CHAPTER-I
INTRODUCTION

1.1 BACKGROUND OF THE STUDY:

Assam is predominantly rural and its economy is primarily agrarian in nature. The socio-economic condition of Assam largely depends on its agricultural production. Agriculture and allied activities contribute nearly 28 per cent to the State’s Net State Domestic Product in 2006-07 and the contribution of agriculture sector to the State Domestic Product was nearly 25 per cent during 2010-11. The agriculture sector provides employment to more than 50 percent of the rural population according to 2011 census. Though income from other sectors like manufacturing, transport, communications, public administration and other services have increased steadily but agriculture still remains the main source of income to the vast majority of the people of the state. In terms of Gross Domestic Product (GDP) in 2009-10 for agriculture and allied activities, agriculture alone accounted for 12.3 per cent followed by forestry and logging at 1.5 per cent and fisheries at 0.8 per cent. The North-East Chamber of Commerce and Industry (NECCI) have identified Agriculture as one of the thrust areas for development of Assam and have drawn up a series of programmes in this respect. Barooah (2000) views that agriculture could facilitate faster development of North-East without heavy investment and therefore it has provided highest priority on development of agriculture sector in the region. While most other states in India are gradually moving away from their traditional agriculture based economy toward industry or service oriented economy, Assam is still heavily
depended on agricultural sector. Assam’s economy is fundamentally based on agriculture. Majority of the state’s population, almost 86 per cent live in rural areas according to 2011 census where the mainstay of business is production of agriculture.

A strong and vibrant agriculture is essential not only for feeding the teeming population but also to provide a sound foundation for faster industrial progress. Myrdal (1968), a Nobel Laurate, states that it is the agricultural sector that the battle for long term development will be won or lost. He emphasized on the imperative need for agricultural progress as the basis of long term economic development. The vast majorities of poor in India is in rural areas and are engaged primarily in subsistence agriculture for their survival. If development is to take place and become self-sustaining it will have to include the rural areas in general and agricultural sector in particular Todaro & Smith (2006). The Lewis two-sector model became the general theory of the development process in surplus labour-third world nations during most of the 1960’s and early 1970’s. The World Development Report 2008, of the World Bank argues that growth in agricultural sector contributes proportionally more to poverty reduction than growth in other sector. In early stages of economic development agriculture is the dominant sector in employment of resources and in generation of income (Mellor, 1966).

But agriculture has been the weakest link in the development chain in less developed countries (Meier and Rauch, 2000) due to four fundamental reasons- rapid population growth, technological revolution is mostly confined to commercial crops, new technology specially seeds, fertilizers and pesticides are gravely deficient and Lastly investment in rural infrastructure is inadequate. The main reason for deceleration in agricultural growth is declining investment particularly public
investment in agriculture research and development and irrigation combined with inefficiency of institutions providing inputs and services including rural credit and extension (Sharma, V.2007). Institutional credit, which played a very important role in the development of agricultural sector in developed countries, was instrumental in development of Indian agriculture also. In fact, credit acts as a means to provide control over resources to enable the farmers to acquire the required capital for increasing agricultural production. It enables the farmer to go for short term credit for purchase of inputs and other services and the long-term credit for investment purposes. Thus, credit plays an important role by facilitating technologies upgradation and commercialization of agriculture.

Institutional credit dispensation system for agriculture in India has only a brief history starting with the setting up of Co-operative Credit Societies in 1904. However, coverage of these societies to meet the credit requirement was so limited in certain pockets and negligible that almost entire credit requirement of the farming community was met by informal money lending sources till 1950’s. But the informal-sector interest rate is dramatically higher than the interest rate charged by the formal sector. However, the interest rates are not only extremely high but also the informal sectors often include conditions, verbal or written which are heavily loaded in favour of the lender and are sometime carefully quised and detrimental to the interest of the borrowers. The recommendations of All India Rural Credit Survey Committee (1951-54) has laid the foundation of the institutional framework for establishing a sound credit delivery system for financing agriculture and allied activities. The entry of Commercial Banks (CB’s) with bank nationalization in 1969 and the emergence of Regional Rural Banks (RRB’s) in 1975 gave wider reach to the short-term credit
delivery system in the country. The entry of CB’s and RRB’s, brought in a sea change in the financing pattern of the farm sector as the credit of the Indian farmers were increasingly met by the institutional sources. However, such a quantitative improvement in the coverage could not be achieved in the case of quality of credit products provided by the banks especially to the priority sector. The Agricultural Credit Delivery System (ACDS), which had been designed during 1970’s and 1980’s, was characterized by multi-product and multi-agency approach (MPMAA). Under this system, the farmer’s entrepreneur would have the flexibility to approach any of the bank branches in its area for credit support either for farm investments or for purchase of farm inputs, depending on its choice of credit needs.

But the functioning of multi-credit product approach has a number of intrinsic and structural rigidities, making most of the products inefficient and reducing its utility to sub-optimal level (Samantara, 2010). Major economic impact of the system was high procedural formalities and lack of timeliness in loan system and disbursement and inadequacy of the loan amount. Established in 1982, the National Bank for Agriculture and Rural Development (NABARD), the apex level institutional agency in the field of agriculture and rural development has been focusing undivided attention to providing investment credit to the agricultural sector through the client banks. In fact, the NABARD is almost the sole purveyor of short-term and medium-term investment credit to agriculture. Therefore, the volume as well as their direction of credit would influence the pace and pattern of agricultural development in the state. Being the apex level institution at the national level for agricultural financing, the NABARD is supposed to discharge its functions by way of extending refinance assistance by providing short-term and medium-term credit to the State Co-operative
Banks (SCB’s), the Regional Rural Banks (RRB’s), the Commercial Banks (CB’s) and to the different state governments for a variety of approved purposes under different schemes of agricultural financing and the rural infrastructure development. Now-a-days, the NABARD has adopted a number of schemes for farm sector development such as Village Adoption or Village Development Plan, Backward Blocks, Crop Insurance, Farmer’s Club and a model scheme i.e., Kisan Credit Card scheme (KCCs). The NABARD has played a proactive and catalytic role in assisting the banks to meet challenges as also in implementing the KCC scheme. The model scheme formulated by NABARD was circulated among all banks including RRB’s.

Recognizing the limitations of multi-credit product and multi-agency approach, a stronger view emerged among the policy makers, particularly since the early nineties, on the need for an ‘integrated credit product’ for accelerating sector/ area or activity specific development process. Honourable Union Finance minister, Mr. Yashant Sinha announced in his budget speech for 1998-99 that NABARD would formulate a Model Scheme for issue of Kisan Credit Cards to farmers, on the basis of their landholdings for uniform adoption by banks, so that the farmers may use them to readily purchase agricultural inputs such as seeds, fertilizers, pesticides and also draw cash for their production needs. Thus the KCC came into existence in 1998-99 as a credit product that allowed farmers the required financial liquidity and avail credit when it was absolutely needed, providing in the process flexibility, timeliness, cost-effectiveness and hassle free services to the farmers. Since then, the scheme of KCC is under implementation by SCBs through DCCBs and PACS as also the RRBs and CBs under the aegis of NABARD. As on 31st March 2009, 828.7 lakh farmers were issued KCC by various banks in the country. In Assam, the KCC scheme has been
operating since 2001-02 and in the initial year only 8 thousand KCC were issued. Putting an emphasis on increasing credit flow to the agricultural sector NABARD advised the banks to identify and cover all farmers including defaulters, oral lessees, tenant farmers and share croppers who were left outside the hold of the KCC scheme.

Though Assam is predominantly agrarian and most of the people lead their livelihood depending on agriculture yet the state is rated relatively poor achiever in terms of KCC in comparison to other states of India. Therefore, in this study, an attempt has been made to analyze the role and performance of KCC in promoting rural credit in Assam in general and Kamrup (rural) district in particular.

1.2 OBJECTIVE OF THE STUDY:

The study has been taken up with the following specific objectives:

1. To highlight the sources of institutional flow of credit to the agricultural sector in Assam.

2. To examine the role of financial institutions in providing financial literacy and credit counselling services to create awareness among the farmers of KCC holders.

3. To examine the nature and outreach of the KCC to the poor and the disadvantaged borrowers and sectors, as an institutional vehicle.

4. To study the extent of awareness of the KCC holders about insurance coverage applied under KCC.

5. To identify operational and institutional constraints, if any, in executing the scheme.
1.3 RESEARCH QUESTIONS:

The study also seeks to answer the following research questions:

1. To what extent the KCC scheme has been able to provide credit facilities to the farmers?

2. What is the percentage of women beneficiaries under KCC?

3. What are the determining factors of accessing the KCC loan?

4. How are the KCC borrowers indebted?

1.4 DATA SOURCES AND METHODOLOGY:

The study is based on both secondary and primary data. Secondary data were collected from various sources such as Journals, Periodicals, research papers, books, and publications of NABARD, RBI, published and unpublished Ph.D thesis and websites. To make the analysis more comprehensive and to fulfill the objectives of the study, detailed information were collected from primary sources i.e. from the beneficiaries of KCC holders of the district through field survey with the help of structured schedules and questionnaire. Another questionnaire was prepared to derive information for Bank branch profile regarding the number of KCC issued, staffing pattern, short-term credit disbursed by the branch, difficulties associated with the implementation of the scheme. All the sample KCC beneficiaries of the selected blocks were interviewed personally to elicit the necessary information. Hence, a comparison is made among the KCC holders and non-KCC holders regarding yield of production and cost of production. The field survey was conducted during the year 2011-2012.
Multi-stage random sampling method was adopted for selecting the sample KCC holders. In the first stage Kamrup (Rural) district was selected. It is comprised of 15 CDB’s and 991 villages. In the second stage, out of 15 CDB’s, 3 CDB’s namely Rani, Chamoria and Rangia were purposively selected. In the third stage, 70 households having Kisan Credit Card (KCC) were randomly selected from each CDB’s. Thus, the field survey covered 210 KCC beneficiaries and 90 non-KCC holders. Collected data was processed and analysed using suitable statistical methods and tools like averages, percentages, ratios. A detailed discussion on the methodology adopted for the field investigation has been presented in chapter five.

1.5 SCOPE OF THE STUDY:

This study is an attempt to bring into focus the performance of Kisan Credit Card Scheme in Assam since its inception and the role played by the financial institutions in providing financial literacy and counselling services. The success of this scheme depends on the co-operation of the banking institutions and the goodwill of the KCC beneficiaries. Therefore an attempt has also been made to explore the reactions of the KCC holders to the banks regarding the public relation and services provided by the banks. The study also covers the views of both the KCC beneficiaries and bank officials providing necessary suggestions which could take as remedial measures.

1.6 CHAPTER PLAN OF THE STUDY:

The entire study has been divided into seven chapters and a brief statement of each chapter is as follows:-
In chapter I, the background of the study has been discussed. It also introduces the objectives, research questions, scope, methodology, chapter plan and limitations of the study.

Chapter II presents the review of literature of the study. It analyses the literature of various committees and individual researcher across the country.

Chapter III deals with the existing structure of institutional sources of credit in Assam. This chapter has also focused on the role played by financial institutions in providing financial literacy and counselling services to the beneficiaries of KCC.

Chapter IV discusses about the genesis of KCC Scheme and progress made by this scheme in Assam.

Chapter V is devoted to highlight details of sample design adopted for field survey of the study. It also explains the methods of field investigation and the various concepts used in the collection and analysis of data. This chapter also focuses on socio-economic and demographic profile of Kamrup district.

Chapter VI has tried to analyze systematically the entire data collected from the sample beneficiaries. It also made a comparison between the KCC holders and non-KCC holders regarding cost of production and yield of production.

Chapter VII highlights the major findings of the study. It also includes a few policy suggestions which the financial institutions may use to improve their relationship with the KCC beneficiaries and to meet the credit needs of the farmers adequately and in time.
1.7 LIMITATIONS OF THE STUDY:

The study though scientific, systematic and analytical, it is subjected to some limitations which may arise due to errors or omissions in human efforts. Besides, there are some other limitations of the study which may arise due to negligence of some bank officials to give proper answers with true spirit, hesitating and incomplete answers given by most of the illiterate rural people at the customer level and also some proxy answers given in case of some individuals due to non presence of the head of the family at the time of field investigations.

However, utmost care has been taken while eliciting information from the respondents. All the relevant data and information derived from both secondary and primary sources have been duly scrutinized, processed and finally, results have been deduced out of it. Therefore, it is hoped that the conclusions derived from the study will be useful for the bankers and policy makers.
REFERENCES:

Barooah (2000) Farm Sector-Thrust to Develop Assam. Speech delivered at a National level Seminar organized by NECCI.


Report of All India Rural Credit Survey Committee (1951-54).