

**Report**  
of the  
**Agricultural Finance**  
**Sub-Committee**  
**1945**

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# REPORT OF THE AGRICULTURAL FINANCE SUB-COMMITTEE

## CHAPTER I

### *The Committee and its work*

In accordance with the recommendation No. IV-A of the Policy Committee on Agriculture, Forestry and Fisheries, the Government of India, Department of Education, Health and Lands, in their letter No. 3569-A/44-D, dated the 12th September 1944, appointed a Sub-Committee to report on the ways in which indebtedness could be reduced and finance both short-term and long-term provided under efficient control for agriculture and animal husbandry operations. The Committee consisted of the following :—

1. Prof. D. R. Gadgil, M.A., M.LITT. (CANTAB.), Director, Gokhale Institute of Politics and Economics, Poona (Chairman).
2. Dr. A. Krishnaswami, Barrister-at-Law, 2/11, Mount Road, Madras.
3. Khan Bahadur M. A. Momin, C.I.E., Aryasthan Insurance Building, 15, Chittaranjan Avenue, Calcutta.
4. Mr. R. G. Saraiya, O.B.E., Chairman, Bombay Provincial Co-operative Bank, Navsari Chambers, Outram Road, Fort, Bombay.
5. Rao Bahadur J. C. Ryan, M.A., Joint Registrar, Co-operative Societies, Madras.
6. Mr. Sher Jang Khan, Officer-in-Charge, Agricultural Credit Section, Reserve Bank of India, Bombay.
7. Rai Bahadur Himmat Singh K. Maheshwari, M.A., Revenue Minister, Jaipur State.
8. Sardar Bahadur Gurbachan Singh, Kapurthala Road, Julundur City.

Mr. Sher Jang Khan was appointed as Secretary of the Committee.

The Committee was expected to submit its final report within three months of the first meeting and in view of the shortness of time was asked to work on the basis of data already available.

2. The first meeting of the Committee was held on the 5th and 6th October 1944 in the Office of the Reserve Bank of India, Bombay. At this meeting we discussed the scope of inquiry and planned out the programme of work. In the light of the discussion, the Chairman prepared a synopsis of the scope of enquiry which was circulated to members. Some members prepared a number of notes on specific subjects falling within the scope of the work of the Committee. The Agricultural Credit Department of the Reserve Bank also prepared

a number of memoranda for use of the Committee and all these notes and memoranda were circulated to members. The second meeting of the Committee was held at the Reserve Bank of India from the 23rd to 25th November 1944. The meeting discussed the synopsis in the light of the information collected and came to tentative conclusions on the various questions covered by the terms of reference of the Committee. On the basis of these decisions the Chairman prepared a detailed synopsis of the report which was circulated to the members for comments. Thereafter the Chairman and the Secretary drafted the report. We met from the 2nd to 4th April 1945 at the premises of the Servants of India Society, Poona, to consider the draft report and again from 5th to 7th July in Bombay when we finally adopted the report.

3. We desire to place on record our high appreciation of the work of the Secretary of the Committee, Mr. Sher Jang Khan. Mr. Sher Jang Khan's extensive knowledge of conditions of rural credit in the country and of the literature on the subject were of great assistance to the Committee in the formulation of recommendations and in the preparation of the report. We are also indebted to the staff under him for their diligent work. We desire to express our thanks for the help we have received from the Agricultural Credit Department of the Reserve Bank of India, Bombay, in preparing for us a number of notes on the subject and allowing us access to their records and valuable information collected by them on the various points connected with our enquiry. Our thanks are also due to the Servants of India Society, Poona, for allowing us the use of their well-equipped library and their Home for our accommodation and holding meetings.

## CHAPTER II.

### *Survey of Existing Conditions.*

Before proceeding to define the problem before the Committee it is desirable to pass under review the existing information relating to the debt situation of the agriculturist producer. Conditions of production and finance differ widely throughout the country so that it is difficult to present any general picture. Factual data in most respects of Indian agricultural economic conditions are greatly lacking. In relation to agricultural indebtedness, however, the situation is somewhat better than in other respects because of the efforts made during the course of the enquiries connected with the Provincial Banking Enquiry Committees. Most of the Provincial Banking Enquiry Committees undertook both extensive and intensive surveys into the volume and nature of total indebtedness in the

area covered by them and most of these surveys had special reference to rural debt. The methods followed by various Committees were, however, far from uniform. Neither the planning of the investigations, nor the choice of the samples nor the agency employed were similar from Province to Province. Whereas in some cases special investigators who were carefully supervised were entrusted with the more intensive part of the work, in others the enquiry was entirely carried out by either local revenue officials or by honorary non-official agency. In some instances the Committees themselves or their Sub-Committees carried out part of the investigation. It is not possible to compare the findings of the various Provincial Committees with each other nor to determine how far the estimates for any particular Province are accurate.

2. Apart from special investigations some Banking Committees used for estimating the burden of debt official statistics already available, such as those of the value of mortgages registered or the return of debts of members of cooperative societies. In the utilisation of even these official statistics no uniformity was in evidence. The two important questions in the utilisation of the returns relating to members of co-operative societies are (i) the measure of reliability in the returns, and (ii) the extent to which the debt situation of the average member of co-operative societies represents the situation of the average agriculturist. The figures for the value of mortgage debt, which are more difficult to use, are of values of mortgages registered annually. It is necessary to make certain assumptions in order to deduce from these, the value of the total outstanding debt of the agriculturists. It is necessary, for example, to determine the relation of the total secured debt outstanding at any point of time to the value of mortgages registered during past years. Secondly, it is necessary to find out, if possible, what proportion of this pertains to property other than agricultural land and what portion represents properly the debt of the agriculturists. Finally, in order to arrive at an estimate of the total debt, it is necessary to assume a relation between the value of the total mortgage debt of the agriculturist and his other debts. Even though the various Banking Enquiry Committees were all dealing with data relating to much the same period they did not agree upon the basic assumptions. For example, we find that, while the Bengal Banking Committee was of opinion that the total of the registered debt for the last six years represented the outstanding registered debt at the end of the period,\* the Madras Committee came to the conclusion that the average of the annual values of the mortgages of previous years multiplied by 3 would yield the total amount of mortgage debt at any time. † This instance emphasises the very wide margin within which estimates based on such data might fluctuate. It is, therefore, not possible to

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\* Report, page 65.

† Report, page 45.

rely to any large extent on the estimates of total indebtedness made by the Banking Enquiry Committees for the various Provinces or on the total for India calculated on the basis of these estimates by the Central Banking Committee.

3. It might, however, be pointed out that we are not very intimately connected with estimates of the total burden of debt in the country or in any region. Our special concern is with the nature and effect of the debt on particular classes of producers in different regions and with the detailed dynamic of the debt situation. How and for what purpose debts are contracted, the manner in which they are renewed, repaid or liquidated and the effect the whole process has on the scale and efficiency of the operations of the agriculturist producers are matters of vital interest for our enquiry. Even in this regard, the statistical data are not much more satisfactory than those relating to total debt. The Banking Committees could enter only to a limited extent into detail regarding the various classes of rural population and their debts. In Provinces where landlords were prominent, attempts were made to assess separately the effect of indebtedness and its burden on the landlord and the tenant, and in some Provinces distinction was sought to be made as between the land-owning cultivator and the tenant-cultivator. In assessing the degree of debt burden various criteria could be used. Attempts could be made to relate the debt burden to the total income of the agriculturists or to their surplus over expenditure which would give the direct index to the extent to which the burden of the debt could be borne by the agriculturists. Data for a proper evaluation of the net income or surplus of the agriculturist are very difficult to collect and most estimates made in this regard are subject to a wide margin of error. Alternatively the burden of the average debt could be related to either the incidence of land revenue or, in landlord Provinces of rent. Before the relation of debt to land revenue could give any indication of the burden of debt it would be necessary to determine the incidence of land revenue on gross or net incomes. The relation to rent, especially where rent determination was made under a careful procedure would, of course, be much more directly significant. Most of the Banking Enquiry Committees made attempts in some such manner to estimate the burden of the debt and to put debtors in various classes according to their ability to bear this burden. In order to complete this picture enquiry had to be made into the percentage of the rural population who might be entirely free from debt. In assessing the total results of the debt burden it was necessary also to know for what purposes the debt was contracted: especially, whether the contraction of the debt itself sustained or increased the repaying capacity of the debtor so that the debt was in effect self-liquidating or whether the debt and the charges of interest, etc., incurred on its account hampered the working of the agriculturist producer.

4. It is not necessary to go in any detail into the results of the enquiries of the Banking Enquiry Committees in these various subjects. However, the following sample of the data might help in illustrating the considerations mentioned above and in conveying some idea of the quantities involved.

5. In the United Provinces the burden of debt per indebted cultivator was assessed at Rs. 172 and its incidence in various groups by size of holders varied from Rs. 6·8 per acre to Rs. 58·4. In Madras the average debt for the Province per rupee of assessment was estimated at Rs. 19, the lowest district average that for Ganjam being put at Rs. 8 and the highest that for South Kanara at Rs. 37. In the Central Provinces and Berar the average debt per acre was put at Rs. 9·5·0 the variations from district to district being between Rs. 2 and Rs. 21. In the same Province the debt per family was estimated at an average of Rs. 227, the lowest average for a district in the rice zone being Rs. 21, while the highest, for a district in the cotton zone was put at Rs. 710. Average indebtedness per household for the main zones in Bihar and Orissa was assessed at the following figures : Orissa Rs. 65—81 ; Chota Nagpur Rs. 74—110 ; Bihar Rs. 257—307. In Bengal the average indebtedness calculated from returns made by members of co-operative societies was put at Rs. 147, the averages for the districts varying from Rs. 80 to Rs. 252. In Bombay intensive surveys revealed that the burden of average debt per family varied from Rs. 115 in the Konkan, to Rs. 225 in the transition tract and Rs. 500 in the cotton-growing zones. The average proportion of debt-free families among peasant proprietors and tenants as calculated as the result of an enquiry by settlement officers in six districts of the United Provinces was put at 61 the proportion varying between 43 and 71 from district to district. In the Central Provinces the proportion of cultivators free from debt was put at an average figure of 46 per cent, the variations in district figures lying between 13 and 70. In Bombay the estimate of families free from debt of the total was 13 per cent in Sind, 23 per cent in South Gujarat, 21 per cent in North Gujarat and 29 per cent in the Konkan. As regards the burden of debt the United Provinces Committee found that 32 per cent of tenants owed more than two years' rent. The Bihar and Orissa Committee gave the following estimates of the average degree of indebtedness in the various tracts.

	<i>Free from debt.</i>	<i>Lightly indebted.</i>	<i>Moderate.</i>	<i>Heavy.</i>	<i>Very heavy.</i>
Bihar .. ..	27½	29	14	24	5½
Orissa .. ..	29	54	16	½	½
Chota Nagpur ..	26	57	8	8	1

(The definition of degree was in this case made by absolute amounts and did not, therefore, fit each tract equally well.)



The difference of the burden of debt as between the peasant proprietor and the tenant-cultivator is illustrated by the opinion of the United Provinces Committee that the class of small holders was found to be more heavily indebted on an average in their enquiries because it usually held transferable rights. The Central Provinces Committee emphasised the contrast in indebtedness per cultivator and the terms of debt as between the two contiguous tracts with similar conditions in other respects, *viz.*, Berar and the Nagpur Division. In the North-Western Frontier Province the gross debt per family of land-owners was put at an average of Rs. 428 while the corresponding figure for tenants was Rs. 189. The varying importance of the different financing agencies is shown by the following provincial estimates made by some of the Banking Committees :—

*United Provinces.*—Town moneylenders, 28·3 ; Village moneylenders, 5·1 ; Landlords, 39·9 ; Tenants, 13·7 ; Co-operatives, 5·3 ; Government, 2·0.

*Central Provinces.*—Mahajans, 82·71 ; Landlords, 11·8 ; Co-operatives, 2·89 ; Government, 2·6.

*Madras.*—Moneylenders, 31 ; Ryots, 47 ; Co-operatives, 17 ; Government, 3.

An idea of the prevailing rates of interest may be obtained by the following average rates or ranges of variations of rates given by some of the Provincial Banking Enquiry Committees. The rates given by the Bombay Committee as sowcar's rates for the different tracts are : Maharashtra (irrigated tracts) 12 to 24. Maharashtra (famine tracts) 18½ to 36. Gujarat 9 to 18. The Central Provinces and Berar Committee notes that the common rates on secured and unsecured loans that have to be paid by the Berar cultivator and the Central Provinces landlord are 15 and 18 and 10 and 15 respectively. The Central Provinces' tenant who had no transferable rights could not obtain any accommodation at less than an average rate of 25 per cent. According to the United Provinces Committee the rate for a loan on mortgage of land in that Province will vary from as little as 6 to 18½ per cent, 12 per cent being the most common figure. The rates for unsecured loans vary from 18½ to 37½ per cent, the most common rate in all parts of the Province being 24 per cent.

In most other cases estimates were made for particular villages or areas and consequently show very wide variations. The Bengal returns of debts of members of co-operative societies showed that on an average 40 per cent of the total debts of such members were owing to private financial agencies.

6. Since the reports of the Banking Enquiry Committees, no comparable All-India review of indebtedness has been made. There have, however, appeared some studies of small tracts or extensive surveys of Provinces which give information regarding the

variations in conditions since the reports of the Banking Enquiry Committees. Two main events of the last 15 years specially merit attention. In the first instance, it is necessary to estimate the effect of the agricultural depression of the early thirties on the total debt situation and secondly, the results of the considerable change in economic situation brought about by the rise of prices and other conditions during the war, have to be evaluated. The immediate effect of the depression was, no doubt, to intensify the burden of the debt and to increase it not only in real terms but also in money terms. *A priori* considerations lead to this conclusion. Some factual data in support of it are available in the results of enquiries such as those conducted for the United Provinces Debt Relief Committee. Reports from Revenue Officials and others, in response to the questionnaire issued by the Committee, all indicated that the payment of interest or principal had been practically suspended all over the Province and that even though new loans were made on a much smaller scale than before, they were in most instances of amounts significantly larger than the amounts of repayments. These reports also indicated that interest rates on new loans were definitely higher than on the older loans and that the total burden as well as the current charge in money terms relating to the debt on the agriculturists had increased as a result of the depression. The preliminary report of the Bengal Board of Economic Enquiry (1935) on rural indebtedness contains findings somewhat similar to these. Comparing the burden of average debt in 1933 with the burden of average debt in 1928 as reported in a survey of a sample of families drawn from all districts of the Province, it was found that in almost all the districts from which the sample was drawn the burden of debt had increased in money terms and in most instances it had increased substantially. The survey also revealed that the situation of the agriculturists relating to surplus of income over expenditure had materially worsened at the same time and that in 1933 there was on an average no surplus available. The survey made by Mr. Sathianadhan in Madras in 1935 led him to conclude that the burden of debt on the agriculturist had increased substantially during the course of the depression. Out of the comparisons made by Mr. Sathianadhan with estimates of the Banking Committee there arises the question of the long-term effects of the depression on the debt situation. The Madras Banking Enquiry Committee had relied on the series of statistics of mortgage values for arriving at an estimate of total debt of the Province. This series showed a change in trend during the depression period. The value of annual mortgages in Madras Province declined steadily after 1927, showed a sharp fall especially after 1930-32 and reached a very low level by the year 1939. The value of the instruments of mortgages registered during that year was nearly 40 per cent less than the annual average 10 years previously. If, therefore, the summation of values of a number of previous years' mortgages or the product obtained by multiplying

by an assumed figure the average value of years in the immediate past, was to be taken as indicating the total debt of the Province, the debt by the year 1936 should have decreased substantially below the level of 1929. Mr. Sathianadhan suggests that the multiple for arriving at the total debt taken by the Banking Enquiry Committee was an underestimate. The need for revision of an underestimate of the multiple, however, would apply equally to years both before and after the depression. This would, therefore, not support the contention that debt had increased in the post-depression period unless it was also established that the relation of the total debt of the agriculturists to the annual value of mortgages registered after the depression was different from what it was, say, before 1930. The mortgage data after 1930 do not necessarily support or involve such an assumption. It had been demonstrated by the Bengal Banking Committee and some others that the annual value of mortgages registered tended to follow, with a certain lag, the level of general prices and in particular the prices of land. The depression and post-depression data can be shown to be illustrative of this tendency.

7. While it is obvious that the depression would result in increasing the money burden of the debt during years immediately after its onset, it is not equally clear that the ultimate result would necessarily be to stabilize the burden at higher values than formerly. A large number of events springing from the depression must be calculated to leave their effect on the situation. In the absence of moratoria, assets would change hands leading to the cancellation of the debt involved. Because of the creditors' inability to recover claims in full there might be a considerable scaling down either voluntarily or on official intervention of the outstanding claims of the creditor class. As the new debt would both be required on a smaller scale and would be available also in smaller quantities the accruals after some years of depression would total much less than the averages of the pre-depression years. Unless therefore it could be shown that the pre-depression debt had a cumulative effect which could not be cleared by any of the processes mentioned above, the total debt, say, in 1938 or 1939, should not have been of an amount higher than that of the pre-depression period. Data are lacking to arrive at definite conclusions in this regard and such data as are available do not point necessarily to the same conclusions. For example, in the series of village surveys published by the Punjab Board of Economic Enquiry, two contain some information relating to the extent of indebtedness for years both before the depression and after it, for the villages surveyed. In one of these two villages—Durana Langana—the information given relates to the years 1925 and 1936. For both these years the information was obtained by a house to house enquiry. It showed that whereas in 1936 the number of families in debt and the proportion of families in debt to the total number of families were larger than in 1925 the

average debt per family as well as the total debt of all families together were definitely lower in 1936. On the other hand in another survey, that relating to Jamalpur, a random sample enquiry in 1935 gave results of average debt per indebted family distinctly larger than those yielded by a rather more exhaustive enquiry which had been conducted in 1925. In Jamalpur the two indebtedness data are not strictly comparable ; even so, the differing results have some significance.

8. If the effects of depression on the total debt situation are difficult to estimate, we are no better situated in relation to the movements during the war period. No results of factual investigations in any region are available for judging the effects of war on indebtedness. The results of enquiries made by the Reserve Bank of India with various Provincial and other Governments reveal certain qualitative trends without, however, giving any quantitative indications. Almost everywhere it appears that the agriculturists have tried to liquidate their old debts to the moneylenders, to the co-operative societies and to Government.

9. Most statistics which furnish some indication of the debt situation reveal a general movement towards repayment. The outstanding advances made by Governments under the Land Improvement Loans Acts and the Agricultural Loans Act today stand everywhere at a level distinctly lower than that in 1939. Co-operative Credit Societies have in most Provinces been able to reduce substantially their overdues and the advances made by them are also now on a smaller scale than before the war. In Provinces like Madras where the Land Mortgage Banking system is developed a considerable volume of advance repayments has been recorded. The values of instruments of mortgages have, no doubt, recently begun to show an upward trend. In the Madras series, to which reference has already been made the value of registrations in 1943 was substantially above that of 1939 but had not yet reached the 1929 level. On the strength of all this evidence it might be possible to hazard the opinion that the total indebtedness in terms of money stood in 1944 at a level lower than that in 1939 but that, at the latter date, forces were already in operation leading to an increase in the amount of this total indebtedness. The upward trend of the prices of agricultural produce appeared to be held in check. The rise in the level of agricultural costs had mostly caught up with the increase in the prices of agricultural produce and had in some instances even passed it. Thus while finance was now required for agricultural operations on a much larger scale the margin of profit which had during the period 1941-44 led to liquidation of old debts had distinctly shrunk.\*

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\* Latest information regarding the working of Land Mortgage Banks in Madras shows that the borrowings of the agriculturists from the banks have begun to mount up steadily.

10. While it is not clear that small agriculturists with uneconomic holdings have derived any real benefit from the rise in prices, the substantial cultivators and big landlords have everywhere repaid their old debts either in full or to a material extent. Taking India as a whole, although real rural debts and also the total money burden appeared to have become lighter, the spread of the liquidation of debts cannot be estimated for the various classes of producers. It is also not clear that the increased income is being everywhere utilised fully for the liquidation, in the first instance, of old debts and that it is not being used for either greatly increased consumer expenditure or for such purposes as of buying of extra land at highly inflated prices. In considering the post-war situation it is, of course, necessary to remember that the years ahead will not necessarily be as profitable to the agriculturists as those in the immediate past. The period of transition from war to peace economy is generally expected to be full of difficulties and may bear harshly on the agriculturists unless special measures are taken in that behalf. In the immediate post-war period it is also likely that forces making for rapid increase of the debt of agriculturists as at the end of the last war might again become operative. A changed relation between agricultural outlay and income with a generally high level of prevalent prices will bring about this result automatically unless deliberate steps are taken to avoid it.

11. The reports of the Banking Committees afford data in considerable bulk but of varying reliability relating to the burden of debt on agriculturists in India and its nature and distribution which all refer to the period just before the depression. The immediate effect of the depression was obviously to increase somewhat the money burden of the debt and very considerably its real burden. It is likely that in subsequent years the burden of money debt was reduced but it is not possible to say whether this reduction carried it below the level recorded by the Banking Committees and whether the real burden of the debt was stabilised thereby at a higher or a lower level. Another result of the depression was presumably the worsening of the position of the smaller producer and the loss on his part of some proportion of rights in land. The depression did not most probably have any important effects on the general terms of debt, its composition, its nature in relation to various classes of producers and the relative strength of various financial agencies. The events of the war period seem to have led to a general improvement in the situation of the agriculturist producers. The incidence of the total effects has, however, been very uneven. The differences are regional as well as between classes of producers within the same region. For some regions and classes a general reduction of the debt burden to within easy repaying capacity may be assumed ; in case of others the war might not have changed the situation materially from that existing in 1939. The regions and classes that have failed

to profit from the unprecedented rise of prices of agricultural produce during war years have evidently done so because of structural defects in their economies such as uneconomic holdings. The situation of these regions and classes could be improved only by planned efforts at reorganisations and rehabilitation. For the rest the situation in respect of agricultural indebtedness is at present better than it has been at any time during recent decades and might reasonably be ever expected to be under a *laissez faire* régime. The easing of the debt situation today might, however, prove to be no more than a passing phase. The aftermath of a period of artificially induced prosperity has, always in the past, been disastrous to the agriculturist. There is no reason to believe that in the transitional and in the post-war period history will not repeat itself unless special measures are taken to prevent this happening. Therefore, it is highly necessary that advantage is taken of the present situation to bring about a general adjustment of the debt burden and to raise a new structure of agricultural finance as part of the general reconstruction of the economy of the Indian agriculturist.

### CHAPTER III.

#### *Definition of the problem and of the conditions precedent to its solution.*

The problem presented to the Committee is that of suggesting means for the reduction of debt of the agriculturist producer and of sketching the frame-work of an organisation by which he might be properly financed in the future. The Committee was not expected to conduct investigations or undertake surveys in order to collect new data and it worked with facts and information already at hand. It has also not attempted to pass all these under a detailed review but has confined itself to such examination of them as was necessary for conveying an understanding of the nature of the problem set before it. What the Committee has attempted to do, in the light of its terms of reference, is to appraise the present debt situation, to estimate the nature of the financial problem before the agriculturist-producer in the post-war period and to indicate in a general manner how this problem could be best tackled. It should be emphasised that by its very nature the work of the Committee had to be confined to broad generalisations and over-all recommendations which would necessarily leave unnoticed some particular problems pertaining to each region or class.

2. It has been already indicated that the determination of the total volume of present debt was not an important preliminary for the work of the Committee. It was, however, necessary to appreciate the nature of the rural debt situation in India before the Committee could begin to formulate its proposals. The most important

aspects of this problem are the relation to his current income of the total charge that the agriculturist-producer has to bear for the services and repayment of his debt and the effect of the debt on his efficiency in production. From the data relating to the size of average debt, the proportion of the debt-free among cultivators, etc., given in the reports of Banking Committees and other surveys it is seen that conditions in this regard differ widely from region to region and from class to class. The broad differences are based, among regions, on the poverty or wealth of the region as a whole and the character of its agricultural economy. An agriculture which is carried on chiefly for subsistence will lead less to accrual of the debt burden than one in which the intensive cultivation of commercial crops plays an important part. Again, the nature of the debt burden in a region in which agricultural returns are precarious will be different from that in which they are comparatively secure. An absolutely heavier per capita or per acre debt would be much easier to bear in one instance than a small burden in the other. As between classes the debt burden might vary materially between owner-cultivators and tenant-cultivators. The possession of alienable rights in land undoubtedly makes for considerable difference in the extent and the terms of credit available to the producer. That the average burden on the tenant cultivator is lighter than on the land-owning cultivator is known to be a fact in most tracts of India. The net result of this might, however, vary from individual to individual or from region to region. It might lead to a better exploitation of potential land resources because of the more ample finance on easier terms that is available. On the other hand, it might lead to a general increase in indebtedness without a corresponding increase of productive capacity and end merely in the loss of rights in land by the present land-owning classes. It might be parenthetically noted, in this connection, that the Committee is concerned chiefly with actual producers ; and that it would not deal, on the one hand, with problems of purely wage earning agricultural labourers or on the other of rent receivers who play no part directly in productive enterprises.

3. The size of the average debt does not by itself convey much useful information regarding the real burden of debt. For this purpose it is necessary to have details relating to the purposes for which the debt was contracted, the recurrent charges to which it gives rise and the manner in which they are met. Above all, it is necessary to know whether the process of contraction of debt is, once initiated, cumulative. The process will be cumulative if, for example, the debt bridges a gap in a chronic deficit economy or is contracted under such terms that the return on its use is not sufficient to sustain the charge on its account. On most such questions some light is thrown by the enquiries into occasions or purposes of borrowing.

4. The reports of almost all Banking Enquiry Committees and of various other enquiries conducted into indebtedness contain some analysis of the purposes for which and the occasions on which debts had been contracted. Most of them also contain some quantitative evaluation of the total contribution of each purpose towards the debt burden. The classification of purposes made in these various reports is, however, not uniform as will appear from the following sample data culled from them.

5. According to the investigations conducted by the Bihar and Orissa Banking Enquiry Committee the different purposes for which debt had been incurred had been responsible for the following percentage of the total debt in the Province as a whole :—Repayment of earlier debt 18 ; Social occasions 19 ; Maintenance, housebuilding and repairs 16½ ; Rent 6 ; Cultivation and purchase of seeds and Manure 7 ; Purchase of cattle and improvements 8 ; Non-payment of interest 12 ; Litigation, purchase of land and trade 9 ; Unclassified 4½. The corresponding figures for the whole of Central Provinces and Berar given by the Provincial Banking Committee were as follows :—Old debts and loans 26·0 ; Marriage and other ceremonials 14·0 ; Maintenance expenses including results of scarcity and distress 7·0 ; Land Revenue and Rent 4 ; Cultivating expenses including wages of labourer, purchase of cattle, seed, manure, etc., 23·0 ; Improved agricultural implements 1·0 ; Field embankments and other land improvements 10·0 ; Purchase of land, etc., 11·0 ; Litigation 2·0 ; Business, etc., 2·0. Mr. Sathianadhan in his survey gives the following classification and percentages relating to total debt of 141 villages in the Madras Presidency. Payment of Prior Debts 25·1 ; Marriage and other ceremonials 10·5 ; Payment of land revenue 3·3 ; Relief of Distress 6·1 ; Agricultural expenses 10·0 ; Improvements to land 4·4 ; Education of children 1·4 ; Trade 12·9 ; Purchase of land 13·8 ; Construction of houses 5·6. Other expenses 6·9. The Punjab Provincial Banking Committee summarizes in an appendix the results of surveys of indebtedness conducted by the Punjab Board, all referring to years between 1924-27. The individual village percentages show wide variations. The percentages of total debt classified by objects for which the debt was taken in the five villages for which figures are given reveal the most important object to be cattle. The variation in this respect is from 15 to 39 per cent, the percentage in three villages being 29 or above. The next most important object is the repayment of old debt. In one village this accounts for only 2 per cent of the total debt, but in 3 villages it represents percentages of 23 and above. For marriages and funerals, etc., the most frequent percentage is 12 the highest being 28. Agricultural expenses other than cattle purchase nowhere rise above 10 per cent, and might be as low as 1 per cent while other domestic expenditure varies from 2 to 13 per cent and litigation has a similar range. The average results for three



villages of Dharwar district in which the Bombay Provincial Banking Committee conducted intensive investigations are as follows :— Current agricultural needs 17·6 ; Land improvement and purchase of land 8·0 ; Domestic requirements 11·4 ; Payment of old debts 20·7 ; Trade 4·1 ; Marriages and other ceremonials 19·4 ; Litigation 14·8 ; Miscellaneous 4·0.

6. Certain general features clearly stand out from the sample data given above and from the data contained in other similar surveys. The repayment of old debts is everywhere an important factor in the contraction of new debts. This emphasizes the cumulative character of the debt and the large extent to which debts are not liquidated in the ordinary course. We have little reliable data for measuring directly the extent to which the burden of debt is beyond the ordinary repaying capacity of the agriculturist-producer. In the absence of such data the part played by repayment of old debts among the purposes of borrowing must be considered as the most important evidence of the onerous character of rural debt in India. Most debt enquiries point to the ancient character of a great deal of the accumulated debt and show that frequent renewals make it difficult to ascertain with exactitude the period for which debts on an average run. The second feature which is exemplified by the data given above is the large part played by what might be called "unproductive purposes". Everywhere social and ceremonial expenditure is seen to be responsible for a considerable percentage of the total burden of debt. It is obvious that raising of debts for this purpose does not help to increase in any manner the efficiency of the agriculturist-producer. This factor must, therefore, lead to a considerable cumulation and perpetuation of the burden of debt. Thirdly, in most surveys purely consumer needs and "distress" circumstances are seen to assume an important rôle in adding to the total debt of the peasant. Finally, it is clear that debt contracted on development account such as for specific land improvement purposes is almost everywhere of an insignificant proportion. We are intimately concerned with the dynamic of the present debt situation. The statistical and factual data available to judge of this are not considerable and the analysis of the purposes of borrowing, of which a sample has been given above, constitute perhaps the most important of these.

7. Apart from throwing light on the manner in which the present financial system works these data also indicate the type of occasions and purposes in relation to which a financial system catering for the needs of the agriculturists might have to be built up and therefore gives some guidance relating to the manner in which it could be constructed. From the latter point of view it is necessary to examine further the data available in indebtedness surveys. As a first step we summarize in the following classification most of the categories mentioned in the foregoing accounts. The cultivator might borrow

in the first instance for current agricultural purposes such as for seed, manure, etc., or for payment of wages or for expenses in connection with the processing and marketing of goods. He might also borrow on current account for normal consumption expenditure, especially in relation to food, and he might also have to borrow to make payments of revenue or rent instalments. The cultivator may further borrow in order to buy livestock or agricultural implements or other capital requisites necessary for production. He may borrow for constructing wells, for building embankments or for any other measures of long-term land improvements. Outside these purposes which may be said to pertain strictly to his productive activity he may borrow for purchase of land, for construction of houses, for some supplementary trade or for the education of his children, etc. In addition and above all he might have to borrow for repaying old debts and for the social and ceremonial expenditure that he has to meet.

8. Looking into the data quantitatively, we see that the borrowing for current producer or consumer needs varies very greatly from tract to tract. In this connection it must be noted that the time at which a survey of indebtedness is made might materially affect the proportion, indicated in the survey, of borrowing on current account. If the agriculturist's producer or consumer economy is built in such a manner that for either or for both of these kinds of needs, he has to borrow at a particular season, the borrowing being liquidated in due course at the end of the season, then it must happen that the outstanding loan on current account would be large immediately before the close of the agricultural season and would be very small at the end of a successful harvest. In these circumstances the proportion of current debts to the total in a survey conducted soon after the close of the agricultural season will appear very small as compared with figures obtained in a survey conducted before the sale of the crop has begun to lead to the liquidation of current debts. Apart, however, from this factor, of the time at which the survey is made, the requirements of the agriculturist's economy also differ widely from tract to tract, in this respect. Broadly, in any economy where agriculture is largely practised for subsistence, where because of a lack of secure water-supply or other reasons intensive agriculture is not practised and the seeds or plants required are not costly, the finance required by the average agriculturist for current production purposes would bear a very small proportion to his total debt. On the other hand, where cultivation is intensive, the commercialisation of crops has advanced far and the agricultural season is protracted finance for current producer purposes will have to be on a comparatively large scale. In the same manner, there will be some tracts where ordinarily the average producer has no need to buy his grain from outside or to borrow for the purpose. On the other hand, there are large regions in which, as a rule, the average cultivator borrows for the purpose of buying foodgrains for consumption

needs for some months before the coming in of the new harvest. The variations from class to class of cultivators within the same region will depend on similar causes. According as the cultivator practises intensive and highly commercialised agriculture his need for producer finance will be great and according as the cultivator runs out of both his grain supply and his finance some months before the harvest, his need for current consumer finance will be urgent and recurrent. The requirements of finance for livestock and implements or for capital improvements in agriculture also vary somewhat from region to region. The variations in livestock and implements finance are perhaps less than in any other respect. This need is universal and the relation of its volume to the size of farm business shows a smaller degree of variation than that of any other aspect of producer finance. Capital improvement in agriculture, on the other hand, depends a great deal on the physical characteristics of particular regions. Its possibility and its character being determined in this manner the variations in costs of technical improvements are also considerable from tract to tract. The other purposes mentioned above, such as those of fresh investment in land or in houses, or the carrying on of trade or the education of children might be disregarded by us. Their volume cannot be related to the nature or size of the business of the agriculturist producers and the variations in requirements relating to them are individual and unrelated to factors relevant to this enquiry.

9. An examination of the purposes for which borrowing is actually made today is of use in building up the structure of future finance as it indicates the types of needs for which the financial system of the future might have to provide. It is obvious, however, that on our assumptions the financial system will not have to provide either for each of these purposes or for all of them in the same degree. The reorganisation of agricultural finance involves the readjustment of the existing debt burden to within the repaying capacity of the peasantry. Therefore, the condition precedent to the framing of any structure such as that contemplated by us is a general measure of adjustment of debts. If this adjustment is successful and if the structure that we recommend to be set up operates in the manner we expect it to operate, then the large part played, at present, by the repayment of old debts in the burden on the agriculturists would disappear. After the volume of the existing old debts has been adjusted the charge on its account will be fixed in terms of annual instalments for a period of not more than 20 years. In the event of the successful operation of the reorganised credit structure there will be no fresh accumulation and thus no dragging load of old debts at the end of the 20 year period. This, of course, assumes that the long-range programme works completely according to expectations and that all the risks and emergencies of the intervening period are fully covered and provided for.

10. In this connection it might be indicated that the proportion of the agriculturist producers who might be free from debt today does not necessarily indicate the proportion who would not require financial accommodation for all times. As will become clear, the present situation differs materially from the situation for which, in the post-war reconstruction effort, the financial structure is built up. The purposes for which borrowing is made today might indicate largely the defects and distresses of an agricultural economy. The rates and conditions under which finance is available might make it unattractive and unprofitable for the small producer to use it for productive needs. Freedom from debt today would thus mean no more than freedom from incidence of distressed conditions and ability to maintain a self-sufficient financial position within the existing financial and technical structure. In future, however, for a more thorough use of their land and livestock resources it is expected that a large section of such peasants as are free from debt today would seek finance provided it was available at reasonable terms especially if it was shown to lead to results which made its use profitable. The large proportions of tenant cultivators who are free from debt today emphasises this aspect. For, it indicates that freedom from debt might be as much a sign of lack of credit as of financial strength.

11. In considering the possible relative importance of the different purposes for which, in future, finance is required, the other consequences of the assumption of a reconstituted agricultural economy must be taken into account. It might, for example, be assumed that finance for payment of rent or revenue will not ordinarily be required if the instalments of these are properly timed. Also borrowing on account of ordinary consumer needs of the family in so far as this indicates a chronically deficit economy or is the result of an unduly heavy burden of debt service or of rent will disappear. On the other hand, with greater intensiveness in agricultural practice the need for production finance, both short-term and intermediate will increase in a varying degree. Large programmes of development and conservation will correspondingly call for long-term finance; and relief and rehabilitation finance will have to be specially provided. It is also expected that finance made available for such extraneous purposes as social expenditure will be determined not independently of the economic status of the producer but only in relation to the net surplus remaining with him.

12. In dealing with the purposes of future finance it is desirable to begin with a formal classification of these which will help in indicating how they can be best provided for and thus furnish the basis of the plan on which the future financial structure is raised. Such an analysis of the occasions of borrowing could be based on either of two sets of considerations. It could follow either the need which the debt was supposed to satisfy or the period for which it was

expected to run. In the broadest terms the needs to satisfy which finance was required could be related either to : (i) conduct of productive activity at normal levels of efficiency, (ii) development or conservation of resources, (iii) circumstances of calamity or distress. Debt might firstly be contracted for maintaining agricultural production at normal levels of efficiency. This will mean finance directly for annual production needs such as that for seed, manure, wages, etc., or for production needs, recurring over somewhat longer periods such as those for livestock, implements, etc. Maintenance of current production may also lead to borrowing for payment of rent, revenue, etc. It might also involve current consumption finance, that for food for the family. All these types of finance though directed to somewhat varying purposes are all required in the maintenance of normal current production. Secondly, finance might be raised for development. This would be ordinarily long-term and would be raised for developing fully the potentialities of the resources of the cultivator which are left unutilised in the course of his existing current productive activity. Improvements such as construction of wells, embankments, tanks, etc., or tree or orchard-planting would all fall under this category. Finance for conservation of resources might well be put in with development finance. In most respects efforts at conservation are closely related to development programmes. Land purchase would broadly fall outside development finance unless the land was required in order to make economic or otherwise fully utilise the land already in possession of the producer. Finally, there will be finance which might be called "distress finance" occasioned by the incidence of famine or flood or any other calamity. The requirements of such finance could be all the requirements for ordinary production needs and consumption needs ; such as food, or seed, or fodder, or manure, or the purchase of fresh livestock. They might even include types usually included under development finance such as the repair of any lasting damage done to the land.

13. Another way in which to classify occasions of borrowing would be to classify them by the period for which the loan is expected to run at the time of borrowing. The usual type of classification adopted is three-fold ; short, intermediate and long. All the current-producer and current-consumer finance mentioned above would fall under the category of short ; the livestock, equipment and implements finance would broadly fall under the category of intermediate ; while the finance for capital improvement, land purchases, repayment of adjusted debts, etc., would be long term. "Distress finance" would fall under the various period categories according as it was for current purpose or for an intermediate or for a long-term development type. The finance of that important category of purposes, social and ceremonial expenditure is broadly either intermediate or long term. However, its consideration cannot

be easily integrated with the consideration of the normal producer economy of the peasant and will be dealt with separately at a later stage.

14. The two-fold classification made above is related, as will appear in due course, to three important aspects of the financial structure—agency, security and help by the State. The division of financial requirements into normal production finance, development finance and distress finance has significance in relation to both the agency which could appropriately give the finance and to the extent to which direct help from the State might be expected. The classification by period of repayment is, on the other hand, of importance in determining the security or guarantee on the basis of which finance is extended and might also be an important consideration in devising alternative or separate agencies.

15. It is obvious that the purposes or occasions of borrowing which are capable of being ascertained in a fact finding investigation point merely to the particular circumstances in which particular debts were contracted. They give indications of the ordinary needs or the extraordinary circumstances on account of which the cultivator had to seek financial help. By themselves they do not constitute the causes of either the particular debt or the general fact of indebtedness. An enquiry into the causes of indebtedness would have to travel much beyond the investigation of each occasion of borrowing. It would necessitate a thorough study of all aspects of the agriculturist's life. The fundamental causes of indebtedness might be varied, and might pertain, for example, to the physical resources, the social environment or the psychological make-up of the cultivator. So far as they relate to structural defects of a non-financial character in the agricultural economy, we take them to lie outside the scope of this enquiry. Where they spring either from the structure or the working of the financial system itself or where the remedies for any malaise are indicated to be financial, we have attempted to deal with them. Where poverty is, for example, due to fundamental lack of capital or the cumulative character of the debt, is due to an unduly high rate of interest or to the peculiar structure of the money-lending system, its consideration will not lie outside the scope of this report. Any general enquiry into the causes of debt which might be tantamount to an enquiry into the poverty of the Indian peasant would, however, we feel, take us too much outside our terms of reference. As will be clear from later chapters we pay special attention to the problem of finance in conditions of a persistently deficit agricultural economy. Our main recommendations regarding the structure of agricultural finance must, however, be considered against the background of a general attempt at reconstructing the agriculturist's economy and at turning the peasant into a state of normal solvency. Non-solvency might arise from a large variety of reasons, such as the pressure of population,

the instability of agricultural prices or fundamental conditions relating to land tenure. It would not be possible for us to frame our recommendations in relation to the repercussions on the working and structure of the financial system of each of such various factors. We, therefore, content ourselves with noting at this stage that financial reconstruction could not be successful unless all problems of agricultural economy were tackled as a whole and unless the attempt to raise a sound system of finance was only a part of the general programme of reconstruction.

16. We might emphasise in some detail the points which appear to us to have a special reference to this question. For instance, the attainment of a balance between agricultural and industrial employment in each region is of the utmost importance. Without such a balance it would be impossible, in most tracts, to arrive at a general body of solvent agriculturist-producers. A solvent agricultural producer must necessarily command an economic unit of production. Such a unit will generally prevail only if diversification of employment and many-sided use and development of resources obtains not only for the country as a whole but also within each important region. It follows that attempts to arrive at the establishment of the economic holding and its continued maintenance together with such complementary efforts as that of consolidation of the cultivating holding and the prevention of fragmentation and sub-division must concurrently take place. The agriculturist producer with the economic holding must also be guaranteed continuity and security in production effort without which he would not have the proper incentive to make the best use of the resources at his command and certainly no incentive to incur long-term financial risks in order to develop fully their potentialities. Not only must the producer have guarantee of security and continuity, he must also feel sure that any increase in production that results from his efforts will not be taken away from him by increased charges by way of enhanced rents or tax burdens. A limitation of all these charges to the extent that the producer can economically bear must be effectively made in order to guarantee his continued solvency and effort. It would not be enough to give the agriculturists the needed land resources and make the fruits of its exploitation secure. It would be further necessary that his efficiency in the exploitation of those resources is progressively increased by increasing his technical competence and by diminishing the risks of failure of production that he has constantly to face. The security of water-supply is, of course, the paramount problem in India. Therefore the extension of irrigation in any of its forms or of the conservation of moisture or of soil by any types of programmes of bunding, etc., will, of course, be of the utmost importance. The element of risk in production continues to be large even with a secure water supply in both agricultural and animal husbandry. Schemes of individual and group insurance by

which these risks can be spread over to the extent that they cannot technically be eliminated will also have to be attempted. In order to improve the agriculturist's efficiency it will be necessary to make available readily to him technical guidance, agricultural, veterinary, dairy, etc. In view of the large measure to which the labour resources of the agriculturist and his family might be wasted even with some approach to the economic holding, the means for the full utilisation of this labour and of any of the by-products of the agricultural and animal husbandry industry or any other general resources that might be available to him, by the establishment of subsidiary or small scale industries and occupations will have to be explored. It will also have to be seen that the agriculturist producer gets a proper money return for his productive effort. This will involve the formulation of a proper currency and exchange policy ; the improvement of trade and transport facilities and mechanisms with a view to making the deduction from the price obtained by the agriculturist as small as possible and it will also mean some programme by which the prices which the agriculturist producer obtains for the products he sells are such that he is able to make a reasonable profit and maintain an adequate standard of living. Finally, it is obvious that the attainment of an adequate standard of living is not dependent entirely on the guarantee of a level of a money return. The spread of education among the agriculturists which will not only increase their technical competence but will also lead to the inculcation in them of concepts of better living and teach them to maintain a proper balance between their income and expenditure will have to be attempted. We mention these particular categories at this stage because at no later point of our report do we intend to return to the fundamental issues involved in the consideration of these measures of reconstruction.

#### CHAPTER IV

##### *Adjustment, Reduction and Compounding of old Debts.*

The need to borrow for repaying an old debt might indicate either that the terms and period of repayment were not properly fixed at the time of contracting the debt or that there had been a failure of expectations in some quarter during the intervening period. The former is evidence of a defect in the system of credit ; the latter possibly of a defect of the economic situation of the borrower. In case renewal of a debt was necessitated merely by an initial incomplete adjustment it would lead to no more than some inconvenience to the borrower and perhaps to somewhat increased cost of credit. On the other hand, if it was due to failure to repay in appropriate instalments because of inadequate capacity this would lead



to accumulation of the debt unless the failure was purely temporary. A burden of debt in which there is a significant element of renewal of old debts must have a dragging effect on the economy of the agriculturist. Because, the renewed debt would mean an extra charge on a current income which is already not adequate. Such an extra charge must lead to insufficient finance for current production and to a depression of the standard of living. If this situation is not relieved by any external or new factor it will end in bankruptcy. No information is available to judge in detail how far the debt situation in India in any part or with any class works out in a particular way. However, as indicated above, the large part played by repayment of old debts in the contraction of new ones, in all tracts, may be taken as evidence of the old debts having a dragging effect on the economy of the average agriculturist. An adjustment of the burden of old debt is, therefore, the initial problem which must be solved before a new structure of finance of agriculture is raised. Unless agricultural economy is freed of the incubus of a heavy accumulated debt it will not begin to function normally, and as long as the charge on the current income of the producer on account of the interest and repayment of old debts is not placed at a reasonable level the system of new finance will have no chance of successful operation. Therefore, the adjustment of old debts must be brought about in order to allow for the normal functioning of the economy of the producer and as a necessary preliminary to the reorganisation of agricultural finance.

2. We may begin consideration of this subject by passing under review the more important attempts made in the past in India at the adjustment of debts. In the Central Provinces during the period of economic depression resulting from the famine years of 1897-1900, the local panchayat which was used as conciliation agency under the supervision of a Government Officer, required the debtors and creditors to sign an agreement to abide by its decision ; it then made the creditors submit statements of claims and sign a declaration that the statement was complete and that any claim not listed should be considered as void. The debtor's paying capacity was then ascertained and the instalments were fixed on the basis of the rent or revenue paid. Interest was allowed only on overdue instalments at  $6\frac{1}{2}$  per cent on cash loans and  $12\frac{1}{2}$  per cent on grain loans while no interest was incurred if the default coincided with a suspension or remission of revenue payment by Government ; however, no special agency was created to redeem the compounded debts. The total debt conciliated during the period amounted to Rs. 206·29 lakhs and the amount remitted was Rs. 121·71 lakhs. The results achieved were due partly to a general wave of enthusiasm engendered among the creditors by the new idea, but greatly due to the exercise of considerable executive pressure. However, the enthusiasm of the start soon petered out and there was a severe reaction and in

some cases the creditors began to collect their debts with a vigour which caused much bitterness. An effort was also made during 1906-12 by the Government in Ranchi district to redeem the mortgage debts of the cultivators who were not beyond redemption by advancing loans at 6½ per cent. The loans were to be repaid in instalments over a period adjusted in relation to the amount of debt and the value of the debtor's holding.

Apart from these Governmental efforts, some co-operative societies in the enthusiasm of their early years tried to bring about some adjustment of debts but their efforts were successful only in a few places because the moneylenders would agree to a composition of debts only in bad cases. Co-operative land mortgage banks also tried to adjust old debts as far as possible through informal conciliation before paying them off ; but before 1930 these banks were only few and their operations were of a very small size.

Apart from the experiments at conciliation of debt referred to above the State tried to reduce the burden of agricultural indebtedness also by enacting certain debt relief measures. The first and foremost of such measures was the Deccan Agriculturists Relief Act of 1879. This Act, which was a direct result of severe agrarian riots in the Deccan, authorised the courts *inter alia* to examine the history of the debts, take an account of the past transactions, reduce unreasonable charges on account of interest and to spread the amount actually due over instalments. The courts were also at first permitted to appoint arbitrators to settle disputes pertaining to debt. However, this provision was later repealed presumably because the courts did not make any use of it. Another important provision of the Act enabled the debtors and creditors to apply to conciliators—to be appointed by the Provincial Government—to effect an amicable settlement of the debt. The Act also laid down the procedure to be followed on the receipt of such application. It was, however, found in practice that many moneylenders secured a place on the conciliation boards and always had the upper hand in them. In many cases the conciliators themselves colluded with the creditors and certified agreements (which the courts had no power to reject) favourable to the latter with the result that the purpose of the Act was nullified. No conciliation could also be effected in many instances. Therefore, the provisions relating to conciliation were repealed in 1911.

In 1899, the Contract Act was amended so as to empower the courts to give relief to debtors in cases of unconscionable bargains, on proof of undue influence or where the bargain contained any stipulation by way of penalty. However, this had little beneficial effect for obvious reasons. "In a country where the moneylenders are mostly men of education and intelligence and where the majority of borrowers are generally ignorant and illiterate it is extremely difficult to prove undue influence. It is equally difficult to prove

that the bargain is unconscionable, when the simple agriculturist or artisan is so severely pressed for accommodation that he has no free will at all, and ignorant that the rate of interest could be lower than the prevailing usurious rate, cheerfully agrees to the exorbitant terms offered. The consequence was, however excessive the rate of interest might be, there was no relief to be had in the courts even when the security was good and ample."\*

Another measure undertaken by Government to afford relief to the debtors was the Usurious Loans Act, 1918. It was based on Section 1 of the English Moneylender's Act, 1900. It authorised the court when it found that the interest was excessive and the transaction between the parties substantially unfair to reopen the transaction and to relieve the debtor of all liability in respect of any excessive interest. The court was, however, not to reopen any agreement purporting to close previous dealings and to create a new obligation entered into six years from the date of the transaction. By an amendment of the Act in 1926 the cases in which either party to a mortgage sought relief were brought within the purview of the Act. Excessive rate of interest was not defined but the courts were instructed to regard as "Excessive" a rate of interest which was in excess of what they thought reasonable after giving due weight to the risk undertaken by the creditor at the time of the loan, and the various other charges besides interest made by the creditor. The unfairness of the transaction was to be decided in the light of all the circumstances attending the loan including the debtor's need. The Royal Commission on Agriculture found that this Act was practically a dead letter in every Province in India and recommended that an inquiry should be made into the causes of the failure of the Act. The causes of the failure of the Act were inquired into by the various Provincial Banking Inquiry Committees. The District Judges and other judicial authorities who were consulted by the Bengal Provincial Banking Enquiry Committee on the subject gave the following reasons for the failure :—

- (1) Uncertainty of some of the provisions of the Act.
- (2) Failure of the debtor to plead the Act.
- (3) Difficulty of proving that the interest is excessive.
- (4) Difficulty in reducing the interest in the absence of any statutory rate.
- (5) Want of sufficient evidence to show the usual and prevailing rate of the locality.
- (6) Difficulty of establishing that a transaction is substantially unfair.
- (7) Want of sufficient evidence to prove that consent was obtained by undue influence or unfair means.

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\* Report of the Bengal Provincial Banking Enquiry Committee—page 164.

(8) Limited scope of the Act.

(9) Non-appearance of defendant.\*

The rule of Damdupat though not embodied in any statute was recognised as applicable in some places in determining the debt. The Bengal Regulation XV of 1793 prohibited the courts to decree a sum for interest greater than the amount of principal in any case. The provision was re-affirmed by the Bengal Regulation XXXIV of 1803 and also emphasised in a few other places. However, the High Court of Calcutta in rulings given during the last quarter of 19th century declared that the rule of Damdupat would apply in the town of Calcutta but not in any other part of Bengal. This rule according to another ruling of the same High Court applied both to secured and unsecured loans but only where both the original contracting parties were Hindus. According to Bombay High Court all that was necessary for the application of the rule was that the original debtor should be a Hindu. According to Section 6 of the Sonthal Parganas Settlement Regulation the rule applied to money debts in the Sonthal Parganas. Thus the rule of Damdupat before the beginning of the new legislative activity for the control of money-lending and relief of indebtedness in the thirties applied to the town of Calcutta, Bombay Presidency and Sonthal Parganas only.

Some of the other enactments of the State had also the effect of keeping down indirectly the volume of agricultural indebtedness, *e.g.*, by restricting the transfer of land through the Land Alienation Acts as in the Punjab or by the exemption of certain properties of the agriculturist from attachment under the Civil Procedure Code.

3. These sporadic and sometimes localized efforts referred to in the foregoing paragraph were mostly temporary palliatives which did not act on the whole problem and did not achieve anything permanent and substantial even within their limited fields. The setting in of depression in 1930 produced country-wide distress and brought into bold relief the acuteness of the problem of agricultural indebtedness and the need to deal with it in a manner more comprehensive than had been attempted hitherto. The period, therefore, witnessed a great legislative activity in many parts of India, to afford relief to agricultural debtors. Such relief was partly provided by improving upon or extending the scope of existing measures. For instance, to make the Usurious Loans Act more effective, it was amended by various Provincial Governments making it obligatory for the court to use its powers under the Act if the interest charged was excessive or the transaction was unfair. Amendments made in some Provinces also specified the rates beyond which interest was to be regarded as excessive. Further, the law of Damdupat was

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\* See Report of the Bengal Provincial Banking Enquiry Committee—Page 166.

made applicable in several Provinces. In certain Provinces provisions were made for abolishing the arrest and imprisonment of judgment debtors and extending the scope of the exemptions of properties from attachment or sale in execution of decrees. In some Provinces the minimum amount of debt which entitled a man to apply for insolvency was lowered from Rs. 500 to Rs. 250. In one of them the upper limit of debt which entitled a debtor to be dealt with under Section 74 of the Insolvency Act was raised from Rs. 500 to Rs. 2,000. It may incidentally be added here that the provisions regarding insolvency were not availed of by the agriculturists partly because of ignorance and partly because of a sentimental objection against being declared insolvent ; and any future scheme regarding insolvency will have to take note of this. Some of the Governments passed Acts staying the execution proceedings in respect of the sale of land pending the passing of a more comprehensive legislation. However, the main measure of relief which constituted a departure from anything attempted so far was the provision for debt adjustment through the agency of Debt Conciliation Boards or/and in a few Provinces the Debt Relief Courts.

4. The method of debt adjustment through the boards was one of voluntary conciliation. Debtors as well as creditors could apply to the Board for adjustment of debts. On receipt of an application the board required the debtor to submit a complete statement of his assets and liabilities and all his creditors a list of their claims within a specified period. The claims not mentioned in their lists by creditors, without reasonable grounds, were deemed to have been discharged for all purposes and for all occasions. The boards enjoyed the powers of a civil court in several respects such as enforcing the attendance of parties and witnesses and calling for records. Having received the necessary information, the boards attempted to effect an amicable settlement between the parties. If the creditors to whom not less than a certain percentage of the total debt was owing came to a settlement with a debtor, such a settlement was reduced to a written agreement showing the total amount of debt to be repaid and the manner of its repayment. In some of the Provinces, for example, the Punjab, the boards were empowered to effect a settlement between a debtor and any of his creditors irrespective of the amount of debt involved or its percentage to the total debt. In Bengal the boards were also empowered to declare a debtor insolvent when his debts, reduced in the manner prescribed were beyond his repaying capacity over a specified period. In order to induce the creditors to come to settlement with debtors some of the Provinces provided for a priority in the repayment of adjusted debts and made the defaulted instalments recoverable as land revenue. Again, if the creditors refused to accept an offer which appeared to be fair to the board the latter was empowered to grant a certificate to the debtor, the effect of which was to disallow costs and limit the rate

of interest to 6 per cent in any subsequent suit to be instituted for the recovery of the debts so certified. In some of the Provinces if the creditors to whom a certain percentage of the debt was owing, came to a settlement with the debtors, the board was empowered to enforce the settlement on the remaining creditors subject to certain conditions. The awards of the boards were final and could not be called into question in any civil court. The boards, however, could review their previous orders under certain circumstances. In many of the Provinces an appeal was provided against the award of the board to the Collector. The presence of lawyers in any proceedings before the board was usually forbidden.

5. In Central Provinces the Debt Conciliation Boards were abolished by repealing the Debt Conciliation Act, 1933, after it had been in force for a period of about  $6\frac{1}{2}$  years and Debt Relief Courts were set up in their stead under the Relief of Indebtedness Act, 1939, to deal with cases pending before the boards at the time and with all new applications that might in future be preferred to the courts. The method of persuading the creditors to come to terms with the debtors provided under the Debt Conciliation Act was done away with and the courts were empowered to reduce debts in respect of both the principal and interest according to prescribed scales depending upon the dates on which they were contracted, subject further to the law of Damdupat and the provisions of the Usurious Loans Act. The court reopened all transactions made 12 years before the last transaction or before 1st January 1932, whichever was earlier and ascertained as far as possible the date on which each loan was originally advanced. It then calculated interest due according to a prescribed schedule, or the agreed rate if lower. Further it reduced the principal amount by 30 per cent, if the debt was incurred on or before 31st December 1925, by 20 per cent if between 31st December 1925 and 31st December 1929 and by 15 per cent if between 31st December 1929 and 31st December 1931. If the debtor had transferable property and was willing to transfer it to repay the whole or any part of it, the court could sanction its transfer on such condition as it thought necessary to impose in order to safeguard the interests of the secured creditor and those whose claims were exempted from the operations of the Act. If all the debt could not be satisfied thus, the court fixed the instalments for the repayment of the balance on the basis of the debtor's repaying capacity. The Act expired on the 17th July 1942 but was extended for the disposal of pending cases. The Agriculturists' Relief Acts in Madras and Sind also provided for the scaling down of debts of small agriculturists by the courts on more or less the same principles as in Central Provinces. It may incidentally be mentioned that the Act in Madras was in force along with the Debt Conciliation Act and there was a certain amount of overlapping of jurisdictions.

6. Complete and up-to-date statistics are not available about the whole of India to appraise the effects of the working of the machinery for the conciliation of debt during the period of its operation. In some of the Provinces the debtors appear to have received a fair amount of relief. Thus, in Bengal till the end of March 1944, a total debt of Rs. 5,016·02 lakhs had been scaled down to Rs. 1,796·28 lakhs representing a reduction of 64 per cent. In Central Provinces and Berar the boards were able to settle debt of Rs. 1,561·02 lakhs to Rs. 774·85 lakhs, *i.e.*, to an amount a little less than 50 per cent. Similarly in the Punjab during one year, namely, 1939-40, debt of Rs. 91·45 lakhs was reduced by Rs. 55·6 lakhs. The Relief Courts established in Madras and Central Provinces scaled down claims of Rs. 931·21 lakhs and Rs. 428·09 lakhs to Rs. 444·00 lakhs and Rs. 299·8 lakhs respectively. As regards the repayment of conciliated debts complaints were general before the beginning of the present boom period that the debtors were not particularly anxious to honour their obligations and defaults were not uncommon. The data collected by the Agricultural Credit Department of the Reserve Bank of India show that according to some of the Provincial Governments the Debt Acts had weakened the sense of morality of the people and in many cases agriculturists with sufficient repaying capacity were holding out in the hope of getting further concessions. The rise in agricultural prices has, however, changed the position and the better type of agriculturists who have really been benefited from it are reported to have liquidated their debts on a large scale.

7. These measures of adjustment though considerably more comprehensive than those taken during the predepression period did not prove adequate. They did not aim at a permanent solution of the chronic problem of agricultural indebtedness but were in the main designed to meet the situation arising from a sudden and steep fall of agricultural prices. Also in almost all instances, the work of adjustment was considered apart from the problem of rebuilding the financial structure. The chief limitation of debt conciliation provided under the various Acts lay in its being almost entirely voluntary. Even the machinery of Debt Relief Courts set up in three Provinces to scale down debts could not come into play unless a debtor invoked its help. As there was no efficient alternative credit agency available to finance the current needs of the cultivator he was often loath to antagonize his only financier, the moneylender, by approaching the debt conciliation board or a debt relief court in respect of his past debts. The new measures also failed to create any response among the moneylenders as no agency was set up to redeem the scaled down debts. Nor did conciliation cover all agricultural debts. In the first instance a number of items such as Government dues, debts of co-operative societies and joint stock banks arrears of rents, etc., were excluded from the purview of conciliation. Secondly, the jurisdiction of the boards in several

Provinces was limited to debts below a certain maximum varying from Rs. 500 in Assam to Rs. 50,000 in the Central Provinces and Sind. In some, the debts below a certain minimum were also excluded from their jurisdiction.

8. The Bombay Agricultural Debtors' Relief Act, 1939, however, provides an exception to the general trend of legislation referred to above. It breaks away from the depression complex to a considerable extent and tries to tackle the chronic problem of agricultural indebtedness as a whole and not merely to grant immediate relief. It provides for the compulsory adjustment of debts not exceeding Rs. 15,000 of cultivating agriculturists by Debt Adjustment Boards established in each area. Every debtor and failing that every creditor on the pain of the debt being deemed to have been discharged, has to apply to the Board within a stated period for the adjustment of the debt. The Government, the local bodies and the co-operative societies are to reduce their claims against a debtor and intimate to the Board, the debts due to them and the amount of remission they are prepared to give. In regard to other debts the Board is to go into the history and merits of each case more or less on the lines of Deccan Agriculturists Relief Act, determine the fair amount due and reduce it according to prescribed scales depending on as to whether the debts were incurred during or before the depression ; for loans incurred before 1st January 1931, separate accounts of principal and interest were to be made up to 1st January 1931 and the principal and interest dues were each to be reduced by 40 per cent or 30 per cent according as the loan was advanced before 1st January 1930 or between 1st January 1930 and 1st January 1931 ; in the case of loans borrowed after 1st January 1931, only interest was to be reduced according to a prescribed schedule. The amount so arrived at was to be further reduced to the paying capacity of the debtor, which was to be the aggregate of the following items :—

- (i) If the total secured debt is less than 80 per cent of the value of the immovable property subject to the liability of secured debts (excluding the property acting as cover against Government obligations or exempted from attachment or sale under the Civil Procedure Code) the difference between the amount of the debt and 80 per cent of the value of the property.
  - (ii) 80 per cent of the value of the immovable property not subject to the liability of the secured debt ; and
  - (iii) 80 per cent of the value of other assets. If the market value of any income-yielding assets is not known, it is taken as equivalent to the income capitalised at 6 per cent per annum. After assessing the debtor's paying capacity, the debts are reduced *pro rata* as follows :—
- (i) If all the debts are unsecured, they are reduced to the value of the paying capacity.



- (ii) If all the debts are secured, and their total exceeds 80 per cent of the value of the debtor's property they are reduced to 80 per cent of the value of such property.
- (iii) If debts are both secured and unsecured, and the secured debt exceeds 80 per cent of the value of their security, the secured debt is reduced to that figure and the unsecured debt is reduced to 80 per cent of the value of the remaining property.

After reducing the debts to the paying capacity of the debtor, the Board makes an award for their repayment in instalments. The total annual instalments cannot exceed 25 in number and each instalment cannot exceed the debtor's net annual income. The net annual income is taken to be the balance of annual income left after making deductions for maintenance of himself and dependants and for repayment of loans borrowed for the financing of crops and of debts due to Government and local authorities. If during the proceedings before the Board or otherwise a debtor and any or all his creditors arrived at a private settlement, it would be void unless it was submitted within 30 days to the Board which would record and certify it after ascertaining if it was *bona fide* and in the interest of the debtor. The creditors had the option to receive the adjusted debt in instalments spread over a period not exceeding 25 years or receive immediate payment in Government guaranteed bonds to be issued by the Provincial Land Mortgage Bank or other authorised banks, in case they (the creditors) agreed to reduce the amount further so as not to exceed 50 per cent of the value of the immovable property of the debtor. The Board may order the sale of a debtor's property at any time during the proceedings before it, if it is in the interest of the debtor to do so. Appeals against certain decisions and awards of the Board are allowed to a civil court. A debtor against whom an award has been made cannot borrow in future except from authorised sources. However, no provision was made for financing him during the adjustment proceedings. If the debtor has no sufficient paying capacity the Board declares him insolvent and takes steps to realise his estate. It may be mentioned that the measure was enacted by the legislature in 1939. It was, however, brought into force in 1942 in a few areas in the presidency. It has now been applied to more areas. It is yet too soon to appraise the results of its working.

The working of the Boards, however, revealed several defects in the Act, and Government amended the Act in April 1945 and made the following provisions:—

- (i) The period for submitting debt adjustment applications was reduced from 18 months to 6 months.
- (ii) Scheduled banks were placed in the same category as the Government, local bodies, co-operative societies, etc., in

the matter of intimating to the Board debts due to them and the amount of remission they were prepared to give.

- (iii) Where the decree or order of a civil court did not specify the principal and interest dues separately, the Board was to take them as two-thirds and one-thirds respectively of the total amount due.
- (iv) In view of the present inflated prices and land values, the debtor's paying capacity was reduced from 80 to 60 per cent of the value of his assets.
- (v) The maximum number of annual instalments was reduced from 25 to 12.
- (vi) To safeguard the interests of persons advancing crop finance to a debtor during adjustment proceedings and also to prevent unscrupulous moneylenders from exploiting him during this period, the bar against alienation of property by the debtor was to operate from the time the application was made.

9. The special situation created by the depression has eased chiefly because of the recent rise in the prices of agricultural produce. This has, however, not benefited all regions and classes uniformly and cannot, therefore, be said to have eliminated the problem of the accumulated debt. The continued existence of the burden of old debt in any substantial part of the field will prevent the effective creation of a sound system of agricultural finance. We must, therefore, begin by suggesting the broad lines along which the solution of this problem has to be found. As the process of adjustment of debts is to be undertaken not so much to give relief in particular instances or circumstances as mainly to effect a general clearing up as a preliminary to raising the new structure, its operation must be universal. Also the process could not be made to wait upon the consent or voluntary action of either creditors or debtors. The general aim defined above also indicates the objectives of this universal adjustment. These are the reduction of the accumulated debt to a level where it does not act as a drag on productive activity and the elimination of the adjusted burden by appropriate stages. In order that the old debt should not act as a drag on current or future activity it is necessary that its size and its terms allow of its being gradually liquidated without impairing substantially the capacity of the producer to finance current production or without depressing his standard of living. It is nationally wasteful to maintain a class of peasants in possession of land who are unable to utilise properly their productive opportunities. Faced with the problem of a burdensome accumulation of debt, the policy of Government could be directed either towards reducing compulsorily, to the proper level, the burden of debt or towards replacing the well-nigh bankrupt peasant with one who starts under better financial conditions. One

or the other of these approaches could be adopted universally or better still a system could be devised by which the appropriate approach is adopted in each particular case. So that, where the adjustment effort is feasible within reasonable limits, it is made and the present producer continued in his activity and where the existing burden is too heavy to be easily adjusted insolvency proceedings are set in motion and a new set of operators appears on the scene. We proceed, in the light of these considerations, to outline the broad features of our scheme of adjustment.

10. The debts of agriculturist producers, *i.e.*, of those whose subsistence is in main dependent on agricultural production and animal husbandry, should be taken up for examination and adjustment on a compulsory basis by a special machinery to be set up for the purpose. The debts of such agricultural producers as have no hereditary or transferable interest in land should be taken up for compulsory adjustment only on application having been made by the borrowers. All the debts of all agricultural producers who have hereditary or transferable interest in land should, however, be compulsorily adjusted without waiting for applications from borrowers. This difference in treatment is necessary in order to avoid hardship to peasants, *e.g.*, lessees of market gardens who are able to obtain credit even though they possess no fixed assets. Arrears of rent should be treated as debt; the current rent charges should, however, be excluded. Debts due to co-operative societies should be adjusted only with the consent of the Registrars of Co-operative Societies, who would determine the extent to which these societies could grant remission without jeopardising their existence. The reason for our recommending a preferential treatment to co-operative societies is partly because their dealings are generally fair and partly because we want them to play an ever-increasing part in financing agriculture and would, therefore, suggest the minimum possible interference with their operations.

11. The work of adjustment should be entrusted to judicial officers or boards adequately manned by judicial officers. All proceedings before the boards should have the status of judicial proceedings and the decision of the Boards should be final. No party should be allowed to be represented by a legal practitioner as a matter of right. Each judicial officer or Board should be assisted by a staff of experts to assess the repaying capacity and the value of immovable property, etc. While a great many details relating to the determination of the value of property and of repaying capacity must be left to the expert appraising staff, legislation must broadly indicate the main factors to be taken into account in determining both. This would be specially necessary in regard to repaying capacity. It would not be satisfactory to define this in terms of the value of assets, as, apart from not giving in this case an independent measure, it would miss its main objective, that of indicating the result of recurrent

effort. Repaying capacity might be determined, in certain instances, in terms of rental or of value of gross produce. But properly speaking, an attempt should be made to estimate both the value of gross output of the producer's business as well as the working and living expenses and other incidental charges so as to get as close an approximation to net capacity as possible.

12. The work of adjustment should be completed within a specified time which should not be more than two years. We appreciate that the work is of large dimensions but there is distinct danger in slow and piecemeal effort. The work is to be accomplished in a dynamic economy in which the passing of time is likely to breed new forces that may disturb the results and may retard progress. Rapid action alone will ensure success in a task like this. Moreover, the problem is to be tackled in its totality on a countrywide scale and each area should work to a schedule so that uniform progress may be achieved and the success attained in one locality may not be foiled by the lag of effort in another. An early adjustment will also facilitate the functioning of the new scheme for the finance of agriculture that we are proposing and will enable the relieved agriculturist to commence sooner a new and free life of productive activity, unhampered by the heavy burden of past debt. In order to enable the work to be completed according to a schedule and within a definite period the law should require all creditors to submit all their claims against agricultural producers with the necessary documents in support thereof within a specified period, the opening and closing dates of which should be prescribed, any claim not so presented to be deemed to have been discharged for all purposes and for all occasions unless for special reasons provided in the Act. However, the period for reviving the claims should be specified even under the special reasons for which they could not be submitted in time. The debtors should also be made to submit a statement of their assets and liabilities before definite date.

13. After the necessary data have been assembled the adjustment agency should scrutinise each account and go behind the entries as is provided in the Usurious Loans Act and the Deccan Agriculturists' Relief Act. The Deccan Agriculturists' Relief Act authorises the court to ascertain whether the creditor's claim or any particular entries can be opposed on the ground of fraud, mistake, undue influence, etc. If the claim is free from such defects, the court proceeds to take an account between the parties. Capital and interest accounts are separated ; over-written amounts and interest charges periodically converted into principal are disallowed. On the outstanding principal simple interest at a fixed rate (which would now be in accordance with the rates laid down in each Province under the Usurious Loans Act or other Acts) is calculated. Credit is given for all payments by the debtor in cash as well as in kind, including the money-equivalent of any profits,

services and advantages of every description obtained from the debtor. The balance if any is the amount to which the creditor is entitled.

We suggest that the rule of *Damdapat* should also be applied to determine the fair amount due from a debtor. According to the rule of *Damdapat*, the amount of interest recoverable at any one time cannot exceed the principal. The rule, however, does not forbid the conversion by subsequent agreement between the debtor and the creditor of the interest in arrears into capital; when a fresh bond is passed by the debtor for the principal and interest due under the old bond, the principal for the purposes of the rule of *Damdapat* is the amount of the fresh bond. We recommend that the law of *Damdapat* should be defined so as to mean that in no case should the total repayments exceed double the amount of principal originally lent.

After the fair amount due from a debtor has been determined as a result of account-taking and applying the Usurious Loans Act and the rule of *Damdapat*, the next step should be to assess the present value of the debtor's normal repaying capacity over 20 years at the rate of interest suggested below and the normal value of all his immovable assets encumbered and unencumbered. In case the fair amount due from a debtor exceeds his repaying capacity so determined or half the value of all his immovable assets this amount should be further reduced in the following manner. The total debt, secured and unsecured, should be reduced to half the value of all his immovable property or the present value of his repaying capacity whichever is less provided that in no case is a secured debt reduced to less than 50 per cent of the value of the property on which it rests. In bringing about the reduction in the claims of the debts that are secured and unsecured it should be seen that the proportion allowed of a secured debt in terms of the value of the property on which it rests is in no case smaller than the proportion allowed of the amount of unsecured debts to the total amount of such debts.

The reason why we recommend the scaling down to be limited to not more than 50 per cent of the value of immovable assets is that, as discussed later, we want the adjusted debt to be paid off in lump to the creditors by transferring it to a land mortgage bank or a State agency. For this purpose security to the extent of double the lump value of the compounded debt would be absolutely necessary. We have also to provide for some margin for financing the current productive activity of the cultivator whose debts are adjusted. The present value of the repaying capacity should be worked out on the basis of a lending rate to be laid down by Government for the purpose.\* The land mortgage bank or State agency which takes over

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\* Cf. The following account of the manner in which similar calculations were made under the Rural Mortgagors' Final Adjustment Act, 1934-35,

the adjusted debts should also not charge a rate higher than this. Areas where Land Alienation Acts are in force will require somewhat different treatment in regard to debt adjustment and its liquidation as discussed a few paragraphs below.

It is unnecessary to argue in detail in favour of the two-fold limit of adjustment suggested by us. We start from the premise that the agriculturist producer must be placed in a position where he enjoys a minimum standard of living and is adequately financed for efficient production. The definition of annual repaying capacity provides that the minimum living, by current standards, will not be entrenched upon. The limit of half of the value of real assets provides for the maintenance of the necessary financial margin. Apart from developmental programmes, even intermediate finance would in many instances require possession of assets that could be mortgaged. If the burden in respect of the old debts exceeds half the value of the real assets, no margin for such finance on, say, a second mortgage would be left. This is apart from the fact that in normal banking practice more than fifty per cent could not be raised for a purpose which does not increase the value of the business and meeting the burden of old debts must be placed in this category. Even from the point of view of the creditor the total repayment that an efficient producer can appropriately make over a 20-year period represents the reasonable maximum of expectations, short of selling up the debtor. The limits suggested by us would not, therefore, operate unfairly towards the creditor class, especially when viewed in the light of our recommendation for immediate settlement of claims in a lump sum.

14. When an agriculturist debtor has no hereditary or transferable rights in land, the adjustment of his debts will depend only on the measure of his repaying capacity. If the debt fairly adjusted of such a debtor exceeds by a given proportion, to be prescribed in law, his total repaying capacity, the Board should adjudge him an insolvent to be dealt with compulsorily under a simple insolvency procedure. When the fairly adjusted debt of an agriculturist debtor who has hereditary or transferable rights in land exceeds by a given proportion, to be prescribed in law, his total repaying capacity or half the value of his immovable assets (whichever is less) the Board should adjudge him an insolvent. Such a debtor should be dealt with

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New Zealand. "The productive value is found by capitalizing the net annual average income derived from the farm lands during the operation of the stay order at a basic rate to be determined by the Court. To arrive at the net annual average income, there is to be deducted from the gross income all expenses, other than capital expenses deemed to be incurred in the production of this gross income. Such expenses will include living and working expenses, together with interest at a rate to be determined by the Court on the average annual value of stock and chattels, as well as rates and taxes. They will not include interest on mortgages on the land." J. G. Goates. Adjustment of Farm Debts, 1935, p. 15.

compulsorily under a simple insolvency procedure irrespective of the amount of debt or the value of assets involved. A provision should be made in law for a summary administration of the debtor's estate whereby all the property of the debtor may be realised with all reasonable despatch and distributed wherever practicable in a single dividend. The extent to which our recommendation will lead to insolvencies will depend upon a number of variable factors such as the burden of accumulated debt, the prevalence of economic units, the level of prices of land, the measure of repaying capacity adopted, etc. We would, however, insist that the provision of proper relief and of proper avenues of employment to such insolvents as part of either agricultural, industrial or other reconstruction should claim the first attention of Government. We are also anxious that the control over properties of producers that are adjudged insolvent should not be dispersed haphazard. We, therefore, recommend that the immovable agricultural property belonging to debtors, dealt with under the insolvency provisions, should be transferred to the development and rehabilitation administrations, whose establishment we recommend later, at a price determined by the Board in its process of adjustment. All the properties so acquired by the development and rehabilitation administrations shall be managed or disposed of by it with a view to the best utilisation of the resources of the land through either co-operative effort or the establishment of a solvent peasant class.

15. The experience of the working of debt conciliation shows that one of the reasons why it failed to realise even the limited purpose of its conception was that there was no arrangement for immediate compounding of the total claims. Where a debtor could make arrangement for lump payment, creditors were readily agreeable to compound their claims. Although under the scheme of compulsion proposed by us a creditor has no choice, we feel that the moral value of an arrangement for immediate payment will be considerable and there would be left thereby less real ground for discontent among the moneylending classes. Since the amount of adjusted debt will not in any case exceed 50 per cent of the value of the landed property of the debtor, the taking over of such secured debt by an institution would not in any way involve a sacrifice of business principles. We, therefore, recommend as an integral part of our scheme of debt adjustment that all the debts awarded under it should be paid off to the creditors immediately by borrowing from a land mortgage bank or a Credit Corporation to be set up by the State. The Co-operative land mortgage banks where they operate in an area may be given the first claim to take up the business in that area. They should be free to judge each case as a business proposition according to their own standards as regards the assessment of the paying capacity and the valuation of land, etc. When for any reason any cases in such areas are not taken up by the

Cooperative Land Mortgage Banks they should be financed by the Agricultural Credit Corporation. As a special appraising staff will have already evaluated the assets and repaying capacity of each debtor and as the Boards will have properly scaled down old debts, no difficulty should be felt by the Corporation in undertaking the long-term finance of all those debtors. We do not also feel that it would be necessary for the Corporation to revalue the assets, etc., of debtors and are of opinion that it should proceed on the basis adopted in the award of the Board. In areas where no Co-operative Land Mortgage Banks operate, all cases of adjusted debts would be financed by the Agricultural Credit Corporation. The land mortgage bank or the Corporation which has provided the finance to pay off the adjusted debt will recover the amount from the debtor in instalments over a period not exceeding twenty years.

16. The problem of adjustment of debt and its liquidation will require somewhat different treatment in areas where Land Alienation Acts are in force and the rights of the agriculturist to transfer his land are restricted. Under these conditions the land mortgage banks might find it difficult to play any part and the work of debt repayment will entirely devolve on the Governmental agency which will be in a privileged position to recover the debts from the agriculturists as land revenue. In adjusting the debt it may, however, be necessary to utilize some standard other than that of 50 per cent of the value of the land so that the adjusted debt does not exceed the amount that the creditor can hope to recover under the existing law. These details will have to be worked out by the Provincial Governments concerned. What we would emphasize is that, in these areas as in others, all debts of agricultural producers should be adjusted and paid off immediately in lump.

17. We fully realise that as a result of the scheme of debt adjustment that we have proposed the entire system of agricultural credit in the country is likely to be thrown out of gear. The agriculturists may find it hard to obtain loans for current needs during the transitional period and this may have serious repercussions on the agricultural economy of the country and may create difficulties even in the introduction of the scheme. We, therefore, recommend that the adjustment of debt should invariably synchronise with and be accompanied in every region by the provision of agencies of credit alternative to the private creditor and by the regulation of the operations of private agencies on the lines suggested by us elsewhere in the report.



## CHAPTER V

*Mode and extent of State Finance in normal times and circumstances.*

The adjustment of debt that we visualise would seek, once for all, to liquidate the accumulated effects of an older system of finance. If this is not to be fruitless and is not to be followed by a recurrence of the older sequence of events the process of adjustment must be accompanied by a reconstruction of the financial structure. It has been already indicated that the credit needs of the peasant will have to be looked after even while adjustment is taking place and the process of bringing the new machinery into being will have to proceed side by side with the process of adjustment itself. One cannot wait upon the other because if the new credit machinery is not available at the moment the adjustment process begins, this defect during the period of transition will have created, by the time the new machinery is set up, conditions which will make its functioning difficult. In the chapters that follow we describe what we consider to be the main needs of the solvent peasantry, the agencies which could appropriately meet them, their respective rôles and the regulatory systems under which they should work. The special problems of the non-solvent peasantry are dealt with separately in a manner which will make the machinery for financing these classes operate as supplementary to the general system without disturbing its essential structure.

2. After the completion of the process of adjustment a single financial agency which covers the entire field of all credit to the agriculturist-producer would appear to be the most logical solution of the problem. The advantages of this are obvious. The control over credit of such a system would be complete. The volume of credit as well as the uses to which it is put could be co-ordinated and regulated to the highest degree and the whole system could properly implement the social policy of the State and the working of economic controls. However, there are many difficulties which make it impossible to think of following this course of action. A single agency will necessarily be, in existing circumstances, a State agency. The financial and administrative problems created by an attempt to finance all agriculture through a State agency would be so large and so complex that it is not likely that they could be dealt with successfully. The attempt to cover every need of every peasant will mean the formation of fully articulated agencies in each area and would mean the handling of a complex business on a scale absolutely unprecedented. We do not feel that such an experiment could be attempted with success in the present state of development of administrative technique, tradition, and personnel in India. It is also likely that the extent of regimentation and dictation by the State in respect of the details of the life of each producer will

be so large in such a system that it might, in existing circumstances, be widely resented and lead to untoward results. Therefore, we do not feel that the creation of a single credit agency to cover all financial requirements would be feasible or that it is desirable, at least immediately.

3. The Committee, in considering this question of the lines on which the financial system of the future should be built, has decided to adapt its recommendations as largely as possible to existing structures and work along the lines of present developments. This is not because of any desire on the part of the Committee to adopt the line of least resistance. The Committee, however, feels that the attempt at an overall reconstruction of the economic and social life of our people that is going to be made in the post-war period will put such a strain in all directions on national resources in men and money that any scheme which demands a large and complex new agency and would not work without a very large inflow of additional resources, might court failure. Further, the data available at present for dealing with the problems of financing the small-scale producer in the large number of varying situations in which he is placed in different parts of the country and in different types of enterprises are extremely meagre. The technique of dealing with these varied problems has yet to be experimentally established ; in the absence of the evolution of such technique it would be both unduly ambitious and unwise to recommend the building up of a single uniform system.

4. Even though an attempt to cover the whole field of agricultural finance completely by a single financial agency would be too ambitious, the idea of setting up a financial agency as an alternative to existing agencies in all areas should not prove unworkable. Today the field of agricultural finance is almost entirely unregulated and the dominant rôle therein is that of the private moneylender who operates on a comparatively small scale. The moneylender might in many parts combine this rôle with that of a trader or that of the landlord. He might in some cases be an entire outsider living in a town, small or large, or might in other cases belong to the social and economic class of the agriculturist-producer himself. Whatever that might be, the finance of agriculture rests in the hands of a very large number of private individuals who are ordinarily in a much superior economic position to that of the agriculturist-borrower and whose charges and methods of business are such as to impair considerably the agriculturist's incentive and capacity towards efficient production. The main problem, therefore, is to provide an alternative source of finance on reasonable terms to which an agriculturist could have resort if he is so minded. The vast business of the moneylender class cannot be all taken over by any other agency within a short period. But it is possible to affect the working and character of this business immediately. One means of affecting this business is, of course, that of legal regulation, which we discuss at a later stage.

An even more effective way of affecting it is, however, the provision of a suitable alternative. There is little doubt that if every agriculturist-producer who had need of raising funds could approach an agency other than that of the private moneylender and be sure of obtaining for all reasonable purposes finance on reasonable terms, the charges made by the moneylender and the methods of business adopted by him would immediately change for the better to an appreciable extent. We, therefore, recommend that the main aim of the reconstruction of agricultural finance in the immediate future should be to provide the producers in all areas with such an alternative agency.

5. Theoretically, the ideal agency for the purpose would be a complete system of Co-operative finance. The definition of our aim, however, involves rapid and planned action all over the country and we cannot rely on the co-operative agency meeting this requirement adequately. There is a general feeling among co-operators today that it would be undesirable to lose the peculiar co-operative character of their institutions by making them creations of an external authority and liable to considerable control from outside. In the absence of externally planned establishment and control it is difficult to guarantee that the agencies will be available in all the places where it is necessary to have them. Therefore, a system that, it is desired, should begin immediately to function as the ubiquitous competitor of the moneylender would have to be brought into existence and worked by the State itself.

6. In principle there is nothing that is novel in this idea. The Land Improvement Act, 1871, and the subsequent Land Improvement Loans Act of 1883 definitely accepted the principle of the need for Government undertaking finance of agricultural improvements. The Agriculturists' Loans Act of 1884 extended the scope of State finance in such a manner that it came practically to cover all purposes. The main section of this Act empowered local governments to make rules as to loans to be made to owners and occupiers of arable land for the relief of distress, the purchase of seed or cattle or any other purposes connected with agricultural objects. It is interesting to observe that in his speech in the Governor-General's Council at the time of introducing the Land Improvement Loans Act, Sir Stuart Bayley emphasised the fact that the Land Improvement Act, 1871, had been unsuccessful largely because it still made it necessary for the cultivator to resort to the moneylender for his current needs. One of the important ideas under consideration of Government at the time of passing the Land Improvement Loans Act was that Agricultural Banks might be brought into existence working under certain conditions and enjoying certain privileges. The Agriculturists' Loans Act expressly provided for loans being made to village communities or associated agriculturists and for facilitating their settling among themselves the share in which such

loans should be recovered. The Agricultural Banks contemplated at the time of passing the Land Improvement Loans Act never came into existence and the Agriculturists' Loans Act had practically no effect other than that of extending the system of Takavi. It is still of importance to note that there is nothing new in the suggestion that Government or an officially sponsored agency should attempt to meet, as an alternative to the moneylender, all the financial requirements of the agriculturist producer and that the proposals made by us involve no striking departure from principles already accepted. It is true that the extent of direct Government assistance given at present through those two Acts is very small and that almost no developments of importance have recently taken place in this system.

7. There is very general agreement that even the limited system of existing State loans in India has failed and also agreement in respect of the reasons for this failure. The Irrigation Commission which dealt in detail with this question pointed to a number of defects, such as the high rate of interest, rigidity of collection, the onerous terms regarding periods of repayment, delays in distribution and conditions relating to securities required, etc.\* We may compare these with the analysis contained in the report of the Punjab Land Revenue Committee, 1938. This Committee was of opinion that the unpopularity of Government loans was due to the petty exactions of the subordinate revenue staff, delay in obtaining money, the necessity of repaying on a fixed date, the failure of the revenue officers to take any interest in the grant of loans and little account being taken of harvest conditions and the borrowers' ability to repay when an instalment was due.† With regard to the charge regarding lack of interest shown by the revenue officials it is interesting to note that the Irrigation Commission had also held that the principal and first measure required for the success of these loans was to quicken the interest of all classes of revenue officials in the work and they specially compared the efforts of the revenue department in giving loans with the operations of the Opium Department which had every year advanced large sums to cultivators of opium, both for current cultivation as well as for improvements such as the construction of wells. It is clear, therefore, that the difficulties which have resulted in the comparative failure of State loans so far, have been present almost since the inception of the system and that if the alternative agency is to work successfully some other lines than those of the present Takavi work will have to be contemplated.

8. In the first instance, the experience of the past clearly indicates the necessity of separating the administration of State loans from the operations of the Revenue Department. The Revenue Department is chiefly concerned with the collection of revenue and its

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\* Report Part I, Chapter VI.

† Report of the Land Revenue Committee, Punjab—pages 98-99.

outlook is so dominated by that purpose that the essentially developmental work of the administration of loans cannot be properly managed by it. The work on the scale we contemplate would also be so large that it cannot be accomplished as a by-product of the work of the Revenue Department. It is interesting to note in this connection that the Famine Commission of 1880 had recommended the administration of the land improvement loans through the Agricultural Department. They had suggested the advisability of entrusting this work "to the officer of the Agricultural Department in each district who should make it his peculiar duty to encourage the landed classes to look to Government rather than to moneylenders for advances of this kind, should advise them as to objects on which money can most usefully be laid out and should supervise the proceedings of the native agency through whom the details of the procedure must ordinarily be carried on".\* The connection of finance with land improvement and with progress in technical methods will, it is hoped, be very close in the post-war period and this makes it specially necessary that the agency employed in distributing loans should be one which will be more concerned with the developmental aspects of agriculture than can be expected ordinarily of officers of the Revenue Department.

9. However, the mere transfer of the administration of State loans from the Revenue Department to another more directly connected with development will not meet the requirements of the case. We should like in this connection to distinguish between two types of financial assistance or accommodation to be given by the State. The present loans for agricultural improvement and the present administration of Takavi are closely connected in their origin and operation with times of famine or distress. In operations of this type, direct State agency seems unavoidable because in them finance is closely connected with other measures of relief of distress and maintenance of order. Financial dealing has in these measures to be connected with a certain amount of outlay on relief. It would not be possible for finance connected with relief, and as we add later with rehabilitation, to be entrusted to an agency other than a Department of the State. The whole of this subject is in our opinion, of very great importance, and we discuss it in a separate chapter later. At this stage we confine our attention to the normal operations of State agencies in respect of the finance of the solvent peasantry and we have to see how our recommendation regarding the creation of an alternative agency to provide for the needs of such peasantry in all areas can be best implemented. Departmental action, in this respect might not always be suitable. The question of cost and delay in administration of loans could not be easily solved while the administration was completely of the departmental type. Further,

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\* Report Part II—Chapter IV, Sec. III—page 144.

it is important that the financial agency should be run, as far as possible, on business lines. Apart from any specific measure of relief given by the State such as financial help for reduction of rates of interest the operations of the agency must be conducted on strictly commercial lines. Otherwise there is considerable danger of recurrent crisis which may have even undesirable political effects. The Indian Central Banking Enquiry Committee made the following comments on the possible extension of the Agricultural Loans Act. "All the Committees are unanimously of opinion that the Act should be confined to times of emergency and stress and are not in favour of using the Act more extensively in normal circumstances." As part of the effort to meet the problem created by the depression, the Government of Madras extended the scope of the Agricultural Loans Acts to cover the finance of agriculturist to enable him to repay old debts. An attempt was made, following this extension, to distribute loans, of considerable amounts in the aggregate to small agriculturists throughout the Province to relieve immediate distress and to avoid foreclosures by moneylenders, etc. The experience of the problems met with in this distribution and the subsequent recovery of advances does not also warrant assuming the efficient working of a direct State agency for the purpose.

10. It might be suggested that the existing co-operative banking organisation might be developed to function as the general alternative agency. A number of considerations rule out this possibility. In the first instance, co-operative banking organisations in all the Provinces are not equally strong. In some, *e.g.*, Bihar, parts of the co-operative structure had to be completely rebuilt, in others the organisations are still weak or are in the process of rehabilitation. Secondly the co-operative organisations have to be essentially autonomous bodies ruled largely by their own members. Government supervision exercised over these organisations should be indirect. It would not be possible to use them as instruments for implementing Government policy unless their autonomy was interfered with to such a large extent as essentially to change their co-operative character. Any suggestion to maintain the general co-operative pattern and only increase official control is not likely to lead to happy results. For, as has been pointed out "a credit institution in the hands of debtors and run by a body of bureaucrats"\* is not likely to be very efficient. A number of problems would also arise in linking the co-operative banking structure with non-members. It should be the essential policy of the alternative agency to try and afford credit to all agricultural-producers. The field covered by co-operative banks is again nowhere so large as to lead to any substantial duplication of effort because of the creation of a system of State agricultural banks. It is in this connection important

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\* M. Palyi—Principles of Mortgage Banking Regulation in Europe (1934) page 7.

to note that the U.S.A. system of Federal Land Banks was originally conceived of as essentially a borrowers' organisation. However, from the start provision of capital and direct control by the State in its central organisation were considerable. The agricultural depression led to a further increase of this so that today the apex banking in that country is no longer autonomous and has been completely integrated in the general State system of agricultural credit.

11. In discussing the possibility and propriety of utilising the co-operative structure to meet the need that we have in view a distinction must be made between the Central Financing Agency and the Primary Credit Organisation. The problem of the primary credit organisation will be discussed in some detail later. The need for seeking an alternative to the co-operative pattern at the primary stage is chiefly due to the uncertainty of progress of the co-operative effort. If it could be guaranteed that co-operative credit organisations could be set up to programme and could be made to work at minimum efficiency all over the country there would be little objection to relying almost entirely on co-operative effort in this case. The central financing agencies are chiefly the Central Banks and the Banking Unions and the Central Co-operative Land Mortgage Banks. Over many parts of India the working of the central financing agency does not differ materially from the pattern that would be adopted by a *quasi*-official Credit Corporation. The constitution of Central Banks provides in many cases for a mixed membership of individual shareholders and of the societies which are financed. The idea put forward by the Reserve Bank that the Central financing agency should be modelled on a strictly co-operative pattern and should take universally the form of a banking Union for comparatively small areas, "has not been generally received with favour in co-operative circles".\* Further, even in Provinces like Bombay and Madras where the working of Central Banks has been comparatively satisfactory proposals have been seriously put forward, though not countenanced by the majority of co-operators, for the abolition of the autonomous Central Bank unit and the centralisation of all the business at the provincial level.† Again in one Province, Sind, no district units exist and the Provincial Bank deals through its branches directly with the village societies in the whole Province. The Provincial Bank finances primary societies through its branches in many districts even in Bombay. The essentially co-operative character of this type of finance is obviously much less apparent than even in the case of the District Central Banks. In a number of Provinces the membership of the Provincial Bank is open

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\* Review of the Co-operative Movement in India, 1939-40. Reserve Bank of India, 1941.

† Cf. Report of the Bombay Banking Enquiry Committee, page 173 and Report of the Committee on Co-operation in Madras, 1939-40, Chap. VIII.

to individuals as well as to societies and in many instances there is direct official representation on the boards of the Banks or control over their working. In land mortgage finance there are primary units corresponding to District Banks. But these units are ordinarily not autonomous and act in the main as agencies for the Provincial Land Mortgage Banks. The constitution and working of both the Provincial and District Land Mortgage Banks further show much fewer traces of the specific co-operative element. In most of these, control and supervision by the State over working are much more evident. Attention has to be drawn to these features of the development of co-operative finance and financial structure for India chiefly in order to indicate that even with the development of such co-operative effort as has taken place, the central financing structure in the cooperative movement has contained from the beginning and continues to have a varying but substantial measure of State supervision and control and of centralised working. This is in spite of the fact that co-operative organisations have so far been established and grown in environments which were favourable to co-operative effort. Even in these environments in land mortgage banking centralisation is supreme and State control is universal, while in the ordinary finance the degree of centralisation and outside control is still considerable. Also the last decade revealed considerable weaknesses in co-operative central financing organisations in many parts of India. Therefore, not only does the co-operative structure in this sphere not offer any special advantage but it would also not be wise to depend on the progress of the co-operative movement to fulfil generally the requirements of the new financial structure indicated by us.

12. We have seen that the most important desideratum of the immediate future is affording to all agriculturist-producers a credit agency which could serve as an alternative to the private money-lender. Private institutional credit is most undeveloped in India and little can be expected from this source. It is not also possible for the co-operative movement to supply the need. There are serious objections to extending the scope of State loans and undertaking all finance direct through a department of State. It follows that the alternative agency of credit must be an autonomous public corporation established by the State and operating under general official supervision and direction but whose day-to-day working and normal business transactions are largely conducted on an independent basis. Such corporations exist and operate in many countries of the world today. The control of the corporation after the pattern prevalent in most countries, should be in the hands of executive officials and a board with a tenure for a fixed term of years appointed by the State. The capital of the financial agency will have to be provided chiefly by the State. It will be ordinarily desirable for the State to provide at least half the capital. There are examples of



State credit organisations whose entire capital is provided by the State. The Canadian Farm Loan Board is an instance in point. The specially significant feature about this is that originally the capital of the Canadian Board was partly subscribed by Provincial Governments and each borrower was also expected to become a shareholder. In 1934, these provisions were changed by special legislation and the Dominion Government came to own the entire capital itself. Private shareholding in the Mortgage Corporation of New Zealand was eliminated by special legislation in 1936, and the scope of its activities was widened and its name changed to that of the State Advances Corporation at the same time. In Egypt half the capital of the Credit Agricole d'Egypt has been taken up by the State and the other half is subscribed chiefly by joint stock banks operating in Egypt. However, the main controlling officers of the Egyptian Bank are nominated by Government; its statutes have to be approved by Government and its activities are subject to a general Government veto.

13. The basic region for the State system would be the Province or the State. In U.S.A., Canada, South Africa, etc., one organisation works for the whole federation. In Canada, however, Provincial organisations exist parallel to the Federal system. The diversity not only of economic circumstances but also of conditions relating to land rights and of public opinion relating to agricultural policies are very large in India. The powers of Provincial Governments also seem likely, in any future constitution, to be considerable in agricultural and general developmental matters. So that it would be better, at least initially, to have separate credit organisations for each Province. The large disparity in development is also emphasised by the varying fortunes of the co-operative movement in the various Provinces.

14. The Provincial Agricultural Credit Corporations should be organisations at least half of whose capital is held by the Provincial Governments and which operate throughout a Province, through a network of local agencies and sub-agencies. The conduct of the affairs of each Provincial Agricultural Credit Corporation should be in the hands of executive officers appointed for a term of years by the Provincial Government and its policies should be framed by a Board consisting chiefly of nominees of Government and representatives of other shareholders. The other shareholders, if any, should, however, be all institutional. As the Bank would play an important part in implementing a planned programme of agricultural development it would be neither necessary nor proper to introduce the private individual shareholder in its structure. It might, however, be helpful to associate in the operation of the bank other elements of the general credit system. This could be done by inviting these, as in Egypt and other countries, to subscribe to the share capital of the bank. These shares should be placed only with selected credit

institutions, chiefly the joint stock banks and co-operative banks and marketing organisations. The policy of the Agricultural Credit Corporation might have to be so framed that its share capital would not earn dividend at least in the initial stages. This also makes it necessary not to think of private shareholding. It would, however, not be too much to expect commercial and industrial banking organisation to lend a helping hand in the adequate finance of agriculture by subscribing to the share capital even with no assured prospect of dividends.\* Some of the nominees of Government will be officials. In making the other nominations to the Board, Government should secure special representation of those engaged in agriculture, and in working co-operative organisations.

15. We recommend that Agricultural Credit Corporations set up in each Province should provide all types of agricultural credit. A case is often made out for separate agencies for loans for different periods and in the co-operative movement in India land mortgage banks have been set up as entirely distinct organisations from other parts of the co-operative structure. We may cite in this connection the following observations of M. Tardy. "It is very difficult to say whether a distinction between agricultural credit institutions according to the nature and length of the loans they grant is desirable or not, that depends on circumstances. The strict enforcement of banking practice would imply such a separation, but there are, at the same time, practical objections to it. The farmer prefers to apply to a single institution for all the forms of credit he requires. Moreover, a single organisation is better able to judge of the general position of an agricultural borrower."† We should like to emphasise the last aspect mentioned by M. Tardy. We visualise a general process of the adjustment of old debts by which the producers whose debts have been adjusted will leave their lands mortgaged either to the Co-operative Land Mortgage Banks or to the Provincial Agricultural Credit Corporations. It is highly desirable that the State agency financing these debtors should be the same as that with whom their lands are mortgaged. It might be noted that the Canadian Farm Loan Board is authorised to lend for all the following purposes on a first mortgage of land—"to pay debts, purchase live-stock or farm equipment, to make farm improvements, provide for expenses of farm operation, or to assist in the purchase of farm lands". The Board can make loans further on a second mortgage for all the above purposes excepting the purchase of farm lands. The South African Bank, though in the main a mortgage bank, is also authorised to

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\* Cf. "The task of freeing E. German farmers from over indebtedness was entrusted to the German Industrial Bank because it was felt that industry should supply the funds which would bring about an improvement of the agricultural situation and thereby lead to a revival of industrial activity".

Walter Bauer : *Agricultural Credit in Germany*, 1939, pages 33-34.

† L. Tardy : *Report on System of Agricultural Credit and Insurance*, 1938, page 13.

make advances of most kinds for all purposes including cash credits on the security of crops. The advances for operational expenses to sugarcane-growers is a feature specially noted in the Bank's Annual Reports. In U.S.A. where separate organisations for separate purposes have grown up in the course of development of the rural credit system the need was recognised in 1933 for unifying their control and direction. So that today even though there are formally four different sets of central institutions in each District or region, they are all located in the same town, housed in the same building and constitute in effect a central agricultural credit organisation for each district, the District Farm Credit Board being, *ex-officio*, the Board of Directors of each of the four district institutions. All the district organisations are co-ordinated and directed by the National Central Organisation—the Farm Credit Administration. In Egypt where the chief concern of the Credit Agricole d'Egypt is with the provision of crop finance it handles intermediate term and long-term business also. In Ireland the Agricultural Credit Corporation, Ltd., may make loans to farmers, Co-operative Societies and other persons engaged in business directly connected with agriculture. Among the purposes for which the Corporation may give credit are purchase of live-stock, manures, seeds and machinery, erection or repair of dwelling houses and farm buildings, land improvements and the funding of debts owing to banks, traders, etc. The usual objection to combining short and long-term business by one agency based on the relation between the term for which funds are available and the term for which they are invested would not apply in this instance as a substantial part of the capital and part, perhaps, of the working capital also of the Agricultural Credit Corporations would be formed of the funds provided by the State.

16. The Agricultural Credit Corporation will deal with any individual agricultural producer who applies to it for a loan for any purpose for which it is authorised to lend. It may also be possible, as we point out later, to organise borrowers groups for dealing with the Agricultural Credit Corporation. In dealing with both individuals and groups the methods of business of the Agricultural Credit Corporation will be similar to those of any other institutional agency, *e.g.*, co-operative banks. It is usual in discussions relating to agricultural credit to distinguish between mortgage credit and personal credit. The administration of the two types of credit involves somewhat different problems and the purpose for which the two are drawn upon are also generally different. However, there are trends operating today which blur somewhat these differences. On the one hand, emphasis has been placed in mortgage finance recently on repaying capacity or estimated earning power of the farmer over the series of years of mortgage rather than on the actual market value of the farm at the time of making the loan. The running value of a personal business has thus come to play an

important part in the estimation of mortgage credit as distinct from the absolute market valuation of a physical asset. On the other hand, so-called personal credit has come to be related to physical assets to a considerable degree. Current finance for farm operations is connected more and more with some sort of a charge on the crop. It is interesting to note in this connection that in Rumania in the event of default of the six to nine months' loans secured on crops, the security attaches automatically to the crops of succeeding years for a period of five years. Of even greater significance to us is the tendency apparent in some Provinces in India for co-operative loans of all kinds to be progressively secured by a charge on the assets of the borrower or for the limits of individual borrowings to be fixed rigidly in relation to the value of such assets. Thus, while on the one hand, personal credit and repaying ability begin to assume importance even in long-term finance, the value of physical assets figures prominently in short-term business also. This leads to the conclusion that whether for providing long-term or short-term finance some attention must be paid to both the factors concerned with the business situation of the agriculturist—the real assets owned by him and the nature of his personal business. For giving long-term credit on mortgage, the Agricultural Credit Corporation will have to conduct a full enquiry into the individual's assets and will also look to his earning capacity, etc. For intermediate credit, the specific charge on equipment or chattel might be reinforced by a collateral mortgage. The limits of short-term credit might be defined both in terms of value of real estate and of certain features of individual business. It is, however, obvious that a State Corporation working through agencies and sub-agencies would not be able to turn character into money as it might be claimed a co-operative credit society, especially one with unlimited liability, could do.

17. The scope of success for the operations of the State Corporations will vary with the various types of finance. In the field of long-term mortgage finance the success of State effort need not be doubted. In a large number of countries successful mortgage banking systems have been built up by States and it is generally admitted that the cost of an official or a *quasi*-official system and its efficiency compare favourably with the activities of private finance. In this field, even in the more advanced countries, co-operative mortgage finance departs to a substantial extent from the strict co-operative pattern and it is not very much different in its working to a State agency. Co-operative mortgage finance in India also stands in need of state backing. Thus there is little doubt that for making available mortgage finance immediately on a country-wide scale it would be best to resort to a State Agency which could undertake the work efficiently and expeditiously. The cost of finance by a *quasi*-official Corporation is not likely to be larger than that of private or

co-operative finance in this sphere. The finance in any case will be centralised and the operation through local agencies of appraising and other staff and its cost are not likely to be larger. On the contrary, if as has been indicated previously the finance of all whose debts have been adjusted is in the long-term necessarily taken up by the Corporation, this will bring to it an assured volume of work which would be much greater than that normally available to a private or a co-operative concern. The advantage is not equally clear with intermediate finance. This will be related not always to mortgages of real property but substantially to other assets of a less durable character such as livestock and plant or other equipment of farm. In this type of finance continuous contact with borrowers thus assumes importance and a local organisation of borrowers would prove very useful for the purpose. Intermediate finance is required specially in areas where mixed farming is common, where special weight attaches to animal husbandry or where agriculture is commercialised and special equipment is required for either cultivation or processing. For the finance of livestock or dairy business some kind of borrowers' organisations—co-operative or otherwise—would have to be created. The U.S.A. Intermediate Credit Banks which do not lend directly to individuals do considerable business with incorporated livestock loan companies. In areas of intensive agriculture, however, the more substantial farmers could easily deal directly with the Corporation. In this connection attention might be invited to the system of advances established in New Zealand for the provision of Rural Intermediate Credit. This system came into being as a result of the Rural Intermediate Credit Act of 1927 which constituted a Rural Intermediate Credit Board with a number of District Boards under it. Government made a grant to the Board for expenses of administration and could make advances to it. The Board had also power to issue debentures. The loans made by the Board were in the main secured by mortgages of chattels and by collateral sureties and were repayable within five years. The Board could make loans directly to farmers as well as to special associations established for the purpose under the Act and to co-operative societies.

18. Serious doubts might arise in relation to the provision by the Corporation of short-term finance to the agriculturists. In certain types of special business even this might not be difficult. For example, the finance of sugarcane cultivation through Sugarcane Societies in United Provinces is a type of business which the State Corporation could handle as efficiently and cheaply as any other financing agency. An older example might be cited in the finance of opium cultivation by the Opium Department. This was related to and fixed at so much per unit of area under opium sown by the individual cultivator. It is obvious that in both these instances the financing was made simple not only by the possibility of objective

definition of extent of finance in terms of area under a particular crop but by the fact that recovery was guaranteed by the exercise of control by State authority over the process of marketing and over the level of prices of the produce raised. If in the post-war period attempts at the stabilisation of agricultural prices and other similar policies lead to the establishment of considerable control over marketing and prices the work of a centralised financial agency in areas where important commercial crops are concentrated might not present much difficulty. But in the absence of such policies and aims and in areas where subsistence farming is still dominant the work of a State Corporation might neither be easy nor cheap. No doubt the State Corporation might not find it difficult to deal directly with the more substantial cultivators. The Corporation might especially attempt to finance all substantial cultivators whom it has already provided with long-term finance. The intermediate and short-term needs of such cultivators might be met on second mortgage of lands or on chattel mortgage or with some kind of crop charge. It is, however, the smaller cultivator especially in the less developed tracts whose needs of short-term finance a State Corporation might find it difficult to meet. There is little doubt that the best solution for this problem would be to induce such cultivators to form themselves into co-operative credit societies which are financed by the co-operative central financing agencies or, if need be, by the State Corporation. In case it is impossible to form co-operative credit societies in all such areas it will be necessary to create some kind of borrowers' organisations to form as a link between the local agency of a State Corporation and the large numbers of agriculturists-producer borrowers scattered over the countryside.

19. The main services that such borrowers' groups might perform are those of collecting the applications for loans and the information required in respect of them for all producer-borrowers in a locality and transmitting them to the lending agency. It might begin by being no more than an agent of the Corporation for joint transmission of applications and information and might slowly take on other functions or develop into an independent organisation. It must be admitted that this question bristles with difficulties. Many committees in the past have dealt with special aspects of it such as a joint security for tenant cultivators. It is not possible to prescribe any solution of general validity. All that we can emphasise is that it is necessary in parts where agriculture is not intensive, and where borrowers cannot be organised in producers' credit, marketing or sale societies to attempt some type of simple organisation of borrowers' groups in order fully to articulate the activities of the Agricultural Credit Corporations. The organisation of borrowers' groups is also generally necessary because in their absence the activities of the subordinate officials and agents of the Credit Corporations would be left without any check.

20. In Egypt the Credit Agricole makes three kinds of short-term loans (i) cash loans for cultivation expenses, (ii) loans in the form of seed and manure ; and (iii) loans against produce. For the cultivation expenses loans the Bank has framed limits based on the actual cost of cultivation of each kind of crop. For making the advances in kind the Bank has established a large number of manure and seed stores all over the country. Each application for a loan made by an individual farmer goes before a village committee consisting of the village headman, his assistant and the village tax-collector. This committee is required under law to verify the statements of the applicant and to make their recommendation. The application is, thereafter submitted to the sub-agent of the bank. The large majority of the applications for short-term loans are within the competence of the sub-agent to grant. The Agricultural Credit Corporation of Ireland whose main business is long-term and intermediate finance has a special scheme of tillage loans of not less than £20 and not more than £30 in amount. This scheme gives an opportunity to farmers to join together. Not less than two and not more than six farmers can join together to borrow. They can themselves determine the several amounts required by them and then apply jointly for a loan of the total amount. The security required by the Corporation is the joint and several promissory notes of the applicants maturing in twelve months.

21. In most credit corporations under State control the organisation of business is centralised and works through local agencies and sub-agencies rather than through a series of local bodies built up in a graded federation. The latter type though suitable to the co-operative structure will not be useful for operating a State agency, especially where a rapid expansion of activities and a uniformity of direction are felt to be necessary. The centralised type of organisation will, therefore, have to be adopted in India also. It will be clear that nothing that is definite or is universally applicable can be said regarding the number of agencies, etc., of the proposed Agricultural Corporations. The number of such agencies and sub-agencies will depend naturally on the volume of business available. And this will in its turn depend on considerations such as the agricultural economy of the region and the development, efficiency and charges of the other credit agencies in the tract. As has been indicated above the volume of long-term mortgage business should in all areas be comparatively large and widely spread. In respect of intermediate and short-term finance, at least initially, the volume might not be equally large or well spread. The method of business, the staff employed, etc., of the Agricultural Credit Corporation will, in respect of mortgage finance, closely resemble those of the Provincial Land Mortgage Banks and in respect of intermediate and short-term credit will be analogous to those of the business of the Bombay Provincial Co-operative Bank in the districts

where it deals directly with individuals and with primary societies. We have not been able to frame any quantitative estimates relating to the capital or the volume of business of the Agricultural Credit Corporation as these will differ widely from Province to Province. Each Province or State will have to prepare separately its scheme for the Corporation. For this purpose it will have to take account of the working of the legislation relating to adjustment of debt, the development of the co-operative movement, the operation of the private moneylending agency, the needs of specially backward areas, etc. The area and intensity of development of any Corporation's activities will depend on these factors as well as on the resources that Government is able or willing to spare for the purpose.

22. Two elements of special cost might, however, be considered in connection with operation of the system. Firstly, there is the element which comes in as a result of the recommendation we make later relating to maximum limits to rates of interest for both long and short-term finance. We do not feel that for the bulk of the ordinary business the rates recommended by us will require for their maintenance any considerable subsidisation by the State. However, in the less developed tracts the cost of administration and collection of loans as well as the risks connected with them might be large and might lead to substantial help from the State being required. The State might render this by such means as giving free use of substantial funds or by directly subsidising costs of administration, of supervision, etc. It should be emphasised that this is an element of cost which is connected not specially with the fact of finance by a State corporation but is inevitable if a limitation of the rate of interest, through whatever channel, is attempted. Secondly, an element of special cost will arise if the State corporation attempts, as it should do, to maintain agencies or offices in areas where the volume of business is not very considerable. This element of cost it should be remembered has again nothing specially to do with the working of the State Corporation. It merely follows from the necessity that is felt for providing a potential competitor to the moneylender in specially handicapped areas even though this means incurring special costs. It must be emphasised that the problem of finance in less intensively developed areas could not be solved unless a special effort was made in that direction and special costs incurred in that behalf. The goal that we have set up for the State corporation, that of being an ubiquitous alternative to the private moneylender can be fulfilled only if initially and for some time the State is prepared to incur expenditure on maintenance of offices of financial agencies, which might not be fully utilised or fully pay their way.\*

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\* The interest of Government in the extension of banking facilities and its readiness to subsidise the process was exemplified in the agreement with the Imperial Bank of India which stipulated the opening of a number of branches throughout the country in return of the privileges granted to the bank.



23. It has been made clear that in our opinion a co-operative organisation especially at the primary level is the most desirable one. The progress of co-operation cannot, however, be definitely depended upon and it would be not proper to leave unprovided areas in which co-operation does not make progress. We therefore hold that the agricultural credit corporations should be prepared to extend even short-term finance to individual agriculturists specially in such areas. The Agricultural Credit Corporation should pay special attention to areas where credit facilities through the co-operative movement are least developed.

24. Some remarks might be offered on the relation of the suggested Agricultural Credit Corporations with the existing structure of co-operative finance. There is no intention that the Agricultural Credit Corporations should replace co-operative banking where the latter is developed. Where, as in Bihar, the co-operative banking structure has been virtually scrapped or where, as in Orissa, there is no Provincial co-operative bank there is no reason why efforts should be made hereafter to create an apex co-operative bank. The Agricultural Credit Corporations could in these instances finance the co-operatives also. Where co-operative land mortgage banks have fully developed they might also be allowed to continue to function ; but in the Provinces where they have not made much headway there seems no reason why they should be specially encouraged to expand now. We suggest that the Corporation may finance co-operative societies where the appropriate higher co-operative organisations do not exist and that where the co-operating banking organisation is not in a position to give adequate finance the Corporation might supplement the resources of the Co-operative Organisation. In Egypt and South Africa and also in U.S.A. the apex banks affording finance to various types of co-operative societies are virtually State organisations. Where the ordinary co-operative banking structure with an apex bank is fully developed but where co-operative land mortgage banking is not similarly advanced there would be no need to make special attempts to develop it. The Agricultural Credit Corporations could handle all the agricultural mortgage business in addition to providing direct short-term and intermediate finance to those outside the co-operative movement. Where both normal co-operative banking and co-operative land mortgage banks are highly developed the Agricultural Credit Corporations will constitute a third system. In both these cases care must be taken to provide for the effective co-ordination of all the agencies and for preventing any overlapping of areas, duplication of effort or redundancy of finance. One of the main ways of avoiding duplication of effort would be for the offices of the various parallel organisations to act as each other's agents in areas where it was either uneconomic or otherwise unnecessary for all of them to have agencies or sub-agencies.

25. As has been emphasised before, the development of the co-operative super-structure is very different from Province to Province and its strength varies from even district to district in some Provinces. It might however be that in some Provinces government feels that the co-operative financial agencies are so strong and have such wide scope that all the work that we have indicated as in the sphere of the Agricultural Credit Corporation could be effectively taken up by the co-operative structure itself. In this case there would be no objection if a separate State Corporation is not set up provided, however, that some means are found for making finance through co-operatives available to all creditworthy borrowers. It follows that the co-operative structure in this case, would obtain the same measure and type of aids as those recommended to be given to the Agricultural Credit Corporation.

26. It should be made clear that while we contemplate State credit to the solvent peasantry being given through an independent public corporation this does not mean that the activities of the Corporation will not be closely co-ordinated with those of the departments of State. We would emphasise the close connection of finance with technical advice. The Agriculturist-producer stands in continuous need of technical and other assistance from the State Departments. All development and extension programmes will have their financial side and all financial operations have a technical context. We, therefore, expect that in both long-term developmental finance as well as in short or intermediate term crop and livestock finance the Agricultural Credit Corporation will work in close collaboration with the technical and other agencies of the State.

27. We might finally turn to a consideration of the rates of interest to be charged by the Agricultural Credit Corporation. We are concerned chiefly with the maximum rates and not the specially favourable rates that might be charged on specially sound business. In ordinary free market conditions the rate depends on both the risk inherent in the business and the cost of handling it. Thus it happens that the small peasant in the precarious tracts has to pay the highest rate when he can the least afford it. The Agricultural Credit Corporation need not, of course, adopt the point of view of the isolated individual moneylender and adjust its rate to each specific transaction. It will be in a position to average out its risks and returns and thus maintain a greater degree of uniformity in terms and to favour the economically disadvantaged classes and persons. However, averaging would by itself not always suffice to bring the rate down to limits that might be considered reasonable. It is universally recognised that agricultural production, especially in a country like India, cannot economically carry finance at high rates of interest. The rates have to be reasonably low for current or intermediate finance and lower still for development finance. Broadly  $6\frac{1}{2}$  per cent for current finance and 4 per cent for development might

be considered the proper limits. In order to finance the Indian agriculturists as a whole at these rates a certain amount of assistance from the State will be necessary. In the case of the Agricultural Credit Corporation the assistance will be direct and will be chiefly in the form of not expecting substantial or any returns on the State capital and funds with the Corporation. It has been found necessary even in U.S.A. for the system of agricultural credit to depend upon assistance of interest free funds from the State. It is likely that even with low interest or interest free funds the Corporations might not always be able to maintain the desired rates. This emphasises the need for the adoption, especially in India, of the credit principle that the greater the risk the greater must be the supervision of the loan. The rôle of supervision and guidance will be the largest in the most highly risky finance, that connected with relief and rehabilitation. However, even in the normal operations of the co-operatives and State agencies proper supervision of the use of loan must play a large part. This emphasises still further the need for the co-ordination of the activities of the local agents of the Credit Corporation with the field staff of government giving technical assistance to and supervising the business of agriculture and animal husbandry.

28. It is not necessary to reinforce, by referring to the practice in other countries, the need for the subsidisation of agricultural credit by the State. The two main ways in which this is done are : (i) providing funds on special terms to organisations giving agricultural credit ; and (ii) subsidising the cost of administration and supervision of credit. A number of instances already cited exemplify both these types of helps. The appendix to this chapter contains some extracts from a recent account of the evolution of the U.S.A. system.\* Similarly in Germany, in continuation of trends already present, the Nazi régime developed very largely the subsidisation of agricultural credit. Thus when interest on land improvement loans exceeded 3 per cent the Reich Government paid the difference.† It emphasised in its debt clearance operations not merely a scale down but also the provision of immediate credit. In dairy loans the Reich Government paid many times subsidies to bring the rate down to 4 per cent and special loans to increase crop yields were made by Government repayable in 10 years at an average rate of only 2·5 per cent.‡ An important extension of the principle of subsidy has been made recently by the Canadian legislation which offers to guarantee against loss, under certain conditions and limitations, even private banks which undertake specific types of agricultural finance.

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\* "The relation of public to private lending Agencies (in agriculture) and recent trends in their development" by Murray R. Benedict (*Journal of Farm Economics*—Volume XXVII—February 1945, Number 1, pp. 90-92).

† Bauer Op. Ct. p. 37.

‡ *Ibid.* pp. 44-45.

## APPENDIX.

"The system [of Land Banks] set up for the United States, like these earlier forerunners, was not based on straight governmental loans, but rather on the principle of co-operation, with government aid and supervision. It contemplated eventual ownership by the borrowers with the government providing only general supervision and the necessary legal authorisations and restrictions. From the beginning, however, some financial aid was provided by the government both directly and indirectly. Practically all of the original capital was subscribed by the government, and the general supervision through the Federal Farm Loan Board was supplied at public expense.\* An indirect subsidy was provided by exempting from taxation the bonds to be issued.

The creation of the Federal Intermediate Credit Banks in 1923 marked a more definite step in the way of government competition in the lending field. This legislation came about largely as a result of the sudden contraction of private loaning in the acute agricultural depression of the early twenties, and grew out of a feeling on the part of the farmers that they must have a more dependable source of operating funds. In the Intermediate Credit program the government provided the capital of the banks without provision for its retirement as in the case of the Land Banks. As a whole, however, the pattern adopted was in keeping with that of the established banking system and the subsidy aspect was not sufficiently large to make it a serious competitor of the private banks.

During this period before 1930 other steps were taken which put the government much more definitely into the lending business ; but these were assumed to be temporary arrangements to meet specific emergencies. Among them were the frequent appropriations for feed and seed loans to aid farmers who had suffered severe physical damage to their crops, and the revival of the War Finance Corporation. The War Finance Corporation activities of the early twenties were intended primarily to save the banking structure in the rural areas during the depression that followed World War I. Some indirect advantages to farmer borrowers did result, however. In 1930 the Reconstruction Finance Corporation was established on very similar lines but with a broader task which included aid not only for agriculture but for other parts of the economy as well.

These measures were all initiated with a view to meeting current emergencies. They established precedents, however, which led to

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\* The Farm Credit Administration units now pay out of their earnings all supervisory and examination expenses. The Federal Intermediate Credit Banks pay for the use of government capital an annual franchise tax based on their earnings.

more and more frequent use of government aids of this kind. Feed and seed loans which were originally provided as a means of dealing with localised physical disasters came to be applied generally to aid in meeting economic disaster such as that of the early thirties. Later on something of the same general point of view was carried over into the Farm Security Administration. The basic objective back of most of these measures was that of providing direct government loans to farmers who lacked adequate security for procuring loans through the regular lending agencies. Where the aim was to rescue private banks from disaster, the principal procedure was to absorb short-time paper and allow a longer term for repayment than could be granted by the banks.

Throughout most of the two decades following 1920 there was, however, a tendency to provide more and more government aid. In 1930 the government subscribed an additional one hundred million dollars for purchase of stock in the Land Banks and also some thirty million dollars to enable the Land Banks to give borrowers more time without jeopardising the standing of their bonds. By 1933 and 1934, when the full effect of the depression was being felt in the farm mortgage and intermediate credit fields, more far-reaching measures were undertaken. Among these were the granting of subsidies for the purpose of lowering interest rates on farm mortgages, the establishment of the Production Credit Corporations with the government providing the bulk of the capital, and the creation of the Banks for Co-operatives with the government supplying most of the capital and some of the loan funds. In addition commissioner loans were provided at rates of interest below those commensurate with the risks involved on second mortgage loans of this type. As these steps were taken one after another the government was carried more and more deeply into the farm credit field, and the general attitude of the Congress, and of farmers, with respect to self-support on the part of agricultural credit agencies was modified."

## CHAPTER VI

### *The Co-operative Movement*

We have already referred to the efforts made in India in the last quarter of the 19th century to tackle the problems of agricultural credit by regulating moneylending and making provisions for the supply of agricultural finance by the Government under the Land Improvement Loans Act (1871) and Agriculturists Loans Act (1884). Towards the close of that century it was realized that a real

and permanent solution of the problems lay in the spread of the co-operative movement which would not only supply agricultural finance at reasonable terms but will also ensure its proper use. Accordingly, the Co-operative Credit Societies Act was passed in 1904 for the organization of co-operative credit societies. The Act was amended in 1912 to make it possible to organise non-credit societies and central societies for financing the primaries. The constitution of a primary credit society which is the base of the co-operative credit structure has been described as under :—

“The agricultural credit society is based on the Raiffeisen model, the most common form of primary society in India. The main features which according to co-operative theory such a society should possess are a restricted area of operations to ensure mutual knowledge and mutual supervision ; joint and unlimited liability (with safeguards) to enforce mutual control and vigilance and reassure the creditors ; equal status of members and democratic control ; honorary service on the executive to secure economy and promote self-help ; allocation of profits to indivisible reserves which are the principal bulwark of unlimited liability and make for financial stability and strength ; limitation of loans to members only, to safeguard the co-operative character of the movement, coupled with a careful selection of members on the basis of character, and finally, reliance on personal rather than material security”.\*

2. At the end of 1942-43 the agricultural credit societies in British India numbered 95,146. Of these, “A” and “B” class societies which might be considered as efficient, formed a very small percentage. The membership of agricultural credit societies was about 3.46 millions, *i.e.*, 1.02 per cent of the rural population. On the assumption that each member represents a family of 5, the co-operative credit movement would be seen to have touched only 5.1 per cent of the rural population. The loans advanced by the primary credit societies during the year 1942-43 amounted to Rs. 480.96 lakhs. The amount outstanding against the members was Rs. 1,582.06 lakhs ; of this Rs. 772.92 lakhs or about 50 per cent was overdue. These figures show that the rôle of the co-operative movement in the supply of agricultural finance was very small as compared to the needs of the country and that part of it which could be considered as efficient was smaller still. In many of the provinces the movement was in difficulties in spite of the rise in prices of agricultural produce.

3. We are in general agreement with the view that the spread of co-operation would provide the best and the most lasting solution for the problem of agricultural credit in particular and of those of the rural economy in general. The present position of the movement

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\* Review of the Co-operative Movement in India, 1930-40.

is, however, not such as to inspire much hope that it can be made to play a substantial part in financing agriculture, much less to become the sole supplier of such finance in the immediate future. Nor is it possible to depend on voluntary co-operation for achieving definite results within a specified time which planning involves. We have accordingly recommended in Chapter V the creation of State agencies for financing agriculture which will be more amenable to planning and control. The co-operative credit movement can, however, be made to play a greatly increasing part in agricultural finance if it is reorganised and run on sound lines and we recommend that systematic and intensive development of the co-operative movement should form an integral part of the plan of reconstruction. In the following paragraphs we discuss some of the problems of co-operative credit and suggest the lines on which the working of the system could be improved.

4. A large number of societies are faced with the problem of frozen assets and have stopped functioning wholly or in part. In order to enable them to resume their normal working it is necessary to liquefy their frozen assets by adjusting the claims of the society to the repaying capacity of members. We have already suggested in an earlier chapter the manner in which co-operative debts which are frozen should be adjusted and repaid by transferring them to land mortgage banks or Governmental agencies.

5. In the future scheme of things the primary credit society should continue to be the nuclear unit of the co-operative credit structure. The general principles which have guided its working so far appear to us to be sound and we suggest no departure from them. If the movement has not been successful in realizing its purpose, it was not because the principles on which it was based were wrong. The causes in our opinion lie elsewhere. For one thing the movement has had to contend against structural defects in our economy to which reference has been made in another chapter. Secondly, it has not been worked on right lines strictly in keeping with the principles. We do not suggest any change in the basis of the credit society which should continue to be as a rule that of unlimited liability. Unlimited liability is the bed-rock of the Raiffeisen system and is designed to create among members a sense of collective responsibility and mutual watchfulness which makes the society particularly suited for the supply of agricultural finance. Apart from considerations of co-operative principle and of moral gain, we feel that in most parts of India a co-operative society will not be able to raise adequate finance and make it available to the bulk of the agriculturists on any other basis. However, it is frequently asserted that in many areas unlimited liability keeps away the substantial cultivators from joining societies and prevents them from gaining strength. If limited liability is proved to attract valuable elements to the movement in any region there would be no objection to adopting it

provided that a substantial part of the funds required by the society can, as a result, be raised through share capital. The liability, in such cases, may be limited to the value of shares or to a certain multiple thereof.

6. A co-operative credit society should aim at financing all the short-term needs of its members. Loans for current agricultural needs such as seed, manure, etc., and for consumption should be strictly repayable at the end of the agricultural season each year. Loans for intermediate periods for productive purposes such as the purchase of bullocks and implements, etc., and for certain non-productive purposes such as ceremonial expenditure, which are rendered necessary by the social circumstances and the psychological make-up of the farmer, might be advanced by a society to the extent of its own resources in share capital and reserves and any intermediate term finance it is able to obtain from the central financing agency. The period of such finance should ordinarily be three years which might in exceptional cases be extended up to 5 years by a society in a strong financial position. In some Provinces, *e.g.*, Madras, where primary societies advance a large number of loans for 5 years and in certain cases even for longer periods, the suggested limitation is likely to lead to the shrinkage of finance supplied by them ; but we consider that such a limitation will have on the whole a salutary effect on the credit movement.

7. We feel that it is not a wise policy to judge of the creditworthiness of the members, and ultimately of a society, chiefly by the value of immovable assets possessed by the members as is the practice in some Provinces. We are of opinion that in a co-operative society the creditworthiness of a member should be assessed on the basis of his repaying capacity which in its turn will depend on his earning capacity and his surplus income. The basis of repaying capacity is also more appropriate in a programme of reconstruction and development. For, with such a basis the credit of a member will depend on the extent to which he takes loans for productive purposes and brings about an increase in income and repaying capacity. As with the progress of the programme of reconstruction the physical and psychological factors keeping down the proportion of borrowing for productive purposes are removed, the creditworthiness of the members will be so increased as to make it possible for co-operative societies to finance in an increasing proportion all the reasonable needs of their members.

8. A co-operative credit society is ordinarily expected to make advances against personal security. We, however, observe that in some Provinces loans on mortgage security are very common. We realise that credit societies have been led to adopt mortgage finance owing to a variety of circumstances and that this has in some cases prevented alienation of land to moneylenders. However, when the creditworthiness of members is assessed on the basis of the



value of their immovable assets and mortgage security is generally insisted upon for advances, there is likelihood of the benefits of the co-operative credit movement being denied to classes which have no alienable rights in land even if they are otherwise industrious and thrifty and capable of making a profitable use of credit. Mortgage security may be justified where the amount of the loan is comparatively big and the period is long, say more than three years ; but even in such cases the mortgage security should only be collateral.

While credit societies should not ordinarily attempt mortgage finance they should be enabled to have a statutory charge on the crop for the seasonal finance given to buttress personal security. The Co-operative Societies Acts in some of the Provinces have been amended to provide for this. We recommend the adoption of this provision in general in the whole of India. We further recommend that, in order to make the charge effective, a wilful breach of it should be made a criminal offence.

9. One of the chief defects of the co-operative system is the delay in obtaining loans from societies. In some areas a member has to wait from one to two months after applying for a loan before he can actually get it. At times an agriculturist requires money at short notice, especially for current agricultural needs ; if the society cannot accommodate him, he is perforce driven to a moneylender. We appreciate that some time is necessary for the scrutiny of applications ; but much of the delay appears to us to be avoidable. The system of advancing loans differs from Province to Province and it is difficult to suggest a uniform procedure that would reduce delay and would at the same time fit into the administrative structure of the movement in every Province. We would, make a few observations of general applicability. In the first instance, the borrowing limit for each member and for each society should be fixed each year so that no detailed enquiries are ordinarily necessary at the time of advancing loans. A member should be able to borrow from his society, and the latter from its financing institution within the limits sanctioned whenever they require finance during the year, subject to the right of the bank or the society, as the case may be, to satisfy each time, in case there is doubt, that the condition of the borrower has not in the meantime deteriorated. Secondly, societies with sound management should be allowed cash credit arrangements with their financing institutions so that at least a part of the finance required by members of certain standing can be made available almost immediately. We observe that, in some parts of Madras, members of co-operative societies are allowed cash credit on mortgage of unencumbered landed property up to 50 per cent of its value on "continuity mortgage bonds" so that they can draw on it as and when they require. The system might be profitably looked into and adopted wherever conditions permit. Thirdly, societies

of good standing might be permitted to keep some cash in hand which can be utilised in making small loans without approaching the financing agency. Lastly the system of running credits to individuals should be introduced wherever practicable and responsible officers of societies should be permitted to sanction loans not in excess of specified amounts in an emergency.

Another defect in co-operative finance in some areas to which we might incidentally draw attention is that loans are not advanced as and when they are required by each member but are disbursed to all on one day once or twice during the year. This makes co-operative finance highly inelastic and artificial. In such cases the members have usually to resort to moneylenders for their normal finance, the loan advanced by the co-operative society being utilized to make payment to the moneylender. We need hardly mention that co-operative finance, to be useful, should be so planned as to be available to each and every member as and when he actually requires it.

10. For a smooth working of the co-operative system it is necessary that repayments should be regular. If co-operative finance is properly planned, defaults so common at present would be greatly minimised. In no case, however, should wilful defaults be tolerated and there should be no hesitation in resorting to coercive measures if the need arises. Extensions might, of course, be allowed as at present to enable members to tide over temporary difficulties. Complaints are sometimes heard about the rigidity in the recovery of co-operative loans. We do not think they are generally valid. A further increase in elasticity in the system of recoveries is likely to lead to increased defaults. In this connection, we recommend that the system of giving the Co-operative Department powers for coercive processes, etc., on lines of the provisions contained in the Public Demands Recovery Act may be adopted in Provinces where it does not, at present, exist. Obviously, the problem of areas where agricultural income is rather precarious and where short-term loans are chronically converted into long-term, requires to be treated by itself and we have discussed it in another chapter.

11. Co-operative banks and primary credit societies have in recent years tried to reduce the rates of interest on loans. Still the rates at which the members of primary societies obtain finance are too high to make its use profitable. The following statement will show the rates of interest charged by the societies to their members in the various Provinces\* :—

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\* Statistical Statements relating to the Co-operative Movement in India for the years 1941-42 and 1942-43.

<i>Province</i>	<i>Rates charged by primary credit societies to their members</i>
Madras .. .. .	7½
Bombay .. .. .	9½
Sind .. .. .	9½ and 10-15/16
Bengal .. .. .	12½
Bihar .. .. .	8½, 12½ and 15½
Orissa .. .. .	8
U.P. .. .. .	9
Punjab .. .. .	2 to 12½
C.P. & Berar .. .. .	7
Assam .. .. .	12½
N.W.F.P. .. .. .	12½

From this, it will be observed that the most common rate was in 1942-43 still above 9 per cent and that the rate was, in some cases, as high as 15½ per cent. Agricultural industry even under the best conditions would find it difficult to bear such high rates of interest. In India, where agriculture is practised on any but efficient lines, a rate of 6½ per cent appears to us to be the maximum that the agriculturist could pay for current finance. We, therefore, recommend that every effort should be made to reduce the rate to the ultimate borrower as much as possible so as not to exceed 6½ per cent in any case.

In some areas the high rate is due to the small size of the primary unit and the high incidence of the cost of administration. This is particularly so in backward areas. We recommend that the Government should subsidize the cost of administration of such societies to enable them to bring this rate down to the level indicated above. Many co-operative banks pay a high rate of interest on deposits and have therefore to charge a correspondingly high rate on loans. They should organise their business on sound banking lines so that they can raise funds at cheap rates and pass on the benefit to the members of primary societies. Further, an increasing use should be made of the schemes formulated by the Reserve Bank of India to grant accommodation to provincial co-operative banks at a concession rate of 1 per cent below Bank Rate for financing seasonal agricultural operations and the marketing of crops on the condition that the benefit of the low rate is passed on to the ultimate borrower. It is, however, doubtful if even this reduced rate is sufficient to enable the co-operative credit institutions to make finance available to the agriculturists at 6½ per cent. We, therefore, commend for the consideration of the authorities of the Reserve Bank the desirability of increasing the reduction, say, to 1½ or 2 per cent.

12. The efficiency of co-operative finance would be considerably increased if a co-operative society has control over the produce of the members on the one hand, and on the other, can ensure the proper application of the loans advanced by it. We have already suggested that co-operative societies should have a statutory charge on the crop the fraudulent breach of which should be an offence. The effectiveness of this charge would be increased if, as suggested elsewhere, all sales of agricultural produce are regulated. We would here suggest that the operations of credit societies should be closely linked to those of sale societies. This has been attempted in certain areas in Madras under what is popularly known as the scheme of controlled credit. According to the Committee on Co-operation in Madras "the essence of this scheme is that loans sanctioned should be disbursed to members in instalments as the need for the purpose for which the loan is given arises and the loan given should be recovered out of the income obtained by the application of the loan, *i.e.*, if a loan for cultivation expenses is sanctioned, it should be disbursed in instalments as the cultivation operations progress and the loan should be collected from the sale proceeds of the crop raised. For this purpose the member is asked to execute an agreement to sell the produce either through the society or the sale society to which the village co-operative is affiliated. The dues of the member to the village co-operative or a land bank are deducted by the sale society from the sale proceeds of the produce and the balance is remitted by it to the member. Through a co-ordination of the work of agricultural credit societies, central banks, sale societies and land mortgage banks, credit is linked up with marketing and every stage of the application of the loan, *i.e.*, from the stage of cultivation to the stage of sale of produce is supervised and controlled". We recommend the adoption of similar schemes in other Provinces with such modifications as are necessary to suit local conditions. A village credit society should finance its members on the condition that the produce is disposed of through a sale society to which it is affiliated. Thus the clearance of the loans due by members to societies, and by the latter to central financing agencies would be arranged through the sale societies out of the sale proceeds. The effective linking of credit with marketing presupposes the establishment of a network of marketing societies. We believe that the question of their organisation will be dealt with in detail by the Co-operative Planning Committee recently set up by the Government of India.

The proper application of loans by the members can be ensured partly by supplying agricultural and household requirements of the members in kind and partly by strict supervision over the operation of the societies. The co-operative societies might establish direct relations with purchasing unions and consumers stores which would supply the goods to the members by debit to the societies'

account. In the absence of such organisations, these requirements might be supplied as far as possible by the society itself. In doing this, the society should work on the indent system and should not undertake any trading risks. Thus, the credit societies should work in close co-ordination, on the one hand with the sale societies and on the other with consumers stores. As regards supervision which is essential to keep down the cost of credit and ensure its proper use, societies are not likely to be able to provide for an efficient supervising agency out of their own resources. We, therefore, recommend that the cost of supervision should be met by the State. The efficiency of supervision could also be increased if the activities of the supervising agency are co-ordinated with the field staff of Government engaged in giving technical assistance to producers.

13. The finance for the marketing of agricultural crops is at present supplied to a small extent by co-operative credit societies and also by sale societies. We anticipate a large development of co-operative marketing in the post-war period and expect that sale societies will be able to supply the bulk of the marketing finance required by the producer. We also anticipate that Co-operative Organisations will try to develop processing activities which would result in better prices and lead to better marketing finance for the producer. We may incidentally add that finance for purchasing processing plant, for construction of buildings, etc., will have to be provided by the State agency, *i.e.*, the Agricultural Credit Corporation. The development of marketing finance will require the establishment of godowns and licensed warehouses. The organisation of the latter has been discussed by us in the succeeding chapter where we point out that Government will have to play an active part in their establishment.

14. We have already pointed out that ceremonial expenditure accounts for considerable borrowing and is an important cause of accumulated indebtedness. The chief characteristic of this expenditure is that a considerable liability has to be incurred at a particular time and that it cannot be spread over a period. Its burden and its charges, therefore, become heavy and cannot be borne by the average cultivator. The co-operative societies cannot afford to provide such finance in any large measure without jeopardising their smooth working. They cannot, however, refuse such finance altogether as this would lead to driving the cultivator to the moneylender. It is sometimes suggested that such expenditure should be prohibited altogether or restricted to certain limits, by law. This appears to us to be neither desirable nor practicable. Social laws enacted much in advance of public opinion hardly have any chance of success. The best way to tackle the problem would be to create public opinion against extravagant ceremonial expenditure, and to induce persons to make advance provision on a reasonable scale for such occasions, which are after all not

unpredictable. The advisability of organising a specific savings scheme programme with the object of finding the necessary means at the end of a fixed period should therefore be considered by co-operative societies. Each member should be induced to save for each specific purpose such as the marriage of a son or a daughter from his or her birth so as to have sufficient money in hand when the occasion comes.

15. Ordinarily, a large number of producers combine agricultural operations with animal husbandry and their needs for short-term and intermediate-term finance for both purposes would be assessed together. Therefore, for financing operations of animal husbandry like the purchase of cattle, fodder, etc., the same system of co-operatives as the one discussed above would be able to function. In those tracts, where activities like milk production or cattle breeding are well developed special purpose societies for sale or production would come into existence which might also partly provide finance. But the provision of credit in the main and its method of distribution is expected to remain the same as the one outlined above, namely, through the village credit society. When the dairy industry in particular develops on a large scale, the long-term or intermediate-term finance required for machinery, etc., will be provided by the State Credit agency. We would emphasise in this connection the urgent need of provision by the State of an efficient general system of veterinary assistance and also of a system of cattle insurance. Without these the economic basis for the finance of animal husbandry will remain extremely precarious.

16. It need hardly be reiterated that long-term finance for the redemption of old debts and for land improvements can only be provided on mortgage security and that land mortgage banks, having specialised machinery for the valuation of land and the examination of titles, etc., and for the raising of long-term funds through the floatation of debentures, are best suited for dispensing such credit. We have already suggested that co-operative land mortgage banks should have the first option to take over the debts of agriculturists adjusted according to the scheme recommended by us in an earlier chapter. Co-operative land mortgage banking in India is not much developed except in Madras. At the close of 1943-44 there were in all 273 land mortgage banks in India of which 120 were in Madras. Debentures outstanding and the loans due from individual members amounted to Rs. 3.63 crores and Rs. 3.32 crores respectively of which Madras claimed Rs. 2.86 crores and Rs. 2.30 crores respectively. This development is very small as compared with the requirements of long-term finance of the country which are also likely to be considerably increased during the post-war period. Hence we have recommended elsewhere the immediate establishment of Governmental agencies, *viz.*, an Agricultural Credit Corporation in each Province for the purpose. The business of the existing

land mortgage banks should, however, be developed, wherever possible with suitable State assistance. The Provincial Governments are already assisting the banks in various ways such as guaranteeing their debentures in respect of both principal and interest, supplying them with free services of valuation officers and other departmental officers and granting them subsidies in the initial stages in some cases. We recommend that this policy of assistance should be continued and further liberalised wherever necessary.

Co-operative land mortgage banks in India have so far been advancing loans almost exclusively for the redemption of old debts. This business will be increased under the debt adjustment scheme recommended by us. It should not, however, be forgotten that the main object of land mortgage banking is to finance land improvement. We trust that in the post-war reconstruction plans of Government, improvement of land will receive considerable attention and land mortgage banks would be required to play their full part in financing these developments. We, however, feel that the rates of interest charged by these banks are too high and the agriculturists are not likely to make much use of their finance unless the rate is reduced to 4 per cent. This can be possible only through Government subsidies. In this connection we would refer to the Agricultural Mortgage Corporation of London which is able to charge only 4 per cent on loans while itself paying  $4\frac{1}{2}$  per cent to 5 per cent on debentures because of the subsidies granted by the State which amounted to £50,000 in 1943-44. The Stock Exchange Gazette, dated the 30th June 1944, reported that Clause 2 of the Agricultural (Miscellaneous Provisions) Bill which was at the time before Parliament extended the financial assistance to the Corporation so that it might make advances at an interest rate of  $3\frac{1}{2}$  per cent. We suggest that long-term finance to agriculture in India should be made available at a rate not exceeding 4 per cent and recommend that Government should subsidize land mortgage banks to enable them to do so. This will induce cultivators to make an increasing use of long-term finance for agricultural developments and will lead to an expansion of the business of land mortgage banks.

## CHAPTER VII

### *Private Financial Agencies and their Regulation.*

The part played by the State and the co-operative institutions in financing agriculture and the lines on which their scope should be enlarged have been discussed in the earlier chapters. Here we propose to review the place the private corporations (represented by insurance companies, trading corporations, industrial or processing

concerns, etc., and joint stock banks) and the individual money-lenders occupy at present in the agricultural credit structure of the country and the possibilities of making them more useful purveyors of agricultural credit.

2. Of the private corporations referred to above, the insurance companies play little direct part in agricultural finance. Their loan operations are confined to advances against the security of life policies, which are, however, very rarely taken out by agriculturists in India. No statistics are available to show how many agriculturists have taken out life policies and still less how many of them have borrowed against the policies and to what extent. Some of the companies have invested their funds in mortgage of landed properties, but no information is available about the amount so invested, nor of the part lent against the security of agricultural lands. Some of the insurance companies have, however, purchased the debentures of co-operative land mortgage banks. At the close of 1944, the investments of insurance companies in the debentures of the Madras Central Co-operative Land Mortgage Bank, the Bombay Provincial Co-operative Land Mortgage Bank and the C. P. Provincial Co-operative Bank amounted to about Rs. 32·84 lakhs. We do not anticipate that the insurance companies will play any notable part in financing agriculture except indirectly by way of an investment of their funds in the debentures of land mortgage banks. The scope for such investments is likely to be considerably increased if, as recommended by us, land mortgage banks are utilized to pay off adjusted debts or if they develop other activities such as the financing of agricultural improvements.

Certain trading corporations finance the movement of crops, but such finance is almost entirely confined to some middlemen, the aim being to curtail the long chain of middlemen and to secure the crop at as cheap a rate as possible. Some of the grain trade associations make advances to dealers against the security of agricultural produce out of the sums accumulated with them from margin money, *i.e.*, deposits against future contracts. Such advances aggregate to a considerable sum but are seldom, if ever, made direct to the agriculturist producers.

Several industrial and processing concerns, such as sugarcane factories, cotton ginning factories, factories for the decortication of groundnuts, etc., are interested in obtaining the produce direct from the agriculturist and hence they make him advances on the understanding that he sells his produce to them or at least gets it processed by them. No data are available about the amount of finance supplied by these agencies. This finance has the drawback of restricting the liberty of action of the producer to dispose of his produce to his best advantage. The Bombay Banking Enquiry Committee Report states that at some places gin-owners make advances on the deposit of seed cotton but the agriculturist has in that case



to undergo serious inconvenience and risk ; he does not get his turn for ginning if prices rise and he does not receive the same accommodating treatment that a middleman receives.

From the foregoing account of the working of private corporations, other than joint stock banks, it will be observed that the scope and volume of finance supplied by these institutions is almost negligible. Nor is such finance always in the best interests of the agriculturist.

3. In spite of the rapid growth of branch banking, it is only in certain parts of Southern India that commercial banks have as yet direct relations, even in regard to marketing, with the actual producer ; in other parts of India, their rôle in agricultural credit is usually that of an intermediary, furnishing part of the credit to the trader, the indigenous banker and in a small degree to the landlord or to the co-operative banks. The Debt Acts of the depression period by introducing an element of uncertainty into the contractual relation between debtor and creditor have had the effect of further discouraging direct financing of the agriculturists. As a result, the amount of finance supplied by banks direct to agriculturists is at present insignificant in volume. Such finance is usually supplied by banks on the pledge of produce, ornaments or other valuables or on mortgages at rates varying from 6 to 9 per cent. Loans on personal security are also advanced in a few cases to sound parties. The advances to traders are secured against the pledge of produce stored in godowns. Usually the banks insist on the produce being insured against all risks and on the keys being delivered to them in case it is stored in the owners' godowns. Money is generally advanced to the extent of 65 to 75 per cent of the market value of the produce assessed on a conservative basis. The standing of the party is also considered while sanctioning the advance. The rate of interest charged varies from 5 to 8 per cent. In the event of a fall in prices, the borrowers are called upon, if necessary, to make up the margin of depreciation in the value of the security. Withdrawal of stock from the godowns by the borrowers is allowed against a deposit of funds, provided the total advance is always covered by the requisite percentage of the market value of the stock.

No complete data regarding the advances made by commercial banks against agricultural produce are available. The Agricultural Credit Department of the Reserve Bank of India has, however, collected for us figures from 39 scheduled banks in respect of such advances. These figures show that 38 banks had advanced Rs. 22·17 crores against the security of agricultural produce as on 31st December 1942 while the remaining one bank had made advances to the tune of Rs. 11·58 crores on the 31st December 1943. The range of commodities against which such advances were made covered almost all food and money crops, advances against cotton figuring prominently. The rate of interest charged was usually 6 per cent although

in a few cases it was as low as  $2\frac{1}{2}$  per cent and in some others, as high as 10 per cent.

4. In the latter part of this chapter we recommend a strict regulation of the business of the moneylender. A reference to that part of the Chapter would among other things show that the regulation attempted so far has not been quite successful and that the moneylenders have adopted many ingenious methods to get round the provisions of the law. The experience of almost all countries including those where the standard of literacy is very high and where the public is in a position to deal with the moneylenders more or less on an equal footing, is that regulation is seldom a success unless institutional credit is developed on a wide scale; institutional credit alone, by force of competition, can prevent the moneylender from deviating from the fair dealings prescribed by the law.\* In an earlier chapter we have stated that co-operative credit is most suited for agricultural needs and have therefore stressed the need for developing it. We also recommend the immediate establishment by Governments in each Province of Agricultural Credit Corporations who should attempt to serve as an alternative agency to the moneylender. However, in view of the vast extent of the country and the large variety of conditions within it, we feel that attempts should be made to develop as varied a system of institutional credit as possible for financing agriculture. Hence all reasonable facilities which do not in any way hamper the growth of the co-operative credit system should be afforded to the commercial banks to enable them to play an important part in the rural credit organization.

5. One of the means of encouraging commercial banks to develop their agricultural business is to give them a first charge on crops and all or any of the farming stock. This will, however, have the effect of stopping finance from all other sources and can be justified only if the banks are in a position to assume the rôle of the sole supplier of agricultural credit. By their very nature commercial banks are unsuited for this purpose. Even in countries where agriculture is highly commercialized and is exposed to much less risks than it is in India, commercial banks have not been able to play that rôle in spite of all possible encouragements. For instance, in England agricultural charges were created in favour of commercial banks under the Agricultural Credits Act, 1928, and in order to make them effective the fraudulent breach thereof was made a criminal offence punishable with penal servitude for a term not exceeding three years. It was thought that the commercial banks being placed in a privileged position would be ready to cater for all the credit needs of agriculture. These expectations have not, however, been realised

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\* The history of the attempts made in the U.S.A. to control usurious lending shows that "legislative restriction is not the only method of meeting the problem and that economic competition, if effective, is a far more satisfactory solution; the low-rate lender, if his facilities are adequate and his terms constructive, can drive out the high-rate lender".

for a number of reasons. One of these was that the farmer did not restrict the use of his borrowings to short-term operations but locked up much of the money in land and thus froze it. The banks could not, therefore, transact much business of this kind without a serious danger to their own liquidity. The attitude of the banks against such finance was further hardened by the slump in prices as a result of which they found that where they had to realise their security the prices obtained were much less than the values assigned to it at the time of borrowing. In view of these inherent limitations of the commercial banks in the financing of agriculture, we do not recommend the creation of agricultural charges in favour of commercial banks or any negotiable paper on the strength thereof. It is sometimes suggested that in order to facilitate the financing of agriculture by commercial banks the latter should be allowed to make advances against the security of title deeds. The legal provisions necessary to adopt this system are applicable at present only to large commercial cities like Bombay, Calcutta, Madras, etc., and are intended to enable the commercial community to raise short-term funds by the mere deposit of title deeds without the delay, publicity and the formalities involved in a regular mortgage. Owing, however, to the complicated land tenure system in India and the restrictions imposed on the rights of transferability in land in certain areas, we doubt if commercial banks could be attracted by the facility. We are not, therefore, in favour of the proposal.

While there does not appear to be an extended scope for the ordinary finance of agricultural operations by commercial banks in India, the conditions are much more favourable in the field of marketing finance. The volume of finance supplied by commercial banks to agriculturists for the purpose of marketing could be considerably increased by improving the arrangements for the marketing of crops by (i) the grading and standardization of staples and of contracts, (ii) proper storage facilities, and (iii) the creation of properly regulated local as well as forward markets. The regulation of marketing by special enactments providing for the licensing of brokers, regulating the conditions of their business, prohibition of illegal deductions, use of standard weights and measures, regularising market practices, maintenance of regular accounts of all transactions and giving of receipts to the sellers, publication of marketing information, etc., will ensure proper marketing, reduce fluctuation of prices and marketing risks. The regulation of forward markets which if uncontrolled may lead to violent and unnatural fluctuations in prices due to speculation would also be necessary. These reforms will not only reduce the cost of marketing to the grower and ensure him a fairer price but will also encourage commercial banks to take a greater part in financing the sale of agricultural produce.

The most effective means of ensuring the flow of finance from commercial banks to agriculture would be the establishment of

licensed warehouses and making their receipts a negotiable instrument. "In America, the system of what are called "Field Warehouses" is very well developed and forms an important link in the machinery for financing the marketing of agricultural produce. The "Field Warehouses" are maintained by a Warehouse Company which employs a custodian for each warehouse, who has to furnish proper security and whose management is properly supervised. A person who wants to take a loan from a bank against goods as collateral, deposits them in the warehouse and gets a receipt giving their full particulars. The receipt is negotiable and is endorsed by the borrower to the bank which thus acquires full control over the goods without being burdened with their actual physical possession. The company acts as a bailee or trustee for the goods deposited in its warehouse and guarantees that they will be kept intact."\* The receipts issued by such warehouses in India will constitute a first-class security and will open out an important avenue for the commercial banks to provide finance to agriculture both to the producers and the dealers. The additional attraction that such receipt will offer to the commercial banks is that their promissory notes supported by such receipts will be discountable with the Reserve Bank of India under Section 17 (4) (d) of the Reserve Bank of India Act. As the warehousing receipt will provide a first-class security to the banks, they will naturally be able to lend at comparatively low rates. Thus, the system of licensed warehouses, apart from contributing to smooth and orderly marketing of agricultural produce, will not only increase the volume of finance available to agriculturists but will also cheapen credit. We have examined the Warehouse Bill circulated by the Agricultural Credit Department of the Reserve Bank of India to the Provincial Governments and important Indian States with a covering letter from which we have quoted above. We approve of the general lines of the draft and recommend that the Governments should undertake legislation to establish licensed warehouses on the lines of the proposed bill.

From the point of view of agricultural marketing, warehouses might be considered as extensions of the system of transport and the planning of the location of warehouses must be done as part of planning the extension and improvement of transport facilities. The construction of a chain of warehouses is unlikely to attract immediately sufficient private capital and it might also not be desirable to leave the running of the warehousing system in private hands. We, therefore, recommend that the State should itself undertake, as part of its programme of development of rural transport, the planning and construction of warehouses at all nuclear points

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\* Paragraph 2 of the circular letter No. ACD. 2184AC.363-44, dated the 9th November 1944, issued by the Agricultural Credit Department of the Reserve Bank of India to all Provincial Governments and important Indian States along with a draft of a Warehouse Bill.

of trade in agricultural produce. The warehouse system should be operated by a public corporation organized on lines similar to those of Improvement Trusts or Port Trusts. This would provide for a better and more economic management of the system than if the warehouses were owned by individuals or particular sale societies and would also facilitate the issue of warehouse bills.

6. Of all the private agencies the individual moneylender is by far the most important both from the point of view of number and volume of business. His rôle in the agricultural economy of the country has been very aptly described in the following terms in the United Provinces Banking Enquiry Committee's Report. "He is certainly no philanthropist, his object is to make money, and he is not always particular regarding the means by which he does it. He will deduct future interest from the principal before he pays it; he will debit his client with all incidental expenses. He will cause an illiterate borrower to put his thumb-impression on a blank form, and subsequently fill it up with a sum in excess of the amount actually lent. He charges a rate of interest which is always high and often extortionate, and compounds it at frequent intervals. Nevertheless when occasion arises he can and does show leniency. He will not, for instance, use his fraudulent bond unless the client by his contumacy forces him to go to law. Again, if his debtor is prompt and punctual in repayment he will often allow him rebate of interest when the account is finally closed. Meantime, it is to him that the needy peasant turns for help in every trouble. It is he who finances the marriage ceremony and law suits,—one almost as inevitable as the other. He does not keep the borrower waiting for his money till the time for its profitable spending has passed. He does not press for repayment at due date, if he knows that such repayment is inconvenient. He does not conduct embarrassing inquiries into his client's *haisiyat* (financial condition); for what it is worth, he knows it already, and the element in it to which he attaches most importance is the client's reputation for prompt and regular payment"

7. While it is true that the moneylender is the most important constituent of the agricultural credit machinery of the country, it is not possible to justify many of his practices and the charges he makes for his services. Very often these charges are out of all proportion to the risk involved in the business and constitute an exploitation of the helplessness, ignorance and the necessity of the borrower. Nor is the agricultural economy of the country in a position to bear the strain of his extortion. The credit dispensed by him instead of contributing to the agricultural prosperity of the country serves as a serious drag on it. The regulation of his activities in a manner which forces him to conduct his business on honest and fair lines is essential not only for building up a sound system of agricultural credit but also in the larger interest of the agricultural economy of the country.

8. The stray efforts at the regulation of the activities of moneylenders in India through the Deccan Agriculturists Relief Act, 1879, the Contract Amendment Act, 1899, and the Usurious Loans Act, 1918, made before the last depression and the causes of their failure have been examined by a number of Committees and Commissions from time to time. We have made a reference to some of these efforts in an earlier chapter in connection with the adjustment of agricultural debts. The period of the thirties was specially marked by legislative activity in every Province in India for controlling moneylending. In the following paragraphs are given the main features of this legislation and the results of its working.

9. Most of the Acts provide for the compulsory registration of moneylenders and some also for compulsory licensing. In certain Provinces the carrying on of moneylending in contravention of the above provision is an offence punishable with fine. In some Provinces he is deprived of the right to recover the debt through a court of law while in some others he can do so only if he pays certain penalties or gets himself registered and also, where necessary, licensed. The registration certificate and the licence are liable to be cancelled for periods specified in the Acts or to be decided by the cancelling authority on certain grounds such as fraud or any contravention of the regulating acts or on the moneylenders being found otherwise unfit to carry on the business.

The Acts provide for the regular maintenance of the accounts of each debtor separately in a prescribed form and furnishing him annually or biannually with a legible statement of accounts signed by the moneylender or his agent showing the amount of loan outstanding, interest accrued and all transactions relating to the loan entered into during the period covered by the statement. In a few Provinces the statement is to be furnished only or also on the demand of the debtor, but not oftener than once in six months. The debtor is not bound either to acknowledge or deny the correctness of the account supplied to him and his failure to raise any objection is not by itself to be deemed as an admission of correctness. If in any suit the court finds that a moneylender has not regularly recorded and maintained his account, it shall (in some Provinces it may) disallow interest found due in part or whole and costs. In Orissa, wilful contravention of the provision relating to maintenance of accounts is an offence punishable with fine while in Bihar it is punishable with imprisonment or fine or both. In most of the Provinces the showing of a sum larger than the one actually lent in the books of account or in any document is an offence punishable with fine or imprisonment or both. In the Punjab the court is authorised in such cases to disallow the whole or part of the claims of the plaintiff. If a moneylender fails to furnish regular statements to the debtor, the courts may disallow interest for the period of default and in some Provinces may also disallow a part or whole of

the interest and costs ; in Bihar the moneylender is liable to be fined. In Assam the creditor cannot sue so long as the default continues and forfeits interest for the period of default. Similar penalties are provided for not passing receipts, furnishing copies of documents, etc. In most of the Provinces the failure to comply with the provisions relating to the maintenance of accounts and furnishing statements of accounts, etc., makes a moneylender liable to the cancellation of his registration and licence.

In all the Provinces the maximum rates of interest permissible on secured and unsecured loans have been specified by amending the Usurious Loans Act or by other Acts. In some Provinces the charging of compound interest has been prohibited. The rates differ widely from Province to Province. For instance, in the case of unsecured loans the rates of simple interest vary from 6½ per cent in Madras to 25 per cent in the North-West Frontier Province. In a few cases the rates are linked up with the Bank rate. In almost all the Provinces the interest charged is further controlled by the application of the law of Damdupat.

In some of the Provinces a debtor is entitled to deposit with the court any amount payable to a creditor on the refusal of the latter to accept it, and in some Provinces even otherwise. In the United Provinces the amount to be deposited should at least be one-fourth of the total amount due. Interest usually ceases after the deposit is made. Some of the Acts allow the debtor to sue at any time for taking account and declaring the amount due from him. In Bihar and Orissa contracts to repay the debt outside provincial limits are prohibited and in the latter, *i.e.*, Orissa, contracts also not to repay earlier than a particular date are void. In Assam, any advertisement of moneylending business is an offence punishable with fine or imprisonment or both.

10. There have been no systematic enquiries made in India to assess the results of the working of Debts Acts. We observe that the Agricultural Credit Department of the Reserve Bank of India have been emphasising in their circulars addressed to the Provincial Governments the need for the publication of systematic and comprehensive periodical reviews of the working and the effects of debt Acts so as to find out how far legislation had fulfilled its purpose and what amendments, if any, were called for in it. As a result some of the Provinces started publication of the reviews, although only a few have kept it up regularly. Many of these reviews seem to be based on the general impressions of the revenue officers. From these reviews and other information that the Agricultural Credit Department has been able to collect from other sources during the course of their studies, it appears that on the whole the efforts to control moneylending have proved abortive.

No data are available about the number of moneylenders in each province and the number of those who have got themselves registered

and licensed. In the Punjab, while the number of moneylenders was estimated by the Punjab Banking Enquiry Committee at 55,000, only 17,438 moneylenders had registered themselves up to 1940, the latest year for which figures are available. In C.P. up to the 31st March 1939, 37,796 moneylenders were registered out of a total of 39,068. 146 prosecutions were launched against moneylenders who defaulted in getting themselves registered. In some provinces it is reported that small moneylenders have wound up their business because of the inconvenience of registration and on account of the provisions relating to the keeping of accounts ; in certain places they have confined their operations to secured advances against gold ornaments, which obviate the need for going to a court of law for the recovery of the debt. The experience of different provinces appears to be different as regards the provision regarding the maintenance of accounts and the furnishing of statements to the debtor. On the whole, however, these provisions are reported to have proved ineffective. In some places there is a general tendency to have a pronote executed for twice or thrice the amount actually advanced with a view to providing against the penalties imposed by the Act for failure to comply with these provisions. In one of the provinces, debtors are reported not to have utilized the provision of the Act which empowers them to demand particulars of loan from their creditors, owing to illiteracy or disinclination to annoy the creditors. Moneylenders are generally reported to have evaded the restrictions on the rate of interest by subterfuges such as the taking of a fresh document for the total amount of principal and interest due showing the sum specified therein to have been lent in cash, securing bonds for sums much in excess of those actually advanced, obtaining documents showing outright sale of land with an oral undertaking to return the same on the payment of the loan at a rate of interest orally agreed to between the parties, lending money on the pledge of gold without any record, making advances on mortgages with possession and collecting interest by way of rent, etc. Other provisions referred to in paragraph 9 too have been for the most parts ineffective. It is stated that in U.P. suits for taking account are few and applications for deposit of part-payment in courts are still fewer.

11. The experience of almost all the Provinces is that debt legislation has led to the shrinkage of rural credit. It is reported that in most of the districts of the Punjab, village moneylenders are winding up their business and are migrating to towns. It is, however, reported that agriculturists generally experience little difficulty in obtaining accommodation for their *bona fide* agricultural needs. In U.P., although the Acts are reported to have reduced rural credit to some extent, there are said to be no serious complaints of undue restriction of credit, which is still available to agriculturists for productive purposes. The tendency to borrow money too frequently



for ceremonial occasions or for other unproductive requirements is stated to have been checked. In Madras there is some evidence pointing to the curtailment of credit ; but the difficulties produced by the Act have been largely overcome by the moneylenders adopting various devices, often with the connivance of the borrowers. In Bengal, the Acts are said to have resulted in the shrinkage of credit and it has been found necessary by Government to grant takavi loans on a more liberal scale than before. In Bihar, the small moneylenders are reported to be giving up their business ; the result has been that the poor people, especially the small peasants and labourers are finding it difficult to borrow money on reasonable terms even for their legitimate requirements. The larger moneylenders, in whose hands the business of moneylending is being gradually concentrated, insist on the security of land and the debtors are compelled to transfer lands on terms more unfavourable than before. It would appear from the above that Moneylenders' Acts have led to varying results in the different provinces. It is, however, not possible to say whether the actual conditions differ to this extent or whether the apparent difference is due to varying reactions to a similar general situation of the writers of the reports. In the absence of statistics and of properly scrutinised information no opinion can be expressed in this regard.

12. The comparative failure of Moneylenders' Acts must not, in our opinion, be taken to be evidence of the futility of attempts at regulating the moneylender. The failure has been due to lack of comprehensiveness in some cases, to the unpractical formulation of important provisions in others and above all to the entire absence everywhere of any provision for its active enforcement. We suggest below the general lines on which Moneylenders' Acts should be built and the manner in which their working should be implemented. Although some of the Acts are fairly comprehensive this cannot be said of all the Acts. We therefore suggest that all the Acts should have provisions for the following :—

- (i) Registration of moneylenders.
- (ii) Licensing of moneylenders.
- (iii) Maintenance of accounts in a prescribed form.
- (iv) Prohibition against showing in books of accounts or in any other document a sum larger than what has been actually lent.
- (v) Furnishing of periodical statement of accounts to the debtors.
- (vi) Furnishing of statement to the debtor in prescribed form giving full particulars about each loan as and when advanced.
- (vii) Issue of receipts to the debtors for every payment received.
- (viii) Limitation of the rate of interest.

- (ix) The enforcement of rule of Damdupat.
- (x) Prohibition against taking unlawful charges for expenses, etc.
- (xi) Provision to entitle a debtor to deposit at any time in a court of law an amount in part or full payment of a loan to be paid to his creditor.
- (xii) Prohibition of contract for payment of loan outside the province.
- (xiii) Institution of suits by debtors for taking account and for having amounts due from them determined.
- (xiv) Protection of debtors from molestation and intimidation.
- (xv) Infringement of the provisions of the law to be made a criminal offence punishable with fine and in appropriate cases with imprisonment. (This is necessary as money-lenders who evade the law cover themselves against risk of fine by such means as taking bonds for amounts in excess of amounts actually advanced).

13. The existing Acts generally define the moneylender as a person who advances loans in the regular course of business and specify the persons or kinds of loans exempted from their operations. The exemptions include loans advanced by Government, Local Bodies, Co-operative Societies, Banks and other registered companies. However, loans from banks and registered companies in Bihar and Orissa (and also those from co-operative societies, in the former), are not excepted. In Bengal, advances made by banks scheduled before 1st January 1939 or by banks to be notified later on are excluded. Among other items exempted under the various Acts are advances based on negotiable instruments other than promissory notes, transactions that are in substance mortgages or sales of immovable property and advances (usually in kind) made to agricultural labourers, tenants, lessors or co-sharers by landlords for purposes of agriculture or animal husbandry. We need hardly mention that mortgage debt is quite common in India and, as discussed elsewhere, its regulation is as necessary as that of other debt. Landlords also provide considerable amount of finance to their tenants and agricultural labourers. The terms of such finance are often far more exacting and usurious than those of the ordinary moneylenders. Most of the produce is taken away by the landlord on account of rent and interest charges and what is left for the tenant-borrower is seldom more than the wages of a landless labourer. Thus the borrower is only a "tenant in law" but a landless labourer in actual fact. The United Provinces Provincial Banking Enquiry Committee Report, 1929-30, states that "the most dangerous creditor from whom a tenant can borrow is his own landlord since the latter thereby acquires a double hold over the former. If a tenant pays his rent, but not the interest on his debt, a landlord can sue him in a civil court. If the tenant pays the interest on his

scheduled banks. The banks are now admitted to the schedule after an examination of their affairs by the Reserve Bank if necessary by inspection, involving the determination of the real or exchangeable value of their capital and reserves. Similar procedure is adopted for excluding a bank from the schedule in case doubts arise as to the real value of the capital and reserves. Thus, the continued inclusion of a bank in the schedule may be said to be an index of a management sufficiently sound to ensure the maintenance of the real value of the bank's capital and reserves at the minimum statutory level. If the banking bill now before the legislature is passed into an Act, the control of the Reserve Bank on scheduled banks in particular and on other banks in general will be greatly increased. In view of this and because of the need we have emphasized for developing institutional credit as one of the most effective means of combating usury, we feel that all scheduled banks and such non-scheduled banks as fulfil certain prescribed conditions should be exempted from the operation of this regulation. We may add that our recommendation makes it necessary that the supervision by the Reserve Bank should be exercised not only, as now, to protect the interests of the depositor but also those of borrower.

15. The moneylender does not confine his business to mere money-lending. He combines it with several other functions, the most important and most common being that of a merchant or a commission agent marketing the produce of his clients. This places the moneylender in a position of being able easily to avoid any regulations. For example, if a limit is imposed on the maximum rate which he can charge on a loan, he can nullify its effect by forcing the borrower to sell his produce to him at a lower price. Therefore, any attempt at controlling moneylending to be effective should necessarily be accompanied by some regulation of marketing of agricultural produce not only inside regulated markets but also outside them. We may refer in this connection to such legislation as the English Horticultural Produce (Sales on Commission) Act, 1926, which requires all Commission Salesmen to maintain books of accounts, open to inspection, in a certain manner and to furnish particulars of sales to consignor, etc. The principle underlying such legislation could be generalised. And it might be made compulsory for all agencies engaged in buying the produce from the agriculturist or selling it on his behalf to maintain proper accounts and to give to the seller vouchers and statements in prescribed forms.

16. The provisions of Moneylenders Acts which have been most commonly evaded are those relating to the rates of interest. Since the main aim of regulation is to lower the high cost of credit, the tendency of legislatures is naturally to fix the rates at very low levels. It is emphasized that the small agriculturist on account of his very small margin of profit can afford to pay only a low rate of interest ; but the corresponding fact that on account of the higher cost of

debt, but not his rent, the landlord can sue in a revenue court. Worse still, the landlord can, if he chooses, credit all payments to the debt and so keep the tenant in arrears with his rent, which puts the latter's crops in his power by distraint, and gives him the right to eject him if he pleases. Again, there is evidence before us showing that occupancy tenants have occasionally been compelled to surrender their rights in liquidation of a debt to their landlords." The exploitation by the landlord moneylender of a debtor who is a landless labourer can be still worse.

The definition of "moneylenders" is thus not sufficiently comprehensive and leaves out a considerable portion of moneylending uncontrolled. We are of the opinion that all kinds of loans on which interest is charged in any form or shape, except those advanced by institutions such as Government, Co-operative Societies, etc., should be subject to regulation and control. We appreciate the difficulties involved in controlling small loans such as are advanced by a landlord or a shop-keeper in the form of household requirements and the possibilities of the evasion of controls; but, in view of the great scope such loans offer for exploiting the poorer section of the agricultural community, we feel that the problem must be faced. The various suggestions (especially the one relating to the setting up of a supervising agency) made by us to make the Acts effective will minimize the chances of evasion. It may be argued that a comprehensive control of the kind we are recommending may deprive the agriculturists of some of the handy forms of credit and cause great hardship. These fears, we hope, will not be realized in view of our recommendation regarding the development of institutional credit as an alternative to moneylender's credit.

14. The primary object of legislation to regulate moneylending is to protect the cultivator from the malpractices of the moneylender and to prevent the latter from exploiting the need and ignorance of the former. The justification for exempting Government agencies and co-operative institutions from regulatory measures is, therefore, obvious. Opinion, however, seems to differ in regard to the treatment to be given to commercial banks. The business of these banks is already regulated by law; their accounts have to be regularly maintained and audited; and they are not usually given to usurious practices. The considerations which justify the regulation of moneylenders do not therefore seem to us generally to apply to banks, except perhaps to the smaller ones whose practices are sometimes indistinguishable from those of moneylenders. The result of imposing restrictions on all banks indiscriminately will be that even those which follow sound practices will be scared away from taking any part in agricultural finance, a field in which they already find it precarious to venture. While there may be some objection to the general exemption of banks from the operation of regulatory Acts, a strong case exists for the exclusion of selected ones such as

making small loans and the comparatively greater risk involved, the moneylender has in the course of business necessarily to charge a higher rate of interest is often forgotten. It is not realized that there is such a thing as an economic rate of interest below which the business does not pay its way. The rate of interest depends on several factors such as the security offered, the size and period of the loan, the cost of collection, the business expenses, etc. How far a high rate of interest is an insurance against risk is illustrated by the analysis of the incomes of moneylenders in some selected villages of Ajmer-Merwara, Delhi and N.-W.F.P. made by the Central Areas Banking Enquiry Committee. It shows that the actual rate of interest realized by the moneylenders on their invested capital was in many cases only 40 or 50 per cent of the rate stipulated by them in the contract. If the rate of interest fixed is too low without properly allowing for all the factors that go to determine it, the result is that the comparatively honest moneylender is driven out of the business, leaving the borrowers at the mercy of the unscrupulous moneylender who would carry on illegal business and would compensate himself for the risk by adopting illegitimate and extortionate practices. The main thing to be remembered is that restrictions on the rate of interest in the supposed interests of the borrower, which do not give any consideration to the economics of moneylending, far from helping the borrowers, only make matters worse for them. The creditor charges not only the rate which he would have ordinarily demanded but, by one device or other, also charges something extra to compensate himself for a possible loss in the event of the matter going to a court. The history of the Consumption Loan Legislation in America, where the drastic reduction in the interest rate on consumption loans effected in 1929 drove a number of creditors underground, is a case in point. The creditors began to charge rates even higher than those prevailing before for offsetting the additional risk involved in the illegal business. After some time the authorities realised that it was necessary to fix a rate which was remunerative to the creditors and revised the rates. It was also recognised that small loans required a higher rate, as the costs of making and recovering them were greater than those for bigger loans. In England also the efforts of the authorities to lower the rates of interest below the economic level were unsuccessful. We, therefore, suggest that in India where institutional credit has little developed and where the moneylender has yet no effective competitor, the authorities must needs be very cautious in fixing the maximum rate of interest. The maximum rate of interest should not also be uniform for all areas and for all classes of people. It is the experience of all countries that the maximum rate becomes in practice the minimum so that the better class of borrowers who would have otherwise paid a low rate suffer. The rate should, therefore, vary from area to area and according to size and security. We, therefore, recommend that a uniform rate of interest should not be stipulated in any legislation but a schedule of maximum rates

sufficiently detailed to meet the major variations in conditions should be carefully worked out and included in each Act.

17. Any legislation for the control of moneylending which does not set up a special agency for its enforcement could be availed of only by the educated or the more substantial borrowers. The ignorant and the needy would not benefit by it. To make the regulatory Acts effective it is, therefore, necessary *inter alia* to create a special supervisory agency charged with the duties of inspecting the books and accounts of moneylenders in order to ensure that the regulatory controls are properly enforced and that the offenders are brought to book. The failure to provide a supervisory or inspecting machinery in the Acts passed in the various provinces in India during the last depression is, in our opinion, a very serious defect. Conditions in this regard must be considered to be similar to that of factory legislation which showed that efforts to afford relief to the workers from the oppressive practices of the management failed and the Acts were evaded with impunity until a system of factory inspection was brought into force. The experience of the working of the small loan legislation in U.S.A. is to the same effect. After considerable legislative experiments to regulate moneylending it was realised that adequate supervision over the business of moneylenders was necessary to make the regulation effective. The supervisory powers were entrusted to a State Official and his inspecting staff, who were also the licensing authority ; the Official could at any time, either personally or by a person authorised by him, investigate the loans and business and examine all the books of record, account, etc., of any licensee or any other person engaged in moneylending ; further, a full examination of each licensee's business had to be done at least once annually ; the inspecting authority could require the attendance of and could examine on oath, any person whose evidence he considered necessary in regard to any point. The costs of inspection were to be met by the licensee examined. The method of keeping accounts was to be such as would enable the inspecting authority to determine whether the provisions and rules of the Act were being complied with. The books of account were to be preserved for at least two years after the date of the last entry therein. Finally, each licensee had to submit annually a report to the inspecting authority in a prescribed form giving full particulars concerning his business. The inspecting officer was required to prepare and publish annually an analysis of such reports. We recommend that a State inspecting agency on similar lines should be set up in every province which should carry out periodical and surprise inspections of the books and accounts of the moneylenders to ensure that the provisions of the regulatory Acts are being observed. Every moneylender should submit annual returns regarding his business in a prescribed form to the agency. This will make it possible to collect complete data regarding the incidence of agricultural indebtedness and to take

measures to deal with it based on reliable information. Another important function that should be performed by the supervising agency is the publication of periodic reviews of the effects and the working of debt acts. This will, among other things, bring out defects, if any, in the existing legislation and make it possible to take timely action to correct them. It may be mentioned that much legislation passed in India has remained ineffective because of a failure, among other things, to provide for a periodic review of its working.

18. What we have said so far in this Chapter applies mostly to short-term and intermediate-term credit for which the security offered is other than immovable property. Long-term credit is most commonly based on the mortgage of agricultural land. No data are available regarding the amount of such mortgage debt in India. However, there is every reason to believe that it is very heavy. Such information as is available shows that a very small fraction of the mortgage debt has been invested in agricultural improvements. The existence of a heavy burden of this character has a most detrimental effect on the agricultural economy of the country. The agriculturists borrow frequently and for all purposes against the security of land and the regulation of mortgages is therefore equally necessary to build up a sound system of agricultural credit.

Mortgages are of two kinds: usufructuary and simple. In a usufructuary mortgage the possession of the property vests in the mortgagee. The profits from the land are usually taken as equivalent to interest and the mortgage may continue indefinitely. If the mortgagor does not redeem the land within sixty years, the mortgagee becomes the absolute owner. It is found that too often the mortgagor is reduced to a mere tenant-at-will, paying not a fair rent but the utmost the mortgagee can get out of him. Certain Acts such as the Punjab Alienation of Land Act of 1900, the Bundelkhand Alienation of Land Act of 1903 and the Central Provinces Alienation of Land Act of 1916 have provided that the usufructuary mortgage of land would remain in force only for a limited period leading to automatic redemption on its expiry unless the property is being transferred to a member of the same agricultural tribe or of a tribe in the same group as the mortgagor. Similarly, a time limit has been provided for in the Sind Encumbered Estates Act of 1903. The Orissa Moneylenders' Act of 1939 has restricted the period of usufructuary mortgages to 15 years. The idea underlying these provisions is that the profits of the land shall be taken to be equal to the interest and sinking fund on the debt. We recommend that all usufructuary mortgages which do not provide for automatic redemption within 20 years should be prohibited by law.

In the case of a simple mortgage the property continues to be in the possession of the mortgagor who has to pay interest at a stipulated rate. The creditor is entitled to enforce his claim against the

debtor within 12 years from the date of last repayment. If he does not do so, his claim is time-barred. But in practice the creditors compound the interest at regular intervals or make the debtor pay some interest before the period of limitation expires, so that the debt goes on accumulating until it exceeds the market value of the land and becomes too heavy for the debtor to repay from other resources. The transaction therefore ends in large number of instances in the passing of the land into the hands of the mortgagee. We recommend that such transfer should be made void and the mortgagee should only be entitled to the possession of the land for use for a period not exceeding 20 years, after making due allowance for the payment already received by him, in the full satisfaction of his claim. Further the mortgagor should have the option at any time to hand over the possession of the land to the mortgagee by converting the simple mortgage into a self-liquidating usufructuary mortgage.

One argument against our proposals to make all usufructuary mortgages self-liquidating and simple mortgages convertible into self-liquidating usufructuary mortgages is that the law on the point is likely to be evaded in certain cases by the creditors with the collusion of the debtors. It would be easy for the mortgagee to force a needy or ignorant borrower to execute a sale-deed which would be used only if the latter shows any sign of contumacy. Though such a risk of evasion is likely, we feel that it would be more than offset by the benefits which would accrue to the agriculturists from the proposed legislation. The other argument is that such legislation is bound to bring about some curtailment of agricultural credit. So long as the mortgage credit continues to be used for unproductive purposes and the average cultivator is not trained into the use of credit, this might not be undesirable. In order, however, to make possible the utilization of land as a source of credit for financing agricultural improvements, specific classes of institutions such as the Agricultural Credit Corporation and the co-operative land mortgage banks should be exempted from the proposed regulation of mortgages.

## CHAPTER VIII

### *Land Tenure and Credit*

All long-term rural finance is based ultimately on mortgage security. It is true that the actual repayment of instalments of interest and principal of even a long-term loan is made ordinarily not through sale of land but out of the current income of the agriculturist. If agricultural business in general and the business of particular individuals were exposed to no risks there would not



theoretically arise any need for a security other than that of the size and character of the business itself. In such a case even long-term credit would in effect, depend on the proper calculation of the repaying capacity of the producer. However, agricultural business whether individual or general is not secure in all respects and it is necessary before any individual or institution could undertake finance over a long period to afford the financing agency some tangible security more stable in value over time than the going concern of the agriculturist-producer. Therefore, in all systems of agricultural finance, especially development finance, mortgage credit plays an important part. It is not ordinarily possible for a producer to raise long-term finance for undertaking any projects of land improvement such as that of constructing a well or an embankment without offering some security in the shape of alienable property rights. Intermediate period finance might be based on a charge on movables or chattel and might not be found entirely inadequate even without possession of land or land-rights. Even intermediate finance, however, presupposes at least continuity in productive activity on the part of the producer for a minimum period. Therefore, it would be difficult to raise a sound system of finance on the basis of a production economy in which a large number of units consisted of those who had no property rights to pledge and no guarantee of continuity in production. A mass of tenants-at-will could not be provided with a system of adequate financial assistance for all reasonable needs of production or for development of agricultural resources. Any detailed consideration of the problems of tenancy would lead us far from our terms of reference. It is, however, not possible entirely to leave them out of consideration in view of the intimate connection that they have with the financing of the agriculturist.

2. Two broad trends in Indian land and tenure policy during the last 50 years or so might be noticed in this connection. In Provinces chiefly composed of a peasantry of small proprietors, legislators and public opinion have been exercised about the danger of the small peasant proprietor class degenerating, through easy alienation, into a class of tenants-at-will to moneylenders. There has been, therefore, a tendency in these parts towards making alienation of land more and more difficult for the peasant proprietors. This has been brought about by various provisions of Alienation Acts and through other devices by which new tenures of an inalienable type are created. It has been generally recognised that restrictions on alienation might lead to shrinkage of available credit and to its terms becoming more onerous. But the general gain in stability of the peasant class is held to compensate for this disadvantage, especially as the disadvantage is not considerable when alienation is permitted by legislation in favour of any particular class which then participates in the finance of agriculture.

3. On the other hand, there has been a general demand in Provinces where the bulk of the peasantry belongs to the tenant class for the right to alienate tenancy rights being given to tenants. More than forty years ago, the Indian Irrigation Commission recommended that occupancy rights, wherever they were held by the tenant should be made transferable for takavi purposes as this might help to enable the tenant to raise money for improvements\*. The Central Provinces Banking Committee specially contrasted the terms on which credit was available to the Berar peasant with alienable rights in land with those on which it was available to the peasant of the contiguous Nagpur division where occupancy rights of tenants were inalienable. The Committee recommended the introduction of a Land Purchase Act under which the occupancy tenants should be employed to purchase full rights of transfer in his land.† The United Provinces Banking Enquiry Committee drew attention to the practice of using sub-leases illegally for effecting a short-term usufructuary mortgage‡. The Committee recommended that proprietary or occupancy tenants should be given the right to mortgage (but not otherwise transfer) his holding for a period not exceeding twenty years, and only to a land mortgage bank or co-operative credit society¶. The process of increasing the classes of tenants with rights and of making the rights alienable has been going on slowly for many decades and has become fairly widespread during the last 10 years. In Bengal the rights of alienation of tenants have been recently widened to a very large extent. Even the C.P. Tenancy Act which was founded on inalienability of tenancy rights has been radically modified. The possibility that the alienation of tenancy rights would make for sub-infeudation to a large degree and would ultimately leave the actual cultivator without any protection has, however, not been entirely lost sight of in this legislation.

4. Credit considerations indicate that the agriculturist-producer should possess some sort of right which he can alienate or at least mortgage, and this must be a right obviously in respect of the land he cultivates. They also indicate that the bulk of the agriculturist-producers must be secure in the possession of their farms for a minimum period and must be protected against enhancement of rental and other charges. Considerations relating to the structure of the farming community and to social policy generally indicate that it would not be desirable to allow unrestricted alienation in a community which was not properly trained in the use of credit, as this might lead to dispossession of valuable rights from peasants and their passing into hands of mere exploiting financial interests. The two sets of objectives necessary from the point of view of credit seem to be apparently conflicting. The possession of alienable rights is required for making adequate credit available but the grant of

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\* Report Part I, Chapter VI, pages 65-66.

† Report page 294.

‡ Report pages 77-78.

¶ Report page 230.

such rights might lead to the creation of a class of tenants-at-will. The creation of such a class is undesirable as it would not possess the continuity and security necessary for a proper system of agricultural finance. Strict inalienability leads to maintaining stability of composition in the cultivating classes, but except under special circumstances it leads to inadequate and dear credit. Also there are many ways in which provisions against inalienability are evaded and all evasion adds to the cost of credit to the borrower. In a society which had attained complete balance in its economy with little room for forces making for a change inalienability might not have many disadvantages. In such a society the peasant class would be static in composition keeping its connection with land through generations and neither moving away from agriculture nor getting accession of new blood. Again a State which sought by legislation to make the peasant class static would presumably also accept other responsibilities on its behalf. It has been remarked that following the Hereditary Farm Law and other similar legislation in Germany "Agriculture is compensated for not being able to borrow freely by marketing regulations which, coupled with price fixing are intended to secure comparatively high and stable income."\* In most parts of India, probably in the landlord Provinces, conditions for making rigid the structure of land rights do not seem to be favourable at present. The acquisition by tenants of ownership rights and the rise of the agricultural labouring class into a class of cultivators ought not, for example, be permanently barred. It has been remarked that encouraging ownership by agricultural workers has been considered as one of the main functions of agricultural credit in Europe during the inter-war years. Therefore, an accentuated trend towards increasing the difficulties in the way of alienation does not seem to be indicated in the light either of credit or social policy.

5. In case the sphere of alienability is to be extended the evil consequences that are likely to flow from such a step must be guarded against. Alienability it might be noted, is being considered here in the context chiefly of alienation of tenant rights, because it is in respect of these that alienation is absolutely prohibited over large areas. The alienation of ownership rights even where severely restricted, as in the Punjab, still leaves room for alienation of farms to a special class or for temporary alienation as through usufructuary mortgages, and this makes possible the raising of long-term credit on the basis of these rights. Alienation of tenancy rights, it has been rightly pointed out, would lead not only to subinfeudation if the right of each new intermediary was separately recognised but also, in any case, to the actual cultivator not obtaining the protection of tenancy laws. Indian tenancy laws grant protection ordinarily to a tenant because of his standing or heredity. They thus

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\* W. Bauer : Agricultural credit in Germany, 1939, page 41.

create rights in property which are owned by persons and are not related to cultivating status. The alienability of such rights would not necessarily lead to making credit available to the actual cultivator as the rights would not always be owned by the actual cultivator. In the present tenancy structure, once a protected tenant alienates his rights in favour of any person such as a superior holder or a money-lender the actual cultivator whether new or old would remain without any protection. Adequate protection of the actual cultivator is, however, a condition precedent of sound agricultural finance. And the essence of this protection consists in guaranteeing a measure of continuity in productive effort, security against arbitrary enhancements of charges and some incentive towards the improvement of land resources. From the credit point of view such security must be linked to cultivating status and must accrue to actual cultivators. It might be objected that alienation is possible only of rights personally owned and that privileges linked to status must necessarily be inalienable. This need not be so, however, if alienation of the privilege is permitted only to the actual cultivator in succession. The right alienated would only be right to cultivate and not the right to receive rent and it would be valuable only where there is a competition for farms. The latter condition may, however, be considered to hold in respect of most parts of India. Such restricted alienability with proper safeguards as against sub-leases might meet the main requirements of agricultural credit in the Provinces in which the tenants form the bulk of the peasantry.

6. The problem of the areas where the bulk of the cultivators are themselves owners of land is somewhat differently placed. In these, restrictions on alienation are either absent or are so put as still to leave room for raising long-term credit. It has been alleged that in many of these Provinces alienation has led to an increase in the proportion of tenant-cultivators in the total mass of the peasantry and ordinarily tenant-cultivators in such Provinces are not protected at all. It is not possible for us to enter into this question. All that it is necessary to say is that a sound system of agricultural finance requires that no substantial class of cultivators should be without adequate rights and that if in any area where formerly cultivating-ownership was the rule tenants increase in numbers the steps taken elsewhere to protect their rights would also in time be necessary in these areas.

## CHAPTER IX

### *Relief and Rehabilitation and Development*

The general framework sketched above will meet the requirements only of producers who are on an average able to make both ends meet when financed at reasonable rates of interest. It provides in

short for the body of solvent peasants during periods of normal economic activity and profit. In India it is necessary to contemplate, in addition, the specific provision necessary for special periods of distress and for permanently depressed areas or communities. There are large numbers of tracts in India where a break in normal agricultural production occurs periodically because of a failure of the monsoon. The system of famine relief has been designed to meet such emergencies. The two important aspects of famine relief policy are the administration of relief and the grant of financial assistance. And the policy is or has to be directed towards the prevention of avoidable distress and towards leaving the economy of the agriculturist without a long-term handicap at the end of the period of famine. The administration of relief has been chiefly concerned with relief on test works and it has often been more largely influenced by the need for preventing too many persons from flocking to relief works than by consideration of the prevention of all distress. It has been laid down as the aim of famine policy that the agriculturists should be helped to resume production as soon as possible and should be enabled to conduct the operations of the next season fully efficiently and that relief and finance should be directed towards these ends.\* To implement these aims fully it would be necessary that help in terms of food, fodder, etc., is made available to all needy agriculturists at their farms to enable them to begin agricultural operations at the proper time and to continue them throughout the season. In respect of the programme for financial assistance the Famine Commission, 1880, laid down that "making of loans to the landed classes should be a part of the regular system of famine relief and that this measure should be liberally extended and prolonged till the effects of the famine have passed away."† In actual practice, however, it remains true that in all areas liable to famine a large part of the burden of accumulated debt is the result of periodic famines. It was found by a number of Banking Enquiry Committees, as a result of their investigations, that the main additions to debt burdens in most scarcity areas could be traced to years of specially severe famines.

The financial requirements of producers at times of famines would be of both production and consumption finance and would be for short and intermediate terms. It would be necessary in famine finance to accord special treatment in respect of the volume of finance, its composition and its terms. The incidence of famine conditions resulting in loss of crop, livestock, etc., might necessitate more liberal finance—short-term and intermediate—than could be made available by established business procedure. In specially

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\* "In the interests of the country at large, the main objective of the policy for the rains should be to secure the re-establishment of ordinary agricultural conditions". Famine Commission, 1901. Section XIV.

† Report Part II, Chapter IV, Section III.

severe cases part of the finance may have to be found by outright grants rather than by way of loans. The larger finance required to tide over the emergency could not also be carried at normal rates without handicapping, over a number of subsequent years, the economy of the producer. Famine finance would thus chiefly consist of grants and of special purpose loans at concession rates. This could not be administered by the system of normal finance. As pointed out above the agency of the State administering famine relief will also have to distribute this financial assistance in times of emergency as a supplement to the ordinary activities of the normal credit system.

2. This structure of famine finance postulates normal profitable production interrupted by an exceptional year. The same applies to such other occasional calamities as that of floods. There are, however, tracts where distress conditions are chronic and the calamity of famine or flood is so oft recurring that it almost forms part of the cycle of production even though its incidence might not be completely regular. In such a region a programme of relief and assistance in times of emergency alone could be of little avail. Long-term programmes to eliminate the recurrence of calamity conditions or to neutralise the effects of their incidence could alone give a balance to these regions. The region, as a whole, would have to be treated as a case of maladjustment or unbalance and its entire economy would have to be reconstructed. It might be noted in this connection that the Madras Famine Code Revision Committee, 1938, proposed the constitution of a Ceded Districts Economic Development Board as in its view only a long-term programme of economic development could really solve the problems of that region.\* During the working of the programme of rehabilitation most normal operations, including that of finance, would be adjusted to meet the needs of the programme and their control would best be centralised in the main authority working it.

3. Apart from whole areas liable to recurrent calamities of this nature there would be, in even secure areas, agricultural communities or classes which live perpetually in circumstances of precarious livelihood. Social or economic handicaps such as highly uneconomic holdings or backwardness in education or technical knowledge and equipment might lead to particular communities being in a specially depressed condition. In advanced industrial countries like the U.S.A. the creation of "the sub-marginal" or "economically disadvantaged classes" is due chiefly to economic maladjustments. In India the social aspects would be equally important and within the same region and under similar economic circumstances different communities might be found to have economies operating in a widely varying fashion. In general terms the needs of such communities

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\* Report, Section I.

are, in the initial stages relief and in the second instance a rehabilitation programme over a long period. The relief in terms of grants in money or kind, would meet urgent and immediate needs but could last over only a comparatively short period. Only a complete plan of rehabilitation worked out by a State Agency and whose implementation is supervised by that agency will solve the permanent problem of these communities.\* The nature of planning will, of course, differ from area to area or from community to community. What the effort involves might be made clear by the following brief account of the operations of the U.S.A. Farm Security Administration.

“The Farm Security Administration makes credit and technical farm management information available to low-income families engaged in agriculture. Its purpose is to enable farmers on or near relief to become self-supporting. The loans and technical assistance offered by the Farm Security Administration are extended to low income families upon the basis of individual farm and home management plans. This planning has been total planning for a small segment population rather than segmental planning for the total population, a more common type of planning in Government. It is the policy of the Farm Security Administration to extend help to needy farm families unable to obtain adequate aid from any other source; its primary concern is the rehabilitation of the bottom third of the farm population. In helping this low-income farm group to attain relative economic and social security the Farm Security Administration has accepted the individual family and its landhold as the basic unit for planning and action. The various phases of the F.S.A. programme are designed to assure the family an opportunity to help itself by making physical and educational equipment available to them upon a reasonable basis.

The F.S.A. programme attempts to point a way out for what is, in terms of restricted market demand for farm products, a surplus farm population. In the absence of alternative employments for its borrowers who are largely, as evidenced by their eligibility for F.S.A. aid, those families which have lost out in the market competition which marks the agricultural industry, the Farm Security Administration has fostered.

1. A partial rechanneling of the energies of its client farmers into spheres of activity which produce real income independently of the competitive cash crop markets, through home production of food and feed requirements.
2. Diversification of cash income sources.
3. A generally greater efficiency in all directions through the provision of better equipment, encouragement of land conservation

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\* Of the recommendations of the Land Revenue Committee, Punjab, relating to the creation and administration of Small Holders' Development Fund. Report Chapter— 10.

and improvement, and instruction in efficient farm methods and farm management.

Regional and area policy attempt to adapt national policy, by variations of emphasis, to the special needs of the locality involved. In the High Plains, for instance, where drought contributes to insecurity, special emphasis is laid on conserving water, restoring soil and expanding acreage. In the South where one-crop cotton farming puts the income of a major part of the farm population in jeopardy with each change in the extremely uncertain market, special emphasis is laid on diversification of cash crops and expansion of subsistence acreages.

The financial phases of the F.S.A. programme, the loans, credit adjustments, and grants are designed to equip the family to carry out the farm plans. Farm and home management planning precedes all financial action. A loan docket must include a copy of a farm plan and this plan must be carried out under the loan.

The action programme of the Farm Security Administration assume several phases. The loans it administers include Standard Rehabilitation Loans, Emergency Rehabilitation Loans, Community Service Loans, Medical Aid Loans, Loans for the Development of Small Water Facilities and Tenant Purchase Loans. Other parts of its programme are Farm Adjustment, Tenant Improvement, Homestead Projects and Camps for Migrant Farm Families. In case of extreme need, the Farm Security Administration makes small grants to farm families for the purchase of food, fuel, and other urgent necessities. Ordinarily grants are made only in areas stricken by drought, flood, or other disasters, where immediate aid is needed to prevent starvation.

The importance of the Farm Security Administration's far-flung action programme to local planning is emphasised by the fact that in some States the Administration is financing almost one-half of the farm population. The programme effects local relief loans; farm management patterns; tenure arrangements; land-use practices; credit rates, conditions, and agencies; educational achievements; diet, sanitation and health community organization; housing, techniques of cultivation; crop and acreage distributions; types and quantities of equipment; stability of residence; routes of migration and pattern of labour employment."

4. It might be that in India the policy of the State would at least initially be not as thorough and as all-embracing as in the U.S.A. However, the main requirements of the situation in this country are the same as those indicated by the operations of the Farm Security Administration. The development of policy in India must, therefore, follow similar lines. For all emergencies, for all areas showing a chronically maladjusted economy and for all communities living under specially depressed conditions a system of relief must be organised supplemented and completed by a rehabilitation programme which has two sides, financial and technical. The volume



of finance given will be determined by the framing of the rehabilitation programme and the return of such finance would be judged obviously not by comparison with normal conditions but with the expectations made and the actuals worked out in the rehabilitation programme itself. Apart from grants made by the State towards such programme, the terms of rehabilitation finance will be different from normal terms and might require subsidies, in varying proportions, from Government.

5. The relief and rehabilitation programmes whether for areas as a whole or for special communities or classes, will have to be planned by State agency. The administration of relief, at times of emergency, in normally secure tracts can also be conducted only by a Department of State. In the finance of the rehabilitation programme the elements of relief or concession finance will be present to a considerable extent with normal financing operations in these programmes. The administration of relief even when partially transferred to another agency will be under the direct supervision and at the cost of the State. It might be possible in large long-term rehabilitation programmes for the Departments of State to utilise the agencies for normal finance, such as the Agricultural Credit Corporation. Even where such agencies are utilised their operations will be specially controlled and also specially guaranteed or subsidised by the State; for, they must operate so as to fit in with the general programme of action and their costs in relation to special risks or expenses incurred must be covered. Thus, whether for emergency or other kind of relief and for the finance of all kinds of rehabilitation, the primary responsibility will rest directly on State agency which might or might not for any purpose, utilise the normal agencies operating in particular areas. It has, of course, to be emphasised that we do not conceive rehabilitation programmes as something apart from the general development effort. Neither the modes of effort nor the techniques employed in rehabilitation will differ essentially from those employed in the planning and carrying out of development programmes. The main difference between the two will be that where a development programme is expected to be worked out through normal finance given by the general financing agencies and not to involve special financial help from the State, the rehabilitation programme might contain elements both of free grants and subsidised finance. The difference between programmes of normal development and rehabilitation will therefore be much less marked on the technical side of the programmes than on their financial side.

It is obvious that the administration of all the financial and other measures suggested by us will have to be carefully co-ordinated and integrated. We suggest for the purpose the setting up in each Province of two administrative sections whose spheres of operation might be conceived as similar to those of two federal organisations in the U.S.A.—(i) The Farm Credit Administration, and (ii) The

**Farm Security Administration.** The first organisation should be specifically concerned with normal credit activity and should look after the working of the Agricultural Credit Corporation, the whole of the co-operative structure, should be responsible for supervising the working of the machinery for debt adjustment and should also be entrusted with the inspection of moneylenders. The same organisation could usefully undertake the work of supervising marketing regulations and the administration of the State Corporation looking after warehouses. The second organisation that analogous to the Farm Security Administration, would be concerned chiefly with relief and rehabilitation. The administration of all State loans and all relief and other grants will rest with this authority and it will provide all the various types of loans required in rehabilitation finance. Because rehabilitation would be its main function the organisation should form a part of or be closely co-ordinated with the work of agricultural adjustment and development and with the giving of technical expert advice to those engaged in agriculture and animal husbandry. While these two organisations will normally function as separate organisations it is obvious that for the programme of agricultural reconstruction, as a whole, their operations will be closely co-ordinated. It has been already pointed out that the rehabilitation programme will be part of the general programme of development and that the financing of activities under it will proceed in close association and sometimes with the direct help of the normal credit machinery. It is relevant to note that in U.S.A. the Seed and Food Loan Offices under the Farm Security Administration are located in the same building as the offices of the four Central Credit Institutions of a District under the Farm Credit Administration. On the other hand, the working of the Agricultural Credit Corporation, the co-operatives and the warehouses will require guidance and assistance from the technical staff of the Agricultural Department. We are, therefore, of opinion that the two organisations should both be put under the same Minister of State.

During the progress of our work we have been continuously faced with the difficulty of obtaining reliable data on which to base our recommendations. Legislation for the adjustment of debt, for the regulation of moneylenders and other cognate matters has been in operation in many Provinces and States over a number of years. Regular reports surveying periodically the working of this legislation and statistical data relating to their operation are, however, not usually published. No definite arrangements seem to exist for collation and compilation of the various types of data accumulated as a result of the working of the various acts. This is unfortunate, as experience and information which would be valuable for the shaping of future policies are thus lost. It is of the utmost importance that arrangements should be made from the initiation of the work of reorganisation to collect, collate and publish data relating

to the working of the new acts and of other reconstruction activities of departments. The governments responsible for these activities should issue annually full reports and statistics regarding the working of the acts and institutions set up to meet particular needs or to solve particular or general problems. These annual reports will be published by the Provincial and State departments. It would be of great advantage to continuously pass under review the data that flow in through these annual reports and through any periodic reports of particular administrations and it would be highly desirable if the form of the annual reports and especially of the statistical data contained in them are, at least to some extent, standardised. A continuous examination of data contained in the reports, etc., would render possible adjustments in the legislation and in administrative practice from time to time. It might prove useful, in addition, to undertake particular enquiries or general periodic surveys. In Ceylon provision has been made for conducting a quinquennial enquiry into the working of the Ceylon State Mortgage Bank. We attach great importance to this work of continuous enquiry and collation of information and feel that efficiency of the operation of administrations and the pace of progress could be greatly quickened thereby. We are of opinion that this work can best be undertaken by the Agricultural Credit Department of the Reserve Bank of India to which a peculiar responsibility already attaches in this behalf. We recommend that the Bank should set up a Standing Committee in connection with this Department to provide for a continuous examination of the data that flow in and for exchanging information and experience. The Standing Committee which would be fully representative of various regions and interests without however being too large should meet, say, once a quarter to pass under review the periodic reports as they come in and to suggest investigations, experiments or amendments in the light of this review and examination. It could, thus act as a general clearing house of information and would ensure intelligent adjustments from time to time as are necessitated by the experience of actual working. The Standing Committee would provide for a continuous review ; large-scale periodic stocktakings over the whole country will also, in addition, be necessary. These would best be arranged for by the Government of India.

## CHAPTER X

### *Conclusions and Summary of Recommendations.*

Before giving a detailed summary of recommendations it might be useful to review the plan of the report and to indicate the general approach of the Committee to the problem it faced. On a review of

the existing data it was seen that it was difficult to evaluate quantitatively the debt owed, on an average by all agriculturists, or by particular classes, with any accuracy and that there were still less data for judging of its burden in relation to the income or surplus of the producers. At the same time it was clear that today the terms of the debt were for the average agriculturist heavy, that it was contracted partly for current production and consumption needs and partly for purposes that might be called "unproductive", and that very little of borrowed money was spent on improvement of the productive resources of the agriculturist. It was also clear that repayment of old debts led to contraction of new ones to a very large extent and that debts, once contracted, tended to accumulate and increase. A historical review of the situation showed that while the depression of the thirties had intensified the general problem of debt, the relief given by the rise of agricultural prices during war years had been considerable and that the present was an opportune time for dealing with it. At the same time it was equally clear that reorganisation of rural credit could succeed only if it was undertaken as part of a manysided effort at reconstruction.

In the reconstruction of agricultural finance the initial problem was that of the reduction of accumulated debt and the general problem that of the reorganisation of the credit system. No beginning could be made with raising and working a new financial structure until the dragging effect of old debt had been eliminated. This could be done only by reducing the burden of debt and the charges on its account on the agriculturist producer to a level which allowed him to maintain his standard of living at a minimum level and to raise adequate finance for current and future production needs. The level of necessary adjustment could be defined in terms (i) of annual repaying capacity over a period of years in the future; and (ii) of a proportion of the value of real assets of the producer on which the margin of future credit would depend. The adjusted debt would best be taken over by a lump payment to old creditors by Co-operative Land Mortgage Banks or new State Agencies. The process of adjustment visualised as a necessary preliminary to the raising and successful working of the new financial structure must cover the entire field of agricultural production and must be brought about compulsorily and within a well defined period of time.

The new financial structure might logically be unitary but in actual practice it would have to be diversified. The present organisation of agricultural finance is dominated by the uncontrolled activities of the private moneylender. The situation could be changed by (i) providing competitive alternatives, (ii) by direct regulation. The task of offering credit on fair terms for all reasonable needs of all agriculturists who had a minimum degree of creditworthiness immediately and in all regions could only be undertaken by a State Agency. Such Agency would best take the form of a State established

and controlled public Agricultural Credit Corporation in each Province working through local offices. Such a Corporation could usefully handle all types of agricultural finance. The cost of credit given by the Agricultural Credit Corporations could be subject to maximum limits which should not exceed  $6\frac{1}{2}$  per cent for current and 4 per cent for development finance. Because of the lowness of these limits as compared to the cost of administration and the element of risk, the business of the Corporation would require subsidies from Government and also require the general adoption of the credit principle, the greater the risk the greater the supervision. In this supervision, the activities of the Corporation should be linked with those of the field staff of the technical departments of State. While the Agricultural Credit Corporations could begin to function usefully as lending organisations over large areas within a short period of time the full articulation of their services would require, particularly in backward regions, the organisation of borrowers' groups. Some type of borrowers' group should be evolved where no co-operative marketing or credit society can be formed. The ultimate aim should, however, be to organise all producers for both credit and marketing purposes into primary co-operative organisations whose activities are closely co-ordinated. The co-operative credit society of the unlimited liability type appears to be the most suitable general form of primary credit organisation. Limited liability might, however, be accepted where certain compensating circumstances are present.

The main stream of institutional agricultural credit would flow through the quasi-official Corporations and co-operative banks linked with primary co-operative societies or borrowers' groups. Another important source of institutional credit might be found in finance by joint stock banks and other private corporations especially for the marketing of agricultural produce. This could be stimulated by general adoption of marketing regulation and by construction of a system of warehouses at nuclear points of rural trade by the State as part of a programme of development of rural transport. The warehouses should be managed by a quasi-official public corporation and would provide the basis of warehouse certificates for purposes of finance on the adoption of legislation on lines suggested by the Reserve Bank of India.

No alternative agency could expect to displace entirely the private moneylender and his operations in both secured and unsecured credit should, therefore, be subject to strict control. This control could be expected to be successful only if provision was made for setting up an agency for its proper enforcement.

Short and intermediate finance is based on continuity in profitable production of the agriculturist and long-term finance on possession by him of some assets which he could pledge. Therefore, specially in tracts where tenants form a considerable proportion of producers,

security and continuity in production and alienability of some sort of land rights must be assumed before adequate finance could be made available to producers.

While a financial structure built on these lines could cater for the needs of all producers who can make both ends meet in normal years special action would be necessary for other circumstances and times. Emergencies such as famine and floods must be provided for independently. In addition to the gratuitous relief afforded at such times, adequate special purpose finance at concession rates must be given to affected producers to ensure that such emergencies do not continue to handicap the producer for a length of time after they have passed. For areas or classes who labour chronically under special disadvantages long-term programmes of rehabilitation must be prepared as part of the general programme of reconstruction and development. All producers within rehabilitation programmes will have to be financed on special conditions suited to the programme and will work under special control and supervision imposed by it. The finance of all producers within Relief and Rehabilitation programmes must be undertaken directly by the authority planning and directing the programme.

The State will itself directly establish and operate the organisations for Relief and Rehabilitation. It would establish semi-official public corporations such as the Agricultural Credit Corporation and the Warehousing Corporations. It would set up a special agency for inspecting the operations of moneylenders. It would co-ordinate the activities of its field staff helping the technical aspects of agricultural and animal husbandry with the supervisory staff of the financial organisations. The direct financial liability of the State would be in connection with cost of the programmes of relief and rehabilitation, the construction of warehouses, the provision of capital for the Agricultural Credit Corporations and any subsidies that might be required by the Corporations and the Co-operative organisations for keeping within defined limits the rates of interest charged.

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*Chairman.*

A. KRISHNASWAMI,  
*Member.*

M. A. MOMIN,  
*Member.*

R. G. SARAIYA,  
*Member.*

J. C. RYAN,  
*Member.*

HIMMAT SINGH K.  
MAHESHWARI,  
*Member.*

GURBACHAN SINGH,  
*Member.*

SHER JANG KHAN,  
*Member and Secretary.*

## SUMMARY OF RECOMMENDATIONS.

## CHAPTER III—DEFINITION OF THE PROBLEM AND OF THE CONDITIONS PRECEDENT TO ITS SOLUTION.

<i>Recom- menda- tion No.</i>		<i>Para- graph No.</i>
1	Financial reconstruction could not be successful unless all problems of the agricultural economy were tackled as a whole ; the attempt to raise a sound system of finance should be only a part of a general programme of reconstruction, to place the agriculturist producers in a state of normal solvency.	15
2	The reconstruction effort should involve, among other things, the attainment of a balance in each region between agricultural and industrial employment, a general prevalence of economic holdings, a guarantee of continuity and security in production effort to the cultivator, a progressive increase in his technical competence and diminution of the risks of failure of production by providing secure water-supply, technical assistance, etc., maintenance of agricultural prices at a profitable level and by working schemes of insurance, the establishment of subsidiary industries, improvement of trade and transport facility, attainment of an adequate standard of living, the spread of education, etc.	16

## CHAPTER IV—ADJUSTMENT, REDUCTION AND COMPOUNDING OF OLD DEBTS

3	The adjustment of old debts of agriculturist producers is a necessary preliminary to the re-organisation of agricultural finance.	1
4	The debts of such agricultural producers as have no hereditary or transferable interest in land should be taken up for compulsory adjustment on applications of the borrowers. All the debts of all agricultural producers who have hereditary or transferable interest in land should be compulsorily adjusted without waiting for applications from borrowers.	10

Arrears of rent should be treated as debt but not the current rent charges. 10

Debts due to co-operative societies should be adjusted with the consent of the Registrar of Co-operative Societies of the province who should determine the extent of remission which the society could give on such debts.

The work of adjustment should be entrusted to judicial officers or to boards adequately manned by judicial officers. 11

The proceedings of the boards should have the status of judicial proceedings and their decisions should be final. No party should be allowed to be represented by a legal practitioner as a matter of right. Each Board or officer should be assisted by a staff of experts to assess the value of property, repaying capacity, etc. 11

The work of adjustment should be completed within a specified time, which should not exceed two years. 12

For this purpose it should be made obligatory on all creditors to submit their claims to the board. The opening and closing dates for the submission of claims and documentary evidence should be prescribed by law. Any claim not submitted within the period should be deemed as discharged for all purposes and for all occasions, unless special reasons exist for the delay, in which case their revival should be allowed within a specified period only. 12

The debtors should be made to submit statements of their assets and liabilities before a definite date. 12

To determine the fair amount due from a debtor, the adjustment agency should scrutinize each account and go behind the entries as is provided in the Usurious Loans Act and the Deccan Agriculturists' Relief Act. 13

It should also apply the rule of Damdupat which should be defined so as to mean that total payments cannot exceed twice the amount of 13



<i>Recom- menda- tion No.</i>		<i>Para- graph No.</i>
	principal originally lent and that interest cannot be converted into capital.	
8	The amount determined as fair should be reduced to the present value of the debtor's normal repaying capacity over 20 years worked out at a rate of 4 per cent interest or to 50 per cent of the normal value of his immovable assets, whichever is less, provided that :—	13
	(i) A secured debt is not reduced to less than 50 per cent of the value of the property on which it rests ; and	
	(ii) The proportion allowed of a secured debt in terms of the value of the property on which it rests is not smaller than the proportion allowed of the unsecured debts to the total of such debts.	
9	If a debtor has no hereditary or transferable rights in land and his debt fairly determined exceeds his total paying capacity by a given proportion to be prescribed in law, the Board should adjudge him an insolvent to be dealt with compulsorily under a simple insolvency procedure.	14
	If a debtor has hereditary or transferable rights in land and his debt exceeds his total repaying capacity or half the value of his immovable assets (whichever is less), by a given proportion to be prescribed in law, the Board should adjudge him an insolvent to be dealt with compulsorily under a simple insolvency procedure, irrespective of the amount of debt or the value of assets involved.	14
10	A provision should be made in law for a summary administration of the debtor's estate whereby all his property may be realised with all reasonable despatch and distributed, wherever practicable, in a single dividend.	14
11	The provision of proper relief and of proper avenues of employment to such insolvents as part of either agricultural, industrial or other reconstruction should claim the first attention of Government.	14

The immovable agricultural property belonging to the insolvents should be transferred to the development and rehabilitation administrations at a price determined by the Board in its process of adjustment. These properties shall be managed or disposed of with a view to the best utilization of the resources of the land through either co-operative effort or the establishment of a solvent peasant class. 14

In the case of all other debtors, the adjusted debt should be awarded to be paid to creditors (including Government, Co-operative Societies, etc.), immediately in lump, by borrowing from a land mortgage bank or a Governmental Agency set up for the purpose. This forms one of the integral parts of the scheme of debt adjustment. 15

Co-operative Land Mortgage Banks, wherever they exist, should have the first claim to take up the adjusted debts. They should be free to judge each case according to their own standards. 15

All cases other than those taken up by co-operative land mortgage banks should be taken over by the State Agency. 15

The agency taking over the debt will recover it from the debtor in instalments spread over a period not exceeding 20 years. 15

In areas where Land Alienation Acts are in force, it may be necessary to utilize a standard for scaling down debt other than that of 50 per cent of the value of the land. 16

The work of debt adjustment should be accompanied in every region by the provision of agencies of credit alternative to the private financier and a regulation of his operations. 17

#### CHAPTER V—MODE AND EXTENT OF STATE FINANCE IN NORMAL TIMES AND CIRCUMSTANCES.

The process of debt adjustment must be accompanied by a complete reconstruction of the financial structure. 1

<i>Recom- menda- tion No.</i>		<i>Para- graph No.</i>
20	The main aim of this reconstruction in the immediate future should be to provide the solvent agriculturist producers in all areas with an agency alternative to the private moneylender from which the producers would be sure of obtaining finance for all reasonable purposes on reasonable terms.	4
21	The existing co-operative banking organisations cannot be utilised as the alternative agency of credit because they are not equally strong in all the provinces and also because they are essentially autonomous bodies ruled largely by their own members; further problems might arise in linking the co-operative banking structure with non-members.	10
22	This alternative agency of credit must be an autonomous public corporation established by the State and operating under general official supervision and direction, but whose day-to-day working and normal business transactions are largely conducted on an independent basis.	12
23	It would be better, at least initially, for each province to have a separate corporation which should possess a centralized organization with a net-work of local agencies and sub-agencies.	13 & 14
	Its capital will have to be provided chiefly by the Provincial Government at least to the extent of 50 per cent. Other institutional elements of the general credit system may also be invited to subscribe to the share capital. Shares should be placed only with selected credit institutions, chiefly joint stock banks, co-operative banks and marketing organisations.	14
	Its affairs should be managed by executive officers and its policies should be framed by a Board consisting chiefly of nominees of Government and representatives of other shareholders. Both the executives and the Board should be appointed by the Provincial Government for a fixed term of years. Some of the nominees of Government to the Board will be officials. In making the other nominations, the Government	14

should secure special representation of those engaged in agriculture and in working co-operative organisations.

It should provide all types of credit. 15

It will deal with any individual agricultural producer or group of agricultural producers applying to it for a loan for any purpose for which it is authorised to lend. 16

In dealing with both individuals and groups, its methods will be similar to those of any institutional agency, *e.g.*, co-operative banks. 16

In providing finance, whether short-term or long-term, it must pay attention to both the real assets owned by the borrower and the nature of his personal business. For giving long-term mortgage credit, it will have to conduct a full enquiry into the individual's assets and also his earning capacity, etc. For intermediate credit, the specific charge on equipment or chattel might be reinforced by a collateral mortgage. The limits of short-term credit might be defined both in terms of value of real estate and of certain features of individual business. 16

The Corporation would be able to undertake efficiently and expeditiously the work of making available mortgage finance immediately on a countrywide scale. 17

For intermediate finance, required specially in areas where mixed farming is common, or special weight attaches to animal husbandry or agriculture is commercialised, some kind of borrowers' organisations,—co-operative or otherwise—may have to be created. 17

Short term finance in areas where important commercial crops are concentrated might not be difficult if attempts at the stabilization of agricultural prices, etc., lead to a considerable control by the State over marketing and prices so that loan recovery is guaranteed. 18

<i>Recom- menda- tion No.</i>		<i>Para- graph No.</i>
	In the absence of such conditions the Corporation might provide intermediate and short term finance directly to substantial cultivators. If it has already provided these with long-term mortgage finance, it may advance the shorter term finance on second mortgage of lands or on chattel mortgage or with some kind of crop charge.	18
31	For meeting the short-term needs of the smaller cultivators, the latter should be induced to form themselves into co-operative credit, marketing or sale societies.	18
	Where this is not possible, it is necessary to attempt some type of simple organization of borrowers' groups to form as a link between the local agency of the Corporation and the large number of agriculturist producers scattered over the countryside.	18
32	The main services of a borrowers' group might be to collect and transmit loan applications and the information required in respect of them.	19
33	The Agricultural Credit Corporation should be a centralized type of organization. The number of agencies and sub-agencies to be organised will depend on the volume of business available in each area.	21
34	Its staff and methods of business in local areas will closely resemble in respect of mortgage finance to those of the Provincial Land Mortgage Banks and in respect of intermediate and short-term finance to those of the Bombay Provincial Co-operative Bank in the districts where it deals directly with individuals and primary societies.	21
35	Each Province or State will have to prepare separately its scheme for the Corporation. For this purpose it will have to take account of the working of the legislation relating to adjustment of debts, the development of the co-operative movement, the operation of the private money-lending agencies, the needs of the specially backward areas, etc. The area and intensity of the development of the activities of the Corporation	21

<i>Recom- menda- tion No.</i>		<i>Para- graph No.</i>
	will also depend on the resources that Govern- ment is able or willing to spare for the purpose.	
36	For the bulk of its ordinary business, the Cor- poration will not require any considerable subsi- dization by the State to maintain the rates of interest recommended by us.	22
	In less developed areas where the cost of ad- ministration and collection of loans and the risks connected with them are large, there is need of State subsidy which may be given by such means as giving free use of substantial funds or by directly subsidizing costs of administration, supervision, etc.	22
37	Where the co-operative banking structure is not yet highly developed, the Corporations should take on themselves the financing of co-operatives.	24
	Where co-operative banking is developed, ex- cept in the direction of land mortgage banking, the Corporations could handle mortgage business and no special attempt need be made to develop co-operative land mortgage banking.	24
	Where co-operative banking is highly developed in both ordinary and land mortgage business, the Corporations would constitute a third system. In both these cases, the three agencies should be effectively co-ordinated and care taken to pre- vent overlapping of areas, duplication of effort, or redundancy of finance.	24
38	In a Province in which Government feels that the co-operative financial agencies are so strong and have such wide scope that they could under- take all the work which we have indicated as in the sphere of the Agricultural Credit Corporation there would be no objection if a separate Cor- poration is not set up provided that means are found for making finance through co-operatives available to all creditworthy borrowers.	25
39	The Agricultural Credit Corporation should work in close co-ordination with the technical and other agencies of the State.	26

*Recom-  
menda-  
tion  
No.*

- 40 The rates of interest have to be reasonably low for current or intermediate finance and lower still for development finance ; broadly  $6\frac{1}{2}$  per cent for current finance and 4 per cent for development are proper limits.

CHAPTER VI—THE CO-OPERATIVE MOVEMENT

- 41 The spread of co-operation would provide the best and the most lasting solution for the problem of agricultural credit in particular and for most problems of rural economy in general.

- 42 In order to improve the system of co-operative finance given by the primary credit societies the frozen assets of co-operative societies should be liquefied by adjusting the claims of the societies to the repaying capacity of the members.

- 43 The primary credit society should continue to be the nuclear unit of the co-operative credit structure.

The credit societies should, as a rule, adopt unlimited liability. If limited liability is proved to attract valuable elements to the movement in any region, it could be adopted provided that a substantial part of the funds required by the society can be raised through share capital ; the liability in such cases may be limited to the value of shares or to a certain multiple thereof.

- 44 The primary credit society should try to finance all the short-term needs of its members and also, subject to certain limitations, their intermediate term needs.

- 45 In a co-operative society the creditworthiness of a member should be assessed on the basis of his repaying capacity.

- 46 The security for advances should ordinarily be personal. But the society should have a statutory charge on the crop as an additional security for all its seasonal finance, the wilful breach of which charge should be made a criminal offence. Mortgage security may be justified when the size and period of the loan require it ; but it should be only collateral.

<i>Recom- menda- tion No.</i>		<i>Para- graph No.</i>
47	The delay in clearing loan applications should be minimized. For this purpose— <ul style="list-style-type: none"> <li>(i) borrowing limits for each member and for each society should be fixed each year ;</li> <li>(ii) Societies with sound management should be allowed cash credit arrangements with their financing institutions ;</li> <li>(iii) Societies of good standing might be permitted to keep some cash in hand for making small loans ;</li> <li>(iv) The system of “continuity mortgage bonds” in Madras might be profitably looked into and adopted wherever conditions permit ;</li> <li>(v) The system of running credits to individuals may be adopted wherever practicable ; and</li> <li>(vi) Authority should be granted to specified office bearers to sanction loans not in excess of specified amounts in emergency.</li> </ul>	9
48	Loans should be advanced only as and when they are actually required.	9
49	Regular repayment of loans should be insisted upon. Extensions may continue to be allowed in cases of temporary difficulties. For wilful defaults there should be no hesitation in resorting to coercive measures.  The system of giving the Co-operative Department powers for coercive processes, etc., may be extended to provinces where it does not exist.	10
50	Every effort should be made to reduce the rates of interest on short and intermediate term finance charged to the ultimate borrower as much as possible, so as not to exceed 6½ per cent in any case.  In areas where high rate is due to the small size of the unit and high costs of administration, the Government should subsidize the cost of administration so as to bring the lending rate within the recommended limits.	11



<i>Recom- menda- tion No.</i>		<i>Para- graph No.</i>
	The co-operative banks should develop their banking methods, on sound business line so that they could raise funds cheaply and pass on the benefit to the members of primary societies.	11
	An increasing use should be made by the provincial co-operative banks of the schemes formulated by the Reserve Bank to grant accommodation to them at a concession rate. The authorities of the Reserve Bank should consider the desirability of increasing the reduction below bank rate on such accommodation to say 1½ or 2 per cent.	11
51	The efficiency of co-operative finance should be improved by closely linking the operations of credit societies with those of sale societies.	12
	The scheme of "controlled credit" functioning in Madras is recommended for general adoption with such modifications as are necessary to suit local conditions.	12
52	The efficiency of co-operative finance should also be improved by ensuring the proper application of loans	12
	(i) by supplying as far as possible the requirements of members (in kind) through direct arrangement with purchasing unions and consumers' stores which would supply the goods to the members by debit to the society's account. In the absence of such organisations, the society itself might supply the goods; but it should work strictly on indent system and should not undertake any trading risks; and	
	(ii) by a constant and careful supervision of the operations of societies and their members through an efficient supervisory staff whose cost of maintenance should be met by the State.	
53	In order to increase the marketing finance available to the producer, the co-operative organisations should try to develop processing activities. The finance for setting up the plant, etc.,	13

<i>Recom- menda- tion No.</i>		<i>Para- graph No.</i>
	should be provided to them by the Agricultural Credit Corporation.	
54	Attempts should be made to create public opinion against extravagant ceremonial expenditure, on a reasonable scale on such occasions, the possibility of making advance provision in terms of a specific savings programme should be explored by the co-operative societies.	14
55	The structure for financing animal husbandry need not be different in essentials from the structure for financing the other needs of the producer which has been dealt with in the above paragraphs.	15
56	The State should provide an efficient general system of veterinary assistance and also a system of cattle insurance. Without these the economic basis for the finance of animal husbandry will remain extremely precarious.	15
57	The business of the existing land mortgage banks should be developed wherever possible. The State assistance given to them at present should be continued and further liberalized wherever necessary.	16
	Long-term mortgage finance to the agriculturist should be made available at a rate of interest not exceeding 4 per cent and the Government should subsidize the land mortgage banks to enable them to do so. The Land Mortgage banks should attempt to give more finance for land improvement in consultation with the Agricultural Department.	16
<b>CHAPTER VII—PRIVATE FINANCIAL AGENCIES AND THEIR REGULATION</b>		
58	In view of the vast extent of the country and the large varieties of conditions in it, attempts should be made to develop as varied a system of institutional credit as possible for financing agriculture. All reasonable facilities which do not hamper the growth of the co-operative credit system should be afforded to the commercial banks to enable them to play an important part in the rural credit organization.	4

<i>Recommendation No.</i>		<i>Paragraph No.</i>
59	<p>In order that commercial banks may increase the volume and scope of their business in regard to agriculture—</p> <p>(i) marketing should be regulated by law,  (ii) licensed warehouses should be established and their receipts made negotiable.</p> <p>Warehouses should be constructed by the State (as an integral part of its transport development plan) at all nuclear points of trade in agricultural produce. The warehouse system should be operated by a public corporation organized on lines similar to that of a Port Trust or Improvement Trust.</p> <p>The draft Warehouse Bill circulated by the Reserve Bank of India is approved and it is recommended that the Governments should enact legislation to establish licensed warehouses on the lines indicated in the bill.</p>	5
60	<p>Regulation of the moneylenders' activities is essential for building up a sound system of agricultural credit.</p>	7
61	<p>The existing law regulating moneylending should be improved to make it more effective. For this purpose : (1) the Acts in all the provinces should provide for the following :—</p> <p>(i) Registration of moneylenders.  (ii) Licensing of moneylenders.  (iii) Maintenance of accounts in a prescribed form.  (iv) Prohibition against showing in books of accounts or in any other document a sum larger than what has been actually lent.  (v) Furnishing of periodical statement of accounts to the debtors.  (vi) Furnishing of statement to the debtor in prescribed form giving full particulars about each loan as and when advanced.  (vii) Issue of receipts to the debtors for every payment received.</p>	12

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- (viii) Limitation of the rate of interest.
- (ix) The enforcement of rule of Damdupat.
- (x) Prohibition against taking unlawful charges for expenses, etc.
- (xi) Provision to entitle a debtor to deposit at any time in a court of law an amount in part or full payment of loan to be paid to his creditor.
- (xii) Prohibition of contract for payment of loan outside the province.
- (xiii) Institution of suits by debtors for taking account and for having amounts due from them determined.
- (xiv) Protection of debtors from molestation and intimidation.
- (xv) Infringement of the provisions of the law to be made a criminal offence punishable with fine and in appropriate cases with imprisonment. (This is necessary as moneylenders who evade the law cover themselves against risk of fine by such means as taking bonds for amounts in excess of amounts actually advanced.)

(2) The definition of moneylender should be 13 & 14 made more comprehensive so as to include all loans bearing interest. Only loans advanced by institutions such as Government, co-operative societies, etc., and by all scheduled banks and such non-scheduled banks as fulfil certain prescribed conditions, should be exempted.

(3) The maximum legal rates of interest of 16 loans should be fixed with great caution. No uniform rate should be stipulated but a schedule of rates sufficiently detailed to meet variations in conditions should be carefully worked out and included in each Act.

62 A State inspecting and supervising agency 17 similar to the one functioning under the Small Loan Legislation in U.S.A. should be set up in each province. It should carry out periodical and

<i>Recom- menda- tion No.</i>		<i>Para- graph No.</i>
	surprise inspection of the books of moneylenders. Every moneylender should be required to submit to the agency annual returns regarding his business. The agency should publish periodical reviews of the effects and working of Debt Acts.	
63	Regulation of moneylending should be accompanied by a regulation of agricultural marketing not only inside the markets but also outside them. All market agencies should be required to maintain proper accounts and give to the seller vouchers and statements in prescribed form.	15
64	A regulation of mortgages is equally necessary to build up a sound system of agricultural credit.	18
	All usufructuary mortgages which do not provide for automatic redemption within 20 years should be prohibited by law.	18
	In simple mortgages, transfer of land (by way of sale) should be made void and the mortgagee should only be entitled to possession for use for a period not exceeding 20 years to recover the amount remaining to be paid ; and the mortgagor should have the option to convert at any time the simple mortgage into a self-liquidating usufructuary one.	
	Specific classes of institutions, like co-operative land mortgage banks and the Agricultural Credit Corporations should be exempted from the regulations on mortgage lending.	18
	CHAPTER VIII—LAND TENURE AND CREDIT.	
65	Adequate protection to the actual cultivator is a condition precedent to sound agricultural finance.	5
	This protection essentially consists in guaranteeing a measure of continuity in productive effort, security against arbitrary enhancements of charges, and incentive towards improvement of land resources.	5
	Such protection must be linked to cultivating status and must accrue to all actual cultivators.	5

<i>Recom- menda- tion No.</i>	<i>Para- graph No.</i>
Alienation of the privileges linked to cultivat- ing status should be restricted only to the actual cultivator in succession.	5

#### CHAPTER IX—RELIEF AND REHABILITATION AND DEVELOPMENT.

66	Famine finance, which consists chiefly of grants and special purpose loans at concession rates, cannot be administered by the system of normal finance. The State agency administering famine relief will also have to distribute this famine finance as a supplement to the ordinary activities of the normal credit system.	1
37	In tracts where distress conditions almost form part of the cycle of production, the economy of the region as a whole would have to be reconstructed by a long term programme in addition to the work of relief at the actual time of distress.  During the working of this programme of rehabilitation, most normal operations, including that of finance, would be adjusted to meet the needs of the programme and their control would best be centralised in the main authority working it.	2
68	In areas of solvent economy where particular communities suffer from a depressed condition, only a complete plan of rehabilitation worked by a State Agency and whose implementation is supervised by that agency will solve the permanent problem of such communities.	3
69	The development of State policy in India should follow the same lines as in U.S.A., since the main needs of this country are similar to those looked after by the Farm Security Administration.	4
70	The State Agency should plan both the relief and the rehabilitation programme. The primary responsibility for administering these programmes or supervising their working will rest directly on the State Agency which might or might not utilize for any purpose the normal financial agencies operating in the areas.	5

