

CHAPTER-IV

Institutional and non Institutional Sources of Credit

4.1: Introduction

Agricultural credit is one of the most important factors for the development of agricultural sector and allied activities. Agricultural credit may be defined that amount of funds which are invested for the purpose of increasing farm productivity and development of agricultural sector. Agricultural Finance Corporation mentioned that agricultural credit is the amount of inevitable fund required for the farmers to purchase and to pay the various factors of production such as land, labour, machinery, livestock and various essential inputs of agricultural sector.

Agricultural sector provides employment to more than total working population of Assam. In Assam, most of the farmers are living below the poverty line and their socio-economic conditions are very pathetic. They are unable to make sufficient investment for conducting modern agricultural technique of production. Generally, poor farmers need to borrow fund from various sources for performing different activities in agricultural sector. Hence, the process of credit sanction should be simple, easy for the needy farmers. Development of agriculture sector is essential for agriculturists to maintain their standard of living and for the development of socio-economic condition of farmers.

In Assam, before the nationalization of commercial bank in 1969, non-institutional credit sources such as village money lenders, traders, relatives, landlords etc. were the principal sources of agricultural credit in the rural areas which charges high rate of interest and imposed some unfavourable terms and conditions on credit. Farmers are exploited by village money-lenders and production is adversely affected. Hence, institutional arrangement is necessary to provide adequate credit facilities to all the needy farmers for adopting new farm practices

Available credit facilities are an important requirement to modernize the production technique in agriculture sector. Investment of short term fund is necessary for the purpose of buying H.Y.V.seeds, fertilizers, pesticides, insecticides etc. The

medium and long term investment is essential to provide irrigation facilities and improvement of land for more agricultural production.

4.2: Features of Agricultural Credit

The economy of Assam is basically rural based and it includes different classes of people such as agriculturists, agricultural labourers, craftsmen and other wage labourers. They belong to poorer class in the society. Indebtedness is one of the serious problems of farmers' family. Majority of people are suffering from indebtedness and unable to get adequate credit at the right time. Sometimes, it is evident that farmers commit suicides for agricultural distress and not being able to maintain their family at a subsistence level. This is because of insufficient public investment in the agricultural sector.

According to some experts and institutions, there should be some criteria for a good credit system. In this regard, a famous agricultural economist, Lewis Tardy has mentioned the following criteria for a good credit system-

- a) The agricultural credit should be sanctioned for a long period.
- b) The interest rate should be low.
- c) Credit should be sanctioned and released for productive purposes and should not be released for unproductive and wasteful purposes.
- d) Farming ability and personal security is the main security of credit depending on which credit should be granted.
- e) Repayment capacity of a borrower should be considered in providing loan.

Reserve Bank of India (RBI) mentioned that the credit should be integrated with service such as arrangement of factors of production which is better than facile credit. When a borrower expenses his credit without any basic needs, it is known as facile credit. A credit system should be such that it can cover all the sections of farmers in all areas. Under a good agricultural credit system, loan should be granted for productive purposes. But credit for maintaining family should not be stopped completely. The security of credit should be the quantum of production and on the capacity to produce rather than property or volume of income as a security. It will

make easy for small farmers to get credit and enable them to apply their own plan of cultivation.

All India Rural Credit Survey Committee (AIRCSC) determined some essential features of agricultural credit. The state should support the credit policy. It should be an effective substitute to private sources of credit. Credit should not be released on the basis of security of land volume and other valuable property but security should be on the volume of production of crops. The use of credit should be supervised in a regular basis whether the credit fund has been channelized in a proper way or not. Thus, the credit should be available to all the farmers at their door step at the time of their requirement for cultivation. The cultivators should implement modern technique of production which increases production and ultimately increases repaying capacity of loan¹

4.3: Period Based Classification of Agricultural Credit

Agricultural credit can be classified into three major types depending upon the time of credit required to farmers:

4.3.1: Short Term Credit

Farmers need funds for the purpose of purchasing seeds, fertilizers, insecticides, paying wages to hired labourers, payment of electricity bill, tax on land, godown charges, fodder for cattle etc., for a period of less than 15 months. This type of credit is also very much essential for the farmers to support their families in those years in which production level is not sufficient to meet up their increasing demand. Short term credits are generally returned after harvesting of crops.

4.3.2: Medium Term Credit

This type of credit is provided to farmers for the purpose of improving land, to buy agricultural inputs, machinery, cattle and better cultivation system. The period of medium term credit is more than 15 months and less than 5 years.

4.3.3: Long Term Credit

Long term loans are granted for long period of more than 5 years up to 10 years and sometimes may be for a period of 20 years. The farmers require this type of loans for the purpose of buying additional land, to make permanent improvements of land, any permanent construction, payment of old debt and to purchase costly agricultural machinery and some other improvements for farm operation²

4.4: Purpose Based Classification of Agricultural Credit

Reserve Bank of India classified agricultural credit into three categories, namely credit for farm activities, non-farm activities and expenditure to maintain family. Credit for farm activities refers that type of credit which is provided to purchase seeds, fertilizers, pesticides, insecticides, wage of hired labour, improvement of land, irrigation facilities, buying various implements, machinery and livestock, construction of farm houses, etc.

Credit for non-farm activities means credit for the purchase of non-farm business such as repair of equipments and machinery of production and transport, purchase or repair of furniture, construction and repair of buildings, to buy some non-farm implements, etc. Expenditure to maintain family includes daily expenditure to meet the family demand such as food, clothes, education, medicine, various ceremonies, litigation and payback of old debt, etc.

4.5: Other Bases of Classification of Agricultural Credit

4.5.1: Classification on the Basis of Security

Agricultural credit may be classified as secured and unsecured credit. Secured credit is provided to farmers against mortgage of valuable property such as land, livestock, crops, bonds, insurance policies, etc of borrowers; where as unsecured credit is provided on the basis of personal security of borrowers. It is generally sanctioned on the promissory or personal beliefs of borrowers with or without guarantees.

4.5.2: Classification on the Basis of Creditors

The agricultural credit can be categorized on the basis of creditor as institutional and non institutional. The institutional credit includes various financial institutions such as co-operatives, commercial banks, RRBs, NABARD and Government. The non institutional credit includes village money lender, commission agent, landlord, relatives, friends and others.

4.5.3: Classification on the Basis of Debtor

It may be divided into different groups such as crop farmers, dairy farmers, poultry farmers and fishermen.³

4.6: Sources of Agricultural Credit in Assam

Agricultural credit is playing a crucial role for growth and development of agricultural sector. Agricultural growth is important for alleviating poverty from the rural areas. During the pre-independence period, village moneylenders and landlords were the principal sources of agricultural credit which were inadequate, highly expensive and exploitative. Gradually, over the years, the roles of private money lending agencies have declined. This is due to debt relief legislations, issue of license to moneylenders and restrictions on the use of land as mortgage. Another main cause of disinterest of landlords to invest money in agricultural sector is that of abolition of zamindari and ryotwary land tenure system.

It is fact that the institutional credit sources have reduced the scope of private moneylender in the rural areas. However, marginal farmers and agricultural labourers have not been benefited adequately due to their ignorance about the rules of organized sector and weak payback capacity and they are still depending on private moneylenders.

There is an increasing trend of investment in agricultural sector and financial institutions are offering financial help for that purpose. The private moneylender cannot supply sufficient credit facilities to farmers. Thus, the importance and need of financial institutions are increasing with the development of rural sector. The main motive of institutional credit is not exploitative and their basic aim is to raise productivity and maximize the income of farmers.⁴

Sources of agricultural finance can be broadly categorized into institutional and non institutional sources.

4.6.1: Institutional Sources of Agricultural Credit

The institutional finance is essential for the development of agricultural sector. It has reduced the active role of private moneylenders among the rural masses. The increasing trend of investment in agricultural sector is possible only through raising the volume of institutional credit. The importance of institutional credit increases because of insufficient supply of loan to cultivators by private agencies. The institutional sources provide loans to farmers at a very low rate of interest and it is not exploitative source of credit. The main motive of institutional finance is to raise the productivity and income of farmers but profit is not the principal objective. The institutional sources can provide adequate supply of credit at the right time and at cheaper rate to a farmer which is considered as an indispensable part of development of agriculture sector. There are four phases of time duration in the path of development of institutional credit to farmers. The first phase starts from 1904 to 1969 (predominance of co-operative and setting up of RBI), the second phase is from 1969 to 1975 (nationalization of commercial bank and setting up of RRBs). The third phase is from 1975 to 1990 (establishment of NABARD) and the fourth phase is from 1991 onward (reform of financial sector). The main sources of institutional credit are discussed as under-

4.6.1. (a) Government and agricultural credit

Government is considered as one of the important sources of agricultural credit. Government is a vital pillar in the process of development of agricultural sector by way of providing financial assistance. Government helps the farmers directly and indirectly. The Government provides loan to farmers directly. These loans are known as taccavi loans which are ancient or traditional type of loans. These loans are generally released to farmers during the time of emergency such as flood, famine, draught and any other natural calamities etc. at a very low rate of interest. But these

loans cannot become more popular among the rural masses due to official red tapism or corruption.⁵

Indirectly Government provides financial help to agricultural sector through Co-operative Societies, Reserve Bank of India, State Bank of India, NABARD, etc. The Government helps these financial institutions at their starting point by buying shares. The Government also organize training programme for employees of these agencies and provides financial help to the poor institutions so that they can recognize themselves. The Government expends huge amount of money for the development of financial institutions which are again very much essential for agricultural sector for their financial assistance. Thus, the Government helps the cultivators indirectly.

The Government has been advancing loans to the farmers to meet up their financial needs from the last part of the nineteenth century with the two legislative measures (a) The Land Improvement Loans Act of 1884 (b) The Agriculturists Loans Act of 1884. These two acts were introduced as per direction of the Famine Commission of 1880. According to the Act 1884, long term loans were granted for permanent settlement of some problems and for improvement of land. Such loans were usually provided for a period of 25 years on the basis of mortgage of land. Under the Act of 1884, short term and medium term loans were provided to maintain their financial needs like to purchase seeds, cattle, manure, tools and equipments etc. and return these loans after harvest.⁶

4.6.1. (b) The Co-operatives

The co-operative societies in Assam are playing an important role in promoting self reliance and mutual help among cultivators, artisans and other persons with a common view of economic and social upliftment of the rural masses. The co-operative movement in Assam has tried to solve the problems of poverty, food security and employment generation etc.

The co-operative movement in Assam was started as soon as the co-operative societies Act was passed in 1904. But the movement was not functioning smoothly

during its working of 50 years till 1951 which was due to depression of thirties and the entire movement was declining at the time of political independence of the country. The economy of Assam was totally rural. Thus, the major agricultural sector was composed of producers where the tempo of agricultural development was to a considerable extent dependent on the development of agricultural co-operative as a mode of organization. With a view to assist successful implementation of the Agricultural production programme, the co-operatives have been functioning as an agency to provide rural credit and facilities of marketing, processing, distribution and storage of agricultural products.

The activities of co-operative movement were started in Assam with the introduction of national economic planning in 1951 by expending Rs 20 lakhs out of the plan funds. An additional amount of Rs 66.48 lakhs was also received from the Reserve Bank of India. A co-operative training institute was established in 1953 at Jaysagar in Sibsagar district for the training of office bearers as well as subordinate officers of the co-operative department.

There are three co operative banks in Assam viz (A) The Assam State Co-operative Apex Bank, (B) The Assam State Co-operative Agriculture and Rural Development Bank (ASCARD), (C) Urban Co-operative Bank. The Assam government has tried to implement the scheme of revival of short term co-operative credit structure (STCCS) through the Apex Bank and long term co-operative credit structure (LTCCS) through the ASCARD Bank.

(A) Assam State Co-operative Apex Bank LTD

The Assam State Co-operative Apex Bank is an important co-operative institution in providing credit for the development of agricultural sector as well as other sectors in the rural areas of Assam. The Bank was registered in 1948. There are 68 branches of the bank in Assam at present. Normally, the Assam State Co-operative Apex Bank provides credit to agriculturists through Primary Agricultural Credit Societies (PACS) and at present, the package of short term co-operative credit structure (STCCS) is implemented by the Co-operative Apex Bank in Assam. The Apex bank is improving its financial position by receiving assistance from the central Government and the state Government and earned net profits of Rs- 774.59 lakhs in 2014-15.

The performance of the Assam State Co-operative Apex Bank is shown in the table-4.1.

Table-4.1: Performance of Assam State Co-operative Apex Bank LTD.

Particulars	Units	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Bank Branches	No	68	67	67	68	67	68
Members	'000'No	78	82	91	93	94	92
Paid up share capital	Rs. Crore	8.13	8.84	9.13	9.74	10.84	11.75
Reserve	do	96.84	22.15	33.69	30.08	43.03	51.76
Deposits	do	1544.51	15559.47	1500.63	1950.92	1888.50	2039.81
Working Capital	do	1775.03	1777.40	1687.60	2032.21	2079.81	1921.94
Borrowing Outstanding	do	Nil	7.0	6.45	7.37	4.87	7.46
Investment	do	1144.95	1019.56	987.10	1268.28	1028.60	1079.15
Loan Advances	do	215.50	419.58	125.29	358.77	287.95	278.57
Loan outstanding	do	313.44	504.84	483.71	686.36	787.33	879.27
Loan Overdue	do	99.83	98.98	98.38	135.31	88.06	95.83

Source: Registrar of Co-operative Societies, Assam, 2016.

The Table-4.1 shows that the total member of the Apex Bank has increased from 78 thousand in 2010-11 to 92 thousand in 2015-16. The share capital has also increased from 8.13 crore in 2010-11 to 11.75 crore in 2015-16. The working capital has raised to 1921.94 crore in 2015-16 from 1775.03 crore in 2010-11. Loan overdue is one of the serious problem of the bank which was 99.83 crore in 2010-11 diminishes to 95.83 crore in 2015-16.

(B) Assam State Co-operative Agriculture and Rural Development Bank LTD. (ASCARD)

The Assam State Co-operative Agriculture and Rural Development Bank LTD. (ASCARD) was registered in the year 1955-56. The ASCARD bank is not regulated and controlled under the Banking Regulation Act but the bank is continuing under the Assam Co-operative Land Mortgage Bank Act, 1960 and the Land Mortgage Bank Rules, 1961. There are 28 branches of the ASCARD bank in Assam with more than 47 thousand members. At first, the Primary Land Mortgage Bank

(PLMB) in the district level and after, its reformed form as Primary Agriculture Co-operative Banks which were merged with the ASCARD Bank Ltd. Actually, co-operative agricultural credit is providing for short term but the ASCARD bank facilitated the farmers medium and long term agricultural loans. At present, the economic condition and performance of the ASCARD bank is very poor which is due to mismanagement. The Government has decided to develop and revive the ASCARD bank by the way of short term co-operative credit structure (STCCS) as per direction of Vaidayanathan Committee Report-I (VCR-I). But the Government has emphasized on the development of Long Term Co-operative Credit Structure (LTCCS) as per recommendation of VCR-II. The performances of the ASCARD bank are represented in table-4.2.

Table-4.2: Performance of the ASCARD Bank

Particulars	Unit	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Bank Branches	No	28	28	28	28	28	28
Membership	No	30056	39106	44332	45886	46771	47610
Paid up Share Capital	Rs. Crore	6.36	6.33	6.33	6.36	6.36	6.37
Working Capital	Do	17.02	16.41	13.22	13.07	12.41	13.31
Deposits	Do	0.30	0.20	0.18	0.73	0.95	1.05
Loans and Advances	Do	0.056	0.043	0.18	0.82	0.36	0.43
Loan outstanding	Do	9.22	8.77	8.42	8.65	8.46	8.42

Source: Registrar of Co-operative Societies, Assam, 2016.

The Table-4.2 reveals that the membership of the ASCARD bank has been increased from 30056 in 2010-11 to 47610 in 2015-16. The working capital diminishes to 13.31 crore in 2015-16 from 17.02 crore in 2010-11. Deposits of the bank have increased from 0.30 crore in 2010-11 to 1.05 crore in 2015-16. The loan outstanding is declining from 9.22 crore in 2010-11 to 8.42 crore in 2015-16.

(C) Urban Co-operative Bank

There are 25 numbers of active Urban Co-operative Banks (UCBs). Large number of command, no any clear division of functions between the state government and the RBI which creates operational problems in imposing regulatory and supervisory measures on USBs. As a result, state government of Assam and RBI signed an agreement regarding the controlling power of RBI on UCBs during 2008 which improved the activities of the bank and confidence of depositors could be restored.

The expansion of networks of co-operative banks in rural areas is considered as the most urgent where agricultural sectors play a crucial role. But the extension of co-operatives in the urban areas has also potential. There are a large number of unorganized artisans and small Industries in urban areas and they are not able to use the modern scientific techniques of production. After formation of co-operation, they are able to use scientific methods of production and sufficient power also. The co-operatives have even provided credit to small entrepreneurs on their demands and needs. The performances of Urban Co-operative Banks are illustrated in table-4.3.

Table-4.3: Performances of Urban Co-operative Banks

Particulars	Unit	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Bank Branches	No	22	23	23	24	25	25
Membership	'000'NO	28	29	29	31	30	32
Paid up capital	Rs. In crore	4.89	5.65	6.53	6.89	7.36	13.18
Working capital	Do	513.98	574.16	595.15	616.00	687.97	723.69
Deposits	Do	446.31	492.28	522.49	602.92	604.89	479.48
Loans advances	Do	393.85	307.38	199.59	233.04	217.71	259.87
Loan Outstanding	Do	179.85	223.98	239.45	239.10	236.24	257.24
Loan overdue	Do	10.43	16.80	13.89	18.07	21.00	26.76

Source: Registrar of Co-operative Societies, Assam, 2016.

The table-4.3 reveals that the number of bank branches of the Urban Co-operative Banks (USBs) increased from 22 numbers in 2010-11 to 25 numbers in 2011-12. The membership of the banks also rose to 32 thousand in 2015-16 as against

28 thousand in 2010-11. The paid up capital of USBs were increased from Rs- 4.89 crore in 2010-11 to Rs. 13.18 crore in 2015-16. The working capital of USBs had also been increased from Rs 513.98 in 2010-11 to Rs 723.69 crore in 2015-16. The loan advances of the bank had been increased to Rs 259.87 crore in 2015-16 as against Rs 393.85 crore in 2010-11. One of the serious weaknesses of USBs is to have loan overdue of Rs-26.76 crore in 2015-16 as against Rs 10.43 crore in 2010-11.⁷

The main weaknesses of the co-operative movement in Assam are insufficient fund position of co operative societies, illiteracy and ignorance of common rural masses, unavailable trained personal, inefficient management to run the societies, jealousy and rivalry relation among the employees etc. The problem of agricultural credit is still remaining in Assam which is not possible to solve through co operatives societies.

4.6.1. (c) Commercial Banks

Commercial Banks are playing a vital role in the development of agricultural sector by providing adequate credit facilities through nationalization of 14 major commercial banks in 1969 and 6 banks in 1980. The banking network in Assam is expanding by opening new branches of banks and makes a steady progress in the field of rural sector in Assam by mobilizing deposits and credits. The ever increasing banking habits in the midst of common masses and expansion of banking network in the state can be understood from increasing number of bank offices of all scheduled commercial banks in Assam. The total number of bank offices of all scheduled commercial banks has been increasing to 2177 as on March 2016 as against 1262 as on March 2007 and 74 at the time of nationalization of 14 banks in 1969. As a result of increasing branches of banks, the dependent person per bank offices has been reduced from 62.15 Sq. Km as on March 2007 to 36.03 Sq. Km as on March 2016. As per information of population census 2011, the per branch office of banks has covered 14.33 thousand of average population as its customers which was 9.1 thousand in all India level during the same period. Out of the total bank offices of all scheduled commercial banks, 48.0 percent bank offices were situated in rural areas, 29.0 in semi urban areas and 23.0 percent in urban areas. The total deposits in the scheduled

commercial banks in the state have been increased to Rs 103794 crore as on March 2016 from Rs 25757 crore in 2007 as compared to Rs 9659968 crore as on March 2016 from Rs 2598823 crore in 2007 in India. The growth of total quantity of deposits in Assam has been increased by 6.6 percent in March 2016 over the previous year. The per capita deposit in Assam was increased to Rs 33267 in March 2016 which was Rs 31211 in March 2015.

The total quantity of credit disbursement of scheduled commercial banks has also been increased from Rs 11154 crore as on March 2007 to Rs 35911 crore in March 2015 and Rs 42671 crore as on March 2016 which was an impressive growth of 18.82 percent in 2016 over the previous year. The per capita credit is Rs 13677 in March 2016 as against Rs 11510 in March, 2015. The growth of scheduled commercial banks in Assam and India and growth of its deposits and credit are shown in the table-4.4.

**Table-4.4: Growth of scheduled commercial Banks in Assam and India
(at the end of March)**

Year	Number Offices		Deposits(Rs. In crore)		Credit (Rs. In crore)	
	Assam	India	Assam	India	Assam	India
2007	1262	70711	25757	2598823	11154	1949567
2008	1317	74326	31666	3228817	13057	2394566
2009	1369	79058	39427	3937336	15115	168977
2010	1434	83997	49545	4601926	18311	3345619
2011	1504	89110	59101	5426510	21053	4076868
2012	1574	96059	67455	6174147	25171	4821527
2013	1682	104647	77730	7051332	28576	5506496
2014	1861	115822	85069	8028220	31713	6264290
2015	2047	125863	97378	8922111	35911	6878472
2016	2177	132587	103794	9659968	42671	7520929

Reporting Offices only.

Source: Quarterly Statistics on Deposits and credit of scheduled commercial Banks, March 2007 to March 2016 of RBI.

The banking network operating in the country as well as in the state can be renamed as different groups such as i) State Bank of India, ii) Nationalized Bank, iii) Foreign Banks, iv) Regional Rural Banks, v) Private Sector Banks, vi) All Scheduled Commercial Banks and these have distinctive roles to play in the state economic scenario. The performance of these banks in the state is shown in the table-4.5

Table-4.5: Bank Group Wise, Number of Offices, Deposits and credit of scheduled Commercial Banks in Assam, up to March, 2016

Bank Group	No.of offices	Deposits(Rs. In crore)	Credit(Rs-in crore)
State Bank of India and its Associates	344	39693	14754
Nationalized Banks	1101	47409	16769
Foreign Banks	2	168	107
Regional Rural Banks	465	7932	4446
Private Sector Banks	265	8592	6595
All Scheduled Commercial Banks.	2177	103794	42671

Reporting Offices only

Source: Reserve Bank of India,2016.

The credit –deposit ratio of all scheduled commercial banks in Assam was highest with 43.3 as on March, 2007 and 36.9 percent as on March 2015 and 41.1 percent on March 2016 which remained far below than National level. The credit-deposit ratio of all scheduled commercial banks in India was 77.9 percent as on March, 2015 and 77.9 percent as on March, 2016. The credit- deposit ratio of all scheduled commercial banks in Assam and India is shown in the table-4.6.

Table-4.6: Credit-Deposit Ratio of all Scheduled Commercial Banks in Assam and India (as on March)

year	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Assam	43.3	41.2	38.3	37.0	35.6	37.3	36.8	37.3	36.9	41.1
India	75.0	74.2	72.6	72.7	75.1	77.5	78.1	78.0	77.4	77.9

Source: Quarterly Statistics on Deposits and credit of scheduled commercial Banks, March 2007 to March 2016 of Reserve Bank of India.

4.6.1. (d) Regional Rural Banks (RRBs)

The commercial banks and the co-operative banks in the state were unable to provide sufficient credit to the rural poor as per their demand and requirement. Hence, the Regional Rural Banks (RRBs) were established under the Regional Rural Banks Act, 1976 as per recommendation of Narasimham committee. The RRBs has been advancing loan to farmers, agricultural labourers, small artisans and small entrepreneurs etc. At present, Assam Gramin Vikash Bank (AGVB) and Langpi Dehangi Rural Bank (LDRB) are the two Regional Rural Banks in Assam.

The Assam Gramin Vikash Bank (AGVB) was established on 12th January, 2006 by amalgamating 4 Regional Rural Banks, namely- Pragjyotish Gaolia Bank, Lakhimi Gaolia Bank, Cachar Gramin Bank and Subansiri Gaolia Bank as per provision under section 23 (A) OF RRBs Act,1976. There are 410 nos of branches of Assam Gramin Vikash Bank spreading all Districts of Assam. Out of 410 nos of branches of AGVB, 309 branches are situated in rural areas, 83 branches in semi-urban areas and 18 branches in rural areas of Assam. Out of 58 branches of Langpi Dehangi Rural Bank, 51 branches are situated in rural areas and 7 branches are located in semi-urban areas.

The aggregate deposits of RRBs in Assam has been increased from Rs. 7882.96 crore at the end of March, 2015 to Rs. 7950.43 crore at end of March,2016. The growth rate of deposits of RRBs was 0.86 percent at the end of March, 2016 over the previous year. The total disbursement of credit of RRBs has also been increased to Rs. 4581.04 crore at the end of March, 2016 as against Rs. 4161.72 crore as on March, 2015 which represented an increase of 10.07 percent. The credit deposit ratio of RRBs was 57.62 percent as against 57.79 as on March, 2015.

The achievements of Regional Rural Banks are shown in the table-4.7

Table-4.7: Achievements of Regional Rural Banks in Assam (Rs. In lakh)

Period (as on)	Achievement Under Annual plan			Credit- Deposit Ratio (%)	
	Annual target for all Banks	Achievement of all Banks	Achievement of RRBs	All Banks	RRBs
31.3.2008	175518.40	155511.33	32211.73 (20.71)	50.48	52.64
31.3.2009	221924.24	150226.67	37082.91 (24.68)	45.85	49.62
31.3.2010	257892.21	2507225.49	52181.55 (20.81)	42.05	47.50
31.3.2011	354847.18	289468.82	70261.61 (24.27)	39.71	47.94
31.3.2012	449985.62	458541.64	76721.43 (16.73)	44.64	53.75
31.3.2013	642041.89	463765.9	61755.56 (13.32)	43.56	56.28
31.3.2014	1067096.67	647419.05	78707.27 (12.16)	43.48	55.88
31.3.2015	1001174.85	612794.07	86143.45 (46.37)	42.79	52.79
31.3.2016	779300.00	894483.19	71248.25 (38.47)	50.36	57.62

Figures in bracket shows the percentage share of achievements of RRBs to all Banks.

Source: State Level Bankers Committee report of various years.

(As reproduced in Economic Survey, Assam, 2016-17, p-193)

The Table-4.7 indicated that achievement of all banks were Rs. 155511.33 lakh as on March, 2008 against the annual target of Rs. 175518.40 lakh for all banks during the same time. The achievement of RRBs alone was Rs. 32211.73 lakh as on March, 2008 which was 20.71 percent of share of achievement of all banks. The achievement of all banks has been increased to Rs. 894483.19 lakh against the annual target of Rs. 779300.00 lakh as on March, 2016. The achievement of RRBs has also been increased to Rs. 71248.25 lakh which indicated 38.47 percent of share of achievement of all banks.⁹

4.6.1.(e) National Bank for Agriculture and Rural Development (NABARD)

As per recommendation of Government of India, Reserve Bank of India appointed a Committee to Review Arrangement for Institutional Credit for Agriculture and Rural Development (CRAFICARD) in 1979. Shri B. Sivaraman was

the chairman of CRAFICARD. The structure and function of Agriculture Refinance Development Corporation (ARDC) was examined or reviewed by CRAFICARD in respect of ever increasing requirement of term loan for agriculture and integrating short term and medium term loan with long term loan at national, state, district and village level.

The CRAFICARD felt that inadequate integrated rural development due to certain inherent handicaps inhibited associated with national level institutions which aimed at enlisting the weaker sections in the rural areas within a specific time period. In this context, the committee recommended the formation of a National Bank for Agriculture and Rural Development as a national level organization to provide undivided attention, forceful direction and pointed out to credit problems arising out of the integrated approach to rural development. The Government of India and the Reserve Bank of India approved the proposal and the National Bank of Agriculture and Rural Development Act, 1981 were approved by the parliament. The National Bank for Agriculture and Rural Development (NABARD) was established on 12 July, 1982.⁹ NABARD was set up with a view to rapid development of agriculture and its allied activities and village industries and basically development of rural sector.

The main role of the NABARD is to flow agricultural credit through various agencies in Assam. NABARD does not provide financial facilities and other help to farmers, rural artisans and other rural people directly rather it flows the agricultural credit to farmers through other banking institutions such as commercial banks, regional rural banks, co-operative banks etc. NABARD is considered as an apex institution dealing with policy planning and other operational aspects of rural credit for the development of rural economy of Assam.

In 1987, NABARD took a policy to improve the economic condition of the rural poor by providing financial services to the weaker class in cost effective manner. AS a result, an effective relationship established between self-help groups (SHGs) and formal banking system and in 1992, NABARD formally started the SHG-Bank linkage programme as a pilot project with the support and assistance of Reserve Bank of India.

Thereafter, NABARD introduced another skill development programme in 2006 which is known as 'Micro Enterprise Development Programme (MEDP). The MEDP was a short duration organizing programme within a particular location for skill upgradation and development for generating sustainable livelihood and for opening micro enterprises by the members of SHGs and successfully achieved the goal of these enterprises.

Micro finance movement was launched in Assam during the year of 1997-98. Thereafter, since 2001-02, the microfinance movement was successfully developed, its position in Assam was started with SHG-bank linkage programme of NABARD and within a short period of time, a very impressive growth rate of SHGs linked to bank and total quantity of credit disbursement against SHGs was found.

In 1995-96, NABARD increased 27 percent of its distribution of refinance in the North- eastern states over the previous year. Out of the total refinance of Rs. 67.56 crore received by the North-eastern state in 1995-96. Assam got the large part of 44.46 crore and the lowest share of Rs. 1.24 crore was received by Mizoram. NABARD allotted Rs. 6.30 lakh short term credit to the North-eastern region during 1995-96 for the purpose of agricultural operations of which Rs. 4.50 lakh was reserved for tribal population.

NABARD has introduced a special fund of Rs. 2,000 crore for completing the ongoing infrastructure development project, known as Rural Infrastructure Development Fund (RIDF). NABARD also indicated that the purpose wise distribution under schematic lending for different purposes such as minor irrigation, land development, farm mechanization, horticulture, fisheries, dairy farming, storage and marketing facilities, IRDP etc in Assam from banks in 1995-96 was Rs.30.64 crore and it was estimated Rs.329.92 crore of schematic lending in Assam up to March,1996.

During 1997-98, NABARD has extended the volume of refinance assistance to the various banks in Assam against the term loans to agriculture and allied activities and non-farm sectors including various government sponsored programmes of Rs.81.33 crore which was 24.14 percent growth over the previous year's level of refinance of Rs. 65.52 crore. The total volume of refinance of NABARD during this period was Rs. 117.38 crore.

Out of the total refinance disbursed in the entire North- eastern region, the government sponsored programmes received the highest amount of Rs. 80.32 crore (68.42 per cent) of which a part of Rs. 50.46 crore (42.99 percent) was received by Prime Minister's Rozgar Yojana (PMRY) and Rs. 29.86 crore (25.43 per cent) was followed by IRDP. Besides, the government sponsored programme, NABARD's refinance disbursement flow to banks was the highest of Rs.27.52 crore (23.55 per cent) for loans to non-farm sectors.

There is an achievement of NABARD in case of total volume of refinance under the schematic lending through commercial banks, regional rural banks, scheduled commercial banks was Rs. 135.25 crore as on 31st March, 2005 and it further increased to Rs. 168.56 crore as on March, 2012.

During 2015-16, the total amount of refinance allotted to various banks in Assam by NABARD was Rs. 189.76 crore as against of Rs. 245.85 crore in 2014-15. The following table-4.8 shows the amount of refinance disbursed by NABARD to various banks of Assam as a agency wise, purpose wise and activity wise.

Table-4.8: Agency Wise, Purpose Wise and Activity Wise Refinance Disbursed by NABARD (Rs. In Lakh)

Purpose	2014-15			2015-16		
	Commercial Banks	RRBs	Total	Commercial Banks	RRBs	Total
Minor Irrigation	0.000	15.510	15.510	-	-	-
Land Development	0.000	0.000	0.000	-	-	-
Farm Mechanization	0.000	1183.970	1183.970	-	792.41	792.41
Plantation and Horticulture	200.480	55.630	256.110	-	914.71	914.71
Animal Husbandry (Dairy, Poultry, Sheep, Goat & piggery)	0.000	1898.160	1898.160	-	2338.67	2338.67
Fisheries	0.000	132.830	132.830	-	569.09	569.09
Forestry	0.000	3082.710	3082.710	-	-	-
RNFS (i/c Rural Housing)	0.000	104.730	104.730	2740.01	-	2740.01
Agro Processing	7366.319	0.000	7366.319	-	-	-
SC/ST Action Plan	0.000	10518.450	10518.450	-	-	-
SHG	-	-	-	-	8121.00	8121.00
Others (2 wheelers, SHG, SRTO-Truck etc.)	0.000	26.460	26.460	-	3500.36	3500.36
Toal	7566.799	17018.450	24585.249	2740.01	16236.24	18976.25

Source: National Bank for Agriculture and Rural Development, 2016

(As reproduced in Economic Survey, Assam, 2016-17, p.197)

The table-4.8 shows the drastic change of refinance disbursement pattern of NABARD. The allotment of fund to plantation and horticulture has extended from Rs.256.110 lakh in 2014-15 to Rs.914.71 lakh in 2015-16. Disbursement of fund for animal husbandry has been increased to Rs. 2338.67 lakh during 2015-16 as compared to Rs.1898.160 lakh, for RNFS (ic rural housing) increased to Rs. 2740.01 lakh as against Rs.104.730 lakh.¹⁰

4.6.1. (f) Financing under Kishan Credit Card Scheme

Kishan Credit Card (KCC) is one of the main sources of agricultural credit in India. In Assam, banks have been increasing harass free and cost effective credit support to agriculturists through Kishan Credit Card (KCC) Scheme. The KCC Scheme was launched in 1998-99. The KCC scheme is being implemented in all the regions of the country through all commercial banks, RRBs, State co-operative bank, central co-operative banks and primary agricultural co-operative societies. The KCC scheme issued a credit card and a pass book or a credit card cum a pass book to farmers with his name, address and particulars of land, borrowing limit and the validity period. The total numbers of Kishan Credit Card issued to farmers were 7,388 card in Assam as on 31st December, 2001 with sanctioned loan of Rs.1, 397.73 lakh which is quite insufficient in comparison to other parts of the country.¹¹ The following table-4.9 shows the performance of Kishan Credit Card Scheme in Assam.

Table-4.9: Advances under Kishan Credit Card Scheme (Rs. In lakh)

Year	Annual Achievement		Cumulative Achievement	
	Card Issued (No)	Amount	Card Issued (No)	Amount
2006-07	50067	7862.03	359395	40580.52
2007-08	62132	16365.83	329932	67908.97
2008-09	103361	37589.23	480393	104682.06
2009-10	149822	43055.94	630070	158372.04
2010-11	163063	50495.87	793801	209071.23
2011-12	371474	130329.35	967220	307834.01
2012-13	265797	93219.58	1329203	393538.41
2013-14	308306	150567.42	1586687	1551091.21
2014-15	281889	133136.24	1809898	629941.72
2015-16	217460	108409.61	1706822	691273.68

Source: Reports of State Level Bankers Committee, Assam,2016.

(As reproduced in Economic Survey, Assam, 2016-17, p-195)

The table-4.9 shows the annual achievement of KCC scheme regarding the card issued and facilitated loan annually to farmers. The table reveals that total number of card issued to farmers have been increased from 50067 during 2006-07 to 217460 in 2015-16 and total amount of loan granted to farmers was Rs. 691273.68 lakh as compared to Rs.40580.52 lakh during 2006-07. Cumulatively, total number of KCC card issued to agriculturists have

been increased to 1706822 in 2015-16 in the state since the inception of the scheme. Again cumulatively, the KCC holders of the state have been able to received loan of Rs. 691273.68 lakh since the beginning of the scheme. Thus, 62.76 percent of agriculture based family were covered under KCC Scheme at the end of March, 2016.

4.6.1. (g) Micro Finance

Technology and finance are the two basic needs to reduce rural poverty. The poor in Assam do not have proper access to the organized banking sectors. The rural people require finance for both production and consumption purposes and also need credit in the form of short term, medium term and long term for the development of economic activity related to crop production, animal husbandry, fishery, poultry, repairing shop, cottage industry, handicrafts, small entrepreneurship and trade etc. Hence, the new strategy in the form of micro finance is to ensure flexibility in lending and repayment based on the capacity of the borrowers to earn enough to repay- whether it is daily, weekly, monthly or seasonal.¹²

Micro finance refers to small funding loans to poor family which can help them engaging in agricultural production or in small entrepreneurship. Micro finance is an essential scheme which was introduced to meet the financial requirement of rural poor and poverty alleviation programme and also for improving socio-economic condition of the poor. NABARD introduced micro finance scheme in 1992 with formation of 500 Self Help Groups (SHGs) which was the world largest micro finance scheme in India. NABARD introduced SHGs-Bank Linkage Programme, to provide financial support to the small entrepreneurs (including farmers) which is the most easy credit delivery system. The SHGs-Bank Linkage programme has also been tried to be extending formal banking services to the backward and remote areas. However, the progress of SHGs-Bank linkage programme has started in Assam from 2001-02 onwards. The cumulative performance of SHGs- Bank linkage programme is represented in table-6.10.

Table-4.10: Self-Help Groups Financed by Banks (Rs. in lakh)

Year	Total bank linked SHGs		Deposit linked		Credit linked	
	Number	Amount	Number	Amount	Number	Amount
2006-07	230902	58040.52	121474	5261.61	109428	52778.91
2007-08	257863	57417.70	142147	6044.72	115716	51372.98
2008-09	305132	77365.49	166740	7485.51	138392	69879.98
2009-10	374745	92724.79	210890	9123.46	163855	83601.33
2010-11	433954	118051.17	240032	11195.29	193922	106855.88
2011-12	499183	139741.00	272822	10928.00	226361	128813.00
2012-13	540566	164138.86	281018	12228.9	259548	151909.96
2013-14	589268	175686.05	319417	15092.27	269851	160593.78
2014-15	568225	157395.13	319423	13487.17	248802	143907.76
2015-16	541292	131002.38	316585	10254.68	224707	120747.70

Source: Reports of State Level Bankers Committee, Assam, 2016.

(As reproduce in Economic Survey, Assam, 2016-17,p-196)

The table-6.10 reveals that total numbers of SHGs linked to bank in Assam has been increased from 230902 in 2006-07 to 541292 in 2015-16. Total 316585 numbers of SHGs were deposit linked and 224707 numbers of SHGs were credit linked in Assam. Total amount of deposit of SHGs increased from Rs. 5261.61 lakh in 2006-07 to Rs. 10254.68 lakh in 2015-16 and total amount of credit provided by bank to SHGs was Rs. 120747.70 lakh in 2015-16 against Rs. 52778.91 lakh in 2006-07.

SHGs-Bank Linkage under SGSY

Swarnajayanti Gram Swarojgar Yojana is one of the poverty alleviation programme in India. The main goal of the programme is to uplift the socio-economic condition of rural poor (particularly farmers) through engaging in sustainable economic activities by providing bank loan and government subsidy. Cumulative performance of SHG-Bank linkage programme under SGSY is represented in table -4.11.

Table-4.11: SHG-Bank Linkage under SGS Y (Rs.lakh)

Year	Total credit linked SHGs		Total credit linked SHGs under SGSY	
	Number	Amount	Number	Amount
2006-07	109428	52778.91	54735	36549.70
2007-08	115716	51372.98	54790	31006.57
2008-09	138392	69879.98	69144	45898.88
2009-10	163855	83601.33	84678	55161.36
2010-11	193922	106855.88	102166	74784.79
2011-12	226361	128813.00	123473	94423.5
2012-13	259548	151909.96	134107	106687.46
2013-14	269851	160593.78	139340	105503.75
2014-15	248802	143907.76	123055	92746.31
2015-16	224707	120747.70	112806	78666.13

Source: Reports of State Level Bankers Committee, Assam.

(As reproduced in Economic Survey, Assam, 2016-17, p-196)

The table-4.11 reveals that total SHGs linked with credit under SGSY have been increased from 54735 in 2006-07 to 112806 in 2015-16 and total amount of credit has also been increased from Rs. 36549.70 lakh in 2006-07 to 78666.13 lakh in 2015-16.¹³

4.6.2: Non Institutional Sources of Agricultural Credit

The village moneylenders are playing an important role in the rural sector. The private agencies are still considered as the main source of agricultural credit in some remote areas of Assam. The predominance role of private agencies in the field of agricultural finance is owing to inadequate number of banking institutions and there are some areas in Assam without any branches of financial institutions. The process of credit delivery system of bank is found difficult by illiterate farmers. The private moneylender also provides fund for productive and non productive purposes without any formalities and for short term and medium term financial requirement of cultivators. In some areas of Assam, private agencies are still the only sources of rural credit available to farmers. Non institutional sources of agricultural credit are as follows-

i) Moneylender

From the ancient time, moneylenders have been playing an active role in advancing loans to farmers. There are two types of moneylenders: professional moneylenders and non professional moneylenders. The money lending activity is the main occupation or profession of professional moneylenders. The mahajans and some village shop keepers advance loan to farmers and carry on this activity along with their own business in rural areas. On the other hand, the cultivation is the main occupation of non professional or agriculturist moneylenders. This section of farmers can produce surplus product and they have sufficient fund. Money lending activity and cultivation are both done at the same time.

ii) Traders and Commission agents

Traders and Commission agents are providing credit to farmers for their land cultivating activities. The cultivators need fund to meet their requirement during the gape period of investment of fund for cultivation and harvesting of crops and the farmers are compelled to sell their crops at very low prices before maturity or before harvesting of crops. The creditors take heavy commission from farmers. This type of credit is usually provided for cash crops. But the role and importance of this system has been reducing in the recent past.

iii) Relatives

Cultivators are often taking loans from their own relatives in cash or kind in order to overcome their crisis of funds. These are informal loans and are returned after harvest. Farmers are normally borrowing these loans without interest or at a very low rate of interest.

iv) Land lords

Landlords are also providing loans to small as well as marginal farmers and tenants to fulfill their financial needs. This source of credit includes all the ill practices associated with moneylenders, traders, etc. Landlords are taking very high rate of interest and landless agricultural labourers are often forced to work as a bonded labour.¹⁴

It can be noticed briefly here that village moneylenders have a special characteristics which enable them to occupy an important place among the cultivators and able to provide services to loan seekers. The reasons for which the moneylenders can dominate other agencies are as follows-

- i) Normally, the moneylenders are local persons and they have a clear picture of local situation and on debtors. They have a perfect knowledge and can understand the main motive of borrowers and their repaying capacity of loans.
- ii) Moneylenders can easily tackle any problem and can adjust themselves with a changing situation. There is no any rigid rule associated with credit delivery system. All rules are flexible according to needs with changing situation.
- iii) There is no any high power authority to implement a special rule like financial institutions and they are free to change the credit delivery procedure as per needs.
- iv) Farmers can meet the village moneylenders at any time without any difficulties because they have no any special office time.
- v) Moneylenders do not take any property as a mortgage or security against a loan.
- vi) Borrowers are able to receive their loans within a very short period of time without delay.
- vii) Cultivators need not submit the utilization of borrowed fund which is released for productive and unproductive purposes.

On account of these reasons, moneylenders have occupied a special place in the agricultural sector for long time. Farmers need not to repay the principal amount after payment of interest. Moneylenders keep friendly relationship with borrowers and even share their family occasions. After all, the co-ordination of moneylenders cannot be neglected in the situation where banking institutions are completely absent and it is not a matter of fact of high rate of interest where no financial institution have provided loans to them.

It is a fact that private agencies are the main sources of agricultural credit in some backward areas. However, they are not free from various limitations. The

moneylenders are doing ill practices as a monopolist in the field of agricultural credit which is possible only due to illiteracy and poor economic condition of cultivators. They exploit the poor farmers by charging high rate of interest and ultimately, cultivators are in debt-trap and create vicious circle of poverty. The following loopholes are generally associated with the village moneylenders-

- a) The noninstitutional sources are taking high rate of interest from the poor farmers as private agencies are the only sources of credit in some remote areas and are playing monopoly role in case of farm finance.
- b) The private agencies are advancing loan without any primary investigation or schemes. As a result, farmers are taking loan unnecessarily for unproductive purposes which may causes of rural indebtedness.
- c) During the time of repayment of debt, the borrowers are forced to sell their product (crops) before maturity to the mahajans at very low prices and they need to purchase their requirements at high prices.
- d) Sometimes, private agencies collect fees from farmers for charity, temple, salami, document writing etc. which go to the hands of borrower otherwise.

Cultivators are exploited by moneylenders through exorbitant rate of interest and they are not in a position to pay high rate of interest and the principal amount or even lose their land. Farmers are living under heavy pressure of debt. All the activities of moneylenders should be controlled and the financial institution should be available to provide loan for farmers and then only it will be possible to improve economic conditions of farmers.¹⁵

From the study analysis of this chapter, it can be understood that agricultural credit is an important weapon in the upliftment of agricultural sector. Private money lending agencies are still functioning as substitutes of institutional credit which is not good from the social welfare point of view. Thus, institutional credit should be sufficient as to meet all the requirement of agriculturists for production purposes. Village money lender plays an active role in the field of supplying loan to rural poor and marginal farmers unless and until bank branches are opened completely in all unbanked and remote areas in Assam and banks make easy system of lending, process

of repayment period, and requirement of security against credit sanction. Hence, spreading of financial institutions in all the corners of the country is utmost important from the social and economic point of view.

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