2.1 INTRODUCTION

This chapter is devoted to review the existing studies so far available on agricultural finance by institutional agencies with reference to India and Assam. Over the years, a large number of studies have been undertaken in India in the field of institutional finance. Most of them were confined to analysis of specific sub-sectors such as co-operative credit or commercial bank credit. Such a review helps us to know the area of different studies made so far to perceive the gap and lacuna in this field of research. Various aspects covered in these studies include credit requirements, supply of credit, utilization and repayment of credit by farmers, credit policies and procedures.

The literature available on agricultural finance by institutional sources especially through the Kisan Credit Card Schemes (KCC) can be divided into two broad categories as specified below:

a. Reports of the Committees and Working Group appointed by the Reserve Bank of India (RBI) and the Government of India (GOI).

b. The studies conducted by Individual Researcher (published thesis, articles).

1) Report of the Committee to Review the Arrangement for Institutional Credit for Agricultural and Rural Development (CRAFICARD) or the SIVARAMAN COMMITTEE (1978):
In 1978, the Reserve Bank of India (RBI) set up a committee to Review Arrangements for Institutional Credit for Agricultural and Rural Development (CRAFICARD) under the chairmanship of Mr. Sivaraman. The Committee submitted its final report in March 1981 to the RBI. The major outcome of the CRAFICARD’s recommendations was the separation of the Agricultural Credit Development (ACD) from the Reserve Bank of India (RBI), which handled refinance for co-operative credit system and its merger with Agricultural Refinance and Development Corporation (ARDC) which had earlier been set up by the RBI to exclusively handle investment finance for agriculture. Following the recommendations of the committee the National Bank for Agriculture and Rural Development (NABARD) Act (1981) was passed by the Government of India and NABARD commenced function from July 1982.

The major recommendations of the CRAFICARD, i.e, Sivaraman Committee are as:

I. As these banks were more suitable for rural development work, preference should be given to them in regard to licensing of branches in rural areas.

II. As these banks served the weaker sections, the concessionary refinance and other facilities provided by the RBI should be continued.


On 1st August, 1986, the RBI constituted a committee under the chairmanship of Prof. A.M. Khusro to make a comprehensive review of agricultural credit system of the country known as the ‘Agricultural Credit Review Committee’ (ACRC). The committee submitted its report to the RBI in August 1989 with a large number of
recommendations. The suggestions and recommendations of the committee had broadly two objectives. First, the financial viability of the lending agencies in the rural areas must be maintained in order to improve and enlarge the flow of credit to the rural areas. Second, the rural credit system should be strengthened.

3) Vyas Committee (2004):

The Vyas Committee on Flow of Credit to Agriculture had recognized the inefficiencies posed by the three-tier structure in the rural co-operative credit institutions. The Committee pointed out that in the three-tier co-operative structure, each tier adds its costs and margins to the interests rates and ultimately the borrower gets credit at a relatively higher rate of interest. The rates of interest charged to the ultimate borrower by the co-operative have been in the range of 12 to 14 per cent. This is much higher than the short term lending rates of commercial banks, which hovered between 10.25 and 11 per cent during the period 2001-05.


With a view to addressing various issues and to suggest a road-map for banks to increase investment in agriculture the Reserve Bank constituted an Expert Group on Investment Credit to Agriculture in 2005 under the chairmanship of Sri Y.S.P Thorat. The Groups major recommendations included:

- Improve credit absorption capacity by strengthening infrastructure and extension network links,

- NABARD to design appropriate products for financing rural infrastructure,
➢ Banks to make efforts to reach the ‘unreached’ areas and integrate short-term with term credit.

➢ Promote supplementary credit delivery channels outsource monitoring services and provide loan support for diversified agriculture. The Government also launched an ambitious programme of doubling of credit flow to agriculture during the period 2004-05 to 2006-07.

5) Committee on Financial Inclusion (2008):

In order to address the issues of financial inclusion, the Government of India constituted a “Committee on Financial Inclusion,” under the Chairmanship of Dr. C.Rangarajan. The Committee submitted its final report to Hon’ble Union Finance Minister on 04 January 2008.

The Committee has defined Financial Inclusion as “the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.”

The major recommendations of the committee include:

I. Launching of a National Rural Financial Inclusion Plan (NRFIP).

II. Constitution of two funds with NABARD. The Financial Inclusion Promotion and Development Fund (FIPF) and the Financial Inclusion Technology Fund (FITF).

III. Use of PACS on Business Facilitators and correspondents.
IV. Opening of specialized micro-finance branches/cells in potential urban centers for exclusively catering to micro-finance and SHG’s bank linkage requirements of the urban poor. An enabling provision is made in the NABARD Act, 1981 permitting NABARD to provide micro-finance services to the urban poor.


In order to analyse the problems faced by the Rural Short-term Co-operative Credit Structure (RSTCCS) and to suggest an action plan for surviving the rural co-operative credit structure, the Government of India set up a task force in August 2004. The Task Force, also known as the Vaidyanathan Committee after its chairperson submitted its report on February 2005. The Committee has examined the prevailing state of affairs of the RSTCCS and analyzed the causes of financial sickness of the co-operative credit structure. It has recommended several measures for the revival of the entire structure. The major recommendations are: financial revival, upgradation of skill, capacity building and technical assistance and institutional, legal and regulatory reforms.

The revival package based on the committee’s recommendations initiated by the government in 2006 is an “integrated package” incorporating all the above recommendations. The NABARD has been delegated the task of implementing the revival package. According to the Vaidyanathan Committee, one of the most important reasons for the poor performance of PACS in India is excessive interferences from the Governments.
7) NABARD’s Study on Doubling of Agricultural Credit (2005-2006):

To assess field level implementation of the Farm Credit Package announced by Government of India (GOI) in June 2004, NABARD conducted a study in Warangal (Andhra Pradesh), Dewas (Madhya Pradesh), Angul (Orissa) and Sikar (Rajasthan) districts covering 18 PSB’s, 9 branches of RRBs/ DCCB’s, PACS each and 4 ARDB’s. During the Study, 387 borrowers who had availed loan during 2004-05 were also interviewed. The Study revealed that substantial growth in credit flow to agriculture sector was due to credit widening and deepening. Share of crop loans in the total credit flow for agriculture and allied activities was 81 per cent.


In 1998, the then Finance Minister Mr. Yashant Sinha constituted an expert Committee under the chairmanship of M. Narasimham (Former Governor of RBI) to review the progress of reform process in the banking sector over the past six years and suggest a future course of action. The committee laid emphasis on strengthening the foundation of the banking system by bringing structural changes in the system.

The important recommendations of the Committee were introduction of three tire structure in the banking system, merger of strong Banks, reduction of NPA to a reasonable limit, introduction of Asset Liability Management (ALM) guidelines, Risk guidelines, speeding up the process of modernization and computerization, review of recruitment policy of bank.

The second Narasimham Committee on Banking Sector Reforms(1998) urged that consideration be given to delayering of the co-operative credit system with a view
to reducing the intermediation costs and providing the benefit of cheaper NABARD credit to ultimate borrowers.


The RBI had constituted a Working Group under the chairmanship of C.P. Swarnkar to examine procedures and process for obtaining agricultural loans. The Group submitted its report in April 2007. In order to obviate the need for obtaining ‘No Due’ certificate (NDC) by the farmers, all scheduled commercial Banks (including RRB’s) were advised to dispense with the requirement of NDC for small loans up to Rs. 50,000/ granted to small and marginal farmers, share croppers and the like instead obtain a self-declaration from the borrower. Further in order to overcome the problem of processing identification of documents by the landless labourers, share croppers and oral lessees, banks were advised to accept certificates provided by local administration/ Panchayati Raj institutions regarding the cultivation of crops in loans to these categories of borrowers.


The Ministry of Agriculture, Government of India constituted a Task Force on 6 October 2009, under the chairmanship of Umesh Chandra Sarangi to look closely at the problem of indebtedness of the most vulnerable farmers to the money lenders and their lack of access to institutional credit. The recommendations of Task Force are as-

a) Farmers who were not covered by the Agricultural Debt Waiver and Debt Relief Scheme (2008, ADWDRS).

b) Policy measures for addressing the issues of farmers’ indebtedness to money lenders on measures to provide relief to such farmers.
c) Various measures including the Kisan Credit Card (KCC) scheme to ensure coverage of small and marginal farmers, tenant farmers, share croppers and oral lessees by the institutional credit fold to reduce their dependence on informal sources and

d) Legislation regulating loans from private moneylenders.

2.2 REVIEW OF LITERATURE (EMPIRICAL):

Trivedi (2006) reviewed the status of KCC in Madhya Pradesh and concluded that only 40 per cent of total 65 lakh farmers had been distributed KCC in the state against target of covering all the farmers by March 31, 2004.

Rangarajan (1994) examined the credit position for the poor in India and how the poor could help themselves. A number of programmes had been designated specifically to enlarge the flow of credit to the poor through programmes like IRDP, differential rate of interest, self-employment programmes. Despite these efforts, the desired effect had not been achieved.

Reddy and Reddy (1997) made a case study of borrowers knowledge on farm credit and follow up action of officials in Andhra Pradesh and found that 54 per cent of the borrowers was satisfied with the scale of finance but they wanted technical guidance. It was suggested that timely advance should be provided and bank authorities should change the procedure for availing the loan.

Patel (1999) elaborated the features and need for KCC in India and recommended that bankers committees both at the block level and state level should monitor not only the number of KCC holders on quarterly but also examine the amount
sanctioned, disbursed and utilized which have direct bearing on crop production in the country.

**Uday kumar and Thattil (2001)** examined the status of KCC in India and Kerala and reported that the number of KCC’s and amount sanctioned had increased. The study also revealed that 86 per cent of the KCC holders withdraw the amount as ready cash and remaining by means of cheques and utilized it mainly for agriculture purpose particularly for purchasing fertilizers and paying labour charges.

**Dubey (2006)** focused on the adoption of KCC in Uttar Pradesh among different regions and social classes. He found uneven distribution of KCC’s throughout the state since there was uneven development of different regions and social classes. Only land and household size had positive relationship with probability of a person of being a KCC holder.

**Jamunarani (2009)** reported that over 14 million KCC’s have been issued across India. The scheme has been implemented in all the states and union territories. The KCC system played a vital role in rural credit and large numbers of farmers have been benefitted by this novel and innovative credit system.

**Kumar et al. (2007)** assessed the performance of rural credit flow in India and identified the factors that influenced the choice of credit and possession of KCC’s by rural households. The study revealed that access and distribution of rural credit, in general increased but was skewed in favour of more developed states and better households. The poorer households were more dependent on non-institutional sources of finance. Age, sex, level of education and self-employment in agriculture appeared
as significant variables positively determining the choice of institutional sources of credit and possession of Kisan Credit Cards.

Mahavir (2010) analyzed the cost of credit and adequacy of credit provided under KCC. The study found that total cost of credit as percentage of borrowed amount was higher in the non-KCC category as compared to that of in the KCC. Hence, credit given by the banks for food crops was less as compared to that for cash crops.

Singh and Sharma (1999) opined that the cost of loan was one of the important basic characteristics of a good loan and should be at a reasonable cost which involved not only interest rate but also fees for documents and services associated with grant of loan.

Kaushik (1995) studied the impact of credit of RRB’s on income generation and poverty alleviation of rural beneficiaries. The educational and skill status of more than 50 per cent of sample beneficiaries were found to be poor, the poverty alleviation had been found to be highest in the case of small businessman followed by animal husbandry, rural industry and agriculture.

Prasad (2003) discussed the advantages of Automated Teller Machines (ATM) services in agriculture and rural areas in India where KCC scheme were already in use. It was suggested that KCC could be upgraded to an ATM Kisan Card and introduced to agriculture intensive branches of commercial banks.

Rao (2003) felt that KCC scheme aimed at providing adequate and timely support to the farmers in a flexible and cost effective manner had not succeed in its true spirit because of various stipulations and restrictions. A more farmer friendly credit card system needs to be operated so as to realize the objective of the scheme.
Mohan (2006) reviewed the status and issues of agricultural credit in India and concluded that though overall flow of agricultural credit in India had increased over the years but there were several gaps in the system like inadequate provision of credit to small and marginal farmers, paucity of medium and long term lending and limited deposit mobilization.

Sirish. S and Malpadri, P (2011) elaborated that the access to institutional credit for a large number of farmer’s particularly small and marginal farmers continued to be a challenge. In order to provide timely and adequate credit to farmers, KCC scheme was started in 1998. The study tried to analyse the share of each agency in the total issue of KCC and the amount sanctioned.

Faruqui, D (2001) opined that the KCC scheme has not only been made easier the availability of credit but also made simple to get and operate. Farmers had been given sufficient freedom to decide how to use their credit, while at the same time a set of repayment schedule has been provided. He also suggested that education of both the farmers and also the bank officials is required for the success of the KCC scheme.

Bista et.al (2012) investigated the flow of credit through KCC’s from three types of financial institutions viz. co-operative bank, RRB’s and CB’s in terms of total loan amount, enrolment of membership and amount per card. The study found a vast disparity across different districts of Bihar in terms of amount, number of cards and amount per card.

Olekar, R (2012) analysed the causes of emergence of KCC scheme in India. In order to remove the problems in accessing credit for the agriculture and in dispensing credit by the bank, the RBI had set up a one man high level committee of (R.V Gupta
committee) in 1997 to suggest measures for improving the delivery system as well as simplification of procedures for agricultural credit. As a result of this committee’s report in April 1998, KCC came into existence. Effectiveness is measured in terms of awareness on KCC, landholding size-wise coverage of new farmers, adequacy of credit and operational flexibility.

Patra, S and Sahu, K (2012) analyzed the impact and determinants of credit under Kisan credit card (KCC) scheme in India. The study found that 70 per cent of total sample farmers felt KCC very much farmer friendly. The KCC-holders derive various benefits such as reduction in quantum of interest due to withdrawal flexibility, and availability of credit whenever it is needed. Credit requirement depends upon cost of cultivation, consumption loan and loan for a non-farm sector.

Chanda, A (2012) had evaluated the impact of KCC scheme on state level per capita incomes and agricultural productivity. He also focused on inter-state effect, of the KCC scheme and the achievement of Bihar relative to other states. The study found that the KCC scheme had not increased either agricultural labour productivity or land productivity.

Bhaskaran, R (2012) had emphasized on the improvement of the credit delivery process and increase the outreach of credit, particularly among small and marginal farmers. But the field study findings pointed out that the outreach of KCC to small and marginal farmers and small loans under KCC is less than satisfactory. Banks were willing to consider larger loan amounts if there is adequate security. Hence, access to KCC seems to be easier for the big farmers. The study concludes that KCC is more freely extended to those farmers who offer good collateral security such as surety and or mortgage.
Bird (2001), conducted a study to review the progress of the KCC scheme particularly from the angle of its geographical spreads, bank-wise progress and coverage of different categories of farmers. It also tried to assess the overall impact on flow of ground level credit. The study found that regarding coverage of farmers under KCC only Andhra Pradesh had issued KCC’s to more than 50 per cent of the farmers and states like Bihar, Kerala, Madhya Pradesh, North-east states, Tamilnadu, Uttar Pradesh, and West Bengal had shown poor performance by covering only 25 per cent of the farmers. The study also suggested that creation of awareness and capacity building is essential conditions for speedy implementation of KCC.

Sukla (1971) in his study on regional analysis of institutional finance has concluded that the flow of finance tends to move to relatively better off states than the less developed states like Assam, Bihar, Orissa and West Bengal. Though the study has been made at the time of banks nationalization, yet such disparity continues to exist as revealed from the findings of the subsequent studies.

Samal (2002) conducted a study on institutional credit flow to agriculture in the district of North 24 parganas of West Bengal. The study based on field survey of 120 sample farmers belonging to 4 different blocks, had revealed that most of the farmers in West Bengal were resource poor and asset less. They lacked credit worthiness. Their lands were highly fragmented; average size of land holdings was small to take up viable investment activities. In view of high transaction cost, mounting overdues/non-performing assets and default risks, banks were found hesitant to take lending decisions.
Singh, J.P. (2006) in his study revealed that Indian farmers had been facing serious crisis. Not only profitability had declined but they were highly indebted. The intensity of indebtedness was rising because of declining access to institutional credit and increasing dependence on non-institutional agencies for their credit needs.

Patel (1998) in his study examined the various sources of agricultural credit in rural areas and identified their constraints in providing rural credit. The problems identified by the study include shortage of staff in rural areas, inadequate credit to small and marginal farmers, lack of monitoring, inadequate volume of credit and absence of government support. However, the study suggested that the government had to evolve a proper structure to provide a credit to promote rural development.

Deka, G (1995) in her study about the performance of RRB’s in two districts of Assam namely Barpeta & Nalbari revealed that the qualitative performance of the RRB’s was not satisfactory due to poor rural infrastructure, lack of awareness of the people, poor recovery and reluctance of banks for priority credit to the poor.

Mahanty (1997) in his work had made an effort to analyse the prospects of bank linkage programme under micro-finance which was first introduced by the NABARD in February 1992 as a pilot project. The study found that adoption of bank linkage strategy would fulfill the twin objectives of commercial viability and service to the unreached poor. It also laid stress on the role of NGO’s for the qualitative expansion of the linkage programme.

Sarma, A (2004) in her study made an effort to analyze the role and performance of Scheduled Commercial Banks (SCB’s) operating in Assam during the post-reform period, (1991-2000). The study based on secondary data found that the performance
of commercial banks in the country was not satisfactory as a whole in India and Assam in particular. The researcher suggested that the commercial banks should simplify the bank’s rules, procedures and documentations so that the illiterate and poor people could find it easier to deal with the banks.

Bordoloi, J (2002) in his study had emphasized on the financing to priority sectors in North-Cachar Hills by Commercial and Co-operative Banks. The study based on primary data found that the land tenure and revenue system of the district were not akin to that of the plain areas of the district. He had suggested strengthening the Co-operative movement of the district and rehabilitation of the existing Co-operatives.

Barman, D (2006) in his study made an attempt to bring into focus the problems of agricultural credit in Assam. The study based on both primary and secondary data found that the commercial banks had failed to fill up the geographical gap in the availability of credit which was not covered by Co-operatives. Hence the Co-operative credit institutions were ploughed by the problem of high level of overdues. So, NABARD is the apex institution in the field of rural credit.

Barman, B (2003) in her study had examined the impact of the institutional credit on the socio-economic status of the rural people at micro level. The field survey covered 300 beneficiaries which were selected with simple random sampling technique. The study found that the procedure for receiving loan was not simple and credit-deposit ratio of the sample banks of the Rangia sub-division was very low. The scholar had suggested that the flow of credit needs to be doubled to mitigate the gap between demand for and supply of funds to the agricultural sector.
Karmakar, K.G (2008) focused on trends and issues relating to rural finance during the post-reform period. The study found that though the flow of credit to agriculture and rural sector has expanded impressively over time but credit disbursement to small and marginal farmers from the scheduled Commercial banks had not been encouraging. The initiatives taken by NABARD had a direct impact on the rural credit delivery mechanism.

Samantara, S (2010) made a study on progress and constraints of Kisan Credit Card Scheme in India taking a sample of 1876 KCC holders from 14 states. The study found that KCC had provided hassle free access to institutional credit to the farmers resulting increasing productivity of paddy crop. However, with the expansion of KCC’s several hindrances have also arisen. It was observed that most of the KCC-holders were not aware of the modalities, benefits of KCC Scheme.

Kallur(2005) observed that KCC tends to finance a higher amount for big farmers and where more cash crops are grown. Consumption needs are being financed under KCC. The study found the presence of intermediaries in the farmers getting KCC and the defaults occurred due to price risk and yield risk.

Singh and Sekhon(2005) focused their attention to study the existing procedures for advancing credit under KCC and also evaluate the impact of KCC on the efficiency of rural credit delivery system. The study observed that some farmers had used the amount taken under KCC for purposes other than agriculture and normally the financing is in favour of big farmers.

Vedini, K.H & Durga, P.K (2007) in their study evaluated the performance of Kisan Credit Card (KCC) scheme in the state of Andhra Pradesh and found that as a result of
KCC, the share of non-institutional sources has come down and cost of borrowing of credit has also decreased among KCC holders.

Thakur and Barman (2013) highlighted the reasons for poor performance of Kisan Credit Card Scheme in Assam. The study had found several important reasons for poor disbursement as well as poor recovery of loan under the scheme in the state. But the study is completely based on qualitative analysis.

The discussion on existing literature in the field of institutional agriculture financing in Assam as well as in other states of India shows that no serious attempt has been made at state level to examine the performance of KCC Scheme in providing rural credit. In the context of rapid changes taking place on the economic front under the impact of globalization and privatization, the policies of NABARD would have significant bearing on the flow of credit to the desired sectors of the economy. Agriculture being the prime mover of the economy of Assam, it needs to be re-oriented to achieve high growth rate of agriculture. Most of the farmers are poor and asset less and they own small size of land holdings, which are not viable for heavy investment. From the several studies it has been found that though the KCC scheme has gained popularity and made progress in disbursing credit in many states of India but a very poor performance is shown in the state of Assam. The main reasons for which the KCC scheme is lagging behind in Assam as well as in North-East India is not clearly focused by the studies. Therefore, an attempt has been made to find out the basic reason of poor performance of the KCC scheme on the pattern of financing to agriculture in Assam which would be of much significance to the economy of Assam and such an attempt is bound to throw up several new facts.
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