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RESEARCH PAPER

Institutional finance for rural development of north east India : Strength and prospects

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ABSTRACT

The need for institutional finance arises because of the weaknesses or inadequacy and defective nature of private fiancé. Private finance is based on profit motive; it is expensive and not related to the productivity of land and does not flow into the desired channels. It does not make agricultural improvements as funds are not available for long periods at low rates of interest. It is not properly integrated with the needs of the agriculturists. On the other hand, institutional finance is not exploitative and the basic motive is always to help the farmer to raise his productivity and maximize his income. Institutions also make a clear distinction between short-term credit and long-term credit requirements and give loans accordingly. Also, institutional credit is fully integrated with other needs of the agriculturist. In all the developed countries, credit services and extension services go hand in hand. This work can be done best by institutions like co-operative societies, commercial banks and other financial institutions and not by rapacious money lenders and commission agents. Faced with the serious problem of deteriorating agricultural production and the rapacious money lenders, the Govt. of India evolved a multi-agency approach in rural finance. Over the years, although there is a massive expansion of financial infrastructure including agricultural financing in the country, the pace of development in the Northeastern India is however, not up to the mark. Although a few studies on the macro aspects of rural credit have been undertaken, yet the specific studies highlight the status of rural-finance in the Northeastern India are lacking. The present paper is a small attempt in this direction to highlight the existing situation of institutional finance and its need and prospects for the development of the rural north eastern region of India.

KEY WORDS : Institutional finance, Rural development, Infrastructure

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Rural development has been defined by the World Bank in its sector policy paper as "the strategy designed to improve the economic and social life of a specific group of people, *i.e.,* the rural people. It involves extending the benefit of development to the poorest among those who seek a livelihood in the rural areas. The group includes small farmers, tenants and the landless". It is necessary to make the provisions of improved food supplies and nutrition, together with basic services such as health and education, which contributes not only to physical well-being of the rural people but also to a rise in their productivity and their capacity to contribute to the national economy. The rural development programmes in India got started in 1952 in the form of Community Development Programme. Increasing efforts have been made in the successive five year plans at improving the rural economy. Specifically speaking, India has launched a large number of programmes of rural development with schemes being designed and redesigned to make these programmes contribute effectively to eliminate rural poverty and unemployment. However, various studies showed that these programmes have not brought about any significant improvement in the living conditions of the rural poor in the

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country. A large proportion of the people in the northeastern India still live in rural and hilly areas, whose main occupation and means of livelihood is agriculture and forest produce. The soil and climatic conditions are favorable for cultivation of a variety of field crops and horticultural crops. Rich natural resources including rare species of flora and fauna, numerous seasonal vegetables, tropical and subtropical fruits and flowers are available in abundance in the region, which generate vast export potential for valuable foreign exchange and the source of capital formation.

Institutional finance refers to the credit/loans provided by financial Institutions and Government. Broadly there are two sources of credit availability to rural people – institutional and non-institutional. Non-institutional or private sources include money lenders, traders and commission agents, relatives and landlords and the institutional sources consist of the govt. and co-operatives, commercial banks including the Regional Rural Banks. Institutional agencies provide short, medium and long-term credit to rural people. Non-institutional accounted for 93% of the total credit requirements in 1951-52 and institutional sources including the govt. accounted for only 7% of the total credit needs in that year. The All India Debt and Investment Survey (1981) estimated that the share of non-institutional sources had further slumped to about 37% in 1981, money lenders accounting for barely 16%; the share of institutional credit had jumped to 63% – Co-operatives contributing 30% and Commercial banks about 29%. The Govt. and RBI has shown keen interest in strengthening and expanding co-operatives and commercial banks to meet the growing demand for agricultural credit.

At the beginning of the 20th century there was nothing like rural banking for the villagers. In the absence of institutional credit agencies, the rural economy was bedeviled by a number of unscrupulous agencies including the proverbial money lenders. The availability of banking and credit facilities is an essential input for the economic prosperity of the rural masses and the subsequent elimination of money lenders. Efforts to build up the institutional credit system for agriculture commenced with the adoption of Co-operative Societies Act in 1904 to institutionalize credit channels, since the system of loans advanced by the government under *Taccavi*, was a failure for a number of reasons. In view of the limitations of the co-operatives and considering the large and growing gap in meeting the credit needs of developing agriculture and allied activities, the government encouraged commercial banks to provide more and more credit to agriculture and allied sectors. The nationalization of 14 Commercial banks in 1969 and 6 in 1980 was regarded as a watershed in this direction and also the setting up of the Regional Rural Banks in 1975. Since independence, a number of institutions have been set up to provide credit to the rural poor to achieve the main objective of our national credit policy, *viz.*, ‘development through credit’. The role of banking institutions in rural development has undergone significant changes since the nationalization of major commercial banks and the introduction of the Lead Bank Scheme. The institutional agencies have now become a powerful instrument for economic development and they undertake the commendable task of providing credit to rural masses for agriculture, and allied activities, rural industries and the tertiary sector. In the north-east India, Commercial Banks, Regional Rural Banks and Cooperative Banks are the three prominent institutional agencies providing financial assistance for agriculture and rural development. Over the years, although there is a massive expansion of financial infrastructure including agricultural financing in the country, the pace of development in the Northeastern India is however, not up to the mark. Although a few studies on the macro aspects of rural credit have been undertaken, yet the specific studies highlight the status of rural-finance in the Northeastern India are lacking. The present paper is a small attempt in this direction to highlight the existing situation of institutional finance and its need for the development of the rural north eastern region of India.

METHODOLOGY

The study is based on empirical approach. In order to achieve the objectives; information has been collected mainly from secondary sources. The secondary data have been collected from the various periodicals, journals, reports of NABARD and RBI, gazetteers published by the Department of Finance of Central Government. The useful primary information was collected from Experts, Economists, Banks and other Financial Institutions, NGOs and other organizations related to SHGs, etc. Data so collected were analyzed and interpreted theoretically to draw the inferences.

ANALYSIS AND DISCUSSION

The results of the present study alongwith relevant discussion have been presented as under :

Existing situation of institutional finance in NER :

The need for institutional finance arises because of the weaknesses or inadequacy and defective nature of private fiancé. Private finance is based on profit motive; it is expensive and not related to the productivity of land and does not flow into the desired channels. It does not make agricultural improvements as funds are not available for long periods at low rates of interest. It is not properly integrated with the needs of the agriculturists. On the other hand, institutional finance is not exploitative and the basic motive is always to help the farmer to raise his productivity and maximize his income. Institutions also make a clear distinction between short-term credit and long-term credit requirements and give loans accordingly. Also, institutional credit is fully integrated with other needs of the agriculturist. In all the developed countries, credit services and extension services go hand in hand. This work can be done best by institutions like co-operative societies, commercial banks and other financial institutions and not by rapacious money lenders and commission agents. Faced with the serious problem of deteriorating agricultural production and the rapacious money lenders, the Govt. of India evolved a multi-agency approach in rural finance.

Among the factors responsible for the economic development and poverty alleviation, the role of financial institutions, which supply credit for production of goods and services, and in turn, raise the income and standard of living of the people, is considered significant. Financial institutions, by financing the developmental activities, help in promoting a balanced, equitable and self-reliant pattern of development in all the regions. The demand for credit has been increasing continuously over the years in the rural north-eastern region of India because of its geographic and other socio-economic and natural constraints. Adequate and timely availability of credit has become sine-qua-non in the strategy of economic development in general and agricultural and rural development in particular.

The economic status of the people of North-East India (NER) is not so high. As mentioned above agriculture and its related activities are the main source of livelihood. The per capita income (PCI NSDP) of some of the state of NER is more than the national average in both constant and current prices but the rate of savings and capital formation in the region is low because of inconsistent and nature depended agriculture. Besides almost all basic and necessities of the people are imported from another region of the country which has in tern made the region as the high cost zone. Except Arunachal Pradesh, in other states in NER; the per capita NSDP both in current and constant prices is far below the national average. Manipur and Assam among the north eastern states have the lowest per capita in comparison to the other states of the region. Table 1 shows the state-wise per-capita income at constant as well as current prices from 2004-05 to2011-12.

Financing economic activities are a natural need of the rural economy in NER as well. Availability of banking and credit facilities is an essential requisite for the economic development of rural masses. Credit is one strategic input for the successful implementation of rural development programmes. Rural credit is important in any effort at eliminating rural poverty in NER and providing employment opportunities. The fact that the eradication of rural poverty depends largely on the availability of credit cannot be overemphasized. Agriculturist, rural artisans, self-employed persons and retail traders are heavily dependent on additional monetary resources for raising their income levels. Hence, credit plays a pivotal role in the development of rural sector. Traditionally rural India is a capital – starved. Only a meagre proportion of the rural people have surplus funds to be ploughed back in their respective avocations. The fact is that the rural sector in particular and agricultural sector in general will always be in need of production credit. These sectors are incapable of accumulating sustained resource bases unlike the industrial sector. On the other hand, the rural sector has been throwing up numerous opportunities apart from agriculture necessitating a measured approach to financing. Credit plays a catalytic role in the rejuvenation of the rural economy. The rural family is undergoing a gradual transition, which is characterized by a marked departure from the earlier resource – sufficient unit to an increase market dependent unit. Moreover, the scale of both inputs applied and output obtained therein are also bigger, involving more investing and purchasing powers. Even the rural theatre agriculture is no longer the only preferred means of livelihood. A whole

Table 1 : State wise per capita net state domestic product at current prices and constant (2004-05) prices in NER, (2004-2005 to 2011-2012)
(Rupees) (As of 01-03-2012)

States	Per Capita NSDP (Current prices)								Per Capita NSDP (Constant prices)						
	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012
Arunachal Pradesh	26610	28054	30000	34352	39656	48662	55789	62213	26759	27554	30187	31971	35278	37417	38130
Assam	16782	18396	19737	21290	24099	27464	30569	33633	17050	17579	18089	18922	20193	21406	22956
Manipur	18640	20395	21419	23093	24773	27332	29684	32284	19479	19431	20106	21169	22359	23298	24327
Meghalaya	24086	26284	30952	34229	40268	45006	50427	56643	25642	27242	27764	30963	33235	35932	38944
Mizoram	24662	26698	28764	32488	38553	43467	48591	NA	25826	26308	28467	31933	34456	36732	NA
Nagaland	30441	33792	36568	39985	46207	49465	52643	56116	33072	35074	37317	39041	40057	40957	41522
Sikkim	26693	30256	32203	36452	46989	68731	81159	NA	29011	30296	31725	35398	44186	47655	NA
Tripura	24394	26668	29081	31111	35587	39949	44965	50750	25688	27558	29022	31711	34328	37216	40411
All India	24143	27131	31206	35825	40775	46117	53331	60972	26015	28067	30332	31754	33843	35993	38005

Source : Central Statistical Organization range of allied activities, vocations for earning a livelihood has since emerged. As a result, two things have emerged as inviolable – that employment plans should invariably include rural areas where the majority of the population of NER resides and secondly a viable credit mechanism is essential to sustain such employment strategies. For this sufficient institutional facilities are necessary for the adequate credit support in the region. Table 2 shows the distribution of banking centres according to state and population group (as at the end of March 2010 and 2011).

Therefore, developing financial and/credit institutions in the manner in which they can mobilize the savings and channelize them in production activities, is a matter of great necessity. As economic development largely depends on adequate fiancé, evolution and development of an effective banking system with an effective network of all financial institutions is a must for any economy. The process of globalization has resulted in much upheaval in the Indian financial structure and the past decade has witnessed much painful introspection over the philosophy and strategy of rural finance. Many untenable practices have been finally done away with and much needed reconciliation has been made in the process of streamlining of the financial infrastructure. Regional Rural Banks are one of the financial concepts which have been the outcome of considerable financial experience and experiments in rural finance. Evolution and development of financial institutions are a continuous process as many new institutions are coming up year after year and the old ones are being restructured from time to time. The relative position of different types of financial institutions in the Indian Financial System has undergone changes over the year. Although the banking system remains the largest sector of the Indian Financial System even now, the significant and rapid growth of other financial institutions in the past many years has meant that they also have now become an important part of the Indian Financial System.

The efficiency and performance of a financial institution can be judged by the credit deposit ratio, where the highest is usually preferred. The analysis shows that the credit deposit ratio for the NE India is only 34.42 per cent, which is the lowest in the country (being about 72.70 %). The southern region has highest C-D ratio *i.e.*, 92.25 per cent in India. The lower C.D. Ratio in the N.E. India (about half the national average) implies draining out of the financial resources from this region. This indicates that the business interest of the bank was met at the cost of the public interest, which needs to be seriously looked into. Among the northeastern states, the C.D ratio is the highest in Mizoram (47.40 %) and the

Table 2 : Distribution of banking centres according to state and population group (as at the end of March 2010 and 2011)

States	Rural		Semi-urban		Urban		Metropolitan		All centers	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Arunachal Pradesh	48	48	10	10	0	0	0	0	58	58
Assam	701	705	67	67	5	5	0	0	773	777
Manipur	33	34	12	12	2	2	0	0	47	48
Meghalaya	117	117	13	13	2	2	0	0	132	132
Mizoram	53	53	8	8	1	1	0	0	62	62
Nagaland	35	34	11	12	0	0	0	0	46	46
Tripura	106	107	24	24	1	1	0	0	131	132
Sikkim	33	34	1	1	0	0	0	0	34	35
All India	28461	28980	5882	5952	386	387	34	34	34763	35353

Source : Reserve Bank of India (01 June 2012)

Table 3 : State/population group-wise credit-deposit (CD) ratio of all scheduled commercial Banks in NER, September, 2010 (per cent)

States	Rural	Semi-urban	Urban / Metropolitan	Total
Arunachal Pradesh	21.7	29.7	–	26.8
Assam	46.7	39.3	35.3	38.5
Manipur	76.2	58.1	34.4	44.1
Meghalaya	29.2	23.0	22.8	24.3
Mizoram	52.7	85.8	37.1	47.4
Nagaland	65.3	27.1	–	30.2
Tripura	36.6	34.8	22.1	28.5
Sikkim	51.7	35.0	–	39.6
India	59.4	51.5	79.2	73.6

Source : NEDFI DATA BANK

lowest in Meghalaya (24.3 %) during this period. Manipur has the second highest C.D. ratio *i.e.*, 44.1 per cent followed by Sikkim 39.6 per cent and Assam 38.5 per cent. It is seen that the mobilized financial resources was not ploughed back within the region for its all-round economic development, causing low capital formation. Table 3 shows the State/ population group-wise Credit-Deposit (CD) ratio of all Scheduled Commercial Banks in NER, September, 2010.

The State wise outstanding credit of scheduled commercial banks according to place of sanction and utilization reveals that in Assam highest amount of credit (213769.8 million) was sanctioned till March 2011 followed by Tripura and Meghalaya. But Assam is the state from where maximum credit was sanctioned in the state but utilized in the other states in comparison to other states of the region. Table 4 shows the State-wise outstanding credit of scheduled commercial banks according to place of sanction and utilization.

The Kishan Credit Card (KCC) scheme was introduced in 1998-99 to cater adequate, timely, cost effective and hassle free credit support to the farmers from the formal banking system. At the end of March 2011, in India total of 10169 thousand cards issued to farmers and through which total of 72625 crores of rupees was sanctioned as credit to the farmers. But the data available towards the NER of India were not satisfactory at all. In NER, a total of 133 thousand of credit cards was issued toll March 2011 and total amount sanctioned was only 529crores. Among the NER states, Assam is a main beneficiary having the highest number of cards *i.e.*, 117 thousand and total fund sanctioned was 451 crores to the farmers at the end of March 2011. Table 5 shows the status of Kishan credit cards (state wise) in the NER states.

In case of direct finance by commercial banks, the relative share of the total short-term direct finance during 1984-89 and 1996 across farm sizes revealed that up to 1989, the share of marginal, small and medium appeared to be more or less similar in NE India as well as the country as a whole. However, in the recent years, it was observed that the share of medium/large farms has increased than that of other groups in all the regions indicating bias in favour of higher farm sizes. This is an

Table 4 : State-wise outstanding credit of scheduled Commercial Banks according to place of sanction and utilisation March 2011 (Amount in Millions)

States	Total credit sanctioned in the State	Credit utilised in the state of sanction	Credit sanctioned in the state but utilised in other states	Credit utilised in the state but sanctioned in other states	Total credit utilised in the state	Credit-deposit ratio	
						As per sanction (per cent)	As per utilisation (per cent)
Arunachal Pradesh	12310.9	12304.4	6.4	1937.9	14242.3	23.7	27.4
Assam	213769.8	208232.2	5537.6	19168.1	227400.3	36.5	38.9
Manipur	11710.2	11650.2	60.0	669.6	12319.8	34.8	36.6
Meghalaya	23369.5	23057.9	311.6	5280.6	28338.4	24.4	29.6
Mizoram	11738.8	11738.5	0.3	958.0	12696.5	46.0	49.8
Nagaland	13585.2	13584.0	1.2	727.8	14311.7	26.1	27.5
Tripura	27550.5	27505.0	45.5	907.5	28412.5	32.2	33.2
Sikkim	12463.7	12049.4	414.4	8479.6	20528.9	37.9	62.4
All India	40756470.0				40756470.0	75.6	75.6

Source : Reserve Bank of India (01 June 2012)

Table 5 : Status of Kisan credit card (State-wise) As at end of March 2011 (Amount in crores and numbers in thousands)

State	Cooperative banks		Regional rural banks		Commercial banks		Total	
	Card issued	Amount sanctioned	Card issued	Amount sanctioned	Card issued	Amount sanctioned	Card issued	Amount sanctioned
Arunachal Pradesh*	0	0	0	0	2	10	2	10
Assam	0	0	38	168	79	282	117	451
Manipur*	0	0	0	0	2	11	2	11
Meghalaya*	0	0	0	0	4	22	4	22
Mizoram*	0	0	0	2	4	13	4	15
Nagaland*	1	1	0	0	3	8	3	9
Sikkim*	0	0	0	0	1	11	1	11
NER	1	1	38	168	95	357	133	529
INDIA	2812	10719	1774	11468	5582	50438	10169	72625

*State Cooperative Bank (StCB) functions as Central Financing Agencies
Source : RBI Reports on Trends and Progress in Banking in India 2010-11

unhealthy sign of direct financing of short-term loan, especially in a situation where the marginal and small farmers dominate the agricultural sector. The incidence of scale bias in short-term direct financing towards the large farm of the northeastern India in recent years needs to be thoroughly looked into. The Commercial Banks need to provide both direct and indirect finance to farmers and rural entrepreneurs.

The problem of rural development in India is multi-dimensional and complex in character. The solution to economic development lies in the removal of object poverty and ignorance which are widely prevalent in the country. Rural development covers, besides agriculture development in general, a comprehensive set of activities pertaining to all aspects of the rural economy. There are other sectors in the rural scene such as infrastructure development, cottage and small scale industries and development of tertiary sector which play an important role in the overall economic development.

The most conspicuous feature of the Indian economy is that hundreds of millions of people live in conditions of appalling deprivation – in condition of hunger, ill-health, homelessness, illiteracy – and are subject to different forms of class, caste and gender oppressions. India has more than 17% of the world's population, stands second only to China in this respect. The population which at the turn of the 20th century was around 232.9 million increased to reach 1210.2 million in 2011. India accounts for a meagre 2.42 per cent of the world surface area out of 329 million hectares; but it supports more than 17.0 per cent of the population. It is estimated that at the present rate of growth (17.64 % during 2001-2011) India will overtake China by 2050. In India nearly 68.8 per cent of Indian population lives in rural areas and about 18.0 per cent of country's national income was derived from agriculture in 2010-2011. According to World Development Report, 59 per cent of the male and 74 per cent of female labour in India still depend on agriculture whereas in highly developed countries the percentages are only 5 to 4, respectively. The poor in rural India own little or no property in hand hence no economic power. The major asset the poor possess is their labour power. India has a large stock of the labour force. The unemployment situation has worsened over a period of time. The total unemployed is estimated at 28.1 million persons in 2009-2010. Of this, rural unemployed was 20.9 million and urban unemployed was 7.2 million.

Indian villages are still lacking in basic facilities of life and are synonymous with underdeveloped, poor health, illiteracy, high incidence of communicable diseases, preponderance of agriculture, low level of productivity, scarcity of skilled manpower, etc. There are also wide disparities of incomes. The situation in respect of interpersonal and inter-regional inequalities are no less alarming. In a developing country like India, where wealth and poverty exist side by side, a small majority enjoys excessive riches while the vast majority has only the barest necessities of life and sometimes not even that. According to FAO, the number of hungry people in India increased by 19 million between 1997 and 2001. Nearly half the children are economically malnourished. Since its inception on 14th March 1950, the Planning Commission has given to the nation twelve Five Year Plans and six Annual Plans. The sole aim of all these plans was not only to allocate resources, but only to germinate the seeds of change for economic growth and simultaneously equitable distribution of income as well as to achieve progress and prosperity in all spheres of life. Removal of poverty, hunger, ill health and dichotomies are still the relevant issues for socio-economic planning in India.

According to the official estimates 29.8 (Planning Commission, Press Note March 2012, Press Note of Poverty Estimates) per cent of India's population was living below the poverty line (BPL) in 2009-10. These estimates showed that the head count ratio of poverty was 33.8 per cent in the rural sector and 20.9 per cent in the urban sector. If international comparisons of poverty are considered, the available estimates show that India has the highest poverty rate amongst major countries. The Capability Poverty Measures (CPM) index (a new index introduced by the UNDP in 1996), has ranked India at 89 amongst 101 developing countries and it has estimated that 61.5 per cent of the India's population does not have access to the three basic capabilities- capability to be healthy and nourished, capability for healthy reproduction and the capability to be educated and knowledgeable. In fact, poverty is one of the perennial problems facing the country. Of late it has been acknowledged by social scientists and others that poverty has now become the biggest bottleneck to national development. In the NER of India the situation of poverty is not indifferent to national level. Some of the NER states are badly suffering from the problem of poverty and unemployment. The estimates of the head count ratio of poverty were highest in Manipur (47.1 %) followed by Assam (37.9 %), Arunachal Pradesh (25.9 %), Mizoram (21.1 %), Nagaland (20.9 %), Tripura (17.4 %), Meghalaya (17.1 %) and Sikkim (13.1 %).

Finance, mainly rural finance plays a very important role in the economic development of a country mainly rural economy where a large proportion of the population resides. It is the most important input for any developmental activity. It is, in fact, the backbone of the national economy, which leverages all the economic activities and help in the growth and development of the nation, be it the industrial sector or rural sector. Finance influences the level of national income, employment, standard of living and social welfare. Financial development affects economic development. Finance and economic development have a direct relationship. The importance of finance in development depends upon the desired nature of development. The production function is the link between finance and economic development. Men, material and money are crucial inputs in production activities, but the human capital and physical capital can be bought and developed with money only. Therefore, money, credit and finance are the lifeblood of the economic system. Given the real resource and suitable attitudes, a well–developed financial system can contribute significantly to the acceleration of economic development through three routes. First, technical progress, the important sources of which are human and physical capital; and the increase in them require higher savings and investment. Financial system helps to achieve this. Second, the financial system contributes to growth via capital formation; and Capital formation depends on timely availability of adequate finance in favourable terms – all of which can be achieved through a good financial system. Third, it also enlarges the markets over space and time; it enhances the efficiency of the function of a medium of exchange and thereby helps the economic development.

The economy of the NER is seriously handicapped due to its capital deficiency. Although this problem is nothing peculiar to this region when the whole country is suffering from a capital deficiency but this problem is having its serious proportion in this region. The problem of finance assumes serious proportions in the region both because, agriculture and small business dominate the economy and also because neither the constituent state governments or the corporate sector saves enough to meet the cost of its own investment projects. As mentioned above the volume and rate of savings in the region are very poor because of the comparatively high cost of living. Moreover, the saving potential in the region is very low due to low level of per capita income and high marginal propensity to consume. Thus, in spite of having huge development potential, the economy of this region cannot develop due to scarcity of capital. Besides a sizable section of the population in this region earning its livelihood is migratory in nature. This has resulted in a huge outflow of resources as a substantial portion of the savings of the seasonal migrants is not available for being ploughed back into the region's economy as it remitted outside. Political unrest in this region has also resulted huge amount of capital outflow from this region in recent times. Thus this huge amount of capital outflow has put heavy pressure on the financial conditions of the constituent states of this region besides making a pace of development in the region slower. The major portion of the funds sanctioned by the union government every year for the development of NER are reportedly being misused and do not reach the target group. As far as rural credit scenario in N.E. India is concerned it shows a depressing picture. The credit deposit ratio in almost all the states of North East lags far behind the national ratio, which is an alarming situation.

From the foregoing the discussion following points are identified for effective financing programmes in agriculture and rural economy and thereby ensuring agriculture and rural development in the NER.

– For development of the rural economy of NER, proper expansion of financial institution and proper institutional development should be introduced. The lowest C.D. ratio of commercial Banks having the highest growth in the northeastern states resulting draining out of huge amount of financial resources to other developed regions must be checked.
– Direct short-term finance towards higher farm size must be addressed in the context of dominance of marginal and small holding in the northeastern India.
– Agriculture should be a priority in advancing loan from financial institutions. The lowest proportion of agricultural sector advancing by leading commercial banks with respect to their aggregate advance in comparison to all financial institutions need be examined carefully Credit availability from the institutional agencies must be increased to meet farmer's production expenditures in the context of new technological development.
– Misutilization and diversion of farm credit should be checked to prevent wastage of scarce financial resources. Misuse of agricultural funds must be stopped.
– Effective, liberalize and simple operation by institutional agencies in the rural areas could help reduce the dominance of non-institutional sources and thereby exploiting the rural population.
– Wrong identification of the beneficiaries of different developmental projects of central government and state governments leading to the diversion of scarce resources from more useful to less useful purpose and poor implementation of development programs is a matter of concern.
– Time, adequacy and supervision of farm credit should be ensured to check large-scale over dues particularly in case of co-operative credit.
– The rural artisans and small entrepreneurs should get the priority in institutional finance and proper supervision of the fund should be done by the institutions to check the diversion of scarce resources in the region.

Conclusion :

Hence, to uplift the living standard of the rural population and to overcome the chronic problems like poverty, unemployment, illiteracy, malnutrition, income inequality between rural and urban areas and disparities between NER states and other regions of the country, it is very much necessary to focus on the rural NER with some specific measures. Among the other measures, institutional finance is the main to fill the gap of capital deficiency in the rural NER. As mentioned above, the need for institutional finance arises because of the weakness or inadequacy of private agencies to supply credit to farmers and rural entrepreneur and artisans. Besides, private credit always profit motive, expensive and exploitative in nature. It is not available for making agricultural improvement and much of the necessary improvements are not undertaken as funds are not available for long periods at low rates of interest. But institutional credit is not exploitative and the basic motive is always to help the farmers and rural artisans and entrepreneur to raise his productivity and maximize his income. The rate of interest is not only relatively low but can be different for different groups of farmers and for different purposes. Institutions also make a clear distinction between short-term credit and long-term credit requirements and give loans accordingly. Finally, institutional credit is fully integrated with other needs of agriculturists and rural artisans and entrepreneur. For all these reasons institutional credit is very much necessary for the development of rural NER.

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