

Functioning of the long term Co-operative credit Institution with special reference to Kamrup and Nalbari districts of Assam

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ABSTRACT

Amongst the various types of co-operative societies, the credit societies are playing an important role in financing the rural credit to agriculture and allied activities since 1920. Amongst them the State Co- operative Agriculture and Rural Development Banks are long term credit unit India, which are in both federal and unit structure. In this paper a detailed analysis of the “**Assam State Co- operative Agriculture and Rural Development Banks**” (ASCARDB) has been made with a view to assess the role and impact of such long term credit providing institution upon a few members of borrowers located in Kamrup and Nalbari, the two districts of Assam. Previously it was known as “**Land Mortgage Bank**” and later it has changed it’s nomenclature.

After assembling the data gathered by primary and secondary sources, the paper finds that the “ASCARDB” is able to generate income and employment to some extent at the earlier period yet it is not so satisfactory. The long term finance in Assam is now amidst of various problems including operational, organizational, technical and managerial.

Keywords :- mortgage, nomenclature, assembling, generate, gather, amidst, federal, unit

Introduction Commercialisation of agriculture creates a healthy atmosphere for successful working of the credit institution as the demand for various term credit has been increasing gradually. The State Co-

operative Agriculture and Rural Development Bank is one of the institutional term lending unit of India, diverted from the original Land Mortgage Bank.

A distinguishing characteristic of rural credit markets in India, as in other developing countries, is the co-existence of two distinct sections of credit ; the formal sector which comprises of commercial banks, co-operative credit societies and other financial institutions on the one hand, and the informal sector, which includes a wide variety of lenders in the village on the other. Transactions in the formal sector are rule based and regulated to some degree by the state as compared to transactions in the informal sector that are of a personalised nature and not regulated.

A striking feature of our rural society was the exclusion of large sections of population, particularly agricultural labourer, artisans, and poor peasants the in network of formal credit institutions. Data from different rounds of the rural Labour enquiry are very revealing in respect of the extent to which agricultural labourer were left out of the modern banking system (Ramachandran, 1990).

But after the concept of multiagency approach these formal credit institutions have been providing term wise credit to the borrowers of the rural people of India according to their different purposes.

In the state Assam this co-operative Bank is named as "**The Assam Co-operative Agriculture and Rural Development Bank**" (ASCARDB), which provides long term loan. In the beginning the increased flow of long term institutional credit enabled the farmers and non- farmers to generate income and create employment opportunities. In recent years, the rate of growth of agriculture and rural finance by this –term lending institutions are clogging due to mounting overdue and the process of credit recycling becomes the most formidable problem facing by the Co-operatives as well as the commercial banks in Assam.

Therefore, this paper is an attempt to abstract a common picture of the term (long) lending channel to the rural needy farmers and non-farmers in Assam.

The management problem of the small farmers pertains to adequate supply of credit, yield, increasing input and easy access of extension services, research institutions etc. with the growth of population and slow pace of development of the secondary sector. There has been very little

diversifications of employment opportunities for the rural people. (A. K. Agrawal, Agricultural Systems and Problems, 1996)

In order to meet the objectives of the study, the data of Kamrup and Nalbari, two districts of Assam have been used to trace the real trend and also the effects of this long term credit -- what can be termed as declining trend of long term rural finance in Assam..

Objectives of the study :

The limited objectives of the paper are—

- 1) to examine the effect of long term finance upon the rural beneficiaries.
- 2) to investigate into the main reasons of declining the flow of long term rural finance for several years.

The Data and Methodology :

Information was collected from two districts of Assam through primary survey and also from secondary sources. The information used in this paper is based on the primary data collected from 300 rural households from two districts, Kamrup (rural) and Nalbari. Detailed record of personal characteristics and the data about the impact of long term agricultural and rural finance upon them were collected for a period of 12 years gap for farm loan beneficiaries and 5 years gap for non-farm loan beneficiaries from the loan disbursement year. In 2008-2009 , a socio economic survey of 300 households were undertaken by the author from a large number of villages located in the above mentioned two districts. From each of the villages 30 sample households were selected on the basis of operational holdings and purposes of loan taken from the bank such as by landless farmers, marginal farmers/small farmers, medium and big farmers, rural artisans, self employment, small and cottage industrialist, retail traders and others were selected randomly from each group to canvass information on several socio-economic characteristics of borrowers.

In both of the selected districts agriculture is playing still an important role in absorbing the unemployed persons and contributes a good amount of income towards state income. Except having a small numbers of major industrial unit in Nalbari district and large numbers of heavy industrial unit in Kamrup district, the allied agricultural activities, small and cottage industries are also playing significant

role here. This paper discusses the trends of credit flow of ASCARDB during the period of 1987 to 1997also.

The impact of loan have been measured by the changing structure of income d and employment before and after the loan period. The real income of the borrowers has been calculated by deflating the nominal income using the following formula:-

$$\text{Real Income} = \frac{\text{Money Income}}{\text{Price Index for the year}} \times 100$$

Increment of employment position has been accounted by assuming one

Man days equal eight (8) hours per day

Analysis of the study :

In Assam the State Co-operative Agriculture and Rural Development Bank Ltd (ASCARDB Ltd) which provides long term loan assistance to landless farmers, marginal farmers/small farmers, medium and big farmers, rural artisans, self employment, small and cottage industrialist, retail traders and others. To improve their economic condition, this bank was established originally as early as in 1955 and renamed as ASCARD bank in 1987, provided long term loans only for the purposes of land related objectives such as purchasing of land, leveling, bunding,, improvement of land etc. But the bank has changed it's functional coverage since 1987. Since then the name and culture of this long term credit unit of Assam

has been changed and has been providing a large amount of credit to the non- farm borrowers also.

Assessment to formal credit :-

To examine the role of long term formal credit distributed to various categories of borrowers, the secondary data of yearly amount of loans have been collected and shown in Table -1.

The evidence shows that the distribution of formal credit has been gradually declining from the year after 1995 onwards. In addition detailed information was collected on credit variables including the data, source, amount and purpose of borrowing, the interest rate, and collaterals on each loan, the total amount borrowed, repaid and outstanding .

It has been clearly evident from Table-1 that there has been a continuous increase in the volume of credit provided by ASCARDB, the long term financial institution to the rural sector from the year of inception to the year 1995. But the bank lending started declining from 1995 to 1999 and thereafter up to 2001 there was no credit disbursement . In 2002 and 2004 a negligible amount of loan was disbursed to the borrowers. Due to non recovery of funds the bank has stopped its lending activities at present and waiting for better survival in future through Government support.

The purpose wise distribution of borrowers has been depicted in Table-2. The table relates to the survey period of 2008-09 of 300 beneficiaries.

Table – 1

Purpose wise total amount of loan of the Borrowers from the year 1987 –97 (Amount in Rupees)

Purpose wise amount of loan	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	Total amount of loan
1. Agricultural Investment	140,000	180700	615493	579000	382000	325000	616650	650500	5,00,000	2,00,000	10413036.00
2. Allied Agricultural activities	43,000	50,000	30,000	1,50,000	3,25,800	5,95,000	60,000	2,51,000	3,00,000	5,00,000	2,25,000	25,29,800.00
3. Rural artisans village/ cottage industries	1,23,695	1,15,493	12,000	50,000	60,000	40,000	30,000	60,000	5,00,000	60,000		10,21,488.00
4. Retail trade, small business, selfemployed etc.	30,000	70,000	60,000	4,00,000	7,81,950	39,000	2,15,500	3,00,000	3,00,000	2,00,000	50,000	10,38,5950.00
5. Other purpose				4,000				5,000	15,000	28,000		52,000.00
6. Bridge loans								20000000	20000000	900000		4,09,00,000
Total amount of loans	336695	396283	7174931	1179000	1549750	999000	922150	21266500	1615000	1888000	275000	653,02,674.00

Source : Annual report of ASCARDB from 1987 – 1997

TABLE-2**PURPOSEWISE CLASSIFICATION OF BORROWERS (2008-09)****PURPOSE OF LOAN**

Categories of Borrowers	Agricultural & allied agricultural activities	Small scale industries	Retail trade & business	Others	Total
1	2	3	4	5	6
1. Landless farmers	7 (87.5)	1 (12.5)			8
2. Small & marginal farmers	79(73.15)	21(19.44)	8(7.40)		108
3. Medium & big farmers	20 (70.04)		7(25.93)		27
4. Rural artisans	1 (25)	3 (75)			4
5. self employment	57 (48.71)	46(39.13)	7 (3.98)	7 (5.98)	117
6. Small/cottage industrialist	4 (14.29)	24(85.71)			28
7. Retail traders	7 (87.5)	1 (12.5)			8
8. Others					
Total	175(58.33)	96(32.00)	15 (5.00)	14(4.67))	300

Source: Compiled from personal investigation

Note : The figures in the brackets indicates the percentage share in the total of rows..

It is evident from Table-2 that agriculture and allied activities accounted for more than 58 percent of the total loan disbursed followed by small scale industries (32 percent), and retail trade and business only 15 percent. It seems that the ASCARD bank put more emphasis on priority sector lending, which is very much essential for sustaining the levels of living of the farming communities.

Effects of loan

Out of total branches of ASCARD Bank 4 (four) branches named as (Primary Co-operative Agriculture and Rural Development Bank) have been established in two surveyed Kamrup and Nalbari district. Although socio-economic structure of the two districts are different yet the main aim of them is to uplift the standard of living of rural masses through rural finance. Both the districts have various credit institutions except the long term co-operative credit institutions. They provide term loan which are short and medium to both the industrial and agricultural sector, but not the long term agricultural rural development credit to the beneficiaries. It is clear that the main aim of establishment of rural credit agency is to raise the average annual income and create employment opportunities among the rural downtrodden classes. Therefore, in our study an attempt has also been made to assess the effect of credit on the sample beneficiaries in terms of income.

Table-3 has been used to highlight the income benefits derived by the sample beneficiaries between 1994-95 and 2008-09.

Table-3

Average Annual Income of the Borrowers in Pre Loan (1994-95) period and Post-Loan period (2008-09) (Rs. in thousand)

Sl. No.	Categories of Borrowers	Pre loan Income	Post loan Income	Deflated income in post loan period	Net increase in real Income	% increase in net deflated Income	Total no. of. Borrowers
1	2	3	4	5	6	7	8
1	Landless Farmers	12,808	16,820	14,930	1890	14.8	8

2	Small and Marginal Farmers	14,901	18,808	16,694	2114	14.2	108
3	Medium/ Big Framers	16,575	20,505	18,200	2305	13.9	27
4	Rural Artisans	13,676	22,750	20,194	2556	18.69	4
5	Self Employment	12,109	22,850	20,282	2568	21.21	117
6	Small and Cottage Industrialist	14,705	20,860	18,515	2345	15.95	28
7	Retail Traders	10,720	15,675	13,915	1760	16.42	8
8	Others	-	-	-	-	-	-
	Total	95,494	1,38,268	1,22,730	15,538	16.45	300

Source : *Compiled from personal investigation.*

Note : The figures in the brackets indicate percentage share in total of rows.

Table-3 clearly shows that there had been a significant increase of income of borrowers in the post loan period as compared to that of pre loan period.

Adequate loan in time by institutional sources is not only fruitful in the field of generating income but also it has a positive impact on the generation of employment opportunities to the beneficiaries with the help of bank finance in the farm and non-farm sector. Through bank finance the small and marginal farmers had been able to acquire some farm assets and purchase seeds, fertilisers, insecticides to intensify and diversify their operation. Thus the bank has been instrumental to stimulating farm income and diversify the farmers operation. Apart from generating income the bank also provided supplementary employments

scope in the activities such as maintenance of milky cows, poultry farm, pisciculture and horticulture etc. Through term credit the agricultural labourers are getting a reasonable employment of their own in

subsiding occupation. Again from the study, it is ascertained that long term institutional credit also helped the rural artisans, small traders, small businessman to a great extent in increasing their skilled work and expansion of their business to make them viable and more profitable. These type of profession and business help for self employment of the borrowers and also at the same time provide additional employment. "In fact the non-farm activities form a critical source of employment and income for the vast number of marginal farmers and the landless " (S.T. Bagalkoti, 1996)

The employment status of the borrowers between pre loan and post loan period has been shown in Table-4

TABLE-4

**Employment position of the sample borrowers in the
pre loan (1994-95)and post loan period(2008-09)**

Sl.No.	Average Annual Employment in Man Days (per Borrowing Amount)				
		Pre-loan period	Post loan period	Income in Annual Man day	% increase in man days
	1	2	3	4	5
1	Landless Farmers	416.7	582.7	166	39.8
2	Small and Marginal Farmers	410.7	520.3	109.6	26.5
3	Medium/BIG Farmers	426.5	711.0	284.5	66.70
4	Rural Artisans	422.8	586.0	163.2	38.60
5	Self Employment	422.3	690.6	268.3	63.53
6	Small and Cottage Industrialist	419.8	632.0	212.2	50.54
7	Retail Traders	418.	601.0	183.0	43.78

8	Others	-	-	-	-
	Total	2963.8	4323.6	1386.8	329.25

Source : *Compiled from personal investigation.*

Note : One man day means 8 hours of work per day.

Table -4 shows that the additional employment has been generated in case of majority of borrowers in the post loan period.

Problems of ASCARD Bank

Like the short time co-operative credit structure the long term institution is also facing some problems and which hinder the growth of co-operative credit. The most important and critical problem is the high level of overdue. "Production uncertainty is a very important factor contributing to the need for risk-bearing ability in case of credit and thereby repayment" (Nelson and Murray, 1968). The percentage of overdue to the annual demand of the long term financial institution has been increasing. The most serious problem of this state level long term financial institution of agricultural and allied activities is the rising overdue. From the survey a conclusion can be made that various rural credit institutions have failed to inculcate the habit of regular repayment of loans amongst the beneficiaries.

The loan recovery of SCARDB of India remained static at 41% as on 30'th June, 2010. Total overdue of SCARDB increased to Rs. 5741 crores as on 30'th June 2010 from Rs. 5695 crores as on 30'th June 2009 and constituted 34% of the total loan outstanding at SCARDB's level.

(<http://nabard.co.in>)

The recovery position of ASCARDB is also found to be less satisfactory and it is evident from table-5 , that the aggregate volume of overdue of the bank has been increasing year by year from the year 1995 to 2010-11. Due to poor realisation of unsecured loan under various loan schemes and unapplied

interest, penal interest continuously on all chronic overdue loans irrespective of realisability in the past is the main cause of mounting overdue.

Table – 5

Statement showing year wise DCB position of ASCARD Bank from 1995 to 2011

(Rs. in Lakhs)

Year	Demand	Collection	Balance	% of collection	% of overdues
1995-96	615.93	112.98	502.95	18.34	81.66
1996-97	723.74	114.10	609.64	15.76	84.24
1997-98	844.33	152.46	732.27	18.06	81.94
1998-99	974.38	136.35	838.03	13.99	86.01
1999-2000	887.50	306.68	580.82	34.56	65.44
2000-01	914.06	110.83	803.23	12.13	87.87
2001-02	910.15	95.00	815.15	10.44	89.56
2002-03	941.91	105.83	836.08	11.24	88.76
2003-04	887.16	84.13	783.03	9.70	90.30
2004-05	1664.46	201.49	146..97	12.11	87.89
2005-06	2122.24	160.28	1961.96	7.55	92.45
2006-07	250.01	135.46	114.55	54.18	45.82
2007-08	393.19	294.64	98.55	74.94	25.06
2008-09	340.73	105.36	235.37	30.92	69.08
2009-10	366.67	134.19	232.48	36.60	63.40
2010-11	435.47	30.51	403.96	7.02	92.98

Source- Compiled from personal investigation

The Table-5 also reveals that the percentage of overdue of ASCARD bank has increased to 92.98% in 2010-11 from 81.66% in 1995-96. As the table-5 shows that the percentage of collection

always and always lower than the percentage of balance advances. The percentage of overdue is highest in the year of 2005-06 which was 92.45 percent .

CONCLUSION :- Although based on the study of only two district in Assam, this paper provides some interesting insights into the nature of changes in rural long term finance in the context of an expansion in rural banking. It is clear and certain that there is still a feeling in some quarters, that rural credit is risky and leads to higher Non Performing Assets. The overall recovery position of the bank is found extremely unsatisfactory .. The branches and the small rural units will have to be fully empowered to decide on their loan products and loanee. They may also have to be given the power to price of their products.

The most impressive findings perhaps, is the fact that the average absolute income and employment generation of the loanees are remarkable inspite of having some problem. Therefore, this study has addressed itself to the question for economic viability of this bank for the future. Thus there is a strong case of government support for proper regulation and making of policy, because large section of rural population consisting of small/marginal farmers, rural artisans and agricultural labourers is in the grip of poverty till today in India. Thus this paper is an investigation of the role and effects of the long term rural finance based on the data of relatively two advanced districts in Assam.

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