CHAPTER XIII

CONCLUSION

Credit is the centre of agrarian economy in Assam. It is an essential resource for farm operation. A large number of people depend on its flow for their bread and butter. It stimulates production and in its turn leads to the solution of many problems.

Demand for agricultural credit arises both for short-term production as well as long-term investment purposes. Both the demands are functionally co-related with the level of modernisation of agricultural economy. Modern methods of agriculture using high-yielding varieties of seeds, high doses of fertilisers and pesticides and depending on capital investment in irrigation and improved agricultural machineries require far higher input of credit per hectare of cultivated land than traditional method of cultivation.

In the foregoing chapters a comprehensive and systematic study has been made regarding agricultural credit in Assam. The agricultural economy of Assam is to-day on the
threshold of a major change. The cumulative impact of irrigation development and use of modern inputs like high-yielding varieties of seeds, fertilisers, pesticides, progressive mechanisation of agriculture as reflected in the use of pump-sets, power-tillers etc. have all opened up vistas of new development in agriculture. The pace of modernisation will further accelerate during the subsequent Plan periods when massive investment will be made to double the growth rate in agricultural production.

The anticipated growth of agriculture during the Fifth Plan period will require massive credit support. During the Fourth Five Year Plan period a sum of Rs. 19.50 crores were fixed as production credit requirement out of which Rs. 9 crores were advanced by different credit agencies.\(^1\)

Since during the Fifth Plan period the proportion of irrigated area to net sown area as also the proportion of area under high-yielding variety and multiple cropping to total cultivated area are likely to register a sharp increase, the over-all demand for production credit will also rise and it was estimated by Assam Agriculture Commission that arrangement will have to be made to provide a credit of about Rs. 60 crores as short-term loan and about Rs. 20 crores as long-term

\(^1\) Report of the Assam Agriculture Commission, Govt. of Assam, 1975, p. 214.
investment loans by the end of the Fifth Plan period. The credit need has been computed on the basis of the cost of purchased inputs, which can be taken approximately at 66 per cent of the total cost of production. Accordingly, 66 crores approximately represent the minimum short-term credit needs for crop programme proposed by the commission during the Fifth Plan period. Of this Rs. 37.5 crores will represent the fertiliser component and the balance for seeds, pesticides and irrigation.

There is already a huge credit gap to the tune of Rs. 15.68 crores in the existing institutional framework of agricultural finance in Assam. This gap will progressively widen with the introduction of high-yielding varieties of crops, use of chemical fertilizers, extension of cultivation as well as use of modern implements for agriculture and will become the main constraint for agricultural development in Assam unless remedial measures are taken. This "credit gap" cannot be bridged by the State Government directly as neither budgetary resources will permit nor will it be desirable for the Government to directly step in a field where credit institutions should be allowed to develop and play its proper and adequate role. Government should provide every help and encouragement to credit institutions by providing them necessary incentives and infrastructural facilities.


3 Planning Commission, Govt. of India, Memorandum on Consolidation of Holdings, p. 21.
At present the institutional credit facilities in the rural areas are either absent or inadequate. The All India Rural Credit Survey Committee (1951-52) revealed that in Assam the proportions of credit from Government agencies and co-operatives to the total borrowings were 6.2 per cent and 0.5 per cent respectively. In the villages surveyed by the author the co-operative banks have been found to play an insignificant role in the supply of agricultural credit. The absence of cheap and adequate institutional credit forces the farmers into the clutches of the money-lenders who charge exhorbitant rates of interest. Therefore, the main focus of attention has to be on strengthening the existing institutional structure as represented by the co-operatives and commercial banks and devising new patterns of institutional arrangements to suit the needs of the day.

The co-operative institutions in Assam, as we have seen in our analysis, have failed to move with the dynamics of change in the agricultural economy of the State. The weakness of the three-tire co-operative credit structure for short-term credit in Assam, are a large number of weak, dormant primary credit societies at base with inadequate coverage of membership, a very low average of loan disbursed per member and covering less than 10 per cent of rural population. The District Central Co-operative Banks are weak financial institutions because of poor deposit base on the
one hand and heavy overdues on the other and antiquated management. The Assam Co-operative Apex Bank has failed to provide any leadership to the system and all the co-operative banks from the base to the top are functioning as a syndicate of mere borrowing agencies. The Co-operative management sanction loans after full satisfaction of the credit worthiness of the loanees, but it does not feel the necessity or responsibility to its timely recovery. As if they are there to disburse loans to the farmers whenever they get money from higher financial institutions. Not only that there seems to be no initiative on the part of the Primary Agricultural Credit Societies to deposit collections from the Public to strengthen financial position. Because no credit agency, however, strong, can survive if loans given by it are not realised timely.

In the field of long-term credit also the two-tier co-operative credit structure of Central Land Mortgage Bank and Primary Land Mortgage Banks has not yet made any impact on the rural economy of the State. The Co-operative Land Mortgage Banking structure, as we have seen, is still in its infancy and the annual investment has not yet crossed the rupee one crore mark. Owing to this weakness of the Co-operative long-term credit structure refinance facilities extended by Agricultural Refinance and Development Corporation could not be availed of in any significant manner.

However, following the Reserve Bank of India Study Team’s Report on Co-operative Credit and overdues of Co-operative Credit Institutions in the State, important steps
like amalgamation of the Central Co-operative Banks with the Assam Co-operative Apex Bank, organisation of primary credit societies etc. are being undertaken, but given the socio-economic environment in the State in which the co-operative system operates, the extent to which it can play a pioneering role as in the states of Maharashtra, Punjab, Tamil Nadu etc. is very limited. Because 68 per cent of the cultivators in Assam are non-land owning farmers, apart from this nearly 60 per cent of the cultivators are small farmers who are out of the membership of the co-operative institutions. Further, there are large number of tenant farmers and Adhiars in Assam who cannot take loans from the Co-operative institutions because of the insistence of landed security, lower status in the rural social structure and monopoly of leadership and management by big farmers. Even crop loan system started during the second plan period and modified during the Third Plan period to benefit such class of farmers, could not make much headway in Assam as loaning in kind in the shape of inputs like fertilisers and seeds could not be properly integrated with their easy availability, as a viable production package within the consuming centres. Besides, there was also lack of sound and locally tested technology which the loan package could purchase for profitable turnover. The result was that the co-operative credit was largely misutilised. Therefore the present structure of
the co-operative system has to be modified and rules and regulations for dispensation of agricultural credit liberalised if the benefits are to flow to the small, marginal and landless farmers, who although, in large numbers, are the most exploited section of the rural population.

As large overdues have grown in co-operative banks in Assam, it is essential to find out the reasons and to plug it effectively. It has been observed that there is a feeling among the cultivators that the loans taken from co-operatives are given for ever and there is no need to repay it. On the other hand there is also no attempt on the part of the co-operative officials to realise the loans from the cultivators. It seems that there is an apathy on both sides i.e. cultivators and state authority as regards the agricultural credit.

A well planned educative propaganda with audio-visual aids should be launched jointly by the Publicity Department, Co-operative Department and the Agricultural Department in order to remove the lack of knowledge among the villagers regarding the benefits of agricultural credit advanced by the co-operative societies and the need to repay the loans in time which in turn will make the cultivators eligible to take more loans for investment in their farming. Side by side, coercive measures should also be taken by the State authority to realise the loans in time. Further the State authority should
organise some agency for collection of outstanding loans at the door of the cultivators at the harvesting time when the cultivators become capable to repay their loans.

All the co-operative legislation should be translated into the local languages in simple terms and these should be distributed free of cost among the cultivators. Complaints of corruption and harassment against the officials should be invited from the aggrieved persons and these should be looked into immediately by a special department like the "Flying Squad" in Punjab. This will have some salutary effect on the poor cultivators from the psychological point of view. The success of implementation of the Co-operative legislations mainly depends on the integrity and the sincerity of the Government officials on the one hand and active co-operation and discipline of the cultivators on the other.

It is high time for the State Government to give co-operative legislation measures the importance they deserve and to implement them in right earnest. We have sufficient

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4 Planning Commission, Govt. of India, Memorandum on Consolidation of Holdings, p. 21.

"For success of consolidation, Punjab has organised a special department called 'Flying Squad' to look into complaints of corruption and grave injustice. The squad comprises experienced officers of gazetted rank and of proven integrity. This has helped considerably in checking the usual forms of corruption and in ensuring justice".
reasons to believe that the co-operative legislation, if suitably enacted in the light of our suggestions and implemented within a shortest possible time through a well organised machinery, it will strengthen the structure of the agrarian economy and this in turn, will increase agricultural efficiency, reduce greatly exploitation in society and improve considerably the economic condition of the masses. But if the Government proceeds half-heartedly and slowly with the measures, as they are doing now, the tension among the cultivators in the rural areas will be intensified to the benefit of none; the present low level of agricultural efficiency will continue, exploitation of the have-nots will go on unabated and possibility of the idea of establishing an egalitarian society will look somewhat like a hoax.

The present co-operative regulations restrict the issue of loans to (I) any person other than a member except with the general or special sanction of the Registrar provided that a loan may be given to a depositor of the society of his deposit, or (II) a member in excess either of maximum or of the normal credit determined by the society for that member in accordance with its by-laws; provided that in assessing normal credit the managing body shall take a full statement as to the member’s means of earning (II) on the security of movable property or future movable property, unless the movable property is charged, hypothecated or pledged with the society. (IV) on personal security with-
out sureties, unless the borrowing member has unencumbered immovable property or attached funded assets sufficient to cover the loan and a full statement of such securities is submitted by the borrower and the truth of the statement is ascertained by the managing body; (V) on personal security with sureties unless the borrowing member and his securities together have unencumbered immovable property or attached funded assets sufficient to cover the loan and a full statement of such securities is submitted by the borrower and the sureties separately and the truth of the statement is ascertained by the Managing Body; (VI) on personal security, with or without sureties, unless the loan is for a short-period not exceeding the time required to reap the benefits of the loan and in no case exceeding three years. 5

The above rules clearly indicate that these are very rigid and cannot be expected to contribute for the development of agriculture as most of the farmers in Assam cannot give surety of permanent nature except their land and therefore, cannot take loan from the co-operative societies and ultimately they are forced to go to the clutches of the money-lenders.

The overdues of the co-operative credit can usually be divided into two major heads, namely (I) wilful

5 The Assam Co-operative Societies Act, 1949 with the Assam Co-operative Societies Rules, 1953 as amended up-to-date, 1981, p. 27.
defaulters and (II) non-wilful defaulters.* Different steps are necessary to deal with these groups of defaulters.

(a) For wilful defaulters, such as, those who are capable to pay, but are not repaying the loans willingly, stern action should be taken against these defaulters for recovery of the co-operative loans, by auction of their property, if necessary, or such other coercive measures if the situation so demands.

(b) For non-wilful defaulters, such as, those who are willing to repay the co-operative loans, but have no capacity to pay due to economic conditions, in such cases, a part of the outstanding loan can be written off. Apart from this an honest defaulter should be rehabilitated by advancing further loans ensuring that these loans are really invested in productive purposes. In certain cases, some of the outstanding loans can be converted into medium-term loans after rehabilitation of such defaulter. There should also be provision for advancing consumption loans to such cultivators in limited cases with suitable recovery provisions.

There is also urgent need for administrative and structural changes at the institutional level to ensure

*Wilful defaulters can be distinguished from non-wilful defaulters on the basis of their cultivation. If the cultivation of a farmer in a season is good without any loss due to floods or draughts which can be verified by the Inspector of Agriculture and does not repay his loans then he may be termed as wilful defaulter as against a farmer who is regular in repaying his loans but in certain years becomes defaulter due to bad harvest, he may be termed as non-wilful defaulter.
regular recovery of future loans. An agency for collection of loans at the door of the cultivators in the form of a Zarikar* can help matters. This Zarikar should have a target for the realisation of co-operative loans each season and if he fails to fulfil the target he should be removed from the service.

Another important as well as urgent need is to change co-operative law. This should be changed to make the management also responsible for recovery of the co-operative loans. Since loans are sanctioned by the Managing Committee after scrutinising the facts stated in the applications the Executive Officer should have the power to verify the authenticity of the facts and before final approval for granting the loan he must be fully satisfied about the credit worthiness of the farmers as well as repaying capacity, the management should also bear the financial responsibilities of its timely recovery. If this is done the whole co-operative structure would get toned up and a climate will grow which will help for the growth in the right direction. The State Government has also a special role to play in guiding, supervising and pressuring the co-operatives to work in the true spirit of service to the improvement of the rural economy of the State.

*A Zarikar is a person who is appointed for serving notices of legal cases as well as to serve the notices regarding date of repayment of loans due to the Government.
In spite of complaints that one hears from time to time voicing misgivings about the performance and alleged failure to come up to the expectations of the community - the co-operatives with their existing weaknesses in Assam, are potential instruments of rural development and the most effective institutional agency for disbursement of agricultural credit as these are democratically governed by their members and it has the merit of combining freedom and opportunity for the small man with the benefit of large-scale management and organisation. We have outlined measures like reorganisation of primary societies into strong viable units, rehabilitation of district central co-operative banks by amalgamation of weak units and strengthening share capital of strong ones, strengthening the organisational base of the weak Primary Land Mortgage Banks and creation of technical cell for Central Land Mortgage Bank for processing of area development schemes. It is expected that if the above measures are implemented, co-operative credit organisation can play a more effective role in agricultural development of the State in future.

However, as the co-operatives have poor resource base the main reliance for bridging the ever increasing credit gap will have to be on the commercial banks. The commercial banks with their enormous resources and highly professional management can meet to a large extend both qualitative and quantitative requirements of credit for the rapidly
modernising agricultural economy of the State. As we have seen in chapter VII only a small fraction of the deposits of commercial banks operating in the State is utilising for agricultural finance. The late entry of commercial banks in the field of agricultural finance and consequent bottleneck of inadequate rural branches and trained manpower are real constraints. All the districts have been assigned to the leading commercial banks, but the progress in the field of financing agriculture has been slow due to inadequate number of branches, inadequate personnel and lack of experience in handling the complex problem of agricultural credit.

The existing difficulties can be removed gradually as the commercial banks spread out their branches to all the blocks, appoint more personnel and train them up to acquire sufficient field experience. However, the limitation of commercial banks in shouldering the entire responsibilities of agricultural credit by themselves have to be clearly understood. Any credit system to be successful must have the village as its base so that agriculturists can obtain their loans easily without any difficulty on the one hand and on the other, there must be closer supervision over the use of credit. One should not think that the commercial banks with their sufficient resources can spread out their branches to villages or even to a cluster of villages as the operational
cost would be prohibitive. Therefore, in order to build up an effective credit system in the rural areas the most rational course would be to integrate the primary co-operative credit societies at the base level with the commercial banks at the district level. The "lead bank" of the districts shall adopt the primary co-operative credit societies as its subsidiaries, develop their organisation by providing them with professional managers and channelise production finance through these societies. This will also help the commercial banks to reduce their operational costs as the number of accounts would be less and requirements of branches and personnel can be kept to the minimum. This will also bring about much needed co-ordination between resources of commercial banks in one hand and the grass-root level organisation of co-operative banks on the other hand.

The institutional framework as suggested above would no doubt militate against the traditional concept of the three-tier structure of co-operative credit, but we must realise that in the context of the rapidly changing technology in agriculture the traditional institutional structure will have to readjust itself. The District Central Co-operative Banks can remain and play a purposeful role only if they can manage their works by professional management, but if they remain as a mere borrowing societies, as they are at present, they are found to wither away in the not very long distant. Where the District Central
Co-operative Banks can fulfil this criterion they can divide up the area with the district "lead bank"; elsewhere they should liquidate themselves or amalgamate with the State Co-operative Bank for interest of the agricultural development in the State.

Japan is the only Asian country which has achieved remarkable economic progress in modern times and there the base of agricultural economy is a network of strong multi-purpose societies directly linked with the National Agricultural Bank. In Assam also we require the dovetailing of co-operative endeavour at the base with the resources and organisational skill of a strong central financing agency at the State level.

The most neglected field of agricultural credit has been the poor farmers with small marginal holdings. Our study of the four districts where the Government of India sponsored Small Farmers' Development Agency and Marginal Farmers' and Agricultural Labourers' programme is in execution, has revealed that most of the small and marginal farmers are still outside the spell of institutional credit. It is only through a purposeful co-ordination between co-operatives and commercial banks their demands can be met through a network of farmers' service societies as suggested by the National Commission on Agriculture.

In regard to the two hills districts of Assam we have seen in our analysis that agricultural credit there is very
very negligible. Whatever credit received for agriculture is mostly from friends and relatives. Institutional credit for agriculture is almost nil.

It is high time that the Government should give serious thought to the development of agricultural economy of these two hills districts. As there are very bright prospects for horticultural development in these districts funds should be made available for the economic development of the people by the Government itself.

Supply of cheap, adequate and timely agricultural credit is a sine qua non of a prosperous agricultural economy. A well organised agricultural credit system has to be developed for Assam based on the concept of service, economic viability and development of the area. The bulk of the credit should be offered to the farmers in the shape of inputs and to ensure their actual utilisation in production process. The credit made available to small and marginal farmers should not be security oriented but should be programme oriented. To shoulder such a huge but important responsibility is to establish a "State Agricultural Bank" so that a unified approach can be brought about in the field of agricultural credit and development of agricultural economy of Assam should not be fettered due to credit constraint. The resources of the bank should be made available by the Government of Assam, The Assam Co-operative Apex Bank, the
Reserve Bank of India and the Nationalised Banks functioning in Assam. The bank should be managed by a Board of Directors constituted by the Government of Assam nominating the Directors from among the financing agencies into the Board of Directors. Apart from the representatives of the financing agencies the Board of Directors should also be included experts on Agricultural Finance and Financial Management. Further a high powered Agricultural Credit Committee should also be constituted and attached to the bank with representatives of the State Government Departments of Agriculture, Co-operation, Community Development and Tribal Development, leading Commercial Banks functioning in the State and selected co-operative institutions can help to chart out areas of agricultural plan so that agricultural credit planning in Assam can be given a purposeful direction. A vigorous, enthusiastic, sympathetic and at the same time realistic approach is necessary to rouse the rural farmers from their slumber and inertia and to release the rural productive forces to rebuild a new and prosperous rural Assam.