Chapter IV

Financing of Agriculture by Institutions
In this chapter we discuss the nature, importance and the result of institutional financing of agricultural activities. The discussion is general in nature and is designed to serve as a prelude to the analysis of the agricultural financing by institutions in the villages of our study.

Agricultural financing activities by institutions like Banks and Co-operatives has assumed greater importance than before, in the context of integrated rural development. A large majority of our agricultural population has a low level of income and consequently, the capacity of the farmers to save and invest in agricultural operation is very low. The needs for institutional finance has become all the more important because of the introduction of high yielding varieties which give best results when accompanied by the use of irrigation water, fertilizer and pesticides.

We can broadly classify agricultural credit into the following types based on the purpose and duration of borrowing.

1) **Short Term Credit**: This is farmers' needs for current agricultural operation including inputs, like purchasing seeds and fertilizer, for repaying wages to labourers when hired and such other purposes. Loans for such purposes
are generally repayable out of the income from the next harvest.

2) **Medium Term Credit**: Comparatively large loans may be necessary for purchasing agricultural implements. The duration of the loans is generally two to five years because repayment cannot be made at the next harvest. It will have to be spread over two to five years.

3) **Long Term Credit**: Still a larger sum, the farmer may have to borrow if he wants; to purchase an additional to increase his holding for cultivation or to sink a well in his farm and for land reclamation and other agricultural long term investment purposes. It take him a relatively longer period of time to repay this kind of loan. According to the Sixth Plan document, the need for rural credit for the whole of India was estimated to be Rs. 2650 crores for short term loans, b) Rs. 235 crores in medium term loan and c) Rs. 420 crores for long term. The main objective of credit policy in the sixth and seventh plans have been progressive institutionalisation of the rural credit.

Here we briefly discuss the institutional sources of credit for agricultural purposes in India and in particular to the state of Meghalaya.
(1) **The Co-operative Credit Societies**

They are the popular and highly favored sources of finance and also cheaper than the other source for rural areas. In addition, the problem of agricultural credit and also agriculture as a whole can be tackled more effectively through Co-operative Societies. The primary agricultural credit societies provide largely short term and medium term loans to the farmers. As for long term credit are usually provided by Land Development Banks. During the successive five year plan, despite impressive progress made by Co-operative credit societies, their contribution to total agricultural credit has been far from adequate. Besides the developments of credit co-operative has been very uneven between different states. But the most unfortunate development is that the co-operative credit societies have so far largely benefited the highland holders leaving the small farmers and landless agricultural laborers unprovided, although it is they who need their assistance badly. We also suggest that co-operative credit societies cannot solve the problems because they suffer from a number of defects, for example, a) overdues have greatly accumulated, b) co-operative are generally fraction ridden so that loans are given not on the basis of needs but other considerations which is non-economic, c) credit has not
been linked with marketing and d) misuse of credit is very common.

(2) **Regional Rural Banks**

In view of the liquidation of money lenders as supplier of rural credit, it had become necessary to set up alternative agency to supply credit in sufficient amount at reasonable rates and as far as possible in an informal manner and by simplifying its procedure. Regional Rural Banks have been set up recently to meet the needs of the rural poor and to extricate them speedily from the clutches of the money lenders. This Bank have distinct character from the co-operative credit societies and the commercial banks. Each such bank is sponsored by a Nationalised Commercial Bank. The share capital is provided by the Central Government, the State Government and the sponsoring Bank in the proportion of 50:15:35. These Banks grant loans and advances, mainly to small and marginal farmers. Agricultural labourers, rural artisans, small entrepreneurs and persons of modest means engaged in trade or other productive activities. It might be concluded that the performance of the Regional Rural Bank is encouraging and further that despite several constraints the Regional Rural Banks have achieved the main objective of helping the weaker section of the community in rural areas by providing credit to meet their requirements.
(3) **The Reserve Bank of India (RBI)**

Since 1949 the Reserve Bank of India has a separate agricultural credit department, as it has an expert staff for studying all questions relating to agricultural credit, it provides expert advice to the Central and State Co-operative Apex Bank. The R.B.I. finance the movement of crops and other agricultural operations through provincial co-operative banks and other suitable agencies of rural credit.

The R.B.I. provides assistance by way of short term loan to state Co-operative Banks for seasonal agricultural operation at 3 per cent below the Bank rate for marketing of crops and for the purchase and distribution of fertilizers. Medium term loan for specified agricultural purposes are provided at 1½ per cent below the Bank rate. These are the advances to finance a wide range of economic activities including production and marketing of agricultural and animal husbandry produce and processing of agricultural goods. The R.B.I. purchase a portion of debenture issued by the Central Co-operative Land Development Banks by making long term loan to such banks. Its long term credit agencies which give long term loans to the farmers through the State Government. The State Government encourage the farmers to subscribe the share capital of co-operative institutions.
Apart from the agricultural activities, the Reserve Bank also systematically undertake research investigation and surveys relating to rural finance. The Bank has been giving very valuable advice to the Central and State Governments and to the State Co-operative Banks on matters relating to rural finance. The R.B.I. has conducted All India Rural Credit Survey, and since 1957, the Bank has also been conducting a series of Annual Rural Credit follow up surveys of a moderate scope in persuance of the recommendation of the All India Rural Survey Committee, 1951-52. It is in the light of the recommendations of the Rural Credit Committee that the Reserve Bank has formulated an integrated policy of Rural Credit.

(4) The Government

Another agency providing finance to the agriculturist is the Government. The State Government lends in the form of Taccavi loans especially in times of emergencies, such as flood and famines. The Land Improvement Loans Act and the Agriculturist Loan Act passed respectively in 1882 and 1884 authorised such loans. Generally, the big landlords derive benefit from these Acts in normal years. Red tape and corruptions amongst subordinate revenue officials also make these loans costly for the small cultivators.
Another institutional agency is the Commercial Banks. For decades they had been fighting shy of finance agricultural activities, and there also whatever help they were extending it was meant for the richer landlords leaving the small farmers unprovided although they are the ones who are in greater needs of financial help. In view of this the Reserve Bank of India has advised the Commercial Bank to ensure that 50 per cent of the agricultural credit should be to the small and marginal farmers at the end of the Sixth Plan. The distribution of Commercial Bank finance has so far remains very uneven as among different states. Commercial Banks have also been facing operational problems arising from scattered landing over wide areas, inadequate recoveries, lack of experience in the field of agricultural finance. But the most unfortunate development is the rivalry between the Commercial Bank and the Co-operative Bank in rural areas. It has affected adversely to the Co-operative Societies. The rational view in this regard is that the combine activities of commercial banks and co-operative banks can prove very useful. The co-operative banks can better judge credit worthiness and fixed credit limits of the borrowers and the commercial banks are in a better position to mobilise saving. Therefore to be prosperous co-ordination
between these two leading agencies is necessary to avoid wasteful competition. Until recently commercial Bank were negligible source of rural credit providing hardly one per cent of the total credit to agriculture. But since July 1969 Commercial Bank were nationalised so that they can provide credit to the primary sector in our country in accordance with the objective of five year plan.

(6) The NABARD

The NABARD is to provide financial assistance by way of Refinance credit for the promotion of agriculture, small scale and cottage industries and other allied economic activities in rural areas with a view for promoting integrated rural development.

(7) Land Development Banks

These banks have a two tier structure in most states, with central Land Development Bank at the state level and primary land developments at the blocks, sub-division and district levels. In some states like Jammu and Kashmir, Gujarat, Bihar, Maharashtra and Uttar Pradesh, these Banks are unitary in character with branches at different places. During 1972-73 these Banks provided about Rs. 178 crores of loans to individual farmers, since the declaration of emergency, under
the 20 point economic programme the government had established fifty more rural development banks in the country. They supplemented the credit availability at the institutional level and contributed towards eventual elimination of the money-lenders.

(8) **Agro-Industries Corporation**

Agro-Industries Corporation has been set up in almost all the major states in India, in order to spread the benefit of mechanisation to a large number of farmers who cannot afford to buy costly farm machinery. The Agro-Industries Corporation also provides agricultural credit. They advance loans for the purchase of tractors and agricultural machinery under hire-purchase scheme.

(9) **Agricultural Refinance Development Corporation (ARDC)**

Agricultural Refinance Development Corporation was established in 1963. It is an institution which make long term advances for financing big agricultural projects, which are beyond the capacity of Land Development institution to finance. Thus the Agricultural Refinance Development Corporation has a large resource at its command.

The Corporation serves as a central refinancing agency for agricultural credit. It gives assistance for special crop development, mechanised farming, diary and land reclamation, etc. It gives both medium term loan for
three years to 5 years and long term loan from 5 years to fifteen years.

Refinancing facilities are given by Agricultural Refinance Development Corporation at the rate of 90 per cent for minor irrigation schemes and at 75 per cent for other viable schemes. It is to help the weaker section of the rural area. 100 per cent refinancing facility is given for viable schemes of agricultural development initiated by the Small Farmers Development Agencies (SFDA).

The non-institutional sources have been operating in our country since time immemorial. They are as follows:

1) **The Money Lenders:** The money lenders constitute the traditional sources of agricultural finance. Other agencies have also come in the field of money lending but the supremacy of the money-lenders continues practically unchallenged since ancient times. There are two types of money-lenders in rural areas, they are the agricultural money lenders who combine farming with money lending, besides there are professional money lenders whose only occupation or profession is money lending. During the sixth-five year plan they met about 43 per cent of the credit needs of the farmers.

The money lenders are slowly losing ground to institutional agencies, in spite of the fact that they still
occupy a significant position in the agricultural economy of our country. It is because the village money lenders freely supplies credit for any purposes whether productive or unproductive, he is easily accessible and maintain a close and personal contact with the borrowers or friends having relation with the family extending over generation. His methods of business are simple and elastic, he has a local knowledge and experience and therefore can lend against land as well as against promissory notes.

2) **Trades and Commission Agents**: Supply finance to farmers for productive purposes made before the crop mature. The share of traders and commission agents in agricultural finance has been within the range of 5 to 10 per cent for agricultural needs. The share of the traders and commission agents to the total supply of agricultural credit seems to be increasing over times.

3) **Relatives**: Farmers may borrow from their own relatives in cash or in kind in order to tide over temporary difficulties, but the source of finance is uncertain, and with increasing needs of modern agriculture they cannot depend upon the source for a large amount of loan. Moreover, the socio-economic development, namely, the kind of joint family system has reduced the significant of the source of credit.
4) **Landlords and Others:** Farmers, particularly small farmers and tenants depend upon landlords and others, to meet their financial requirements. But unfortunately the landless labourers are not free because of bonded labour in many parts of the country which is still prevailing inspite of the attempt of abolition by the government in recent years.

We shall now consider the relative importance of institutional sources of credit in Meghalaya with particular reference to the East Khisi Hills District of the State.

In the East Khisi Hills District of Meghalaya there are 47 branches of various commercial and co-operative banks in the district. Shillong town and its surrounding have 28 bank officers. The first Regional Rural Bank in Meghalaya - 'Ka Bank Nongkyndong Ri-Khasi-Jaintia' has started functioning with two branches, viz., Shillong and Umpling Branches. The Bank was sponsored by the State Bank of India which itself has 15 branches in the district. The State Bank has also opened the first ever Agricultural Development Branch in Meghalaya at Umsning.

In the area of marketing, the Meghalaya State Co-operative Marketing and Consumers' Federation (MECOFED)
is making rapid strides with a business turnover of more than Rs. 179.00 lakhs during 1978-79. Meconfed has since diversified its activities to almost all the entire field of producers needs other than credit. It has widen its field rapidly in the marketing of surplus agriculture and forest produce such as bay leaves (Tezpat), wild pepper, ginger, potato, paddy, cotton, mustard seeds, pine-apple, etc... It has also been entrusted with the responsibility of distribution of agricultural inputs throughout the State, with a view to help the potato growers in the district and the state as a whole. It is thus expected that the Meconfed will be able to penetrate to all the villages in Meghalaya.

1. **Co-operative Credit Society**: In the East Khasi Hills District there are 234 different Co-operative Societies. There is a two-tier credit Co-operative structure in the district with the Meghalaya Co-operative Apex Bank Ltd., at the apex level, and the re-organised agricultural primary credit co-operative societies numbering 51 at the base level, in which full time trained secretaries have been appointed by the State Cadre Management Co-operative Societies. The 51 re-organised primary agricultural credit societies supply credit inputs apart from dispensing credit to the agriculturists.
The State Government is still engaged in re-organising the existing co-operative set up in the district with the intention of activating the dormant and defunct areas and to help in making the areas which are functioning viable.

Though the Co-operative is the best and cheapest, but the most unfortunate development is that it largely benefitted the big farmers leaving the small ones unprovided and moreover the rate of interest of loan is high at about 12 per cent.

2. Commercial Bank: is another agency of rural credit. The second round District Credit Plan for East Khasi Hills District (1980-82) was implemented by the 14 nationalised commercial banks, 2 scheduled commercial bank and 1 Co-operative Bank.

A sectorwise/scheme wise performance of the participating financial institutions upto June 1982 vis-a-vis the District Credit Plan and Annual Action Plan outlay for the agricultural sector and activities allied to agriculture is given in Table I.

Activities Allied to Agriculture: The total outlay for this sector under the second round District Credit Plan was Rs. 43.12 lakhs and the cumulative achievement upto the end of June 1982 (which is the latest year for which figures
are available) was Rs. 31.50 lakhs is given in Table I below:

### Table I

The Scheme-wise/Bankwise outlays and performance were as under:

<table>
<thead>
<tr>
<th>Scheme</th>
<th>District Credit Plan outlay</th>
<th>Achievement upto June 1982</th>
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</thead>
<tbody>
<tr>
<td>1. Diary</td>
<td>22.27</td>
<td>21.63</td>
</tr>
<tr>
<td>2. Piggery</td>
<td>20.25</td>
<td>5.36</td>
</tr>
<tr>
<td>3. Fishery</td>
<td>0.60</td>
<td>2.09</td>
</tr>
<tr>
<td>4. Sericulture</td>
<td>-</td>
<td>0.26</td>
</tr>
<tr>
<td>5. Poultry</td>
<td>-</td>
<td>2.16</td>
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</tbody>
</table>

**Total**: 43.12 31.50

Source: District Credit Plan (1983-85), and Annual Action Plan 1983, East Khasi Hills District (Meghalaya) State Bank of India, Regional Office, Shillong (Meghalaya)

1. **Agriculture**

Lending in this sector was primarily done by State Bank of India, Meghalaya Co-operative Apex Bank, United Commercial Bank and United Bank of India. The cumulative performance upto the end of June 1982 (which
is the latest year for which figures are available) was
Rs. 166.56 lakhs as against the plan outlay of Rs. 202.91
lakhs. Crop loans amounted to Rs. 143.19 lakhs as against
a target of Rs. 137.93 lakhs, with the exception of crop
loans, lending in respect of other activities in this
sector was more or less hapnazard. Scheme like land
development, agricultural equipment loans, plough animals
etc. were also financed. Shortfall recorded in respect
of the scheme for pine-apple and banana is indicated below:

<table>
<thead>
<tr>
<th>Schemes</th>
<th>Outlay</th>
<th>Disbursement</th>
<th>Shortfall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pineapple and banana orchards</td>
<td>7.97</td>
<td>4.14</td>
<td>3.56</td>
</tr>
</tbody>
</table>

Focusing on the area of our study the organised
institutions which is engaged in financing agriculture is
only the State Bank of India.

We give a short account of the role of the State
Bank of India as an institution prevailing in the Umsning
village of the Khasi Hills District.

The State Bank of India: The State Bank of India is
operating as a lead for Meghalaya, it has 15 branches in
the East Khasi Hills District and one of its branches is
situated at Umsning in which the first ever Agricultural
Development Branch was opened in Meghalaya at Umsning.

The State Bank of India at Umsning was opened on the 19th August, 1980, and the first ever Agricultural Development Branch was opened on the 1st May, 1981.

The establishment of the State Bank of India has marked a significant step in the field of integrated rural credit. The activities of the Bank in this field fall into three separate, but closely related fields, namely (a) General Assistance leading to the development of rural credit institutions (b) Provision of financial accommodation to co-operative marketing and processing societies, and (c) Assistance to the scheme of warehousing.

(a) **Loans to the agriculturist**: The State Bank of India has been granting short term, medium term credit to the farmers of this village at a low rate of interest that is 11.5 per cent. A loan amount of Rs. 5000/- is given out at zero rate of interest and with no collateral security, from Rs. 5000/- to Rs. 10,000/- at 12.5 per cent per annum and above Rs. 10,000/- at 14 per cent per annum.

(b) **Loans to Co-operative Banks**: The State Bank has also been granting short term credit facilities to the State and Central Co-operative Banks against government securities at a concessional rate of interest, namely one half of one per cent below its usual advance rate.
(c) **Financial Accommodation to Market**: The State Bank of India has undertaken an important aspect of direct finance to Co-operative marketing and processing societies in areas where they are not able to secure prompt and adequate finance from Central Co-operative Banks. Marketing societies are given advance against pledge of produce in order to improve their selling power for selling it at favourable prices. This kind of loan is not at present available but the State Bank is proposing to introduce as and when it is required.

The State Bank has been responsive to the needs of the rural sector in keeping with the spirit of the times. Over the last few years the State Bank has considerably expanded its operation in the field of direct financing of farmers.

The State Bank has made a significant experiment in opening Agricultural Development Branch in the Umsning village. Umsning village is one of the villages which has been adopted for the operation of this scheme.

The State Bank of India is engaged in helping the farmers of the Umsning village in various ways. It gives loans to co-operative marketing to enable them to market agricultural goods, schools have been set up by this Bank. The State Bank has functioned very significantly as the 'Lead Bank' in the State.
In the field of non-institutional finance available in the Umsning village the only source is that of relatives.

Relatives: is another source of finance. In Umsning village 94 per cent borrowed from the State Bank of India, the rest that is 6 per cent of the farmers borrows from their relatives either in cash or in kind in order to meet their urgent and temporary difficulties, they are short term in nature and will be replaced by institutional organisations like the State Bank of India.

In the other village namely Sonidan village of the East Khasi Hills district there is no institution for financing agricultural operations. The source of finance available in this village are the agricultural money lenders and the relatives.

1. The Money Lenders: The money lenders constitute the traditional source of agricultural finance who continues practically unchallenge. The money lenders in the Sonidan village are agriculturist money lenders, we do not find any professional money lenders as such in the village. The Agriculturist money lenders combine farming and money lending as a side business. Land, Gold and Silver are the security which are usually accepted by these money lenders. Sometimes they accepted coins and promissory notes for their loans, unlike professional
money lenders who indulged in various kinds of malpractices to cheat the borrowers. Few of the agricultural money lenders in Sonidan are unsophisticated and honest, they charge only the rate of interest which is not found to be burdensome by the borrowers.

**Relatives:** About 40 per cent of the farmers from the village of Sonidan borrowed from their relatives, either in cash or kin kind, loan from such source are generally short term in nature which carry no security and zero rate of interest. Money from such source is borrowed to meet emergency situation. The loan may be easily available but the amount will be small.

In the next chapter we will discuss in greater detail the aspects of agricultural finance purposes in these two villages on a comparative basis.