

## 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."<sup>1</sup> 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.<sup>2</sup>

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1. Quoted in B.N. Chaubey, *Institutional Finance for Agricultural Development*, Shubhada Saraswat, Pune, p.2.
  2. Mamoria, C.B., *Agricultural Problems of India*, 6th edition, Kitab Mahal, Allahabad, 1969.

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"<sup>3</sup> 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.

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3. *Report of the Committee on Co-operation in India 1915.*  
Reprinted Bombay: Reserve Bank of India, November, 1957.

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."<sup>4</sup>

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.<sup>5</sup>

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

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4. *The Royal Commission on Agriculture in India - Abridged Report*, Bombay: The Government Central Press, 1928, pp.49-50.

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.<sup>6</sup>

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

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6. Mathur, B.S., *Land Development Banking in India*, National Publishing House, Delhi-6, 1974, p.768.

link credit with marketing to reap the benefits of organised marketing that would help in the recovery.<sup>7</sup>

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)<sup>8</sup> 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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7. Paranjothi, T., *Committees and Commission on Co-operations*, Rainbow Publications, Coimbatore, November 1984, p.405.
  8. Singh, Hira, *Role of Agricultural Credit in Economic Development of Indian Agriculture*, University of Winconsin, 1963.

the years, despite inroads made by the growth of co-operative credit."<sup>9</sup> 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.<sup>10</sup>

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9. Report of the All India Rural Credit Review Committee, Reserve Bank of India Agricultural Credit Department, Bombay, December 1969, p.405.

10. Ibid., p.1000.

Naidu (1968)<sup>11</sup> 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."<sup>12</sup> 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

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11. Naidu, V.T., *Farm Credit and Co-operative in India*, Vora & Co. Publishers Pvt. Ltd., Bombay, 1968.

12. *Report of the Committee on Co-operation*, Reprinted, Ministry of Food, Agriculture, Community Development and Co-operation, Government of India, 1972, Vol.II, p.3.

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

Sukla (1971)<sup>13</sup> 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"<sup>14</sup> for enabling the banks to take prompt and effective measures against the defaulters.

The Planning Commission (1975)<sup>15</sup> revealed that 23 per cent of the short-term credit and 35 per cent of medium-term

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13. Sukla, Tara, "Regional Analysis for Institutional Finance for Agriculture", *Indian Journal of Agricultural Economics*, Vol.XXVI, No.4, October-December, 1971, pp.548-49.
  14. Report of the Committee on Co-operative Land Development Banks, p.306.
  15. Government of India, *Utilisation of Co-operative Credit, Programme Evaluation Organisation*, Planning Commission, New Delhi, 1975, p.69.

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

Hanumantha Rao (1975)<sup>16</sup> 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.<sup>17</sup> In matters of

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16. Rao, Hanumantha, C.H., *Farm-Size and Credit Policy in Rural Banking in India*, Ashish Publishing House, New Delhi, 1975, pp.8-11.

17. Report of the Committee to Review Arrangements for Institutional Credit for Agricultural and Rural Development (CRAFICARD), p.349.

dispensing long-term credit, Primary Agricultural Credit Societies should act as agents of land development banks.<sup>18</sup>

Bhalla and Chadha (1983)<sup>19</sup> 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)<sup>20</sup> 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 derive 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.

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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.

19. G.S. Bhalla and G.K. Chadha, *Green Revolution and the Small Peasant: A Study of Income Distribution Among Punjab Cultivators*, Concept Publishing Company, New Delhi, 1983, pp.13-167.

20. Tripathi, Satyendra, *The Role of Banks in Upliftment of Rural Poor under JROP*, Banaras Hindu University, 1984, Varanasi.

Chauhan (1985)<sup>21</sup> 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)<sup>22</sup> 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.

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21. Chauhan, Dilip J., *Role of Commercial Banks in Agricultural Development*, Sardar Patel University, 1985.

22. Gadgil, M.V., "Agricultural Credit in India: A Review of Performance and Policies", Chief General Manager, NABARD, Bombay 1986, *Indian Journal of Agricultural Economics*, Vol.41, July-September, 1986, Part-I, No.3.

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

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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 Nongthymmai 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 kind of



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

obtain

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 co-operative 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.

At the end of our fairly long and detailed investigation into the availability and use of agricultural credit by the farmers of the Ri-Bhoi district of Meghalaya and the analysis of the data collected from our field survey of the four villages as a case study of the needs and utilization of agricultural credit by the farmers of these villages, we may now summarise our findings and note the conclusions that emerge from the analysis.

### SUMMARY AND FINDINGS

#### I

As a background to our investigation into this important input in the agricultural development, we cannot but make a quick review of the literature that deals with the rural indebtedness in our country and the Government concern with the plight of the Indian farmers. In the course of this review we are amply reminded that money lenders have universally been recognised as the great exploiters of the illiterate farmers in the distant past and even now. The exorbitant rate of interest exacted by the money lenders had and still have impoverished the poor and innocent farmers in the rural areas of the country. In the case study that we have undertaken for investigation, it was found that a 100 per cent interest was even exacted from the farmers in the case of credit taken in kind.

But the state authorities in the past and now appear to be equal to the task of bringing relief to the agricultural debtors in the country. Such relief measures were begun in the previous century and the most notable action taken was the introduction of the co-operative credit societies in the rural areas. But this measure did not prove successful enough due to the mass illiteracy of the Indian farmers. Another praise-worthy act done was the appointment of the All-India Rural Credit Committee soon after independence. Many volumes of reports were produced by this committee from time to time but the problems of the farmers could not be totally removed. It was during the 1960s that the All-India Rural Credit Review Committee was set up which recommended novel ideas of electrification of the rural areas, simplification of lending procedures and diversification of rural credit for rural development. It may be said that the recommendations of this Review Committee had largely changed the face of rural India but did not touch upon the farflung areas of the North-Eastern Region including Meghalaya.

Eventually the Reserve Bank of India (RBI) had to come forward in a big way to ameliorate the conditions of indebted farmers. The Agricultural Development Department was established in the RBI with a view to liquidating the money lenders. What followed thereafter were measures that have substantially helped the indebted farmers. The Regional Rural

Banks were initiated in October 1975 but which spread to the North-Eastern Region only in the 1980s. The National Bank for Agriculture and Rural Development was set up subsequently which has greatly reinforced the measures already taken. Nevertheless, the poor and illiterate farmers in Meghalaya still continue their dependence on informal sector lending as evident from our case study undertaken in the four villages of Ri-Bhoi district of the State.

## II

We had also to make a bird's eye view of some aspects of the economy of Meghalaya to know the development of the economy at the state level. It has been found that the State is very rich in coal and lime deposits. It has also the world's largest deposits of sillimanite. There are other minerals found in the State. Even Uranium is believed to have a rich deposit in the State. Immense potential of hydro-electric power generation exists due to its various north-flowing and south-flowing rivers. The climate of the State is also very congenial for all types of economic activities. The development potential in the State is thus very great. It only depends on the development of the right infrastructure to enable it to forge ahead in economic development in all sectors.

Unfortunately the infrastructure in the State is still weak to sustain economic development in the State. We have

compared the contribution of infrastructure to the generation of State income in 1973-74 with that in 1998-99. It is relevant to state here that the contribution of banking and insurance increased from 0.5 per cent in 1973-74 to 2.3 per cent in 1998-99. The contribution, though positive, appears to be too less to be capable to support the development in other sectors including agriculture.

The sectoral analysis of the economy of Meghalaya has shown that the State offers immense potential for growing a large varieties of agricultural and horticultural crops. In the mountainous regions, land utilization under horticultural crops can yield the highest level of both social and economic benefits. *Jhum* farmers can be weaned away through the development of horticulture. The State is blessed with tropical, semi-tropical, and temperate climates which can permit the cultivation of a wide variety of fruits and vegetables. Adequate infrastructure including the availability of agricultural credit has to be ensured for the development of the agricultural sector.

Presently, Meghalaya is industrially backward. The contribution of the industrial sector to the State Domestic Product is a little more than 11 per cent. An increase has been registered but it is too small to indicate any substantial development of industries in the State.

The services sector has all along dominated the State's economy in terms of its contribution to the State Domestic Product. This is not unusual for a developing economy.

In the long 25 years of its existence, Meghalaya has not been able to build its capability necessary for its industrial development. Clearly, unless all the districts are uniformly developed industrially, the lopsided development of the State will continue in all sectors.

### III

The focus of our present investigation is on the Ri-Bhoi district of Meghalaya where a case study has been undertaken on the four villages of the district. Though only one important mineral, namely granite, has been found in the district, yet it is very rich in forest resources and hydel power potentials. The district is rich in natural vegetation ranging from tropical to temperate dense jungles which abound in flora and fauna. Very fine varieties of Sal trees are grown in the district.

The five major rivers of the district provide great potentiality for the development of hydro-electric power. Two hydel projects have already been constructed to generate power from the Umtrew and Umiam-Khwan rivers with a generating capacity of 11.20 MW and 174 MW respectively,

which supply power not only within the State but also to other States as well.

With the low literacy rate of 30.66 per cent as compared to the state average of 49.1 per cent and the weak infrastructural facilities including banking facilities, the district has not been able to forge ahead in any sector. However it has been found that only in this district that the State sponsored industrial areas have been thriving with activities unlike in other such industrial areas in other districts. Large-scale industry yet to emerge in the district. The district has, however, the largest number of small industrial units including small scale and cottage industries among all districts in the State. In spite of various incentives, there is absence of local entrepreneurs for establishing major industries both in the manufacturing and services sectors.

#### IV

In the brief survey of the agricultural economy of the Ri-Bhoi district, it is found that the district has the potentials to develop its agricultural sector even to exceed the national level of productivity in certain crops like rice and maize. In the case of other crops, it is competing to reach the national level of productivity. The inter-district comparison shows that the district performs more excellently

in the production of rice and maize. It did the best in the production of sesamum oil seed among all the districts. It is the largest producer of many items of vegetables and did very well in some items of spices.

Ri-Bhoi district in particular is suitable for the development of horticulture. Pineapple is the most important horticultural crop grown in the district. The yield per hectare in respect of this crop is always above the state average yield. Horticulture and tea plantation would indeed help the district to get rid of the wasteful *Jhum* cultivation. Along with the development of horticulture, permanent occupation of lands would take place thereby solve the problematic system of traditional land tenure. It may be added that marketing facilities would have to be provided by the State to encourage the horticulturists in the district to expand production. Thus, the introduction of horticulture will go a long way in solving both *Jhum* cultivation and complicated land systems.

#### V

The analysis of the institutional credit of agriculture in the State and the Ri-Bhoi district has shown that there has been tremendous increase in bank offices in the State as well as in the district. But the agricultural advances of banks as a proportion of their total advances, work out to 19.25 per cent only in the whole State. It is also discovered

that of the 17 banks in the State, only 8 banks extended short-term crop loan to the farmers. But in both these aspects, if the performances of the co-operative banks and the Regional Rural Banks are excluded, the contribution of other scheduled commercial banks, except the State Bank of India, becomes negligible.

Although the cooperative banks and the RRBS did very well in terms of their percentage share in agricultural advances at the state level, their performances in the Ri-Bhoi district were not satisfactory. Their contribution is 30.61 per cent and 5.92 per cent respectively out of their total advances in the district and against their state average contribution 42.76 per cent and 26.77 per cent respectively.

## VI

From our analysis of the data collected from our four sample villages - two adopted by the SBI and two not so adopted - it has been found that agricultural performances of the two sets of villages are not much different. The performance of the adopted villages is less impressive as compared to that of the unadopted villages. In fact, in the case of production of one of the three major crops produced in the four villages, namely, pineapple, the unadopted villages did far better than the adopted villages.

Although they have been adopted by the SBI, still there is 6 per cent each in the two villages amounting to 9 households at Umsning and 3 households in Nongthymmai which borrow from relatives. This shows that in spite of the availability of institutional credit, the people of the district still resort to the informal sector lending. While all our sample households in the adopted villages borrow for their agricultural operations, in the unadopted villages there are many farmers who cannot borrow accounting for 20 per cent and 16 per cent in the two villages respectively.

There is no farmer in the adopted villages borrowing from the village money lenders. But in the unadopted villages upto 22 per cent and 24 per cent respectively borrow from money lenders. The largest number of households in the unadopted villages borrow from relatives accounting for 58 per cent and above. It is of course true that while in the adopted villages money lenders are completely wiped off, in the unadopted villages more than 20 per cent of the farmers still depends on money lenders. It is found that in both the adopted and unadopted villages the majority (50 to 80 per cent) of the farmers is borrowing mainly for the purchase of agricultural inputs. Again in both sets of villages, many farmers in the range of 10 to 30 per cent, are utilising their loan for their consumption needs and other domestic purposes.

With regard to the terms of loan repayment, the farmers in the adopted villages make repayment of the loan in cash in respect of the loans they took from banks as they have no other option. But for the loans they took in kind, repayment in kind is made. So far as the farmers in the unadopted villages are concerned, the majority of farmers make their repayment of loans in kind as usually is the practice under the informal sector lending where the rate of interest is mostly 100 per cent. But where repayment is made in cash, the rate of interest is in the range of 8 to 10 per cent per month or 96 to 120 per cent per annum.

The most discouraging reason for defaulting in loan repayment is the failure of the farmers in both sets of villages to sell their marketable surpluses at the market price having been compelled to part with their products at low prices. In one of the unadopted villages, however, the main reason for defaulting is the large diversion of the loan money towards consumption needs. It is also to be noted that the largest number of non-defaulters in loan repayment is found among the farmers in the unadopted villages.

### CONCLUSION

Coming to the end of our investigation of the needs and utilization of agricultural credit by the farmers of the Ri-

Bhoi district by making a case study of four villages, certain conclusions emerge from the findings summarised above.

First of all, it must be concluded that the adopted villages selected for our case study have been able to bring about improvement on their agricultural activities by increasing the productivity and enlarging the income of the cultivators. But the unadopted villages studied by us have not been able to do so although they have the capability to increase production.

Secondly, where institutional finance is made available to the cultivators, the village money lenders appear to have been wiped off. But where institutional finance is not available as in the unadopted villages of our case study, the dominant position of the money lenders is still evident. Thus the position in the unadopted villages calls for financial support in the form of institutional credit facilities for promoting their agricultural development and small scale and cottage industries.

Thirdly, it may be true that all our respondents in the adopted villages do not resort any longer to borrowing from the money lenders but we have information that many farmers are still borrowing from the money lenders, traders, rich cultivators and big land owners. In our two adopted villages themselves there are a number of respondents accounting for 6

per cent each who replied that they borrowed from relatives. This shows that in spite of the availability of institutional credit, the farmers still resort to borrowing from the informal sector lenders. Many reasons were given by many poor farmers in both the adopted and unadopted villages for their preference to borrow from money lenders, traders, rich cultivators, land owners and relatives. These reasons are stated to be: (1) Borrowing from the banks is time consuming, (2) Banking procedures are complex and not intelligible to the illiterate and semi-illiterate poor farmers; (3) Banks do not consider poor and illiterate farmers for advancing credit, and (4) Poor farmers usually have the impression that banks provide financial credit only to rich farmers. It would also appear that the indifferent attitude of the bank employees as reflected in their lack of interest in explaining the terms and formalities of loans to the prospective borrowers and their uncordial treatment of the customers, keep away most farmers from banks..

Fourthly, there is a fairly large number of farmers who dare not borrow from the informal sector of lending for fear of losing their land and other properties. If institutional credit is available and if the right motivation is created for them, they would readily response and avail themselves of such institutional credit capable of raising their methods and techniques in agricultural production. This conclusion is

supported by our finding that the borrowing patterns are similar in both sets of our sample villages selected for our case study.

Fifthly, the availability of institutional credit for agricultural sector in the Ri-Bhoi district where *Jhum* cultivation is practised fairly extensively, would go a long way in enabling the *Jhum* cultivators to avoid this wasteful practice. Horticulture and tea and rubber plantations have now been encouraged through state efforts. If these activities are backed up with the readily available agricultural credit, the problems of *Jhumming* and complicated land system could be overcome in the district in the near future.

Sixthly, with the improvement of transport and communication, the Ri-Bhoi district in particular will no longer remain isolated from the national economy. Hence cropping pattern in the district will also have to be changed. This lends support to the conclusion that horticultural and plantation activities would revamp the economy of the district.

Seventhly, our finding that a good number of borrowers of agricultural loans, is utilizing their loan for consumption needs and other domestic purposes, suggests that short-term loans during the busy sowing and harvesting

seasons would go a long way in ameliorating the financial need of the farmers.

Eighthly, as the emergence of entrepreneurs in the manufacturing and services sectors may take some time more, the development of agriculture in Ri-Bhoi district should continue unhampered with the flow of agricultural credit to a great possible extent.

Ninthly, above all, the capability building of both the human resources and the district itself should precede before it can forge ahead and achieve the level of development that would ensure welfare and prosperity to the people. In this regard, the district should be opened up with better roads and communication. The infrastructural facilities, both economic and non-economic, have to be extended rapidly. This should, of course, include the availability of agricultural credit facilities from banks and other financial institutions to serve the credit needs of the farmers who are poor, illiterate and uneducated.

Finally, the informal sector lending should be totally eliminated from the district. To free the rural poor from the clutches of the private money lenders and to bring them instead to the fold of the banking institutions, simplifications of lending procedures and diversification of rural credit for rural development are the need of the hour. This conclusion is suggestive of the following measures:

One, to involve local bodies and traditional organisations for the preparation of a list of farmers taking loans from private money lenders thereby enabling the lending institutions to extend the required credit to them in an easy manner.

Two, to involve the non-governmental organisations formed by persons well-known to the farmers in the rural areas for their honesty and integrity, which would monitor the sanction and disbursement of loans in their own areas and to help in the recovery of such loans after the period of repayment is over.

Three, to give wide publicity to the available schemes of agricultural finances for different categories of farmers.

Four, applications for loans may be processed in public meetings held for the purpose in the concerned locality itself.

Finally, the sanction and the disbursement of the loans may also be made in such meetings to be held at regular intervals.