CHAPTER-VII

Necessities of Agricultural Credit and Credit delivery system in Assam

7.1: Introduction

Agriculture is the main occupation for about 48 percent population in India. Agricultural sector provides food security to the nation, raw material to industrial sector, generating exportable surpluses and some other goods required in non agricultural sector. Agricultural sector alongwith its allied sectors is unquestionably the largest employment generating sector in India and the state of Assam.

A. Dalwai said, "India's agricultural sector has been undergoing a structural change with respect to its farm size, cropping pattern and in the national GVA. It would benefit all concerned with policy formulation and implementation, to recognize that agriculture sector is the largest private enterprise in the country. It is logical, therefore, to enable the spirit of private enterprise of the farmers to excel itself. So far, the nation's broad focus has been on achieving higher production and realizes food security, which has been done the growing population. And, inclusiveness implies the need to provide equal opportunities for all categories of agricultural households including the agricultural landless labourers and the small & marginal farmers to grow and earn net family incomes at levels much higher than do now."[1]

Agriculture is the traditional sector accepted by the people as a source of earning and a way of living. Agricultural sector in Assam and in India as a whole is still remaining in a deplorable condition. In Assam, more than 75 percent of the total population is directly or indirectly dependent on Agricultural sector. But, they took this sector as a traditional source of livelihood rather than thinking as main way of living and earning higher income through modernization of the sector.

Agricultural sector is playing a primitive role in the development of national economy. Agriculture and its allied sectors provide food to more than 130 crores of people and contribute 30 percent to GDP and 10 percent share in exports. So, government should pay attention in the development of agricultural sector. There is an urgent need of use HYV seed, chemical fertilizer, pesticides, insecticides and modern

implements for augmenting production and productivity of crops which are possible only by advancing credit to agriculturist. “In view of its increasing population, besides direct employment to about 40 percent of the world populace, it has become a indispensable tool for industrial politics, at least in the hands of so called developed countries”.[2] During the period of colonial rule, agricultural sector was totally neglected. But after independence, agriculture sector occupies an important place in the Indian economy and the economy of Assam.

The changing cropping pattern, production of commercial crops and double crops pattern have represented a new importance in the line of domestic demand and export requirement. Now agriculture is the backbone of the economy of Assam and required sufficient fund for the development of this sector. So, finance is considered as a vital important aspect to revive the production level of agricultural sector.

7.2: Significance of Agricultural Credit and Development of Agricultural sector

Indian Economy is basically agrarian structure. Agriculture is the vital pillar of Indian economy. Agriculture is still recognized as a backward sector due to various economic and non economic factors even successively past many five year plans. The share of agricultural sector to the Gross Domestic Product (GDP) is declining which was 45.5 percent in 1971, 34 percent in 1990 and 24.7 percent in 2001, 13.9 percent in 2014. The reduction of total numbers of workforce has, however, been marginal. According to data available provided by the census of India reveals that 98 million people got employment opportunities in agricultural sector in 1951 (agriculturist and agricultural labourers) and it was increased to 263 millions in 2011. However, the percentage of people working in agricultural sector is reducing from70 percent in 1951 to 54.6 percent in 2011. Thus, agricultural sector is the single largest private sector occupation and large growth rate of agriculture is significant for a large chunk of population. Development of agricultural sector is very much important for rapid growth of industrial sector because agriculture is the main source of raw materials required in some leading industries such as cotton and jute textile, sugar, flour mills, vanaspati, oil crushing and rice husking etc.[3]

Agricultural credit is considered as one of the most powerful instruments for conducting all development activities in agricultural sector. In India and in the state Assam, agricultural finance is essential for operating agricultural activities because Indian farmers are economically backward. Agriculturists need financial assistance for purchasing HYV seeds, fertilizers, fodder, agricultural implements and improvement of land etc. Thus, Government should take proper policy to provide cheap agricultural credit facilities to farmers.[4]

"Credit is a means of obtaining resources at a certain period of time, with an obligation to repay it as subsequent period in accordance with the terms and conditions of the credit obtained."[5] Agricultural credits is considered as an urgent need of farmers because there is a large gap between necessities of credit for operation of agricultural activities and the capacities of farmers to finance themselves. Thus, agricultural credit refers to the borrowed fund for investment in productive activities as well as agricultural operations.

Agricultural credit refers to the availabilities of money supply to agriculturists for production of crops by limited productive resources. Credit is a powerful weapon to promote welfare of the society. Thus, agricultural credit is significant in the context of developed input and output markets and it is needed to small and marginal farmers because they have almost no resources for investing in productive purposes.[6]

In the ancient time, agricultural credit was limited only to village money lenders and some needy farmers. During the period of draught and flood, small and marginal farmers usually borrowed food grains from rich farmers on the condition that the borrower would need to return the same quantity as interest after harvesting of crops. Small and marginal farmers are not able to save from their meager amount of income and they enter in to vicious circle of poverty which can only be broken by using credit and the credit should be properly channelized in productive purposes. Hence, agricultural credit is playing an important role in increasing income of the rural poor.[7]

According to William G. Murray, " credit makes it possible for farmers to take advantage of new machines, good seeds, fertilizers, livestock, labour, all of which enable the farmers to organize and operate his farm on more profitable basis",[8]

In order to adopt modern technique of production and implement of scientific tools of production, farmers require huge amount of fund which is possible only by taking loan as their own capacity of fund is very low or unable to maintain their living standard at a subsistence level. Thus, credit is considered as a bad master, when it is mismanaged use. It may be considered like the French proverb- credit supports the farmers' as the hangman's rope supports the hanged." Thus, agricultural credit can be assumed as one of the main elevators in improving socio- economic condition of agriculturists.

Hence, credit is necessary for all round development of rural sector and it becomes possible only, when, credit is rightly channelized in the productive purposes, otherwise, it may create a problematic situation in repaying loan and ultimately they would enter in to a debt-trap.

7.3: Need for Credit in Agricultural Sector

Finance is the key element of economic development. When financial institutions set up in a particular region, then, the region will be gradually developed and in a developed region, the financial institution will be established automatically to provide long term, short term and working capital to the industrial as well as agricultural sector. Thus, Government should take the responsibilities to provide suitable environment to encourage the financial institutions.[9]

Finance is the main lever of all economic activities. It is considered as a lubricant for all growth process. Without financial support, development process would be paralyzed. Farmers need finance for purchasing seeds, fertilizers, implements etc and repayment to others such as wages and irrigation charges, repayment of interest on credit etc. Agriculture occupies a central place in the national economy and plays a strategic role in the development of all activities. Agriculture and industries both are recognized as the two wheel of development of an economy and both are supplementary to each other. A developed agricultural sector is pre-requisite for the development of sound industrial sector and alternatively, a strong industrial sector is necessary to agriculture sector.[10]

In Assam, agriculturists generally belong to poorer class and they are normally poverty stricken. A financial support is the basic requirement of this poorer class to

perform their daily economic activities. Generally, farmers need credit for three reasons based on time and purpose of requirement.

Credit depending on time period

Farmers require finance 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 to 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.

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.

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 operation.[11]

The Finance requirement of agriculturists is of two categories namely productive and unproductive loans. Farmers need credit for productive purposes such as to purchase seeds, fertilizers, implement, bullock, fodder, payment of tax to the government, permanent improvement of land etc.

Besides, the productive loans, farmers are also bound to take loans for unproductive purposes such as to maintain the expenditure of marriages, births and deaths, for some social custom and for litigation, to repair the houses, to meet the medical treatment expenses etc. These types of loans are totally unproductive. Farmers are facing a serious problem at the time of repayment of interest and principal amount and they enter in to debt-trap and ultimately in a vicious circle of poverty. In this way, finally farmers are compelled to sell their tiny properties of small plot of productive land, house or bullock. Though, these consumption loans are unproductive directly, but indirectly, these are productive because without fulfillment

of these basic needs, performance of cultivators is not satisfactory. Thus, government should provide sufficient credit facilities to farmers at a lower rate of interest.[12]

Agricultural sector remains underdeveloped due to two reasons namely credit and non credit and some times, this non credit cause may be attributed to credit factors. Agricultural credit is considered as an important factor for the development and growth of all economic activities such as agriculture, industry, trade and commerce, transport and other services. Finance is an urgent need for modernization and mechanization of production method of agriculture sector. Agriculture sector is now considered as a large employment provider industry and needs to invest huge amount of investment which is possible only from outside finance. According to F. Nicholson," the chief objectives for which agriculturist need money are: to pay current expenses of cultivation such as purchase of seeds, manure etc., the purchase of cattle, implements, and raw materials, to acquire new land or improve land by irrigation, drainage, weeding and planting, to pay of old debt, to build and repair houses, to purchase food staff and personal necessities, to pay land revenue to the government, to meet expenses connected with marriage and other social events in the family, to buy jewelry to conduct law suits."[13]

In agricultural sector, most of th cultivators are living below poverty line. They are generally small and marginal farmers and near about 50 percent are landless agricultural labourers. Their incomes are at just subsistence level or below subsistence level and represent a deficit family budget. Hence, outside finance is very necessary to poverty stricken farmers' class to carry on their business.[14]

Financial assistance is necessary to the rural class to maintain their family expenditure, to improve living standard and to carry on their agricultural activities. Since this poorer class has no capacity to save their income, so to continue work in agriculture, farmers need to take loan. Indebtedness or taking loan is not sign of bad, if it is properly used in productive activities and can improve their economic conditions. " If the debts of rural population were incurred primarily for the purpose of improving agricultural productivity, the growth and extensiveness of rural indebtedness would give no cause for alarm"[15]

Long term credit is important to farmers as they make capital to invest in production activities and enable to repayment of debt by increasing productivity. In

this perspective, Reserve Bank of India stated a note in 1936 which is known as preliminary report. The report states, "the long term credit is more important and if any effective steps are to be taken to make the agriculturists credit worthy, this is the first problem which is to be tackled." Thus, it is clear that farmers need sufficient financial assistance for agricultural operation and produce more crops.[16]

Five factors are generally considered as main accelerators for the development of agriculture sector at national economy. These factors are (a) training, (b) availabilities of finance, (c) collective activities of farmers, (d) extension of productive land, (e) planning estimation of production. Thus, financial assistance is recognized as a strongest element of upliftment of agricultural sector. Agricultural credit is also required for transforming and for making structural change of agricultural operating system. In India and the state of Assam, the following factors are generally responsible for necessities of credit in agricultural sectors-

i) Most of the farmers are poor or even living under Below Poverty Line (BPL).

ii) Poor farmers are always facing a problem of crisis of fund.

iii) Expensive agricultural inputs are needed to purchase for employing in productive activities.

iv) Rapidly increasing the value of agricultural inputs.

v) Time gap is long between investment in production and harvesting of crops which may cause requirement of higher credit.

vi) Poor productivity due to irregularity of monsoon.

vii) Excess credit needs for the repayment of old debt.

viii) Agricultural credit is also necessary for raising the productivity of both land and inputs.

More financial assistance is important for expanding productive land by way of bringing waste land under cultivation, adoption of chemical fertilizers, pesticides, insecticides, provision of irrigation facilities, improving productive capacity of labourers, etc. Sufficient agricultural finance is necessary to transform traditional method of agricultural activities to commercial method of production activities. In

India, especially in Assam, majority of small and marginal farmers are not capable to meet their family expenditure and living under subsistence level. Government should formulate proper policy measures for advancing loans at cheaper rate for the purpose of agricultural activities and allied activities which can improve their income and productivity. Agricultural credit is helpful in increasing productivity through cumulative process such as credit increases income, income increases saving, saving transfer to investment, again increases production, income consumption, demand condition, employment and ultimately standard of living. Thus, financial assistance is a strong instrument for overall progress of rural economy of the country.[17]

The agricultural credit is utmost important for the improvement of agricultural sector. There are so many important factors which are responsible for the requirement of credit in agriculture and can be described as follows:

7.3.1: Inadequate Income of Agriculturists

The poorer class of the society is generally known as cultivators. Illiterate and poor farmers are earning very meagre amount of income compared with other non agricultural sectors. Tarshis observes that earning level of farmers is lower than clerical employee in non agricultural sector. Usually, income of rich agriculturist can be only compared with clerical worker in non agricultural sector. Inadequate income of farmer is one of the serious problems of farm.[18]

The low income refers to low capacity to save, low investment and lower level of production and productivity as a result farmers are in the line of vicious circle of poverty. It is clear that lower level of productivity is one of the limiting factors to increase saving and investment. But agriculturists have to invest money to perform agricultural activities and to produce more crops which is possible only to farmers by borrowing loans from outside sources. [19]

Dandekar idea reveals that occurring a peculiar situation in agricultural sector of India which is known as “paradox of Growth”. The registered per capita income from all activities except agriculture were increasing during 1970-71 to 1980-81 and per capita domestic income in agriculture, fisheries, forestry diminished to Rs.1293 in 1981from Rs.1305 in 1971. [20]

The condition of agricultural sector has been very deplorable even after the post reform period and it is clear from the study made by Desai (1998) and point out that annual production of food grains has diminished from 3.36 percent to 2.57 percent in 1995-96.[21]

Hence. It is clear that sufficient credit at the right time is necessary for increasing production and productivity of farmers. Government should take proper steps to provide sufficient finance to cultivators with subsidy and low rate of interest.

7.3.2: Uncertain Income

Income uncertainty is another limitation of agricultural sector. Farmers are always remaining in doubt for their income from crops production because there are so many incidences during production period. Natural calamities like flood, drought, storm, etc. are the serious causes of low productivity of agricultural sector. Farmers in India, specially in Assam are still depending on rain water. But irregularities of rain, flood, drought, attack of pest, insects, etc. are the factors responsible for uncertainty of production and income of farmers. Another problem arises to farmers is the low market price of product for which farmers are unable to cover even the cost of production and ultimately, they are indebted. There are some unpredictable and unprotected dangerous situations coming to agricultural sector such as over flood, cyclone, etc. Thus, farmers' income cannot be predictable like industrial sectors.

Farmers are always taking risk and bearing uncertainties for the following reasons-

a) Farmers need to take risk from natural calamities such as over flood, drought, earthquake, storm and cyclone, etc may cause damage of crops production. Lower level of production due to attack from pest, insect and various diseases of crops. Sometimes, loss occurs due to sudden accident and death of cattle. Hence, farmers' income from agricultural activities is uncertain.

b) Farmers need to take risk to save their property from fire, thefts, robbery and burglary etc. and to keep their production inputs intact during the period of cultivation

c) Farmers are taking risk of occurring losses and maintaining cost of production due to variation of market price of product. Sometimes, market value of product decreases to the level that cultivators are not able to get even the cost of production.

d) Risk of operating productive activities because farmers are facing different problems such as disease, accident, disabilities and even death of farmers which are recognized as a barrier of productivity of cultivators.

According to Morman, "the business of farming is the most precarious of all industries and it is very risky at the best." [22]

Thus, the cultivators are not able to predict their income and they are always suffering from uncertainties of expected income. The government should execute the minimum price support policy for major agricultural product and it is to be ascertained to the farmers that they are capable of getting at least the minimum value from their agricultural product which may be a little hope to manage their family expenditure.

Under such circumstances, agricultural credit is essential to farmers to continue their agricultural activities and allied activities. Financial assistance is also important to set up small and cottage industries and to develop the infrastructure facilities of farm which may accelerate the income of farmers.

7.3.3: High Level of Cost of Production

Expenditure in agricultural sector is a never ending process. The cost of production has been increasing due to modernization of production technique in agricultural sector and it is highly capital intensive. Lack of fund is one of the major constraints of agricultural sector. The agriculturists have to borrow funds from outside sources to purchase implements such as HYV seeds, chemical fertilizers, pesticides, insecticides, tractors, harvesters, pump set, power tiller, threshers, etc which are very costly. The productivity of both land and agricultural labourers will increase by the application of modern inputs in agricultural activities. The production of multiple crops at the same time in the same plot of land is possible only by adopting scientific method of production. Thus, sufficient credit facilities are necessary to adopt such sophisticated modern inputs and scientific technique of production. In the mid of sixties, new era of agricultural sector in India was started with the introduction of Green Revolution. In 1968, India was recognized as a highest producer country of rice and wheat. The cost of production has been increase due to purchase and adopts modern inputs. The production and productivity of agricultural activities has also been

increased successively. The variable factors of production per acre in scientific method of production are required five times more than traditional method of production in agriculture. [23]

"Investment in durable capital can be seven times more in modern farms in comparison with traditional farms." [24]

The agricultural sector is gradually transforming from traditional techniques of production to modern techniques of production, from labour intensive technique to capital intensive technique. The investment of huge amount of money in agricultural sector is also necessary for the adoption of some new elements such as micro irrigation system, domestically produced manure, green house farming, tissue culture etc. Thus, for the purpose of using new technology and modern implements of production, cultivators need to borrow funds from financial institutions.

7.3.4: Time Gap between Investment and Returns from Production Activities

In India, especially in Assam, farmers remain busy in agricultural activities only a particular season and rest of the year they are without any works for which, they are known as seasonal unemployment in agricultural sector. There is a long gap between investment in agricultural activities and returns come from production. During this gap period, financial support is very needful to farmers to meet the consumption expenditure of their family and expenditure on production activities. Generally, farmers' income occurs after harvesting of crops, i.e. one time in a year. But, they are spending money on consumption in the whole year on a continuous basis. Farmers have to manage these expenses either from past savings or by taking loans.

7.3.5: No Other Sources of Funds

Credit is the only source of getting funds for financing agricultural activities of farmers. The farmers are not able to collect any share money from any agency like industrial sector or any others non agricultural activities. The farmers are living in rural areas and in rural areas; they cannot earn income from rental house or rent from a piece of land like urban places because in rural areas, there is no demand at all.

Farmers' income is so meagre that they are not able to save. But, expenditure is ever increasing process. Hence, cultivators need to take loans from various sources to meet the increasing expenditure on the development of agricultural activities.

7.3.6: Development of Allied Activities and Mobilization of income

Additional income of farmers is now considered as one of the important condition of economically empowering them. The farmers can earn extra income from allied activities such as dairy farm, poultry farm, fisheries, horticulture, floriculture, etc. Thus, development of these allied sectors is most essential from economic point of view of the rural poor. The farmers need to take loans to carry on these allied activities along with agricultural activities. The agriculturists can stabilize their income by earning additional income from these allied sectors and also can mobilize their income from one sector to another.

7.3.7: Commercialization and Modernization of agriculture sector

Since the colonial rule in India, crops production pattern has been changing from traditional foodgrains production to commercial cash crops production. The cash crops are helpful to industrial sector as raw material such as jute, cotton, sugarcane, oilseeds, etc. However, production of foodgrains at large scale is also highly necessary for food security of the country. The farmers have to borrow funds to produce these cash crops by adopting modern agricultural inputs.

7.3.8: Diversion of Factors of Production and Introduction of Multiple Cropping Patterns

In modern agricultural sectors, some fixed factors of production including land can be diverted from one use to another or changing the production of one crop to another. Multiple crops production in the same plot of land is also possible in scientific method of production. Availabilities of finance is required to farmers to perform these activities by applying modern inputs of production.

7.3.9: Irregular Production of Farm Output

The output produced in agricultural sector is highly irregular because agricultural activities are seasonal. The demand for agricultural credit is more during peak season and during off season, demand for loan is less.

7.3.10: Excess Demand for Agricultural Credit

Demand for agricultural credit is increasing with the changing scenario of agricultural sector. The farmers are demanding credit for the purpose of upliftment of agricultural activities and their demand for credit is of three types- namely short term credit, medium term credit and long term credit. The short term credit is known as crop loan which is demanded for buying seeds, fertilizers, pesticides and any other expenses related to crops and the medium term loan is demanded for buying low cost productive inputs. The demand for long term loan arises for the permanent settlement of agricultural sector such as leveling of land, construction of minor irrigation system, purchasing of costly inputs, etc. Thus, provisions of finance should be available to farmers. But credit provided to farmers by various agencies is less than actually requirement of credit. Hence, government should provide sufficient credit facilities to farmers.

7.3.11: Poor Financial Capacities of Non-institutional Sources of Credit

The agricultural credit provided by non institutional sources is not adequate. This type of credit is always exploitative and costly. The village money lenders and landlords are not able to provide credit for long period and for huge investment. Sometimes, it may have the opposite reaction in the development activities of agricultural sector. But, various institutional agencies can provide available finance as per demand condition from farm sector. These types of credit are not profit motive and exploitative, but helpful and welfare oriented to the rural poor. Thus, credit facilities provided by various institutions should be sufficient for the growth of rural economy.

7.4: Agricultural Credit Delivery System in Assam

Agriculture plays a prime role in the national economy as well as in the state of Assam. Agricultural sector is recognized as a highest provider of employment opportunities to the rural poor and also provider of raw materials to industrial sector. Development of industrial sector is not possible without development of agricultural sector. Thus, development of agricultural sector should not be neglected. In India especially in Assam, farmers are financially very poor and socially neglected group. Lack of funds is the serious problem of farmers. Financial assistance plays a crucial role in the development of agricultural sector as well as improvement of socio-economic conditions of farmers. Illiterate farmers find difficulties to take loan from financial institutions due to hard and fast rules and need to submit security against loans. The poor farmers are normally seeking loans from village money lender or landlord at exorbitant rate of interest and ultimately, they fall in debt-trap. This debt-trap reduces their encouragement and may adversely affect on productive activities. With the modernization and commercialization of agricultural sector, the farmers need to invest huge amount of capital for productive purposes. In the changing environment of agriculture, small and marginal farmers are not able to purchase technologically advanced inputs. Hence, timely and sufficient quantities of credit delivery system play a vital role in the progress of agricultural sector and consequently, higher level of production.

The credit delivery system of various agencies is not simple. The credit delivery system should be such that the borrowers are able to get financial help at the right quantities at the right time and at the right price. It should be monitored that whether, the funds are properly utilized in the productive channels or not and it can be recovered at the right time. The available credit delivery is necessary to purchase modern inputs and to invest capital for productive purposes. Sometimes, cultivators have to spend the borrowed funds for unproductive purposes such as to perform social ceremonies and unexpected disease etc, for which, they are not able to repay the debt in time and creates overdue problem. This overdue problem may weaken the rural credit structure. There are three segments of credit delivery system. These are farmers, institutions and policy maker. These tree segments construct the entire rural

credit structure and they are interrelated to each other. The monitoring procedure over the structure together is very complex, but can be monitored them separately to each other.

In case of monitoring the rural credit structure, the basic requirements is the assessment of borrowers and how many farmers are benefited from institutional credit, different criteria imposed for selection and period of recovery of loans, etc. Despite these criteria, another condition of farmers' education should be considered as basic need for getting loan. Illiterate farmers are not aware about the different schemes advanced by different banking institutions. They do not know about the new schemes launched for farmers, how to approach bank official etc. Thus, farmers' education is considered as a basic need to use agricultural credit and prepare a proper credit delivery system.

The changing scenario of Indian agricultural sector over the years has increased the requirement of larger volume of credit supply to agriculture sector and need to improve the infrastructural facilities of rural areas.[25]

In India, there had been a discussion about the increasing need of rural credit disbursement and operating financial institutions during the decade of financial sector reforms in 1990 and observes the positive and negative impact of its implementation. In this reforms era, the main issue was to confirm about the ascertainable and efficient credit delivery system to farmers and provided sufficient finance to agricultural sector. However, the main barriers of ensuring effective rural credit delivery system are overdue problem and Non Performing Assets (NPAs) of rural financial institutions.

In general, three financial institutions namely Commercial Banks (CBs), Regional Rural Banks (RRBs), and credit Cooperative are the principal banking institutions to provide required financial assistance to the agricultural sector in rural areas. These three banking institutions together with Land Development Banks (LDBs) constitute the rural financial institutes in India. These rural financial institutions are always helping the rural sectors by way of advancing funds at a reasonable rate of interest.

The development path of rural credit delivery system of financial institutions can be categorized into three stages. In the first stage, the credit cooperative occupied the monopoly power of rural credit delivery system during the period of 1904-1969. The second stage was during the period of 1969-1991 with the introduction of commercial banks with nationalization of 14 major commercial banks in 1969 in the rural credit delivery system and establishment of Regional Rural Banks in every corner of India during 1975and facilitate the banking service at a lower cost to the rural poor. The third stage of credit delivery system was started from financial sector reforms in 1991. The financial sector reforms refers to transforming of rural credit delivery system by way of reorganizing the banking institutions for providing adequate loans to the rural sectors in efficient manner. [26]

7.4.1: Agricultural Credit Delivery System through Multi Agency Approach

Private money lending agencies are exploitative, inadequate and defective because they are motivated by profit. Private agencies are not able to provide long term credit for huge investment. Institutional credit is helpful to cultivators to increase their productivity and income. The Indian farmers are facing a serious problem of finance required for the development of agricultural sector and shows that agricultural productions are gradually deteriorating. With a view to help the farmers with available credit facilities and to increase the productivities of agricultural sector, Government of India established co-operative credit societies and land mortgage banks. A rural credit survey report in 1950-51 revealed that the co-operatives could supply only 3.3 percent of total credit necessities of farmers. While, remaining 93 percent of credit requirement of farmers was fulfilled by the village money lenders. The Multi Agency Approach was adopted as per the recommendation of All India Rural Credit Survey Committee in 1969.

On the recommendation of this committee, the reserve Bank of India took various steps to strengthen the co-operative movement. In 1955, the State Bank of India was established with a view to develop the rural sector after nationalization of Imperial Bank of India. In 1969, 14 major commercial banks were nationalized and establishment of Regional Rural Banks in every places of the country to provide rural credit.

The Multi Agency Approach has been advancing loans to agricultural sector since independence. The Multi Agency Approach is known as institutional credit. The co-operatives, commercial banks and Regional Rural Banks constitute the multi agency approach which has been adopted to supply cheaper and sufficient credit facilities to farmers. The major policy of the government is that financial institutions have to supply available credit at the right time with a view to assist the weaker section and to develop the backward region of the country. [27]

The main objective of the policy is that it ensures the sufficient credit facilities at the right time to the farmers. Again, the policy tried to reduce and remove the village money lenders' activities from the rural sector and facilitated available credit facilities to all the regions of the country. The gradual increase of institutional credit to farmers can be shown in the table-7.1.

Table-7.1: Disbursement of Institutional Credit to Agriculture. (Rs. in Crore)

Year	Cooperative Banks Amount	%	RRBs Amount	%	Commercial Banks Amount	%	Total	%
1984-85	3440	55	-	-	2790	45	6230	100
1997-98	14090	44	2040	6	15830	50	31960	100
2002-03	23720	34	6070	9	39770	57	69560	100
2006-07	42480	21	20440	10	140380	69	203300	100
2007-08	48258	19	25312	10	181088	71	254658	100
2008-09	36762	13	26724	9	228951	78	259337	100
2009-10	63497	17	35217	9	285800	74	384514	100
2010-11	78121	17	44293	9	345877	74	468291	100
2011-12*	87963	17	54450	11	368616	72	511029	100
2012-13	111203	18	63681	10	432491	72	607375	100
2013-14	119963	17	82653	12	509005	71	711621	100

Source- Economic Survey, 2010-11, NABARD, Annual Report (Various Issues), Agricultural statistics, 2014. * For provisional

The table-7.1 states that total delivery of agricultural credit from institutional sources has been increased from Rs. 6,230 crores in 1984-85 to Rs.711621 crores in 2013-14. Though, the total credit disbursement from co-operatives increased from Rs. 3440 crores in 1984-85 to Rs. 119963 crores in 2013-14, but the share of co-operatives to the total institutional credit diminished from 55 per cent in 1984-85 to 17 per cent in 2013-14. The total supply of credit provided by RRBs had increased from Rs. 2040 crores in 1997-98 to Rs. 82653 crores in 2013-14 and the contribution of RRBs to total institutional credit also increased from 6 per cent to 12 percent during the same period. In case of commercial banks, total disbursement of rural credit was increased to Rs. 509005 crores in 2013-14 from Rs. 2790 crores in 1984-85 and share of it to total institutional credit was increased from 45 percent to 71 percent during the same period. [28]

Thus, the table 7.1 reveals that total delivered institutional credit to agricultural sector has been successively increasing in India. But, it is need to be analysed that though, institutional credit has been increasing to a greater extent, yet, it cannot cover every corner of backward and remote areas in India, due to insufficient branches of financial institutions in backward areas and lack of knowledge of illiterate farmers about the new schemes of agricultural credit formulated by the government. Thus, farmers are normally taking loans from village money lenders at a high rate of interest. This is evident from the study made on rural credit by the Hindustan Times (HT) and India Investment Economic Foundation (IIEF) in 2004. The study revealed the share of various sources in to total rural credit as shown in the following table-7.2.

Table-7.2: Share of different sources in rural credit during 2004

Agency	Share in total credit (%)
Money lenders	70
Public sector Banks	10
Co-operatives Banks and societies	9
Government loans	1
Self Help Groups (SHGs)	1
Others	9
Total	100

Source: Hindustan Times- IIEF study, 2004.

The table 7.2 shows that the share of money lender in the total rural credit is the highest position, i.e., 70 percent. The contribution of public sector banks is 10 percent. In case of co-operative societies, it is 9 percent. The share of Government loans is 1 percent and SHGs' share is also 1 per cent and other sources contribute 9 percent. Hence, from the study, it can be understood that private agencies are still playing a crucial role in the disbursement of rural credit for the development of rural sector.[29]

7.4.2: Disbursement of Agricultural Finance in Assam

Assam is a state of rural base economy. So, the rural structure of the state must be developed. Agricultural finance is a strong instrument in transforming the rural economy of the state. In Assam, the farmers are facing a serious problem of shortage of funds. Though, the sources of agricultural credit are large, but inadequate supply of credit in comparison to demand for credit. Thus, Assamese farmers are taking loans from private agencies to meet the additional demand for agricultural sector at exorbitant rate of interest. In recent past, various financial institutions have taken steps to flow agricultural loans in the state. These financial institutions have tried to deliver adequate finance at the right time without delay. In this perspective, overdue problem is standing as a barrier in rural credit delivery system in Assam.

As per the reports of State Level Bankers' Committee, Assam that among the priority sector, the agriculture contributes to the state has increased to 38.6 percent in2014-15 from 34.6 per cent in 2013-14 as against 34.04 percent in 2012-13. On the other hand, the share of agricultural finance to the total bank credit was 20.58 percent as on March, 2015 and it was 19.78 percent as on March, 2014. The table-7.3 reveals the trend of disbursement of credit to agriculture and allied activities under annual plan of banks in Assam.

Table-7.3: Trend of credit flow to agriculture and allied activities under annual credit plan in Assam.

Year	Advance to Agriculture & Allied Activities (Rs.incrore)	Crop Loans (Rs in crores)	Percentage share of crop loans to total agricultural Advances	Per capita crop loan (Rupees)	Crop loan per farmer family # (Rupees)
2009-10	814.69	359.39	44	134.82	* 1307
2010-11	876.76	373.63	43	139.94	* 1359
2011-12	2002.47	1082.03	54	346.80	* 3935
2012-13	1851.01	908.28	49	291.11	* 3303
2013-14	2756.66	1460.02	53	468.00	# 5368
2014-15	2492.60	1599.75	64	513.00	# 5881
2015-16	3901.29	2080.00	53	667.00	# 7647
% Growth 2015-16 over2014-15	56.51	30.02	-	30.01	30.03

*Refers total farmer family =27.50 lakh as per Agriculture Census 2005-06

#Refers total farmer family = 27.20 lakh as per Agriculture Census 2010-11

Source: Reports of State Level Bankers Committee, Assam.

(As reproduced in Economic Survey, Assam, 2016-17, p-194)

The table-7.3 shows that in Assam, total disbursement of credit to agriculture and allied activities by banks increased from Rs. 814.69 crore in 2009-10 to Rs. 3901.29 crore in 2015-16. Total amount of crop loans advanced also were increased from Rs.

359.39 crore to Rs. 2080.00 crore in 2015-16. The share of crop loans to total agricultural advance was increased from 44 percent to 53 percent during the same period. The crop loan per family was only Rs.1307 in 2009-10 which was increased to Rs.7647 in 2015-16. The percentage of annual growth rate of disbursement credit to agriculture and allied activities was 56.51 percent in the year 2015-16 over the year 2014-15 and in case of crop loans the growth percentage was 30.02 percent during 2015-16 over 2014-15. The growth rate of per capita crop loan was 30.01 and the growth rate of crop loan per farmer family was 30.03 during 2015-16 over the year 2014-15. [30]

Thus, the table reveals that the delivered of credit to agriculture and allied activities has been increasing in Assam.

7.4.3: Flow of Ground Level Credit to Agriculture and Allied Activities in North Eastern States

The North Eastern Region is constituted by the eight states of North East India. This part of India is very backward. Infrastructure facilities are not developed at all. Most of the places are hilly area. So, it is very difficult to connect some places by railway transportation or even road transportation also. Agriculture is the main occupation in this region. In hill station, there are not adequate bank branches. Illiterate farmers do not know about the new scheme on agriculture declared by the government. Agricultural sector should be developed to develop this region. Hence, financial assistance plays a crucial role for the development of agriculture sector. The trend of deliver Ground Level Credit (GLC) for agriculture and allied activities has been increasing in the whole North Eastern Regional state during 2006-07 to 2011-12. The table-7.4 shows an increasing trend of such ground level credit for agriculture and allied sectors in North Eastern Region.

Table-7.4: Flow of ground level credit for agriculture and allied activities in North Eastern states during 2006-07 to 2011-12. (Rs. in crore)

State	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
1	2	3	4	5	6	7
Arunachal Pradesh	23	21	30	38	76	4
Assam	541	653	1008	1144	1741	309
Manipur	30	48	36	40	1514	4
Meghalaya	45	41	97	76	121	32
Mizoram	33	44	38	26	92	44
Nagaland	46	41	13	42	60	22
Sikkim	13	14	14	12	206	7
Tripura	94	97	279	259	810	122
Total NE	825	959	1515	1837	4620	544
Total (All India)	229,400	253,966	301,143	3,845.051	468,156	142,413

Source: 1. Fertilizer Statistic 2012-13, 58th Edition, The Fertilizers Association of India.

2. Basic Statistics of North Eastern Region, NEC, P. 234.

3. NABARD, Mumbai

The table-7.4 shows an increasing trend of disbursement of Ground Level Credit (GLC) for agriculture and allied activities in the entire North Eastern Region. The flow of GLC for agriculture and allied activities in Assam was increased from Rs. 541 crore in 2006-07 to Rs. 1,741 crore in 2010-11, but, it was declined to 309 crore in 2011-12. The disbursement of GLC for agriculture and allied activities in Manipur and Tripura has shown an increasing trend from Rs.30 crore and Rs.94 crore respectively in 2006-07 to Rs.1514 crore and Rs.810 crore respectively in 2010-11 and it was only Rs. 4 crore in Manipur during 2011-12 and Rs. 122 crore in Tripura during the same period. There was not so significant increase of GLC for agriculture and allied activities in the rest of the states of North East Region. However, the flow of GLC for agriculture and allied activities in the whole North Eastern Region was increased from Rs. 825 crore in 2006-07 to Rs. 4,620 crore in 2010-11, but it was declined to Rs. 544 crore in 2011-12 in the same manner. Thus, from the table-7.4, it

can be understood that the trend of flow of GLC for agriculture and allied activities in the all North Eastern States as well as India as a whole has been increasing during 2006-07 to 2011-12 and among the all states of North Eastern Region, Assam reached the top position in case of disbursement of GLC for agriculture and allied activities during the same period. [31]

From above, it is clear that financial assistance is important requirement of farmers for operating agricultural activities. Without adequate and timely supply credit, transforming of agricultural sector is not possible. For modernization and mechanization of agricultural production activities, heavy investment is very much essential for purchasing of costly modern inputs and development of agricultural infrastructure facilities. The Government should provide available financial assistance to agricultural sector at a lower cost or subsidy rate and then only it is possible to reduce the lending activities of village money lenders. So to bring out the farmers from debt-trap and to ascertain their income, the agricultural credit delivery system should be proper, efficient and adequate at the right time. One of the negative factors of credit delivery system is that farmers are not able to repay the loans at the right time to the financing institutions. This overdue condition may be cause of weaknesses of rural credit structure. From the study, it is seen that the flow of rural credit has been showing an increasing trend in recent years, but, rural credit facilities is not still sufficient as per demand of the farmers for their agricultural activities and socio-economic development.

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