

## **CHAPTER-I**

### **Introduction**

#### **1.1: Statement of the Problem**

Agriculture is the key sector of an economy as well as the main pillar of human civilisation. This sector provides the basic needs of human existence such as food, shelter and cloth. It is the basis of development of all the sectors of an economy. In the history of socio-economic development of the present developed countries of the world, agriculture may be a significant contributor and hence, its role in the economic development of less developed countries is also of vital importance. Agricultural sector has helped to a greater extent in the process of industrialisation in developed countries. The various problems of under- developed and developing countries can be solved only by developing the agricultural sector. Hence, it requires scientific and detailed study of various aspects of the agriculture sector especially in developing countries like-India.<sup>1</sup> Assam (MAP-I) is predominantly an agricultural state and socio- economic life of Assam is basically rural in character where 89 percent of the total population lives in rural areas and about 70 percent of the total population in Assam get their means of livelihood from agricultural sector (As per 2001 census). Therefore, to improve the economic condition of the rural people of Assam, the agriculture sector must be developed.<sup>2</sup>

Agricultural sector, in Assam, is very backward and faces a large number of problems. Among all the problems, lack of finance is the main problem of agricultural backwardness in Assam. There is an urgent need of finance for short, medium, and long terms to heighten the agricultural sector. Farmers need credit to pay current expenses on cultivation, such as, purchase of seeds, manures, cattle, implements etc, to improve land by irrigation, drainage, weeding and planting, to pay up old debts, to build and repair houses, to purchase food stuffs and personal necessities, to pay land revenue to government and so on. Thus, almost all types of credit are needed by the farmers at different stages of farming of which some are directly productive and some are indirectly productive.

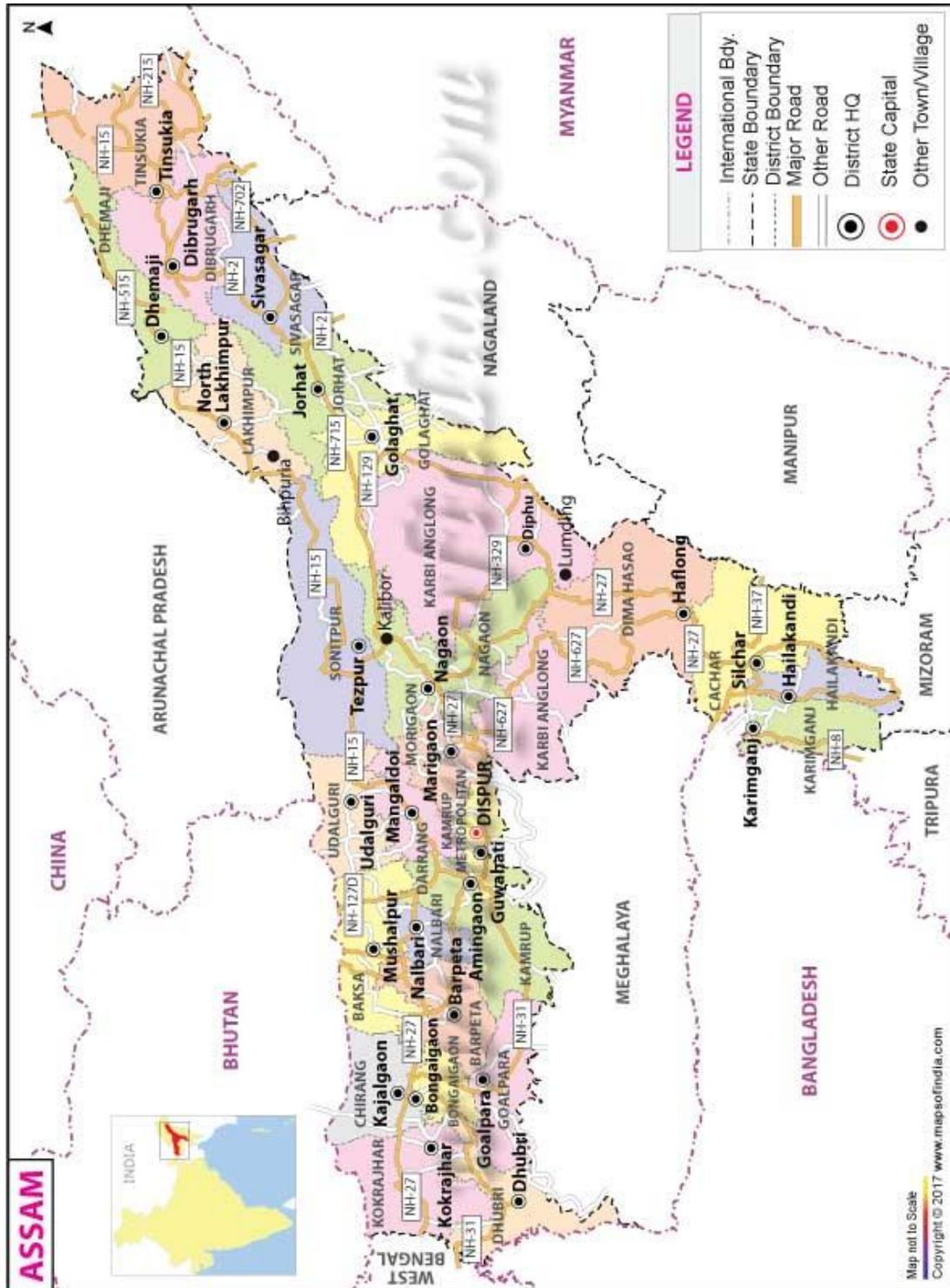
N.K.Sarm and S. Sarma said, “The agriculture sector of our economy contributes the largest share to the national income of India. At 1970-71 prices, the agriculture sector contributed to the domestic product about 44 percent in 2004-05. Next to it was manufacturing but may behind it which contributes 22 percent. Transport and communications with a meager share at 17 percent was much lower in the total range, the fourth position was that of public administration and defence and other services with contribution at 10 percent and fifth, at bottom was banking, insurance, etc, generating a little-6 percent. With a substantial portion of domestic product originating in agriculture, it was obvious that the major country’s activity is located in this important sector.

Agriculture dominates our country’s economy to such a large extent that 72.1 percent of working population of India is dependent on it. Thus, out of the total workers of 18 crores, more than 13 crores are occupied as cultivators, agriculture and are working in activities connected with livestock, forestry, fishing etc. Other opening of employment such as in the industrial and service sectors contribute very small number of jobs outside agriculture is indirectly dependent on agriculture production as much of the activities in respect of trade, transport, banking etc, take place in respect of agricultural goods. In fact, agriculture has been the major source of livelihood for majority of the labour force in India”.<sup>3</sup>

Agriculture plays a very important role in the development of rural economy of India. It is the main root of Indian economy so as to occupy an important place in our economy. About two thirds of the total labour force earns their livelihood from this sector. The importance of agricultural sector in the national economy cannot be ignored.<sup>4</sup>

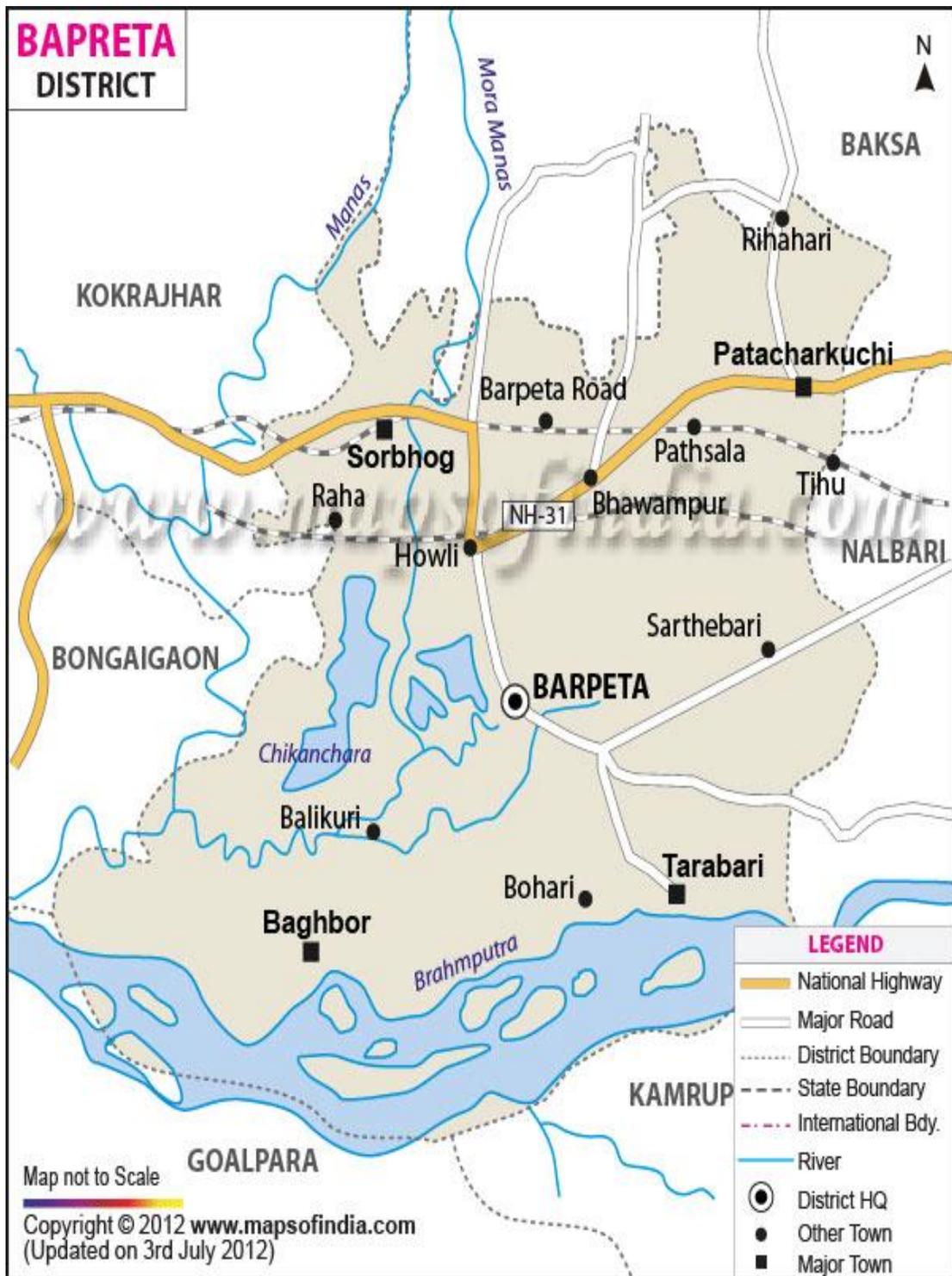
According to R. Kumar, “Agriculture development has many faces viz-technical, organization, institutional, financial, demographic, sociological and capital formati on. But the poor and weak financial face is the root of the problem in agriculture development of any developing country like India”.<sup>5</sup>

MAP-I



Source: Google map.

MAP-II



Source: Google map.

Agriculture is the main sector of Indian economy as well as it occupies a significant place in the national economy of India. Though the share of agricultural sector in the national income of India has been decreasing gradually, yet, agricultural sector contributes a major part in the national economy. According to the Central Statistical Organization, the share of agriculture in GDP was 55 percent in 1950-51 and it was declining to 13.9 percent in 2013-14 as a result of rapid growth of industrial and service sector. The development position and backwardness of an economy can be understood from the proportion of people engaged in agriculture sector. In an underdeveloped or developing country, the proportion of people employed in agriculture sector is quite high. But it is only 2 or 3 per cent in UK and USA, 6 percent in Australia, 7 percent in France, 35 percent in Egypt, 50 percent in Indonesia and 68 percent in China. A major part of working force is engaged in Agriculture and allied activities in India. It is clear from the census report of India that agricultural sector provided job opportunities to 98 million people in 1951 and it was increased to 263 million in 2011. But the proportion of working population engaged in agriculture sector had been declined from 70 to 54.6 percent between 1951-2011. Agriculture sector contributes in the process of development in the industrial sector by way of providing raw materials to agro-based industries such as cotton and jute textile industries, sugar, flour mills, and vanaspati and tea industry. There are also some small scale and cottage industries such as weaving, oil crashing and rice husking etc which are indirectly dependent on agriculture. The improvement of agriculture sector is an essential element of economic development and it is possible only through proper investment in this sector. Rural transport system and market conditions have been developed with the development of agriculture sector and play an important role in case of international trade of agricultural product. Rural poverty can be alleviated only by the development of agriculture sector. Hence, agriculture is the backbone of rural economy of india.<sup>6</sup>

U. Kunwar said, "Finance is one of the most important constraints in the growth of agriculture. Credit is an essential and important input for development and production. Agriculture like any other industry also needs capital investment for development, for realizing higher production. Agriculture being the most important occupation of the majority of our people, investment in it assumes more important in our country."<sup>7</sup>

In Assam, farmers are facing very difficult situation owing to lack of adequate financial facilities from various sources of credit. In order to supplement the required financial help for the agricultural sector, certain financial institutions have been nationalised in India in post independent era. The flow of credit to this sector from the commercial banks was very negligible before nationalization of 14 major banks and the credit support from co-operative institutions to the peasant was also minimum, Therefore, it is obvious that private money lending is the main source of credit for the farmers in Assam and because of that the farmers cannot take adequate amount of credit as they are not in a position to pay an exorbitant rate of interest. Sometime, the private agencies are also not able to provide sufficient loans to rural farmers. But the farmers need adequate amount of short term, medium term and long term credits for improving agricultural sector. With the adoption of new agricultural strategy and the growing momentum of “Green revolution”, the agriculturists cannot be expected to meet the entire financial requirements in rural areas. Hence, the financial institutions in rural areas must be set up to meet the increasing financial requirements for agricultural operation. Efforts are, hence, being made to analyze the institutional agencies for rural credit in this backward state and to tide over the problems of institutional agricultural credit.

## **1.2: Need and Significance of the Study**

In view of the urgent need for solving the problems of institutional credit, this subject has been taken to study and find out the causes responsible for not getting the required amount of finance in time to improve agriculture in rural areas of Assam. The present study examines and evaluates the problems of agricultural credit in Assam and tries to suggest ways and means to resolve the issue. The study has also been made to investigate the dimensions of the problem of agricultural credit in Assam. System of financing agricultural sector, the system of monitoring the end use of credit, the impact of loan to the agriculturists, the system of loan recovery and recycling of funds have also been analysed in the study.

For micro level study of the problem, a case study has been made to particular reference to Barpeta district (MAP-II). As per the population census 2011, the total population of the district stands at 1693622 of which 1546269 are rural population

i.e.91.30 percent live in rural areas which is 86 percent in Assam at an average level and more than 75 percent of the total population of the district is dependent on agriculture and allied activities. The total literacy rate in the district is 63.81 percent with male literacy rate 69.29 percent and female literacy rate 58.06 percent which is lower than the state's level 72.19 percent with male 77.85 percent and female rate 66.27 percent(as per census report 2011, statistical hand book of Assam 2016). The family, below poverty line (BPL) in the Barpeta district, is estimated at 12, 02000(Directorate of Food and Civil supplies, Assam, 2011). The socio- economic condition of the people of the district is very pathetic. A clear picture of the financial problems and the remedial measures to be taken to solve the problem has been found from the case study.<sup>8</sup>

### **1.3: Objectives of the Study**

The proposed study is based on the following objectives

1. To study the various institutional and non institutional sources of agricultural credit in Assam.
2. To find out the system of credit provided to agriculturists by institutional and non institutional sources.
3. To analyse the role of credit for the improvement of agricultural sector in Assam with special reference to Barpeta district.
4. To identify the various constraints of the present agricultural credit facilities in Assam.
5. To find out the various causes of indebtedness of farmers and the various problems associated in case of recoveries of loan.
6. To study the impact of agricultural credit in socio-economic condition of farmers in the study area.

### **1.4: Principal Research Questions**

Following are the principal research questions of the study-

1. What are the sources of agricultural credit?
2. What are the major hindrances of agricultural credit?
3. What is the performance of Assam Gramin Vikash Bank to fulfill the requirement of credit in time?

4. What are the impacts of agricultural credit on the socio-economic condition of agriculturists?

### **1.5: Other Research Questions**

1. What are the main purposes that farmers need to take credit?
2. What are the main causes of indebtedness of agriculturists?
3. What are the main reasons for unproductive utilization of credit?
4. What are the causes of overdues in agricultural credit?
5. What is the experience of borrowers in taking loan from banking institutions?
6. Can illiterate and poor farmers easily reach the institutional credit facilities?

### **1.6: Hypotheses Tested**

The hypotheses tested in the study are provisionally determined on the basis of the present and past pictures of the problem regarding agricultural credit. The tentative hypotheses to be tested are as follows –

1. The amount of credit flows to the agriculturist is not sufficient to maintain the required activities.
2. Majority of farmers have misutilised the credit in unproductive purposes.
3. The supply of institutional credit to the farmers is complicated and made delay in providing loan.
4. Poverty leads to indebtedness of farmers.
5. Low productivity is one of the main reasons for overdues of credit..
6. There is not any significant impact of credit in the improvement of
7. Socio-economic condition of farmers.

### **1.7: Area of the Study**

The state Assam is studied for the whole research work and for the field survey area the Barpeta district of Assam is taken to fulfill the objectives of the research study.

## 1.8: Methodology

The present study is based on both primary and secondary data. The secondary data which are collected from various sources and have been studied are given below-

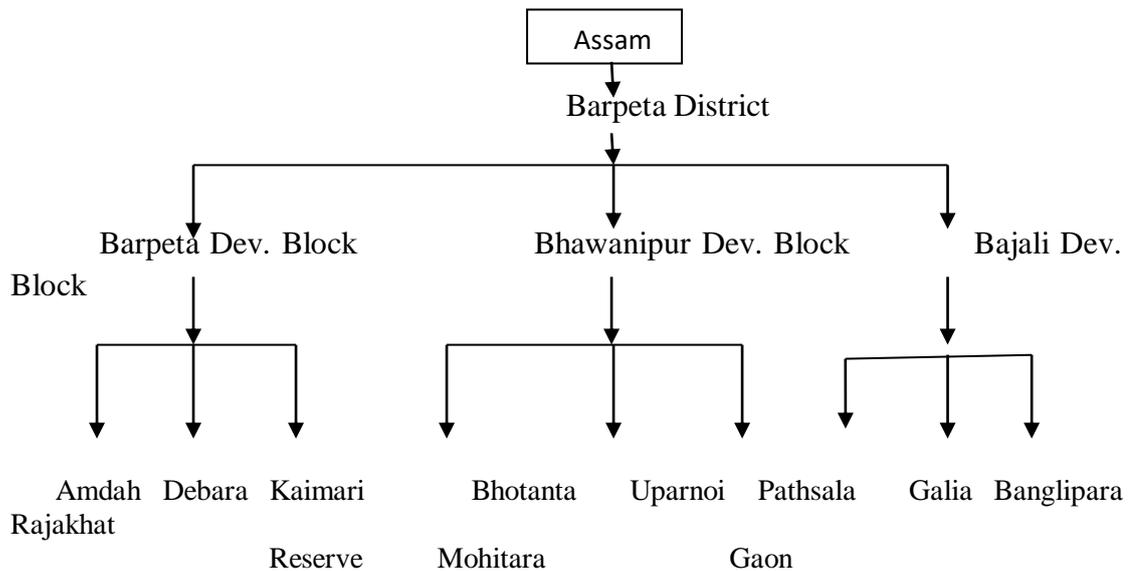
- i. Various publications of the state Govt. of Assam.
- ii. Directorate of statistics and economics Govt. of Assam.
- iii. Various issues of economic survey, Govt of Assam.
- iv. Various issues of statistical hand book, Govt. of Assam.
- v. The Krishna Kanta Handiqui library of Gauhati University.
- vi. Omio Kumar das (OKD) library of research institute, Guwahati.
- vii. Various publications of financial institutions.
- viii. Central library. North Bengal University.
- ix. Various books, journals, reports, periodicals, bulletin, thesis, websites, internet, news paper etc.

The above mentioned sources have been used to collect required secondary data.

Apart from the secondary data, to collect primary data from sampling unit, a sample survey has been made and for this purpose a suitable questionnaire is prepared with a view to collect both quantitative and qualitative information from the sample district Barpeta. The field survey is conducted by selecting 270 sampling units (Agriculturist family) from three blocks( from each Block 3 villages and from each villages 30 respondent households have been selected on the basis of stratified and purposive sampling method ) of the district Barpeta. In order to obtain representative information both purposive and stratified samplings have been used.

The data collected from both primary and secondary sources have been arranged systematically and have been tabulated. The tabulated data has been presented in different shapes like pie diagrams, bar diagrams, graphs etc.

### Flow Chart of the Study Areas



#### 1.8.1: Sample Selection

In consultation with the supervisor, the researcher has selected Barpeta district as sample study area. The Barpeta district is a backward district of Assam consisting of two subdivisions-Barpeta and Bajali. There are 3, 37,929 No. of households in the district. (3, 06,434 No. of households are in rural areas and 31,495 No. of households in urban areas.). Barpeta district has been purposively selected because of representative character for the economy of the state. There are 11 community development Blocks, 129 Gaon panchayats, 11 Anchalik panchayat and 1 Zila parishad.<sup>9</sup> On the basis of personal judgment, the blocks are divided into two stratum as the semi urban and rural areas.

##### Stratum-I

Blocks within semi urban areas.

- a) Barpeta (Barpeta)
- b) Gobardhana (Barpeta Road)
- c) Chakchaka (Sarbhog)

##### Stratum-II

Blocks within rural areas.

- a) Bajali (Choukhuti)
- b) Bhawanipur (Howly)
- c) Paka Betbari (Kayakuchi)
- d) Sarukhetri (Lachima)

- e) Rupshi (Kalgachiya)
- f) Mandia (Mandia)
- g) Gomafulbari (Gomafulbari)
- h) Chenga (Chenga)

(Location of blocks are indicated in brackets)

The Barpeta district has mainly three categories of rural inhabitants which are normally divided into category-I includes Brahmin, Kalita, Keot, Koch, Hira, Kaibarta etc, category-II includes Tribal (Bodo) and category-III includes Immigrant Muslims or Bengali Muslims. Considering the standard of living and other aspects of these three clusters of rural people from stratum-I Barpeta block and from stratum-II Bajali block and Bhawanipur block have been selected for sample survey as the large number of population are engaged in agriculture and other allied activities. For sample survey, from Barpeta block three villages are selected-

- i) Amdah- under Uttar Paka Gaon panchayat where 90 percent population are from category-I (Brahmin, Kalita, Keot, Koch, Hira, Kaibarta etc).
- ii) Debara- under Uttar Pub Paka Gaon panchayat where maximum people are from category-II (Bodo community).
- iii) Kaimari Reserve –under Uttar Pub Paka Gaon panchayat where 100 percent population are from category-III (Immigrant Muslims).

From Bajali block, the following three villages are selected-

- i) Bhotanta Mohitara—under Saderi Gaon Panchayat where 100 percent population are from category-I (Brahmin, Kalita, Keot, Koch, Hira, Kaibarta etc).
- ii) Uparnoi- under Dubi Gao Panchayat where 70 percent population are from category-II (Tribal or Bodo community)
- iii) Pathsala Gaon- under Dumuria Gaon Panchayat where 70 percent population are from category-III (Immigrant Muslims).

From Bhawanipur Block, the following three villages are selected-

i) Galia- under Galia Gaon Panchayat where 100 percent people are from category-I (Brahmin, Kalita, Keot, Koch, Hira, Kaibarta etc).

ii) Banglipara- under Kalbari Gaon Panchayat where two third of the total population are from category-II (Bodo community).

iii) Rajakhat- under Datirbori Gaon Panchayat where 95 percent population are from category-III (Immigrant Muslims).

These villages are selected because agriculture is the main occupation of villagers of these poverty stricken villages. For investigation, 30 agriculturist families from each village

(30+30+30+30+30+30+30+30+30=270) have been selected on the basis of purposive sampling.

### 1.8.2: Statistical Tools for Analysis

After collection of data, some relevant statistical tools have been used for summarization and tabulation of information. The researcher used simple statistical method such as arithmetic mean, median for averages, ratio, percentages, and regression etc. Chai-square tests and the ANOVA technique have been used to test the hypothesis. We have used calculator for simple calculation of data and through computer, data has been analysis to find out findings and to reach conclusion of the study. Some of the relevant methods used are:

#### i) Arithmetic Mean

Arithmetic Mean has been used to find out average values from a number of values or used to represent the groups of values of credit or other related components in a single value under this research. The arithmetic mean has been calculated by applying the following formula:

$$\bar{X} = \frac{\sum X}{N}$$

Here,

$\bar{X}$  = Arithmetic Mean

$\sum X$  = Total values of X items.

N = Number of observations.

## ii) Regression Analysis

Regression analysis is a statistical device with the help of which we are in a position to estimate or predict the unknown values of one variable from the known values of another variable. There are two types of variable in a regression equation viz. independent variable and dependent variable. The variable which is used to predict is known as independent variable and the variable which are trying to predict is called dependent variable. Similarly, we get two lines of regression which are essential in predicting the variables. Generally, the two lines of regression are given by  $y = a + bx$  and  $x = a + by$ . Both of these regression lines have equal importance in statistical analysis.

Regression analysis is widely used in economic research. In economics, it is the basic technique for measuring or estimating the relationship among economic variables. In the present research work this technique has been widely used for the analysis of data collected from primary sources.

## iii) Chai-square ( $\chi^2$ ) test

Chai-square ( $\chi^2$ ) test is a statistical interference which is used to find out the appropriate significance of some particular given data or to know whether, tow or more than two attributes are associated or not. This test has been used to understand the differences among the different categories of data. In this analysis, the following formula is applied

$$\chi^2 = \sum [ (O - E)^2 / E ]$$

Where,

$\chi$  = Chai-square Value

O = Observed Frequencies

E = Expected or Theoretical Frequencies

To find out the value of  $\chi^2$ , the computed value of  $\chi^2$  need to compared with the table value of  $\chi^2$  for a degree of freedom, at 5 percent level of significance. The following formula is used to find out the degree of freedom

$$Y(\text{nu}) = (r-1)(c-1)$$

Where,

Y (nu) = Degree of Freedom

r= Rows

c= Columns

If calculated value is less than the table value, at 5 percent level of significance, then, it is assumed as not significant and if the calculated value of  $\chi^2$  is greater than the table value, then, it is assumed as significant.

## 1.9: Research Gap

Research works and investigation on agricultural sector are limited in number. Though some research works have already been done in the specific field and many books and journals have been published in Indian perspective. But in Assam, the study is very few and in Barpeta district, there is no research works on agricultural credit including all sources of credit. Barpeta district is situated in the Brahmaputra Valley of lower Assam where 91.1% people live in rural areas and 75percent are directly dependent on agricultural sector and allied activities. The district is very backward and maximum people are under poverty line. Hence, keeping an eye on the poor economic conditions of farmers and backward agricultural sector due to lack of credit facilities, the researcher has tried to solve and find out proper solution of the problems through the research work.

From the above review of various literatures, it is found that most of the studies have covered limited area and some research gap is also found there. Most of the researchers have included one or two financial institution and they have not at all discussed the unorganised village money lender in their study. Some have discussed one side, either demand side (borrower class) or supply side (lender side). Some studies have only theoretical value having no any practical value.

The present study has tried to reduce research gap by including both supply side (lender) and demand side (borrower class) and has discussed both institutional and non-institutional sources of agricultural credit. The study is also based on both theoretical and practical approach and has covered all banking institutions, though a

special importance is given to Assam Gramin Vikash Bank as a largest Regional Rural Bank of Assam.

### **1.10: Chapterisation**

The study has been divided into following chapters-

#### **Chapter-I: Introduction**

In this chapter, analysis is done on the statement of the problem. The chapter also includes objective of the study, hypotheses, methodology of the study, area of the study, importance and relevance of the study and a brief format of the study.

#### **Chapter-II: Review of Literature**

This chapter includes review of related literature.

#### **Chapter-III: A Profile of the Economy of Assam**

This chapter analyses the geographical, demographical, agricultural scenario and socio- economic structure of Assam.

#### **Chapter-IV: Institutional and non Institutional Sources of Agricultural Credit**

This chapter explains the various institutions associated with agricultural finance and non institutional sources of agricultural credit.

#### **Chapter-V: Impact of Agricultural Credit on the Socio-Economic Conditions of Agriculturists in Assam**

This chapter analyses the impact of agricultural credit on income, employment and standard of living of farmers in Assam

#### **Chapter-VI: Agricultural Credit and Assam Gramin Vikash Bank (AGVB)**

This chapter incorporates various activities of Assam Gramin Vikash Bank regarding agricultural credit facilities to farmers.

#### **Chapter-VII: Necessities of Agricultural Credit and Credit Delivery System in Assam**

This chapter contains the need of credit to agricultural sector and various credit delivery systems in Assam.

#### **Chapter-VIII: Some Problems of Agricultural Credit in Assam**

Some problems associated with agricultural credit in Assam have been discussed in this system.

**Chapter-IX: Case Study Data Analysis**

This chapter contains an analysis of the field data collected through various methods.

**Chapter-X: Findings and Recommendations: -**

The last chapter draws the conclusion covering the summary of findings and suggestive measures of the study.

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