and the needful amendments of those Acts was carried out by Act VIII of 1906. The proceedings of Local Governments under the two loans Acts are now only subject to the 'control' of the Government of India.

8. The principles laid down in the orders of 1905 are summarized below. They will, it is expected, lead to a considerable extension of the *takavi* system\* and in enunciating them, the Government of India have cautioned Local Governments against "the danger of creating by too active a policy a forced and spurious demand for these advances."

*Land Improvement Act.*—(1) The system of loans should not be a source of profit, but the general rate of interest should remain at  $6\frac{1}{4}$  per cent. and any resulting surplus on the whole account should be used in granting special concessions to borrowers who stand in need of them, thus rendering the system more elastic; and penal interest should be remitted when its imposition would be productive of hardship.

(2) The ordinary period for repayment of loans should continue to be 20 years, and borrowers should repay in equated instalments of principal and interest. The first instalment should be payable not more than  $2\frac{1}{2}$  years from date of loan.

(3) No collateral security should be required where the loan does not exceed  $\frac{3}{4}$ ths of the value of the land pledged after the improvement has been carried out. Advances on joint security of village communities should be given up to five times the assessment payable on the land held by the applicants. The enquiries into encumbrances, security, etc., should be curtailed, and restricted to what is absolutely necessary to secure the loan.

(4) The procedure in granting loans should afford greater facilities to persons wishing to borrow, and the powers of local officers to grant loans should be enlarged. Loans should be sufficient to make it unnecessary for the applicant to borrow elsewhere to complete the work.

(5) Suspensions of instalments should be liberally granted, and given automatically when revenue is suspended over large areas. The authority granting a loan

should be empowered to suspend, and suspension of an instalment should carry with it postponement of remaining instalments. Remissions should be given sparingly, and only when the improvement fails from causes beyond the borrower's control, and recovery would occasion serious hardship.

(6) In specially precarious tracts when the improvement is calculated to reduce future famine expenditure, loans may be supplemented by free grants-in-aid of a portion of the total cost.

Paragraph 10.

*Agriculturists Loans Act.*—(7) Advances for purchase of seed, cattle, etc., should be liberally given to poor cultivators in ordinary times as well as in times of calamity, but, as a rule, they should be subject to the usual rate of interest. The procedure for granting such loans should be as simple and expeditious as possible, and local officers should have large powers of sanctioning them and accepting joint or personal security.

Paragraph 11.

(8) The grant of such loans in famine times free of interest should in future be discouraged and their repayment made more obligatory, remissions of revenue being given in preference to remission of advances; or a portion of the loan should be given as a free grant-in-aid when spent in the employment of labour.

Paragraph 12.

9. Separate orders have also been issued with the object (a) of simplifying the accounts of loan transactions which, owing to their complicated character, have hitherto imposed an excessive amount of trouble on district establishments, and (b) of avoiding delay in the disbursement of loans by permitting officers to carry the necessary funds with them on tour and grant and disburse loans on the spot.

Simplification of accounts.

Circular No. 2—413, dated 1st March 1905.  
Circular No. 6—260, dated 14th May 1907.

10. Appended is a summary of the powers which have been conferred on local officers by the existing rules under the two Acts, in respect of the grant of loans and the remission of instalments which, owing to failure of an improvement, impoverishment of the borrower or other cause, have become irrecoverable. The mere postponement of instalment is, as has been stated in paragraph 8 (5), allowable to the authority which granted the original loan.

Powers of local officers to grant loans and suspend or remit repayments.

## APPENDIX.

*Limits up to which local officers are empowered to make loans and remit irrecoverable balances of loans under the Agricultural Loans Acts of 1883 and 1884.*

**A. Land Improvement Act XIX of 1883.**

Pros., July 1907, Nos. 23-24.

1. *Madras*.—Tahsildars Rs. 250; Assistant and Deputy Collectors Rs. 500; Collectors Rs. 1,000; Board of Revenue 5,000.

Remissions are sanctioned by the Board of Revenue.

Pros., Nov. 1904, No. 24.

2. *Bombay*.—Mukhtyarkars in Sindh (for clearing water courses only) Rs. 200, sub-divisional officers Rs. 1,000; Collectors Rs. 2,500; Commissioners Rs. 5,000.

Remission up to Rs. 100 are sanctioned by Collectors, and Commissioners sanction above that amount, subject to a quarterly report to Government.

Pros., June 1905, Nos. 6-7.  
Pros., July 1905, Nos. 50-51.

Rules, dated 19th Feb. 1901.

3. *Bengal*.—Collectors Rs. 1,000; Commissioners Rs. 5,000; and the Board of Revenue above Rs. 5,000.

Pros., June 1905, Nos. 19-20.

Collectors may suspend instalments, subject to report to the Commissioner.

Board's rules, page 161.

Commissioners may write off irrecoverable loans up to a limit of Rs. 100 (principal *plus* interest) in each case. Irrecoverable balances above that amount are reported to the Board of Revenue.

4. *Eastern Bengal and Assam*.—In Assam the Deputy Commissioner may sanction loans up to Rs. 1,000, and the Commissioner (in Assam Valley) up to Rs. 5,000.

Rules, dated 6th Nov. 1901.

Loans up to any amount may be suspended for failure of crops or other calamity by the Deputy Commissioner, but they may only be remitted by the Local Government.

(Revised rules for the newly constituted Province have not yet been issued.)

Rules, dated 5th August 1907.

5. *United Provinces*.—Tahsildars up to Rs. 100, subject to report to the sub-divisional officer, and sub-divisional officers above that amount, subject to control of Collector.

See Sal. and Estab. Pros., Sept. 1907, Nos. 136-137.

The Board of Revenue may remit irrecoverable balances of advances up to Rs. 250 in each case, subject to a limit of Rs. 10,000 in any year.

Rules, dated 11th July 1901.

6. *Punjab*.—Deputy Commissioners Rs. 1,000; Commissioners Rs. 5,000; Financial Commissioner above Rs. 5,000.

Remissions are granted by Commissioners up to Rs. 250, and above that amount by the Financial Commissioner.

7. *Burma*.—Deputy Commissioners Rs. 500; Commissioners Rs. 2,000; and above that amount the Financial Commissioner.

Pros., Aug. 1907, nos. 13-14.

Commissioners may remit up to Rs. 1,000, and the Financial Commissioner above that amount.

8. *Central Provinces*—Tahsildars Rs. 250; Assistant and Extra Assistant Commissioners Rs. 500; Deputy Commissioners 1,000; Commissioners Rs. 5,000.

Pros., May 1917, Nos. 22-23.

Remissions may be sanctioned by Commissioners up to Rs. 250 in any case, except when general remissions are recommended.

9. *Coorg*.—Commissioner Rs. 1,000.

Pros., Sept. 1904, Nos. 40-41.

Suspensions of instalments may be granted by the Commissioner up to Rs. 1,000: remissions require the Chief Commissioner's sanction.

(The Chief Commissioner may appoint any person to perform all or any duties of the Commissioner under the rules.)

Pros., Sept. 1905, Nos. 23-24.

10. *Ajmere*.—Assistant Commissioner Rs. 500; Commissioner Rs. 5,000.

Rules, dated 10th June 1907.

Remissions require the Chief Commissioner's sanction.

*B. Agriculturists Loans Act XII of 1884.*

11. *Madras*.—Same rules as in paragraph 1.

12. *Bombay*.—Mamlatdars Rs. 50 (in Sindh Rs. 200); sub-divisional officers Rs. 200 (in Sindh Rs. 500); Collectors Rs. 500 (in Sindh Rs. 1,000); Commissioners above these limits.

Remissions, as in paragraph 2 above.

13. *Bengal*.—Collectors Rs. 700; Commissioners Rs. 5,000; and Board of Revenue above Rs. 5,000.

Rules, dated 19th Feb. 1901.

Collectors may empower selected sub-divisional officers to make loans up to Rs. 250.

Suspensions are granted by the Collector. Remissions, as in paragraph 3 above.

14. *Eastern Bengal and Assam*.—In Assam loans up to Rs. 300 may be made by Deputy Commissioners and, subject to their control, by sub-divisional officers; above that amount they require the sanction of the Commissioner in the Assam Valley and of the Local Government elsewhere.

Assam rules of 1898.

Remissions are sanctioned by the Local Government.

(See note under paragraph 4.)

15. *United Provinces*.—Same rules as in paragraph 5.



Rules, dated 18th July 1901.

16. *Punjab*.—Deputy Commissioners may sanction loans without limit and, with the Commissioner's previous sanction, delegate power to their executive subordinates to grant them up to Rs. 100 for cattle and Rs. 20 for seed.

Remissions as in paragraph 6 above.

17. *Burma*.—Deputy Commissioner Rs. 300 ; Commissioner Rs. 500 ; Financial Commissioner above Rs. 500.

Deputy Commissioners may sanction remissions up to Rs. 150 ; Commissioners up to Rs. 500 ; Financial Commissioner above that amount.

18. *Central Provinces*.—Tahsildars Rs. 100 ; Assistant and Extra Assistant Commissioners Rs. 250 ; Deputy Commissioners Rs. 500 ; Commissioners above Rs. 500.

Remissions, as in paragraph 8 above.

19. *Coorg*.—Commissioner Rs. 200.

Suspensions and remissions, as in paragraph 9 above.

20. *Ajmere*.—By Assistant Commissioner (or Tahsildar if specially empowered) without limit.

Remissions, as in paragraph 10 above.

NOTE.—Where no references are given against paragraphs under B, the references under A should be consulted.

Rules, dated 10th June 1907.

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## PART II.

Suggestions for increased powers to local officers.

11. Some of the rules referred to in paragraph 10 have still to be revised to bring them into accord with the instructions issued in 1905. But subject to any changes which may be in contemplation, it may be remarked that the powers exercised by officers of the same class in the several Provinces to grant and remit loans exhibit greater variations than can be altogether explained by differences in local conditions. While the Government of India find the money in the first instance, the major Local Governments are financially responsible for any losses in their loan transactions, and should, therefore, be allowed full discretion, within their total allotments as to the officers who should be entrusted with the disbursement of advances; the present differences, however, would seem to be due to an adherence to established practice more than anything else, and the Local Governments might not be unwilling to reconsider the question and introduce some measure of uniformity if a standard were to be suggested to them.

12. In the United Provinces, the new rules appear to leave the amount of an advance under either Act to the unfettered decision of the Collector, while in Bombay no limit is placed on the power of Commissioners to remit irrecoverable balances. These powers would probably be regarded as too wide for general adoption, but it might be suggested that, where a larger measure of delegation has not already been sanctioned, the powers of the controlling and district revenue authorities under the Loans Acts might, in the major Provinces, approximate to the following standard :—

(1) Within the total amount of the Provincial allotment, which they should distribute among districts and divisions, the Boards of Revenue and Financial Commissioners should be able to sanction loans, and remit irrecoverable balances, without restriction.

(2) Subject, in each case, to the total allotment placed at their disposal not being exceeded, the following powers might be granted to divisional and district officers :—

- (a) Commissioners to grant loans up to Rs. 10,000, and remit irrecoverable balances up to Rs. 500.
- (b) Collectors to grant loans up to Rs. 5,000, and remit irrecoverable balances up to Rs. 100.
- (c) Collectors to be empowered to delegate their authority to grant loans

within a maximum limit of Rs. 1,000 to any subordinate officers selected by them not below the rank of tahsildars.

13. Loans under the Act of 1884 are limited as a rule, by the purposes for which they are given and the security offered, to small amounts individually, and it does not seem necessary to differentiate them from loans under the Act of 1883.

A. R. TUCKER.



I submit to Revenue and Agricultural Department a note on the subject of agricultural loans which Mr. Tucker prepared in consultation with me, and which has been passed by my Committee as a whole.

2. Paragraphs 1—10 of the note and the appendix will constitute our formal memorandum to the Royal Commission. Paragraphs 11—13 deal with the desirability of giving larger scope to local authorities in respect to the grant and remission of loans, and if Revenue and Agricultural Department approve the proposals made in paragraph 12, I will place them before the Commission when opportunity occurs.

W. S. MEYER,—23-10-07.

The suggestion mainly concerns Local Governments. We need not object to its being put to the Royal Commission.

C. A. INNES,—26-10-07.

J. H. KERR,—26-10-07.

J. O. M[ILLER],—26-10-07.

I wonder very much if the Commission will go into all these details.

J. WILSON.





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