Chapter-I

INTRODUCTION
Statement of the Problem

The present study relates to the investigation of the needs and utilization of agricultural credit by the farmers of the Ri-Bhoi district of the state of Meghalaya by making a case study of four villages namely, Umsning, Nongthymmai, Sohphoh and Ingsaw.

For a long time, credit needs for agricultural operations in the rural areas in India were mainly met by the village money lenders. Usually they belong to trading community and/or big farmers and as such they also function as traders and/or rentiers leasing out land to small and marginal farmers. Money lending is thus one aspect - although a very important one - of diverse agricultural operations.

It is usually believed that in tribal areas such practice of money lending is either absent or if present, it is very insignificant considering the overall credit needs of the small and marginal farmers. Some even argue that even if some tribal rich lend money, they do not charge any rate of interest. That is, money is lent out of their benevolence.

Our preliminary visit to a few villages in the new Ri-Bhoi District of Meghalaya does not confirm this argument. On the contrary, we find that money lending is practised and what is more important, the rate of interest charged is also quite high. Thus it shows that like the rest of the country, even in tribal areas, capacity for self-financing in rural
areas by small farmers for agricultural operation seems to be very limited. In that situation, we have to examine the efficiency and equity of the traditional money lending operation for financing productive investment.

There were quite a number of studies on agricultural finance both on national and regional levels. However, as far as Meghalaya is concerned, no indepth study has yet been made relating to the credit needs for agricultural operation in any district.

Review of Literature

For a long time, the importance of credit in agricultural operation has been universally understood. In pre-independence period, India witnessed the dominant role of the money lenders who exploited the illiterate farmers with exorbitant interest rate. The government passed the Deccan Agricultural Debtor's Relief Act in 1879, authorising the court to examine the history of a farmer's debt with a view to fix the principal sum withholding unreasonable payment of interest rate and preventing the forcible sale of the farmer's land.

The British government realising the importance of agricultural credit and desiring to help the indebted farmers in India in general and in the Madras Presidency in particular, deputed F.A. Nicholson to Europe in 1892 to study the land bank system. Nicholson in his Report remarks "The
lesson of universal agrarian history from Rome to Scotland is that an essential of agriculture is credit. Neither the condition of the country nor the nature of the land tenures, nor the position of agriculture, affects the one great fact that agriculturists must borrow."¹ The peasantry of India is no exception. This has been amply borne out by records of heavy rural indebtedness, historically described in the words - "a farmer is born in debt, lives in debt and dies in debt."

The Reserve Bank of India in their two studies (i) The Preliminary Report 1936 and (ii) the Statutory Report 1937 had also noted the dominating role of the money lenders. Both the reports suggested suitable measures to regulate money lending and checking malpractices of these money lenders. Important Acts that were passed by different provinces to control money lenders were (i) the Punjab Registration of Money Lenders' Act of 1938; (ii) the Bengal Money Lenders Bill of 1938; (iii) the Bihar Money Lender's Bill of 1938; (iv) the Bombay Money Lenders' Bill of 1938 and (v) the U.P. Money Lenders' Bill of 1939. The Acts provide for the registration and licensing of money lenders. Money lending without licenses was declared an offence.²

In most of the countries of the world, an attempt has been made to develop institutional credit for agriculture on co-operative lines. The British Government of India appointed a committee under Edward Law to make proposal regarding co-operative societies. The committee concluded that "Co-operative societies were worthy of every encouragement and of a prolong trial". The committee drew model schemes of management which formed the basis of the Co-operative Credit Societies Act of 1904, which was the beginning of the co-operative movement in India. The absence of central agencies for supply of capital and supervision, necessitated the Government to pass a more Comprehensive Societies Act of 1912.

The Maclagor Committee appointed by the Government of India, examine the co-operative movement in its financial aspect and suggest suitable measures submitted its report in 1915. The committee felt that the Secretary managing the society would be a local man.

Co-operation became the provincial subject under the Government of India Act of 1919. Some provinces enacted their own Provincial Acts. Such Acts gave great stimulants to co-operative movement.

The Royal Commission on Agriculture appointed in 1926 under the chairmanship of the Marquess of Lintlithgow believed that "the greatest hope for the salvation of the rural masses from their crushing burden of debt, rests in the growth and spread of a healthy and well organised co-operative movement based upon the careful education and systematic training of the villagers themselves.\textsuperscript{4}

By 1944, a three-tier system of agricultural co-operative credit came up in India. The system comprises: (1) the provincial co-operative banks (state level) at the apex, (2) the central co-operative banks at the intermediate (district level), and (3) the primary credit societies at the base level (village level).

The Agricultural Finance Sub-Committee 1945, the Co-operative Planning Committee 1945, and the Co-operative Sub-Committee 1948, studied the progress and suggested measures to strengthen the co-operative movement.\textsuperscript{5}

After independence, the Government of India appointed the Rural Banking Enquiry Committee in November 1949 under the chairmanship of Purshatamdas Thakurdas. Its report came in May 1950. It concluded that commercial banks concentrated


\textsuperscript{5} History of the Reserve Bank of India, p.762.
in towns while money lenders continued their dominant role in rural credit even though their activities were on the decline. It also felt that Commercial Banks could provide agricultural advances against produce for purchase of agricultural equipment.6

Since 1951, the Government of India and the Reserve Bank of India are to play an active role in supplying rural credit. Many expert committees were appointed from time to time to improve the flow of credit from institutional sources.

The All India Rural Credit Survey was appointed by the Reserve Bank of India in 1951 under the chairmanship of Gorwala, undertook a comprehensive survey of rural credit and submitted its report in August 1954. The survey revealed that the shares of institutional and non-institutional sources of rural credit were 7.3 per cent and 92.7 per cent respectively. The Gorwala committee made a number of recommendations which were accepted by the Government.

In 1959, the Mehta Committee recommended the provision of funds even to the tenant cultivators. It observed that a large portion of the loan would be in kind to avoid misapplication of loans. It also suggested quick measures to

link credit with marketing to reap the benefits of organised marketing that would help in the recovery.  

In July 1961 the Government of India appointed the Patel Committee to examine the question of organizational procedure and administrative difficulties associated with routing taccavi loans and other facilities of the Government through co-operatives. The report came in 1963 recommending that all loans for normal production should be arranged through the co-operative institutional agency and that Government would provide finance directly to the farmers only in certain cases of high financial risk.

Singh (1963) emphasized that major portion of the total credit of farmers went to ceremonies and domestic consumption and that only a small portion was used in ways which increase agricultural production. Singh suggested that farmers should be educated to use credit only for agricultural production.

The All-India Rural Credit Review Committee (1966) headed by Venkatappiah, observed that "except in a few areas, the predominance of non-institutional credit continued over

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the years, despite inroads made by the growth of co-operative credit.\textsuperscript{9} The Committee suggested reorganisation of co-operative credit. Its main recommendations relate to simplification of lending procedures to improve production and recoveries, establishment of two new organisations namely the Small Farmers Development Agency (SFDA) to identify the problems of potentially viable small farmers and ensure them supply of agricultural inputs, services and credit, and the Rural Electrification Corporation to help rural electrification schemes through the State Electricity Boards.

The committee also observed that the role of Commercial Banks in the sphere of rural credit might consider in certain areas like "production credit, distribution credit, credit for the infrastructure, investment credit, credit undertaken jointly with agriculture and credit to co-operatives engaged in agricultural activities." It also stressed that date should be fixed in each state beyond which no taccavi loan should be provided except to meet situations of widespread distress like floods and famines.\textsuperscript{10}

\textsuperscript{9} Report of the All India Rural Credit Review Committee, Reserve Bank of India Agricultural Credit Department, Bombay, December 1969, p.405.
\textsuperscript{10} Ibid., p.1000.
Naidu (1968)\textsuperscript{11} reveals that co-operative credit movement has registered a significant progress during the decade (1951-61).

In 1969, the committee on co-operation headed by Santhanam, in its report, recommended that "the scale of cultivation finance should include a reasonable amount towards the consumption expenses of the members' family."\textsuperscript{12} It further recommends that village societies should be empowered to pursue action under the Land Revenue Recovery Act and drive up recovery measures. In order to augment resources of the village societies, the Committee also recommended a three per cent margin between lending rate and its borrowing rate from the Central Bank.

In December 1971, the National Commission on Agriculture in its report recommended the establishment of the Farmers Service Societies to provide all types of credit, technical guidance to small farmers to develop their farms in an integrated manner, and to provide two-third representation so as to enable the weaker sections to control the society. Such societies could be either financed by Commercial Banks


or by Co-operative Banks. This scheme was accepted and put into operation since 1973-74 in almost all the states.

Sukla (1971)\textsuperscript{13} found that the flow of finance tends to gravitate to better off states but not to Assam, Bihar, Orissa and West Bengal.

The Committee on Co-operative Land Development Banks in 1973 headed by Madhava Das studied the structure of land development banks in different states, suggested the setting up of regional/dimensional office of the Central Land Development Bank with adequate technical and other staff to provide necessary support to the base level structure in the formulation of scheme and their implementation. It also recommended that "there should be close link between the State Co-operative Bank and various government departments\textsuperscript{14} for enabling the banks to take prompt and effective measures against the defaulters.

The Planning Commission (1975)\textsuperscript{15} revealed that 23 per cent of the short-term credit and 35 per cent of medium-term


\textsuperscript{14} Report of the Committee on Co-operative Land Development Banks, p.306.

credit were diverted to purposes other than those for which credit was advanced.

Hanumantha Rao (1975)\(^{16}\) writes "If institutional credit is not to become a mean for widening the existing disparities in income and wealth within the agricultural sector, if it is indeed to be made an instrument for reducing such disparities, then credit rationing needs to be practised. A clear cut policy regarding the allocation of credit among different land holding groups will have to be introduced".

In 1979, a committee to review arrangements for Institutional Credit for Agriculture and Rural Development recommended the establishment of a National Bank for Agriculture and Rural Development under the control of the Reserve Bank of India. It also recommended that the development agencies including the credit institutions have to plan and progress together and ensure that credit is tied up with development programmes and supported by appropriate backward and forward non-credit linkage.\(^ {17}\) In matters of

\begin{footnotes}
\item [17] Report of the Committee to Review Arrangements for Institutional Credit for Agricultural and Rural Development (CRAFICARD), p.349.
\end{footnotes}
dispensing long-term credit, Primary Agricultural Credit Societies should act as agents of land development banks.\textsuperscript{18}

Bhalla and Chadha (1983)\textsuperscript{19} revealed that institutional finance played a vital role for the growth of private tube wells in Punjab when there is less rain in a particular year.

Tripathi (1984)\textsuperscript{20} concluded that subsidy loans are considered as free gifts and are being misused by officials and beneficiaries. The creation of adequate credit facilities had been identified as solution for major agricultural problems of rural India. He emphasized that farmers equipped with better financial resources device the benefit of new development scheme. The shortage of finance is a major constraint for Marginal and Small Farmers to change and renovate practices of cultivation. The landless labourer, rural artisans and the weaker sections are at disadvantage position and their participation in rural development programmes have been almost negligible.

\textsuperscript{18} Report of the Committee to Review Arrangements for Institutional Credit for Agricultural Rural Development (CRAFICARD), Reserve Bank of India Rural Planning and Credit Cell, Bombay, January, 1981.


\textsuperscript{20} Tripathi, Satyendra, \textit{The Role of Banks in Upliftment of Rural Poor under JROP}, Banaras Hindu University, 1984, Varanasi.
Chauhan (1985)\textsuperscript{21} examined the role of Commercial Banks in promoting agricultural sectors. He suggested the close supervision over utilisation of funds and that the scheme of crop insurance would be introduced in all the districts of the country.

Gadgil (1986)\textsuperscript{22} emphasized that the green revolution witnessed in some parts of the country was facilitated by institutional credit which helped not only in the expansion of rural credit but also in mobilisation of rural saving and monetisation of the rural economy.

Objectives and Scope of the Study

a) To examine the various sources of credit on which the agriculturists depend and the extent to which agriculture has been financed by institutional and government agencies and to classify these sources.

b) To investigate the extent to which agricultural credit is necessary for carrying on agricultural activities both for the production and consumption purposes.


c) To study the schemes of financial assistance best suited to help in a substantial manner in improving agriculture of the state in general and in the Ri-Bhoi district in particular.

In addition to the above mentioned objectives, we would also make an objective analysis of the economic structure of the state, of the district and of the selected villages.

Hypotheses of the Study

To examine the validity or otherwise of the following hypotheses:

1. That the capacity for self-financing in rural areas is very limited through the case study of the four villages, namely, Umsning, Nongthymmai, Ingsaw and Sohphoh.

2) That the traditional money lending operation continues to be exploitative and incapable of financing for productive investment.

3) That the institutional credit from sources like banks and co-operatives is a preferred and reliable way to finance organised investment in land in a much more efficient way than otherwise and thus improve the agricultural sector of the economy.

Methodology

As already stated, the study covers four villages of Ri-Bhoi District, viz., Umsning, Nongthymmai, Sohphoh and
Ingsaw. These villages have been selected because they have almost very similar agricultural and other economic traits, except that the first two villages, viz., Umsning and Nongthymmaim have been ‘adopted’ by the State Bank of India for financial assistance for agricultural purposes while the other two villages, viz. Sohphoh and Ingsaw have not been so adopted. These four villages are also representative of the agricultural characteristics and practices in the state as well as in the district. They practise both wet paddy cultivation and jhum cultivation, a traditional and wasteful type of agriculture.

Since finance is a necessary as well as an important input in both categories of cultivation, we get a fairly good idea of the indispensability of agricultural credit and the importance of its availability in agricultural production by a comparative study of the four villages. The main focus of the study is on the analysis of the manner in which credit is utilised by the farmers for productive purposes in agriculture and on the adequacy and equity of the credit made available by the nationalised banks.

In order to gather the necessary information for our study, we undertook extensive investigations in the concerned four villages. Owing to rather under-developed state of transport and communication, the fact that the household members were often in the field engaged in some
agricultural activity or other at the time of our visit, the collection of information took much more time than we had anticipated at the beginning of our study as we had to visit the villages many times. The information canvassed and collected concerned major aspects of village life and development with emphasis on the agricultural sector.

As mentioned earlier, two villages selected for our case study, were those 'adopted' and financially assisted by the State Bank of India in their agricultural operations, and the other two not so assisted by the Bank. Even though the average number of households in a village in Meghalaya is smaller than the average number of village households in the rest of India, the number of households in the selected four villages were much above the average number in Meghalaya nearer to the national average.

The method of investigation adopted was through personal contact and interview. For the purpose of eliciting information, we had prepared an exhaustive questionnaire on the items required to be analysed and the answers were recorded at the time of interview. Supplementary information outside of those elicited through questionnaire, were also gathered through personal conversation duly recorded, Copy of the questionnaire used is reproduced in the Appendix. Following up visits for elucidation of the already gathered
data and collection of further additional information were also undertaken in all the four villages.

We might mention here that the preparation of the questionnaire and of other information sought through personal conversation were greatly facilitated by the secondary data obtained from the Banks, the different departments of the State Government, the Bureau of Statistics and the interviews with the officers of the government and of the institutions including those in the villages.

The data so gathered from the primary and secondary sources were analysed with the help of appropriate Statistical Techniques. The results obtained have been analysed against the background of the socio-economic conditions of the villages surveyed, subject of course, to the rigorous logic of economic analysis.

Since Umsning, an adopted village, is the most populous among the four selected villages with the largest number of households, 150 sample households have been selected. But from the remaining three villages only 50 sample households have been selected for investigation.

Primary data have been collected by personal visits and canvassing of questionnaire. Besides, both official and non-official reports - published and unpublished - have also been consulted. The secondary sources of information have been obtained from library sources and from interviews and
discussions with various officials of the banks, government agencies, and other relevant institutions.

For the present study, therefore, besides the primary source of data which have been collected by us through village survey method, we have also made use of studies done in the all-India context by other researchers as well as the studies made by SBI, RBI, NABARD, nationalised banks and cooperative societies, etc. The nationalised banks have begun lending credit to villagers in the Ri-Bhoi district since the late seventies.

At the completion of the collection of necessary data, the same were classified, tabulated and analysed in as many as 67 statistical tables. The analyses have also been reflected in the graphs wherever necessary.

Significance of the Study

The study is significant in so far as it throws light on the role and importance of finance in agricultural development. Further, it also reveals the most appropriate or rather the suitable agency, in terms of the needs and requirements, for financing agricultural operations in the rural areas of a backward economy like that of Meghalaya. The study also brings out some policy implications which may be considered by the institutional financing agencies for the further development of agriculture in the rural areas.
Organization of the Study

In Chapter-I, we introduce the topic of our study and its importance, the objectives and hypotheses of the study, the Methodology used for collection of data from the villages through extensive as well as intensive field survey. The sources of the secondary data have been indicated in the chapter.

Chapter-II deals with some aspects of the economy of Meghalaya. We discuss the various socio-economic aspects of the State including physical features, the sectoral contribution of the different sectors of the economy to the state Gross Domestic Product. We also discuss the agricultural production in the State giving summary account of the different food crops like rice, pulses, grams, horticulture and the different schemes which the State has come up with for the improvement of agriculture.

In Chapter-III is discussed the important aspects of the general socio-economic profile of the Ri-Bhoi District of Meghalaya, giving a summary account of the relevant aspects necessary for an indepth analysis of the core part of the study. We also touch upon the physical features, natural resources, population, industries and socio-economic conditions like health and education and the infrastructural facilities that currently exist in the district.
Chapter-IV contains the main focus of our study on the agricultural economy of the Ri-Bhoi district. Important aspects of climatic condition, rainfall, altitude, soil, cropping pattern, horticulture, market and marketing facilities, land tenure system and Jhumming, all of which, in one way or the other, influence agriculture are briefly looked into.

Chapter-V is devoted to a discussion on the nature, importance and the result of institutional financing of agricultural activities, with particular reference to both the national and state averages vis-a-vis the district under study.

In Chapter-VI, we analyse the data collected from the four sample villages of our case study and attempt at a comparison of the various socio-economic factors in these four villages.

Chapter-VII is the concluding chapter where we summarise our findings and give the conclusion that emerges from the findings.