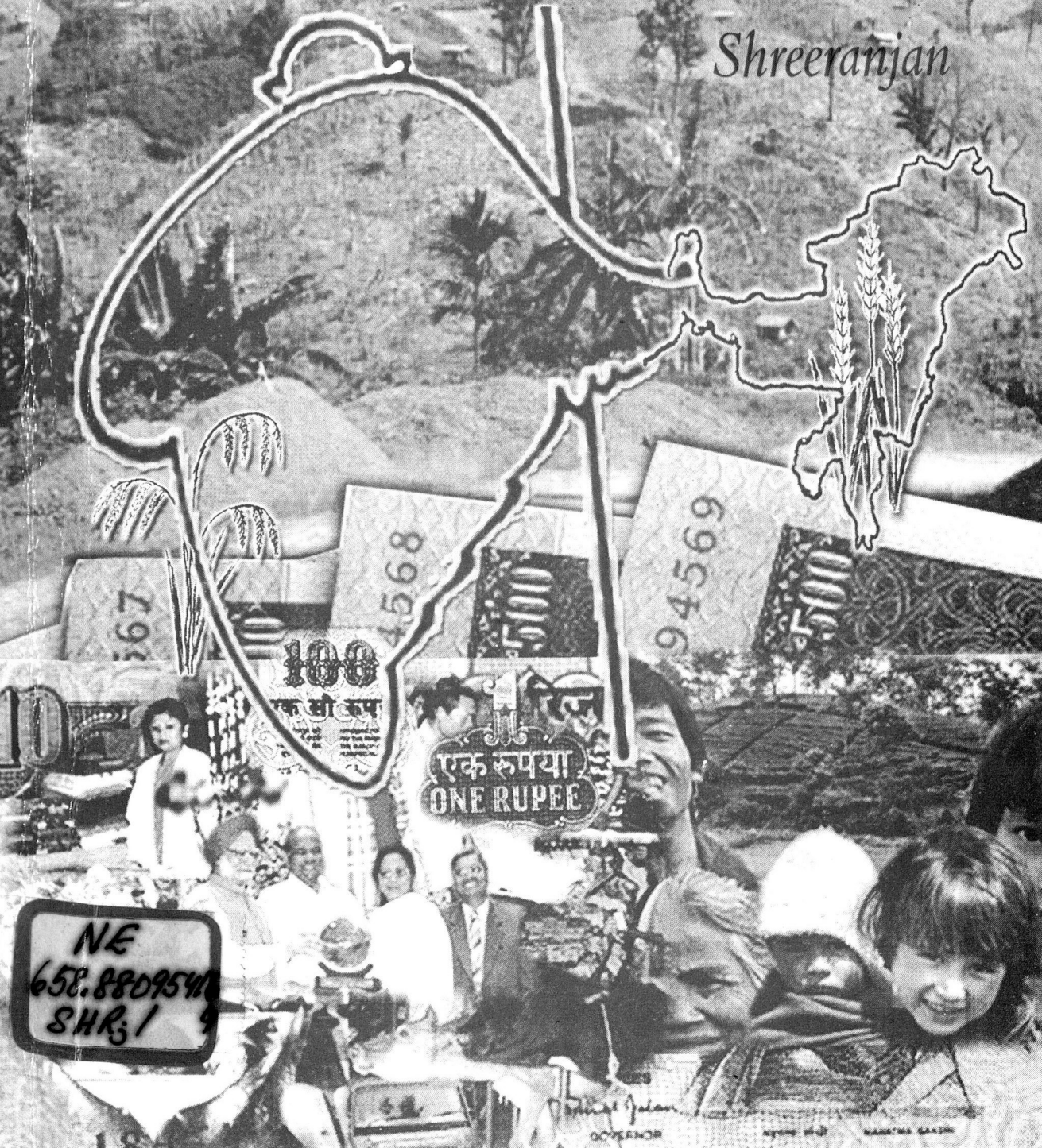


# CREDIT RELATED ISSUES

## In Meghalaya

Shreeranjana



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**CREDIT RELATED ISSUES**  
**IN**  
**MEGHALAYA**



*Shreeranjana*

**A PUBLICATION OF**  
**NORTH- EAST INDIA COUNCIL FOR SOCIAL SCIENCES RESEARCH,**  
**SHILLONG, MEGHALAYA.**

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NE  
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A Publication of :  
North- East India Council For Social Sciences Research,  
Shillong, Meghalaya.

Cover Design  
*Shreeranjana & Shubro*

Printed by  
*Singhania Offset Printing Press,*  
Shillong, Meghalaya.

First Edition  
August, 2006

Price: (IND) Rs 208.00

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## ACKNOWLEDGEMENTS

I am thankful to the North East India Council for Social Science Research, Shillong, Meghalaya for agreeing to publish under its banner this work on the 'Credit Related Issues In Meghalaya'. To me, Prof. B. Dutta Ray has been a great source of inspiration and an idol of commitment. For this work, which has evolved over the years, help from many corners in various forms were forthcoming and received. Special mention must be made of the present Chief Secretary to the Govt. of Meghalaya, Shri S.K.Tewari, IAS, whose encouragement and appraisal has contributed significantly to its value. I also owe a lot to Mr. Pankaj Jain, IAS, Mr. P.K. Shrivastava, IAS, Shri J. G. Menon, GM, NABARD, Shillong, and other colleagues and friends like Mr. Anup Shrivastava, IFS, Mrs. Anita Jyrwa, faculty, SIRD, who, from time to time, made certain valuable suggestions for improvement. In addition, mention must be made of inputs received from concerned Departments and Directorates in the Govt. of Meghalaya; the support from MCAB officials, office of RCS, Directorate of Economics and Statistics and from SBI, etc. I am specially thankful to my steno Smt. Seven Seas Wankhar for her assistance. I also express my thanks to Singhania Offset Press, especially to Subhro, Sangita & Biva without whose help this book couldn't have taken the present shape.

I am thankful to my beloved wife, son and daughter for their continued understanding and support shown towards my commitments and concerns.

August, 2006. Shillong.

Shreeranjana

- The work attempts to provide both the broader perspective in respect of credit related aspects as well as an analytical perspective for NER and Meghalaya by bringing out some facts and figures. Besides, it aims at flagging issues and suggestions for policy adoption and research towards further refinement.
- The author, Dr. Shreerajan, is a member of the Assam – Meghalaya Cadre of the Indian Administrative Service (IAS). Previously, a lecturer in Botany in Ranchi University (now in Jharkhand) for about four years, the author has served the cadre in the State of Meghalaya with distinction and dedication for more than nineteen years now with varied assignments and experiences in Civil Administration, Administration of Justice, Coordination, Policy Formulation, Programme Implementation and Sectoral Management at the seat of Governance in the state. His experiences in Health and Family Welfare, Employment and Labour, other Social Sector, Developmental activities in Agriculture and Allied Sector, Cooperation and Social Mobilisation, Community and Rural Development, Housing, Arts and Culture; Finance and Management, Information Technology etc has provided good grounding for the present pursuit of development studies.
- The author has also been associated with various special assignments in credit related field such as Chairman 'Task Force on Activating the Credit Channel to the Non Wilful Defaulters of the Banking Organizations in Meghalaya' constituted by the Department of Finance, Govt. of Meghalaya ; Member 'Informal Group set up by Reserve Bank of India (RBI) in July 2000 arising from the recommendations of the Shukla Committee appointed by the Government of India in 1999 ; Member of the State Financial Sector Planning Committee in Meghalaya ; Director in the Board of Directors of Meghalaya Cooperative Apex Bank for more than five years ; Director in the Board of other Apex Cooperative Societies ; Director other PSUs in Meghalaya in official capacities. The author has been designated as the 'State Coordinator for SHG' in Meghalaya recently.
- The author's academic pursuits is reflected in his post graduate degree in Botany (Ranchi University) and Master of Science in Management and Implementation of Development Projects (M.Sc. MIDP) from the University of Manchester (Manchester, UK) , the Award of the Degree of Doctor of Philosophy (Ph.D) in Biotechnology from Gauhati University in 2004.
- Books published by the author include 'Perspectives on Development in Meghalaya' (by SIRD); 'Dimensions in Development: Topical Discussion' ( by NEICSSR); besides, Articles and Papers.
- The views expressed are those of the author and not of either the publisher or the Government of Meghalaya or of others.
- North-East India Council for Social Sciences Research, Shillong, Meghalaya, is a highly reputed scholastic body. It organises seminars, symposia and academic meets on contemporary topics. It publishes a journal regularly since its inception in 1973 and has also published more than 60 books on development related topics. Prof. B. Dutta Ray is the Secretary of the Council.

## PREFACE

Credit is an issue in Meghalaya everywhere - in urban areas and rural; in industry and in agriculture. A highly unfavourable credit to deposit ratio has been the bane of the whole NE region and not just Meghalaya. Of late there seems to have been some improvement in the situation. Whether the seeming improvement has to do with growth of investment or merely with more bank loans for better off urban people to buy cars and houses remains to be analysed.

Credit for low income groups has been practically non-existent inspite of the fact that we have had self employment programmes for the poor for a long time now. Most banks perceive financing the poor as unprofitable. Private players donot enter this area of financing for the same reason. Too much emphasis by governments on the development aspect of such credit and too little on its viability for the lender has only made things worse. The microfinance movement seeks to bridge the gaps. It seeks to promote microfinance as an investment for profit as well as an investment for development.

Dr. Shreeranjana of the Indian Administrative Service has been working in the area of microfinance and Self Help Groups movement for quite sometime. He is the State Co-ordinator for self help groups in Meghalaya. He has decided to share his knowledge and experience in this work entitled "Credit – related Issues in Meghalaya". I commend it as a compendium for those seeking information and, more importantly, for those intending to do something with the information.

In Meghalaya we are aiming to promote microentrepreneurship. This means economic activities like post harvest management, in situ food processing, high value crops, organic farming and community based tourism. Microfinance will help the poor move from daily survival to planning for the future. It will mean economic emancipation and political empowerment. It will not only generate economic activity but also bring the poor together to improve their access to nutrition, education and healthcare.

The true potential of microfinance will be realized if we look at financial services as a whole, not just at one-off loans. To make these services viable for the providers and affordable for the poor modern technology must be used extensively. Also, it has to be understood that in very backward areas like Meghalaya some amount of viability gap financing by government and by funding agencies will be required.

A word of caution will be in order. Microfinance will have to use peer pressure and also a legal framework to ensure repayment. Both can quite easily prove disastrous unless genuine cases of failure enjoy a safety net in the form of government assisted insurance.

It must also be noted that microfinance is not a substitute for normal banking and other financial services. Dr. Shreeranjana has addressed issues relating to improving the outreach of these services. I am sure the banking fraternity and others concerned will find a lot of valuable input here for future planning of related activities.

Important issues of policy need attention in the credit support structure. Land tenure system is a case in point. In Meghalaya, land tenure is widely believed to be a major impediment to the growth of credit in the rural areas. This and other matters of concern have been highlighted by the author.

Finally, I have to congratulate the author for boldly making prescriptions for change, something that is always the most difficult part of scholarship.

*August 2006.  
Shillong.*

**S.K. Tewari**  
**Chief Secretary,**  
**Government of Meghalaya**

# TABLE OF CONTENTS

## Contents

List of Tables, Maps, Figures and Annexes

Abbreviations

Glossary

Preface

## CHAPTER- I.

1-6

### INTRODUCTION

## CHAPTER II.

7-42

### INDIA'S NORTH EASTERN STATES AND MEGHALAYA: SOCIO-ECONOMIC FEATURES

India's North East- A Brief Profile of Meghalaya- Some Unique Socio Economic Features of the Region and Meghalaya- Perceived Problems by People in the Region/ State- Problems: Other Added Dimensions in Meghalaya- Constraints of Development in Meghalaya- Imperatives and Concerns in NER & Meghalaya- Decelerating growth in the agriculture sector- The issue of Poverty, Equity and Occupation in Meghalaya- The Overall Development Scenario in Meghalaya- Rural Institutional Finance: Meghalaya in the context of NER and All India- A snapshot of land laws in NER constraining Financial Institutions and lenders- Land Tenure Systems in Meghalaya- Traditional Socio-Political Systems in Meghalaya- Constraints on Accepting Land as Security: Lenders' Perspective- Land tenure system and creation of charge of land in Meghalaya-Summary and Conclusion.

## CHAPTER III

43-85

### DEVELOPMENT, POLITICS, BANKING AND CREDIT DIMENSIONS

Introduction-, The Discourse on Development- Politics, State and Financial Intermediation- Historical and Contemporary Perspectives in Banking and Credit Movement- Need For Investment And Financial Services Including Credit- a. Requirements for Development, b. Economic Considerations- Investing in Production System- Economic Considerations - Micro Enterprise- Contextual: Hill Area Perspective- Socio-economic Considerations: Risk Mitigation- Vulnerability and Coping

Mechanisms of Poor- Financial Sector and Rural Credit Spectrum: Formal and Informal Sources- Credit extension service from Institutional sources- Banking structure- Cooperative Credit structure- Vaidyanathan committee, 2005- Supply And The Demand Side Perspectives- Development Financial Institutions (DFIs) - Non-banking financial institutions- The informal financial sources- MicroFinance, MFIs, and SHGs- Reducing Costs in Borrowings : a Major Policy Consideration and Challenge- National Commission on Farmers headed by Dr M S Swaminathan- 2006-07 budget- Summary and Conclusion.

## **CHAPTER IV**

86-116

### **CREDIT DISPENSATION IN MEGHALAYA**

Introduction- Inadequate Access to Credit as a Constraint in Meghalaya- Banking and Formal Credit Institutions in Meghalaya- Banking Profile in Meghalaya- Cooperative Credit Structure in Meghalaya- Growth Status of Bank Branches in Meghalaya- Status of Deposits and Advances in Meghalaya- Priority Sector Advances in Meghalaya- Agricultural Advances in Meghalaya- Performance of Kisan Credit Card Scheme in Meghalaya- Credit Support to Women- Analysis of Ground Level Credit Flow in Meghalaya- Call (Cry) of the Farmers in Meghalaya- problems of overdues & position of non performing assets- reasons for slow credit flow & scope for rectification- Summary and Conclusion.

## **CHAPTER V**

117-154

### **OTHER ASPECTS OF ACCESS TO FINANCE IN MEGHALAYA**

Introduction- Apex Institutions of Rural Credit Facilitation and Monitoring: RBI and NABARD and other Committees- The SLBC (State Level Banker's Committee): Usual refrain- The Credit Plans in the State- Status of Micro Credit through SHGs in the State- SHGs bank linkage programme- Status of NGO facilitated SHGs formation- SHGs in IFAD Projects- SHGs under SGSY (Swarna Jayanti Gram Swarojgar Yojana)- SHGs under Swayamsidha (IWEP) - SHGs under Watershed Development and Wasteland development projects of Soil conservation Department- SHGs in SGSRY (Swarna Jayanti Sahari Rojgar Yojana) - Self Help Groups Promoted by Cooperative Institutions-, Self Help Groups Promoting Institutions- Factors Impeding the Promotion and Linkage of SHGs to the Banks- Position of Rural Infrastructure Development Fund (RIDF) in Meghalaya- Vaidyanathan Committee Report for revival of rural credit: Meghalaya Perspective- Other Financial Institutions in Meghalaya- Meghalaya Industrial Development Corporation Limited- Meghalaya Commercial Crops Development Board-

Meghalaya Small Farmers Agri-Business Consortium- Meghalaya Housing Board- Meghalaya State Housing Financing Cooperative Society Ltd- Urban Cooperative banks- North Eastern Development Finance Corporation Ltd (NEDFI) - The National Cooperative Development Corporation (NCDC)- Small Industries Development Bank of India (SIDBI) - Miscellaneous- Glimpses of Recent Policy Initiatives Relating to Institutional Finance- Summary and Conclusion.

**CHAPTER VI.**

155-183

**RECOMMENDATIONS & SUGGESTIONS FOR ACTIONS**

Introduction- International Experiences and Potential Lessons in Designing Rural Finance Schemes- Fresh look on Policies and laws: Steps towards adapting the land laws and Lending policies- Immediate Steps- Achieving a delicate balance on loan security through Village Councils- De-linking loan amounts with the value of mortgaged property-, Stepping up loans through Self Help Groups-, Encouraging the active role of NGOs- The Concept of providing Micro-Finance through People's Cooperatives (PC) - State Development financial institutions-, Publicise lenders' successful experiences- Revisiting The Meghalaya Credit Operation and Miscellaneous Provisions Act, 1976: State as intermediary in enforcing foreclosure in mortgage- A multifaceted Advocacy and Facilitation centre-: Promoting the Culture of Recovery and Repayment for Accelerating the Credit Flows- Strengthening of Cooperative Credit Institutions- Expanding the Area of Operation of RRBS and adopting differential norms for NER- Opening up choked channels of credit flow in rural areas- Pro-Poor Recommendations for Re-opening Rural Credit in Meghalaya- Evolving Alternative Rural Credit Mechanism- Generic Issues in Making Credit Available and Work- Guiding principles for public action- Conclusion.

**Bibliography**

184-199

**Annexe**

201-246

## LIST OF TABLES

		Page(s)
Table-1.	Administrative Districts in Meghalaya	11
Table-2	Relative infrastructure index	25
Table-3a.	Infrastructure position of the state in national perspective	25
Table-3b.	Basic amenities in the state	25
Table-4.	The position of CD and C+ Investment to Deposit Ratio in the N-E States	27
Table-5	Flow of ground level credit to agriculture (both ST and LT): relative shares of agencies	68
Table-6	Average loan size of Public sector banks & PACS (Mar, 03)	68
Table-7	NBFC and their regulation	73
Table-8a.	Legal forms of MFIs in India	76
Table-8b.	Microcredit providers and legal framework governing their activities	77
Table-9	Methodologies in Microfinancing	78
Table-10a.	Bank's aggregate margins (% of total assets)	82
Table-10b.	Costs and margins of Cbs, RRBs and DCCBs (% of total assets)	82
Table-11	Bank Branches Network in Meghalaya over the period and end of March 2005	91
Table-12	District-wise Branch Network as on 31.03.2005	92
Table -13	District-wise spread of Bank Branches in Meghalaya	93
Table- 14	Agency wise Bank Branches and its distribution	93
Table- 15	Growth of Advances and Deposits in Meghalaya	95
Table- 16	Growth pattern of deposits and credit.	96
Table- 17	CD Ratio and C+I/D Ratio in the N-E States	97
Table- 18	The district-wise CD ratio as on 31 March 2005.	99
Table- 19	Priority Sector and Weaker Section advances in Meghalaya	100
Table- 20	Institution wise position of Priority sector advances and its percentage to total advances	100
Table- 21	Agriculture advances in Meghalaya	101
Table- 22	Agency wise Agricultural Advances in Meghalaya	101
Table- 23	Status of KCC Distribution in Meghalaya	103
Table- 24	Status of Women (2001 census) in Meghalaya	103
Table- 25	Status of weaker sections advances in Meghalaya	104
Table- 26	Bank credit to women in Meghalaya	104
Table- 27	Ground level credit flow in Meghalaya	106
Table- 28	The agency-wise flow of credit for various sectors during the last 5 years	106
Table- 29	Recovery Performance under various programmes, sectors and of PACS in Meghalaya.	109
Table- 30	Status of Demand, Collection and Recovery in various Sectors in Meghalaya	110

Table-31	Status of Demand, Collection and Recovery for Govt. sponsored schemes in Meghalaya	111
Table-32	Status of NPA in the NER	112
Table-33	PLP projections for Meghalaya for the year 2005-06	121
Table-34	SHG Bank linkage programme	123
Table-35	District-wise NGO facilitated SHGs in Meghalaya	124
Table-36	Details of District wise SHGs formed in the state as per available records in December 2004	125
Table-37	District wise SHGs under SGSY(July 2005)	127
Table-38	Progress of SHGs under IWEP, end June 2005	129
Table-39	SHGs in Watershed programmes of soil and water conservation department	130
Table-40	Status of SHGs by major Cooperatives	131
Table-41	Performance of NABARD SHPI	132
Table-42	Details of RIDF loans to Govt. of meghalaya	134
Table-43	District wise break up of projects under RIDF together with loan sanctioned and disbursed as on 31 <sup>st</sup> January, 2006	135
Table-44.	Status of Urban Cooperative Banks in Meghalaya	139
Table-45.	Summary of state wise sanction by NEDFi in NER	140
Table-46.	Summary of state wise disbursement by NEDFi in NER	140
Table-47.	NCDC projects and funds released in Meghalaya	141
Table-48.	Project wise details under ICDP of NCDC in Meghalaya	142

## **LIST OF MAPS**

Map-1.	A general map of India	9
Map -2.	A general depiction of North eastern region of India	9
Map -3.	Administrative map of Meghalaya	10

## **LIST OF FIGURES**

Figure-1	Matrilineal System	16
Figure-2	Main Features of the Emerging Governance Paradigm	46
Figure-3	The role of small farmers and entrepreneurs: an ideological spectrum	47
Figure-4	Types of Risks and Risk Management	62
Figure-5	Banking Structure	65
Figure-6	A Broad Structure of Co-operative Credit Institutions	66
Figure-7	Structure of Agricultural Credit System in India	89
Figure-8	Recommended monitoring of CD Ratio (CDR) of banks	98
Figure-9	Pro-poor recommendation for re-opening rural credit channels	169

Annexe-1	Socio-Economic Profile of Meghalaya	203-205
Annexe-2	Meghalaya at a Glance	
Annexe-3	Status of Development in Meghalaya:	206
	A. Key Economic Indicators	
	B. Sectoral Contribution to the State Economy	
Annexe-4	Decadal Population Growth in Meghalaya	207
Annexe-5	Land Utilization in Meghalaya	207
Annexe-6	Size Class of Ownership Holding (ha) in Meghalaya	207
Annexe-7	Socio-Economic and Banking Indicators of North Eastern States)	208-209
Annexe-7a	Indicators of Banking Development in North East	210
Annexe-7b	Total and rural average population per branch office	210
Annexe-7c	Current & Savings Accounts per 100 Adult Population in rural & Urban Areas	211
Annexe-7d	Bank Branch Network & APPBO	212
Annexe-8	Distribution Of Outstanding Credit Of Scheduled Commercial Banks According To Size Of Credit Limit, Interest Rate and Organisation - March 2000	213-214
Annexe-9	A review of /D Ratios in The NER 1996-2000 & 2005	214
Annexe-9a	Annual Growth Rate of Credit, Deposit and C/D Ratio in the NER (1981-91, 1991-2001, 2001-2005)	215
Annexe-9b	Per Capita Deposit and Credit in the NER	215
Annexe-10	A Review of Non-Performing Advances (NPAs) of Financial Institutions*, Commercial Banks, RRBs and Co-Operative Banks State-Wise	216-217
Annexe-11	Region Wise Advances, NPAs as on March 31, 2003	217
Annexe-12	Distribution of outstanding Bank Loan in North East According to Security Provided by Borrowers - March 2000	218
Annexe-12a	Indebtedness of Households (percentage reporting cash loan outstanding), Institutional Sources of Indebtedness and Credit to Income ratio in 1991.	218
Annexe-13	Share of Rural household debt by source of credit, All India, 1951-91.	219
Annexe-14	Regional differences in the distribution of financial services	219
Annexe-15	Performance under Annual Credit Plan in NER (March 2005)	220
Annexe-15a	Financial Indicators of RRBs in NER	221
Annexe-15b	Financial Parameters of State Co-operative Banks in NER	222
Annexe-16	Position of KCCs Issued in The NER upto March 2005	223
Annexe-17	Cumulative Position of SHG Finance in the NER as on March 31, 2005	224
Annexe-18	State Wise Performance of Commercial Banks under Microfinance in The Region as on September 30, 2005	224
Annexe-19	Recovery Position of Loans in the States of North Eastern Region	225
Annexe-20	Recovery Position of Loans in the States of North Eastern Region as on 30 June 2005	225

Annexe-21	Bakijai Cases – Position as on June 30, 2005	225
Annexe-22	Utilization under RIDF as on March 31,2005	226
Annexe-23	Unit Costs For Agriculture And Allied Activities in Meghalaya	227-228
Annexe-24	Approved Scale of Finance for Different Crops in Meghalaya	228
Annexe-25	Statement I Indicating the Non-Performing Assets as on 2001-02 in Meghalaya	229
Annexe-26	Statement II Indicating the Details of Wilful Defaulters as on 2001-02 in Meghalaya	229
Annexe-27	Statement III Indicating the Details of Non-Wilful Defaulters as on 2001-02 in Meghalaya	229
Annexe-28	Disbursement of ST And LT Credit for Agriculture and allied Activities	230
Annexe-29	Percentage Share Of States in the NER in Disbursement of Short-and Long-Term Credit for Agriculture and Allied Activities	230
Annexe-30	Region-Wise Ratio of Agricultural Credit to NSDP	230
Annexe-31	Region-Wise Share of Agriculture and Allied Sector Credit (Short Term and Long Term) Disbursements	231
Annexe-32	Region-Wise Trends in Agricultural and Allied Sector Credit Per Capita	231
Annexe-32a	Average Share of Sectors in Credit during 2001-2005, in the NER	231
Annexe-33	Ground level credit flow in NER	232
Annexe-34	Agencywise Availment of NFS Refinance in NER	232
Annexe-35	Population group wise classification of outstanding credit of small borrowal accounts of scheduled Comercial banks in Meghalaya according to occupation-march 2005.	233
Annexe-36	Outstanding credit of scheduled Comercial banks according to occupation in various District of Meghalaya -march 2005.	234
Annexe-36a	Outstanding credit of scheduled Comercial banks according to occupation in Meghalaya - March 2005.	235-236
Annexe-37	Gist of Recommendations of the Advisory Committee of RBI on Flow of Credit to Agriculture and Allied Sector from Banks	237
Annexe-38	Gist of Recommendations of Working Group of RBI on SSI Sector	238
Annexe-39	Definition of infrastructure lending by RBI	239
Annexe-40	List Of Public Financial Institutions As Per Section 4A Of Companies Act, 1956 (RBI, 2005)	240-241
Annexe-40a	DFIs and Objectives	242-243
Annexe-40b	Financial Position of FIs and Large NBFCs and RNBCs as on 31.3.2003	244
Annexe-41	List of Notified Financial Institutions Exempted under Meghalaya Transfer of Land Regulation	245
Annexe-42	Banking services rendered by SBI/RRB/MCAB in Meghalaya	246

## ABBREVIATIONS

ACABC	Agri-Clinics and Agri-Business Centres
ACC	Artisan Credit Card
ACP	Annual Credit Plan
ACRC	Agriculture Credit Review Committee
ADC	Autonomous District Council
AICI	Agriculture Insurance Company of India Ltd
AIRCS	All India Rural Credit Survey
APMC	Agriculture & Produce Market Committee
B.D.O	Block Development Officer
BDP	Business Development Plan
BMS	Basic Minimum Services
BLBC	Block Level Bankers Committee
BPLR	Bench Mark Prime Lending Rate
CARG	Compound Annual Rate of Growth
CBs	Commercial Banks
CBO	Community Based Organisations
CDR/C:D	Credit Deposit Ratio
CLCSS	Credit Linked Capital Subsidy Scheme
DC	Deputy Commissioner
DCCB	District Central Cooperative Bank
DFI	Development Financial Institution
DIR	Differential Interest Rate
DLCC	District Level Coordination Committee
DLTC	District Level Technical Committee
DONER	Ministry of Development of North Eastern Region, Govt. of India
DRDA	District Rural Development Agency
DRI	Differential Rate of Interest
ECRC	Expert Committee on Rural Credit
FAO	Food and Agriculture Organisation of the United Nations
GCC	General Credit Card
GDP	Gross Domestic Product
GIS	Geographical Information System
GLC	Ground Level Credit
GNP	Gross National Product
GOI	Government of India

GOM	Government of Meghalaya
Ha/ha	Hectare(s)
HDI	Human Development Index
HLC	High Level Commission
HYV	High Yield Varieties
ICAR	Indian Council of Agricultural Research
ICDP	Intensive Cooperative Development Programme.
ICIMOD	International Centre for Integrated Mountain Development
IDPM	Institute of Development Policy Management
IFAD	International Fund for Agricultural Development
ILO	International Labour Organisation
IRDA	Insurance Regulatory and Development Authority
IRDP	Integrated Rural Development Programme
IWDP	Integrated Wasteland Development Programme
IWEP	Integrated Women Empowerment Programme
JLGs	Joint Liability Groups
KCC	Kisan Credit Card
K.M/ k.m.	Kilo Meter
KVK	Krishi Vigyan Kendra
KVIB	Khadi & Village Industrial Board
LBS	Lead Bank Scheme
LDBs.	Land Development Banks
LT	Long Term
MCAB	Meghalaya Co-operative Apex Bank
MCM	Million Qubic Metre
ME	Medium Enterprises
M&E	Monitoring and Evaluation
MFDEF	Micro Finance Development and Equity Fund
MFI	Micro Finance Institutions
MIDC	Meghalaya Industrial Development Corporation Ltd.
MIS	Management Information System
MKWH	Million Kilo Watt Hours
m.m	millimetre
MNCs	Multi- National Corporations
MOU	Memorandum of Understanding
MSL	Mean Sea Level
M.T./m.t.	Metric Tonnes/ tonnes

NABARD	National Bank for Agriculture and Rural Development	Government of India	GOM
NAFSCOB	National Federation of State Co-operative Banks	Haryana	HA/HS
NAIS	National Agricultural Insurance Scheme	Human Development Index	HDI
NBFC	Non-banking Financial Company	High Level Commission	HLC
NBNFC	Non-banking Non - Financial Company	High Yield Varieties	HYV
NCAER	National Council of Applied Economic Research	Indian Council of Applied Economic Research	ICAR
NCDEX	National Commodity and Derivatives Exchange Ltd	Intensive Coop	ICDP
NCDC	National Co-operative Development Corporation	International Centre	ICIMOD
NCF	National Commission on Farmers	Institute of Development Policy	IDPM
NEC	North Eastern Council	International Fund for Agricultural Development	IFAD
NEDFI	North Eastern Development Finance Corporation	International Labour	ILO
NEHU	North Eastern Hill University	Insurance Regulatory and Development Authority	IRDA
NER	North Eastern Region	Integrated Rural Development Programme	IRDP
NFI	National Federation of India	Integrated Watershed Development Programme	IWDP
NFS	Non Farm Sector	Integrated Women Empowerment Programme	IWEP
NGO	Non Governmental Organisations	Joint Liability Groups	JLGs
NIRD	National Institute of Rural Development ( India)	Kisan Credit Card	KCC
NLCPR	Non Lapsable Central Pool of Resources	Kilo Meter	K.M. K.m.
NMIB	National Microfinance Information Bureau	Krishi Vigyan Kendra	KVK
NPA	Non Performing Asset	Khadi & Village Industrial Board	KVIB
NR	Natural Resources	Lead Bank Scheme	LBS
NRB	Natural resource Base	Land Development Banks	LDBs
NWDPPRA	National Watershed Development Programme for Rural Areas	Long	LT
ODA	Official Development Assistance	Meghalaya Co-operative Apex Bank	MCAB
OPS	Other Priority Sector	Million Qubic Meter	MCM
OTS	One Time Settlement	Medium Enterprises	ME
PACS	Primary Agricultural Credit Societies	Monitoring and Evaluation	M&E
PLP	Potential Linked Plan	Micro Finance Development and Equity Fund	MFDEF
PLR	Prime Lending Rate	Micro Finance Institutions	MFI
PMRY	Prime Minister's Rozgar Yojana	Meghalaya Industrial Development Corporation	MIDC
PSA	Priority Sector Advances	Management Information System	MIS
PSUs	Public Sector Units	Million Kilo Watt Hours	MKWH
PWD	Public works Department	millimetre	m.m.
RBI	Reserve Bank of India	Multi-National Corporations	MNCs
RBTFD	Rural Banking Technology Development Fund	Memorandum of Understanding	MOU
RCS	Registrar of Co-operative Societies	Mean Sea Level	M.S.L.
R&D	Research and Development	Metric Tonnes/ tonnes	M.T./m.t.

REDP	Rural Entrepreneurship Development Programme
RIDF	Rural Infrastructure Development Fund
REC	Rural Electrification Corporation
RFAS	Rural Financial Access Survey
RFI	Rural Finance Institution
RNBC	Residuary Non-banking Company
RNFS	Rural Non Farm Sector
RRBs	Regional Rural Banks
Rs	Rupees (Indian national rupee- currency)
RS	Regional Society
RUDSETI	Rural Development and Self-Employment Training Institutes
SALT	Sloping Agricultural Land Technologies
SAMIS	Service Area Monitoring and Information System
SAP	Service Area Plan
SACP	Special Agricultural Credit Plans
SAO	Short-term Agriculture Operation
SAS	Service Area Scheme
SBI	State Bank of India
SCARDB	State Co-operative Agriculture and Rural Development Bank
SCB	State Co-operative Bank
SCC	Swarozgar Credit Card
SFAC	Small Farmers' Agri Business Consortium
SFP	State Focus Paper
SFR	State of Forest Report
SGSY	Swarnjayanti Gram Swarozgar Yojana
SHG	Self Help Group
SHPIs	Self Help Promoting Institutions
SIDBI	Small Industries Development Bank of India
SJSRY	Swarnjayanti Sahari Rojgar Yojana
SLBC	State level Bankers Committee
SME	Small & Medium Enterprises
Sq.	Square
ST	Short Term
TFR	Task Force Report
UMIST	University of Manchester Institute of Science and technology
UNDP	United Nations Development Programme
UNI	United News of India

UNOPS	United Nations office for Project services
USAID	United States Agency for International Development
USD	United States Dollar (currency)
VDCs	Village Development Committees
WCED	World Council for Environmental Development
WDR	World Development Report
WDF	Wasteland Development Fund
WTO	World Trade Organisation

## GLOSSARY

JHUM	Jhum is the local name for shifting cultivation
Crores	Indian numeric for 100,000,00. (= 100 Lakhs; 10 Million; 1 million = 10 lakh)
Lakhs	Indian numeric for 100,000.
Degree C	Degree Celsius
Fiscal year	Fiscal year is 1 <sup>st</sup> Aril to 31 <sup>st</sup> March.
Indigenous/ Tribals / locals	These have been used in a loose sense and are interchangeable. However, the term 'Tribal' is used to designate indigenous communities by the government, notified in its Schedules of relevant provisions in this regard.
Seven Sisters	All the seven states of the NER are known as such

# CHAPTER I

## INTRODUCTION

*"IF we are looking for one single action which will enable the poor to overcome their poverty, I would go for credit."* (Prof. Yunus, Grameen Bank, Bangladesh).

One of the greatest challenges, the contemporary world including India is faced with, is tackling poverty, particularly rural poverty. Historically, **'Growth' with 'equity' and 'Social Justice' have been the prime objectives of India's development strategy, 'globalisation' and market economy** notwithstanding. Therefore, any analytical framework of development leading to growth should incorporate and address livelihood issues. Some of the key elements of such framework would encompass: 1. Creation of working days; 2. Poverty reduction; 3. Well-being and capabilities of people concerned; 4. Livelihood adaptation, vulnerability and resilience; 5. Natural resource base sustainability, and 6. Building and re-invigorating institutions. For this, the cross cutting inputs would be credit, a differential treatment, safety net, organisation, skill, value addition and capacity building. In Governance, these are broken down into tangible targets of productivity, employment, diversification of economic activities, improving the delivery of goods and services. Sound as the approach may appear, it is impersonal. Increasingly, the neutrality and impersonality of public service is being seen as insensitive, apathetic, or indifferent at best and demeaning and disempowering at worst dictated by the World Banks and IMF's of the world. Voices calling for a responsive, sensitive, and bottom up approach are becoming louder. Many of these relate to the provision of credit, which has emerged as the lubricant of livelihoods and business. From the fisherwomen of Mumbai who borrows in the morning and repays in the evening to any enterprise, which needs credit for raw material and machines, the interface with a lender is universal and inevitable.

The term 'Credit' or colloquially 'loan' evokes extreme emotions. These range from the traditional view, those who see loan as the harbinger of all evil and bankruptcy to those who see it in terms of leverage which makes any business and economic activity possible. Be that as it may, it is today well accepted that in the modern economy any economic activity and planning developmental efforts by a government cannot move forward without credit.

It is but natural that the subject of credit should have many facets and dimensions. This study looks at the aspects relating to the rural credit in the North East Region (NER) of India in general and in the state of Meghalaya in particular. The NER as an area has been bedevilled by poor delivery and extension of credit. IFAD in 1995 mentioned that 'the formal banking sector is barely functional in the rural areas of the NER, with no banking culture existing either on demand or on supply side'. The flow of credit is highly unorganised and constrained due to a variety of reasons such as customary land systems, long and cumbersome procedures, poor extension and mobilisation for credit, inherent institutional weaknesses of spread, manpower, motivation and commitment. The problem relating to credit has been highlighted at almost all developmental fora. At the level of the Prime Minister and the Finance Minister in 2001 it was decided to target to bring the C: D ratio to National level in the next 3 (three) years. Many working groups and task force later, not much has changed, in particular the rural credit scenario. The credit deposit ratio in Meghalaya for instance remained below 20% for more than a decade or so prior to 2001 and improvement since then have occurred but slowly and with lopsidedness. More than 50% of the credit deployed by the banking agencies in Meghalaya is concentrated in urban areas. Further, advances have been as high as 85% to 90% in trade and transport sectors, which are also largely concentrated in urban areas. The changing trend has seen that the advances are shifting from the 'priority sector' to 'personal loans and professional services' significantly.

It is also acknowledged that rural credit flow is hampered owing to, among other reasons, the default situation of rural families. Recovery of loans has been a crucial concern for the lending operations of the bank for better recycling of funds. The total recovery position of the banks in Meghalaya is one of the lowest, and earlier stood at an aggregate figure of just 30% (recent trend show some increase to 50%). The sticky over dues over the years has more or less choked up the credit channel and the flow of credit to the rural-based enterprises including agriculture. It is feared that the formal credit system may come to such an impasse that it may have direct bearing on the state's economy. In view of the poor recovery environment and the poor resource position coupled with debt burden of the state, improving grass root economic situation and delivery of such a facility remains a major challenge to policy making.

To understand why this is happening, it is crucial to familiarise oneself with the context and the settings of NER of India and of Meghalaya. Chapter II of the study deliberates upon these in respect of socio-economic, developmental and related aspects of the banking performance, mostly flagging the broad developmental concerns and trends and constraints relating to credit in the region and the state of Meghalaya.

In chapter III, the discourse has been enlarged to encompass the debate on development in the light of politics, banking aspects and philosophy of financial intermediation. Historical perspective of credit and policies, banking system, and the need for credit have been encapsulated in the chapter. The rural credit spectrum indicating both the informal sources and formal sources have been touched upon examining the imperatives for better credit dispensation and delivery with particular reference to Meghalaya. The current position of cooperative credit delivery system and the key recommendations for its revival by Prof. Vaidyanathan Committee are also highlighted. In the chapter, interactions of informal and formal system through the institutions of NBFC, MFIs, micro-credit groups such as SHGs and micro-entrepreneurship have also been discussed for general appreciation of the issues in brief. Alternative credit arrangements including micro-credit models, attuned to livelihood financing is becoming a dire necessity. Since each of these also has cost implications, the cost and price of delivery of services by various formal sources are also mentioned in brief.

In Chapter IV, the credit dispensation scenario in Meghalaya has been focused for examination and discussion at some length. The chapter examines the banking and formal credit institutions in Meghalaya in its contours along with an analysis of banking profile, growth, status of banking and credit in Meghalaya in the light of its performances in credit delivery over a decade. In particular, an analysis of the priority sector advances and advances to agriculture is revealing. The Cooperative Credit Structure in Meghalaya, the Kisan Credit Card Scheme, and Credit Support to Women are also flagged in the chapter. The ground level credit flow and its trends have been deliberated upon. Farmers' reactions in the matter have been incorporated for a better perspective. An examination and discussion in respect of overdue and the non-performing assets have also brought the banker's concerns in the matter.

Chapter V, besides mentioning the role of NABARD, RBI and various committees, profiles the other Financial Institutions in Meghalaya. Further, brief aspects of Credit Plans in the State, SLBC and other committees have also been discussed. 2005, the “International Year of Micro Credit” was a major trigger for this work. An attempt has been made to document the status of micro-credit through SHGs in the state. The position of Rural Infrastructure Development Fund (RIDF) in Meghalaya has been briefly indicated in the chapter. Further, a glimpse of recent issues in credit related aspects and emerging trends has also been touched upon. Comments on Vaidyanathan Committee for revival of cooperative credit and the responses of this state in this regard have been mentioned to complete the picture.

Chapter VI mostly deliberates upon the suggestions, models, international experiences and the lessons which the state can learn and adopt. These touch various aspects such as reforms in the formal structure, designing of rural finance schemes, tackling the issue of land laws, changes in norms, alternative channels of credit delivery and improving the systems in general etc.

A major policy shift along with intensive efforts from all stakeholders is warranted to set right the development scenario. Chapter VI culminates with guiding principles for public action where policy and action issues have been enlisted from a larger development perspective which also applies to credit delivery aspect as these are intrinsically linked. The declining investment in potential sectors of growth and employment in the region and the state makes it necessary to delve into aspects of institutional arrangements for finances and their delivery.

There is a view that the formal financial sector, the reforms, the policy framework, institutional responses and even the response from civil society have not met the challenges posed, appropriately and adequately, in the wake of rising aspiration and disparity that emerges. This in turn has given rise to a sense of cynicism and desperation in rural vernacular space triggering a sense of urgency amongst policy and programme framers.

Being involved in the process of development in the state of Meghalaya, the non-

transparent and unnerving scenario of institutional finance gave a picture of stagnant and unresponsive involvement in a sphere which should otherwise be the most dynamic and catalytic of change. Following underlying factors formed the impetus to the present work, given the background that exists in the state:

1. absence of holistic perspective in rural development which includes arrangements for finances both from formal and informal sources;
2. the long drawn problem of inadequate and equitable investment and credit in the state;
3. the hackneyed reasons flaunted by all but not tackled effectively by many;
4. the mirage like situation enveloping, developing and perpetuating in the institutional finance in the state leading to a sense of hopelessness;
5. lack of study or documentation in respect of ground situation, lack of transparency and education in the institutional financing and absence of institutional consultations to tackle the issues affecting and afflicting the rural financing; and
6. absence of proactive actions, innovations and experimentations in management and delivery of institutional finance and rural credit with attendant lack of usage of modern tools and techniques.

The colonial regulatory and non-developmental legacy of the pre-independence era, and travails of development in the post-independence era have unleashed forces which call for innovative and pragmatic solutions in developmental-administration in the state and the region. Working out an effective and actionable framework of delivery of credit and other financial services remains a challenge. This study explores some of the key issues that emerge in the context of Meghalaya and there are others which remain for elaboration in future.

Involvement with institutional finance and development sectors in the state provides a great learning opportunity and experience. The present work is aimed at furthering the cause and calls of development studies in the state. It does not claim the high ground of an expert in banking, financing and economy. It is an attempt at documentation and collation of facts and figures towards facilitating an analytical understanding of credit related issues that are critical and important for development

and its study. This work is based on data available from secondary sources and insights or wisdom received as inputs while working in the field of development in the state in different capacities. The data presented reflect different time line to show the perspective on Credit related issues. Some inadvertent remarks may be considered as an expression of anguish, but are honestly aimed at improving the situation.

“A big push in development investment is needed with policy directions to create the conditions for greater.....investment and an “entry and inclusive strategy”. (UN, 2005).

“We can remove poverty from the surface of the earth only if we can redesign our institutions - like the banking institutions, and other institutions; if we redesign our policies, if we look back on our concepts, so that we have a different idea of poor people.”

Prof. Yunus.

