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1.1 ROLE OF AGRICULTURE IN ECONOMIC DEVELOPMENT

Traditionally, the role of agriculture in economic development has been viewed as passive and supportive (Todaro, 1985). Today, most of the economists who made a deep study about the problems of economic development in Less Developed Countries (LDC) argued that the growth process should be started through the development of agriculture. "Any view of Indian development rightfully emphasizes agriculture, not only because of the obviously poor state of nutrition in India, but for other reasons as well. If India is going to develop within a basically democratic context, as it is attempting to do, an income and capital contribution from agriculture is vital, and at the same time that contribution must be drawn from a growing income and production base" (Mellor, 1968).

India, a Less Developed Country (World Development Report 2001-02) with a low living standard, is heavily dependant on agriculture. This is evident from the fact that about 70 per cent of our people are dependant on land for their living and agriculture accounts for nearly 25.4 per cent of the national income of India at present. (Economic Survey 1999-2000). In rural India, according to the 'usual status', about 69 per cent of the male workers and 82 per cent of the female workers
are engaged in agricultural activities (Economy Survey, India 2002-03). Agricultural development represents the convergence of the main objectives of economic policy in India: growth, stability and poverty alleviation. The contribution of agricultural sector in Net State Domestic Product (NSDP) of Assam at constant prices (1993-94) was 31.19 per cent in 2003-04 (Economic Survey, Assam 2003-04).

Furthermore, most of our traditional industries whose products constitute the bulk share of our export, draw their raw material from agriculture. It is the surplus generated by this sector that would help Indian economy to reach advanced stage.

In the wake of necessity of growing more and various stuffs with increasing productivity not only the magnitude of finance required is enlarged, even for building a sound base for ‘sustainable agriculture’ in India, demand for credit would surely be 50 per cent higher than the estimates made by the Working Group setup by the Planning Commission for formulation of the Tenth Five Year Plan of India (Patel 2003)

1.2 ROLE OF CREDIT*: CONCEPTUAL FRAME WORK AND POLICY PERSPECTIVE

Sustainable agriculture involves a system for food and fibre production that can maintain high levels of production with minimal environmental impact and can support viable rural communities (Mellon et al. 1995).

However, agriculture relies on available resources of various kinds which can be referred to as ‘capital’, these resources include :

* Credit, Advances, Finance and Loan - All these terms are used to mean the same thing and are used inter-changeably in the present work.
### TABLE 1.1
STRATEGIES FOR BUILDING UP VARIOUS FORMS OF CAPITAL REQUIRED FOR AGRICULTURAL FOOD PRODUCTION

<table>
<thead>
<tr>
<th>Natural Capital</th>
<th>Financial Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Water harvesting, water management</td>
<td>• Stable Markets</td>
</tr>
<tr>
<td>• Soil conservation</td>
<td>• Subsidiary activities</td>
</tr>
<tr>
<td>• Biological pest control</td>
<td>• Readily available credit</td>
</tr>
<tr>
<td>• Composting, manuring</td>
<td>• Post-harvest technological opportunities</td>
</tr>
<tr>
<td>• Diverse systems – many types</td>
<td>• Value-added activities</td>
</tr>
<tr>
<td>• Conserving genetic resources</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Social Capital</th>
<th>Physical Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cooperatives</td>
<td>• Improved tools, machinery</td>
</tr>
<tr>
<td>• Extension workers: Government, NGO, private</td>
<td>• Precision agriculture methods</td>
</tr>
<tr>
<td>• Farmers self-help and research activities</td>
<td>• Low dose sprays</td>
</tr>
<tr>
<td>• Social values and systems</td>
<td>• Improved crop varieties</td>
</tr>
<tr>
<td></td>
<td>• Roads</td>
</tr>
<tr>
<td></td>
<td>• Processing Plant</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Human Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Improved nutrition</td>
</tr>
<tr>
<td>• Education</td>
</tr>
<tr>
<td>• Health</td>
</tr>
</tbody>
</table>

*Source: Based on information contained in Pretty (1999)*

- Natural Capital – the soil resource, water from rainfall or other sources, the air, animals used for their labour and as a source of manure, the surrounding natural vegetation.
- Human capital – humans who supply labour, not only physical labour but also intellectual input for planning production strategies.
- Social capital – systems providing labour and marketing support as well as information related to agriculture and health services.
- Financial capital – markets for purchase and sale of goods, a credit system supplying funds to all levels of agricultural workers.
- Physical capital – implements needed for agriculture, roads
and means of transport, factories for processing of farm produce.

Financial capital can be considered as the nucleus of all these capital. Credit is an important input in the production process. Myrdal has termed credit as an accelerator of development (Joshi 2002). Had there been no credit, production would have taken place at a low level almost conformatibly to the output in the primitive periods. Credit has made production possible and those who do not possess their own funds to make production possible, participate in the production function with the help of loan. (USDA, 1971).

Agriculture is largely dependant upon outside finance for the development. In fact the lesson of universal agrarian history is that an essential need of agriculture is credit. The agriculturists must borrow due to the fact that an agriculturist’s capital is locked up in his lands and stock. Hence, credit is not only essential but inevitable and as such it is not necessarily objectionable, nor sign of weakness (Nicholson, cited in Ghosal 1972).

For the long term economic development of a country, new inputs of fertilizers, insecticides and better seeds can be important contributors to increased output and are the major instruments for transforming traditional agriculture. They played an important role in Israel, Mexico, Taiwan and Korea and until recently were neglected in India, Pakistan and Argentina. (Maddison 1970). For achieving these, it is necessary that needed credit should be made available in rural areas.

According to Weitz (1971) there are three major stages in the evolution of agricultural production:
i) The first and most primitive is the low-productivity subsistence farm.

ii) The second stage is “diversified” or “mixed” agriculture where produce is grown both for self consumption and sale to the market.

iii) The third stage is the “modern” farm. Exclusively engaged in high productivity, “specialized” agriculture geared to the commercial market.

The success or failure of efforts to transform traditional agriculture will depend along with farmers' ability and skill in raising his productivity, on the improvement of farming technology in the country. Social, commercial and institutional conditions in which the farmer must function are other important determinants in increasing productivity. The role of technological change in the context of transition of subsistence agriculture was analysed in detail by Schultz (1964).

He opined that technology change like use of better seeds, fertilizer, more efficient sources of power and cheaper plant nutrients will result in wide opportunities for growth. Reliable access to credit is one of the most important determinants for improving agricultural production. In fact, it is meant to achieve the technology related ends. T.W. Schultz (1964) rightly observed that “Once there are investment opportunities and efficient incentives, farmers will turn sand into gold.”

The term ‘Agricultural Credit’ needs clarification, and it is necessary at the outset to elucidate the several senses in which it can be interpreted. It may be employed in a restricted sense to mean the finance required by the cultivators for their seasonal agricultural
operations. It is more commonly used with a wider implication to cover all the financial needs of the agriculturist, whether economic, conventional or inherited, such as finance for the purchase and improvement of land, stock and implements, the repayment of old debts, meeting social and ceremonial obligations and the like. It also covers the finance required for the marketing and movements of agricultural produce (RBI, 1936, p. 2).

Furthermore, “The peculiar feature of agriculture is its persistent small scale organization. While other industries tend to become concentrated in units of ever expanding size, agriculture remains scattered, individualistic, small scale and chaotic”. (The Indian Central Banking Enquiry Committee, 1931).

The risks involved are greater in agriculture than in manufacture because success in agriculture so largely depends on factors outside the control of the farmer such as favourable weather, adequate rainfall and absence of diseases and pests (Ibid).

So, Agriculture needs special types of credit different from secondary sector. Another fundamental backwardness relates to small average agricultural holding, the area of land worked per head is very low and the quality of the land is generally poor. So agriculture needs special types of credit different from other sectors.

Agricultural credit may be classified on the basis of (a) the length of the period for which it is needed (b) the basis of method and (c) on the basis of purpose.
The search for realisation of the full growth potential of the agricultural sector has motivated extensive research in India. The critical constraining factors cited in these studies are: declining public sector capital formation in agriculture (Gulati and Bathla, 2001), weak rural credit institutions and declining effectiveness of formal credit arrangements for agriculture (Vyas, 2001, GOI 2000, RBI 2001).

For small and marginal farmers, the deceleration in the credit disbursal has been the maximum in the 1990s. (RBI, 2001)

It is disheartening to observe that being second largest producer of paddy in the world, India is suffering from low productivity. The agricultural sector is mainly characterised by traditional farming. To transform traditional agriculture to modern agriculture, investment is critical factor in the sector. To bring about an effective break-through in this sector is to increase capital investment through an initial push, which has been characterised as “Big-push” by Rodenstein-Rodan, Linkage effects by Hirschman, “Critical minimum effort” by Leibenstein. All stressed the need for giving greater importance to capital investment
to break the vicious circle of poverty in Less Developed Countries. It is obvious that the present low level of investment is below the critical minimum necessary to escape backwardness. Lack of cash money in the hands of the farmer deters them to invest in the farm and at the same time high burdens of private debt reflects a chronic insufficiency of the farmer’s income and as such a permanent tendency for consumption outruns production. Any credit policy conceived by the Banks or Governments should aim to attack these twin problems together and the challenge faced, in the proper perspective to attain the desired development of the agricultural sector of our economy.

The tasks that awaits financial institutions is that of matching the quantitative increase in agricultural credit by a corresponding improvement in qualitative aspects.

Some important areas that require urgent attention to improve agricultural productivity are (a) Scale of finance and method of determining it (b) Strengthening finance for post-harvest operations and (c) financing the hi-tech agricultural activities. (ECRC, 2001)

In Cachar district, taking cognizance of the future potential and demand, the Potential Linked Credit Plan (2004-05, Cachar) has estimated that a total of Rs. 3092.88 lakh may be required by the agricultural sector during 2006-07 i.e. in the terminal year of the 10th Five Year Plan.

1.2.1 ROLE OF MONEY LENDER IN AGRICULTURAL CREDIT

It is easy to borrow funds from the money lenders in the rural areas due to his immediate approachability, informality and flexibility (Karmakar 1999). Money lenders are by far, the most important source of agricultural credit in India.
Although indebtedness was not altogether a new thing in India, its present day staggering magnitude had owed its origin and growth, since the middle of the 18th century, to direct colonial expansion. As early as 1911, Sir Edward Maclagan observed: "It has long been recognised that indebtedness is no new thing in India. The writings of Munro, Elphinstone and others make it clear that there was much debt even at the beginning of our rule. But it is also acknowledged that the indebtedness has risen considerably during our rule, and more specially during the last half century." (Central Banking Enquiry Committee, 1931, p.55 in Chakraborty, et al 1965)

The growth of a section of agriculturist money lenders was a very significant development in Indian agriculture in the later phase of the British Rule. The same opinion was corroborated by the Census Report of 1951. Once the impoverished peasant falls under his sway, he has seldom chance to extricate himself out of the moneylenders' clutches, he falls further under his way. This is the vicious circle of poverty and debt. And this situation continues unabated till recently.

This harmful relationship between money lender and poor agriculturists has been very emphatically brought out by Sir Darling thus “. . . . Properly organised systems of land credit must ultimately drive the money lender from his last strong hold. There are few relationship so injurious to both parties as that of money lender and borrower. In India it is almost invariably demoralising.” (Ghosal 1972)

1.3 RBI GUIDELINES FOR FINANCING OF AGRICULTURAL SECTOR BY COMMERCIAL BANKS

As far back as 1970, RBI circulated among all commercial banks a circular entitled "Guidelines for the financing of agriculture by
commercial banks”, so that the rationale, the policies and procedures for making agricultural loans might be clear to commercial banks. The guidelines are related to (a) Credit norms and scales of finance (b) Margins of security (c) Securities against loans to cultivators. (d) Recovery of defaults (e) Need for coordination.

The RBI for the first time had fixed targets for the deployment of agricultural credit since 1980. Some of the directives and guidelines as issued by RBI are as follows:

**TABLE 1.2**

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Target (as % of net credit)</th>
<th>Stipulated time frame for achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority sector advances</td>
<td>40</td>
<td>March, 1985</td>
</tr>
<tr>
<td>Direct lending to agriculture*</td>
<td>16</td>
<td>March 1987</td>
</tr>
<tr>
<td></td>
<td>17</td>
<td>March 1989</td>
</tr>
<tr>
<td></td>
<td>18</td>
<td>March 1990</td>
</tr>
<tr>
<td>Weaker sections (such as small and marginal farmers, agricultural labourer etc.)</td>
<td>10 (or 25 per cent of priority sector credit)</td>
<td>March 1985</td>
</tr>
</tbody>
</table>

* Lending under indirect finance under agriculture should not exceed one fourth of total agriculture lending targets of 18 per cent.

**1.3.1 NABARD'S GUIDELINES FOR COMMERCIAL BANKS AND RRBS**

NABARD on its endeavour to strengthen the credit delivery system in the banking sector has undertaken a study in 2001 to identify the incentive system/practices being adopted by some of the progressive banks which have helped them in increasing ground level credit, enhancing recovery position etc. Some of the features which can be implemented, with certain level of flexibility to suit the local needs, in the banks working in the state of Assam are listed as follows:
Loans: Policies and Procedures (State Level Bankers' Committee, 2001)

i) Simplified loan applications and documents and liberalised terms and conditions for advances particularly for farm mechanisation.

ii) Provision of crop loans where terms loans are given.

iii) Provision of adequate and timely credit to the borrower.

iv) Introduction of Kishan Credit Card/Krishi Card.

v) Preparation of specialised agricultural Credit Policy every year covering various thrust areas to be financed.

vi) No additional collateral by way of guarantee where the adequate land is mortgaged.

vii) Thrust on 'Lending through SHGs'.

Against the backdrop of broad national perspective the present study endeavours to enquire into the performance of Commercial Banks in agricultural financing in Cachar district of the State of Assam.

1.4 STATEMENT OF THE PROBLEM

About 40 per cent of India's people living below the poverty line face the problem of day-to-day existence without the means to buy single food item even for the next meal (Kalam and Rajan, 1998). Though the situation now is better than that during the 1960s and we have a buffer stock of about 35 million tonnes of foodgrains, we cannot rest on our oars, comfortable in the belief that there are no more food problems in future. A prediction of the Technology Information, Forecasting and Assessment Council (TIFAC) (in the Technology Vision
for India up to 2020) has warned about an impeding food crisis, particularly for large countries such as India, China and Indonesia. According to TIFAC India may have to import about 14 million tonnes of foodgrains by 2010 and then import will grow at the rate of 2 per cent every year.

The existing food security in the country has been possible mainly by the increasing irrigated agriculture and introduction of high yielding varieties of crops and adoption of advanced agro-technology. So to sustain the food security, the pace and vigour and adoption of the above measures should be expedited. Furthermore, the people and farmers of the country are to be integrated into one huge market. Each state should concentrate on agriculture most suited to its agro-climatic condition. Suitable marketing and transportation system should be evolved to facilitate the exchange of commodities.

Special attention should be given to the agriculture in the North Eastern Region of India especially to increase productivity. Large part of this area though blessed by excellent agro-climatic water resources, have a very low productivity. This situation has to change if India aims at food security and economic prosperity. This issue necessitates the adoption of technology driven expansion of the production frontiers which calls for progressively greater infusion of capital resources in the agricultural sector. Credit support from institutional sources is a critical component to spur the investment in the private sector which has to play a major role in increasing agricultural productivity.

Agriculture is the most important area in which the Cachar District has an inherent strength to achieve full self-sufficiency. But the full utilisation of the potentialities and achievement of self-sufficiency
is not possible without properly addressing the issues, such as, viability and sustainability of agricultural lending particularly to marginal and small farmers, operational efficiency, recovery performance of the banks, small farmer coverage under bankable scheme, balanced sectoral development etc.

The climate and soil of Barak Valley in general and Cachar district in particular, have all along been congenial for cultivation of a variety of crops, rice being the most important one. Cachar possesses outstanding potentialities in agriculture in the following fields:

- It is climatically favourable for cultivation of important agro-economic species as grown in other parts of the state.
- The district has the large acreage of water bodies of huge potential which need to be tapped.
- The district enjoys higher productivity of paddy per hectare than the state in almost all the years since 1990-91.
- The prospect of increased productivity with the adoption of improved technology is also very high.

Desired expansion in agriculture calls for a massive hike in capital investment. As per the prevailing capital output ratio (ICOR) every unit of incremental output in agriculture calls for a capital investment of 3.30 units and that too will prove to be sufficient if the required infrastructural support-already exists (Ghose Dastidar, 2000). But unfortunately Cachar is lagging far behind in this respect.

It is very disheartening to observe that Indian agriculture is starved of capital. The commercial banks have the national obligation of a steady and substantial hike in credit outflow. But experience has proved that
it would be extremely difficult for the commercial banks, at the macro level, to attain the desired growth rate of around 18 per cent direct credit flow to the agricultural sector, due to unsatisfactory performance of the agricultural sector barring a few years during the 90’s. For small and marginal farmers, the deceleration in the credit disbursal has been the maximum in the 1990s. Small and marginal farmers, thus, continue to be both credit and demand constraint (RBI 2000-01).

Crop finance has been the most important activity of rural financial institutions. While the overall level of crop finance and its growth over a period of time are satisfactory, it shows large variations among states. Whereas states like Kerala, Punjab, Haryana and Maharashtra have high quantum of crop finance as well as impressive growth rates, the states like Bihar, Orissa and North Eastern States have registered low rates of growth. The growth rate of crop finance in these states varies between (-) 1.7 per cent and 9.1 per cent (ECRC, 2001). All the seven states of North eastern Region have agricultural credit per hectare of Net Sown area ranging from Rs. 115.0 (Manipur) per ha to Rs. 480.9 per Ha (Tripura) which are even below the Agricultural Credit per ha of NSA of Rs. 572.3 availed by Bihar during 1998-99 (Ibid).

This disparate performance across the states could be attributed to mainly three factors: (i) Credit absorption capacity (ii) depending on the production base and natural conditions; intrinsic strengths or weakness of institutions, and (iii) recovery climate, prevailing in the respective states.

The agricultural sector of the Cachar district is covered under one or other category of Fundamental Backwardness. Specially the
following fundamental backwardness exists in this vital sector of the district, viz.,

i] Subsistence farming in most of the AEO circles.

ii] Lack of Irrigation facilities.

iii] Backward technique of production.

iv] Poor rural infrastructure.

v] Chronically flood affected cultivated areas.

vi] Abysmally low bank credit inflow into the agricultural sector.

As such the possible externalities and spread effects could not be generated in this sector and the growth impulses in the sector remains low.

The district enjoys a higher yield level in the production of paddy per Ha (2149 kg per Hectare) than the state (1534 kg per Hectare) during 2003-04 but total production is not sufficient. The growth rate of paddy is also not consistent during the period 1991 to 2003-04 (study period). The Barak Valley which was a rice surplus zone till 1960-61, has been converted into a rice deficit zone since 1971. And for the district of Cachar the deficit amounts to 26,000 MT annually (Agriculture Status Paper, Agriculture Department, Silchar, 2000, Cachar). The deficit is being met by importing rice from other regions of the country.

Thus, there exists a vast potential for agricultural lending and if the growth rate is inconsistent with the potential that exists in the district, it is mainly on account of various reasons like very small size
of agricultural loan per account, higher transaction cost, absence of mechanisms to hedge credit risk, absence of managerial capabilities and lack of involvement of the people's (farmers) participation in the various awareness and credit programmes, along with other factors operating on the production front (agriculture). Unfortunately per hectare crop loan as well as investment loan are very meagre in the district of Cachar. Over the 14 years period from 1990-91 to 2003-04 under the present study, the percentage of direct agricultural lending was averaged at only 6.3 per cent in Cachar, which has been well below the target of 18 per cent of Net Bank Credit for agriculture. During 2003-04, crop loan was Rs. 143 per hectare and investment loan was about Rs. 333 per hectare in the district of Cachar. Thus, there exists vast potential for agricultural lending and it is observed that the actual agricultural lending since 1991 appears to be inconsistent with the potential demand for agricultural credit in the district. This issue necessitates the adoption of technology driven expansion of the production frontiers which calls for progressively greater infusion of capital resources in the agricultural sector. Credit support from institutional sources is a critical component to spur the investments in the private sector which has to play a major role in increasing agricultural productivity.

The very sizeable need for increasing credit supply for agriculture in the district can be gauged from the fact that the target of Rs. 711 lakhs (total agricultural credit / crop loan and term loan) for 2003-04 could not be achieved. Only 55 per cent of target had been achieved.

As Cachar is largely a peasant economy having 93 per cent of small and marginal farmers (including landless farmers also), this
problem assumes a critical significance. So the various constraints faced by the farmers as well as by Commercial banks need to be problematised and addressed rigorously for an in-depth analysis. The present research, therefore is an attempt to make an in-depth analysis of the problem of agricultural financing by commercial bank in the district of Cachar during 1990-91 to 2003-04.

1.5 REVIEW OF EXISTING LITERATURE

A good number of studies have been conducted in the field of agrarian problem including the problem of agricultural financing which have revealed that benefits of economic growth and development did not percolate to all the cross-section of the society and particularly weaker sections of the society. They did not find themselves in a position to reap the benefits as dreamt by our planners. The works done on that issue are reviewed and grouped under following heads – (a) credit needs (b) supply of credit – various problems (c) gap in the institutional credit supply – role of private money lenders (d) policy suggestion. Some of the works done on this issue are reviewed hereunder.

a) Credit needs: The importance of institutional credit in the agricultural development of less developed countries has been recognized for years. As back in the year 1936, RBI Report on Agricultural Credit stressed the need for special types of credit for agricultural as the risks involved are greater in agriculture than in manufacture because success in agriculture largely depends on factors outside the control of the farmer such as favourable weather, adequate rainfall and absence of diseases and pests. So, Agriculture needs special types of credit different from secondary sector (RBI 1936). Credit is considered as the most critical input in promoting rural economic
development. (Kuznets 1961, Prabhu 1994, Aranha 1994, Gaonkar and Mundinamani 2003, Satyanarayanan and Rafathunnisa, 2000). A cultivator is in almost perpetual need of credit both for production and consumption (Dandekar 1994). Gaps in rural infrastructure and in the rural credit delivery system are among the many constraints which have hampered the growth of the rural economy. (Karmakar 1999, Mohan 2002). Insufficiency of institutional credit on the rural areas of West Bengal is seriously impeding growth of agriculture in the state. (Bondyopadhyay 2003).

Agriculture is largely dependant upon outside finance for the development. Most of the literature repeatedly attributes credit constraints as the major factor preventing small farmers in developing countries from high-yielding technologies (Misra and Bhoosan, 1992).

Without adequate access to land technology and institutional facilities to credit and markets, small and marginal farmers are forced to live below the subsistence level. Agricultural development, however, does not necessarily benefit the landless labourers or those peasants who cannot or choose not to apply new technology and inputs. (Mellor et al 1968). Agricultural credit has thus become an important tool to help resource-poor farmers improve crop yields through the application of modern techniques. (Bouman 1989). Small holders only respond to the opportunities of commercial agriculture if they have access interalia to appropriate technology and assured credit. Reliable access to credit is needed to achieve the technology related ends. T.W. Schultz (1964) observed that 'once there is investment and efficient incentives, farmers will turn sand into gold.' Failure of institutional finance to reach small borrowers with credit services has been documented by Gupta (1991), Basu (1999).
An analysis of the agricultural financing by the institutional sources has revealed that the problem of agricultural credit in Assam in particular and North East in general assumes a significant proportion (10th Five Year Plan, Vol. II, 2002). Banks considered the financing of agricultural sector as highly risky and hence did not enter this area. The All-India Rural Credit Survey Committee (1954) after careful survey of various credit agencies for the first time envisaged a role for the commercial banking system in rural credit.

Chaudhary and Sharma (1970) worked on crop loan system in two states, Andhra Pradesh and Punjab. They found that in Andhra Pradesh 80 to 90 per cent of institutional borrowings were for meeting the labour requirements, in Punjab 63 to 89 per cent of credit were taken for buying seeds, fertilizers, manures and pesticides. Thus the relationship of credit with various inputs varied according to the agro-climatic conditions.

According to Expert Committee on Rural Credit (2001) there is a high correlation between credit absorption capacity and increased crop finance. With diversification and commercialization of agriculture, the share of purchased inputs (fertilizers, pesticides, electricity, diesel and irrigation) in the value of the total inputs has increased from 39 per cent in 1970-71 to 87 per cent in 1995-96. The growth in the use of purchased input increases the demand for short-term credit.

b) Supply of credit – various problems: The high level of dependence of the lower asset groups on non-institutional sources continued despite a rapid growth of banking network in India in the last five decades. The main hurdle faced by the banks in financing the very poor seems to be comparatively high transaction cost in reaching
out to a large number of weak rural people who require very small doses of credit. (Seibel and Dave, 2002). As a remedy, they showed the significance of establishing linkages with Self Help Groups (SHGs) and Banks. (Ahmad 1998, Nanda 2000, Singh 1997). Yadav (1999) opined that what the poor farmers need is not cheap credit but assured credit.

Besides these studies, various impediments to agricultural progress have been identified by official assessments (GOI, 2000, RBI, 2001). These constraints are inadequate irrigation facilities, poor adoption of new technology, excessive dependence on input subsidies, weak rural credit institutions, declining public sector capital formation in agriculture etc. Other important constraint in the agricultural development process is the problem of under financing resulting from sanction of lower loan amounts than the actual cost of investment. About 60 evaluation studies conducted by NABARD and commercial banks have revealed that more than 50 per cent of the borrowers under any scheme were under-financed (NABARD 1981).

A plethora of causes are constantly put forward by many scholars regarding the failures of various governmental schemes undertaken to uplift the conditions of the agricultural sector. One such study holds the view that unless there is a major change in the present social structure of the rural Assam Plains (includes here only Brahmaputra and Barak Valley), the various developmental schemes would continued to fail and years would be rolled by, without keeping a mark of the development in the field of agriculture (Borah, 1993). Productivity of most of the crops continue to be very low, as compared to the potential. The areas that require special attention are post harvest technology, cold storage, contract farming (Gururaja 2002). All these call for huge
investments and credit support for production, infrastructure and technology (Prabha 2001).

Another important problem is 'waste' of 30-40 per cent of agricultural produce due to the non-adoption of proper post harvest technology. If the distribution systems are optimized with 'cold chain', the loss could be brought down to 10-15 per cent. Government should provide financial assistance to farmers to hold the produce during the seasonal glut. (Behara, 2002).

One of the major problems of the institutional financing in rural India is inadequate recycling of credit. As per the report submitted by the Agricultural Credit Review Committee (RBI 1989), the level of overdue is among the most important indicators of the financial health of a lending institution. The major impact of over dues on the lending agencies is that the incidence of overdue impairs their capacity to obtain refinance from NABARD (Kahlon and Singh, 1992, Gupta 1991). A thorough investigation of the various aspects of loan default is of utmost importance both for policy makers and the lending institutions. (Joshi 2002, Reddy 1990, Basu 1999). The default rates of earlier government sponsored credit programmes in India have been found very high. The recovery position under the Government sponsored schemes is very critical where in it is less than 20 per cent...with compulsions to meet directed loan targets with poor recovery, banks compulsorily carry more than ordinary share of bad loans.' (NEIBM, 2000). For example, in the case of earlier IRDP, the default rate on advances disbursed by public sector banks as a percentage of demand increased from 58.7 percent as in 1991 to 69.1 percent in 1993 (RBI 1993). Many agricultural borrowers, mainly large farms default not because they have pressing
needs for consumption purposes but because they have the power and connections to get away with it (Braverman and Guasch 1986). The shortage of staff in rural branches of commercial banks, lack of sufficient motivation to work in the rural areas for various reasons and resultant negligence in pre-sanction and post disbursement follow up and supervision of rural advances led to non-repayment of loans by borrowing farmers to a large extent (ACRC, Khusro Committee, 1989). Bad supervision or absence of effective supervision makes it possible for loans to be diverted to non-productive purposes. A dynamic credit organization should be capable of not only of providing credit as and when required but also of supervising its use and ensuring repayment according to the borrower's repaying capacity. (Ghosal 1972). Improper handling of various programmes by government functionaries and poor asset creation coupled with poor supervision by the banks, turn the beneficiaries into defaulters of the banks on a large scale. (Juneja 1996). All these in turn increases the over dues (All India Rural Credit Review committee 1969, Dandekar 1994). Minimizing the costs of default is crucial for the sustainability of any credit provision programme or institution. (Chavan and Ramkumar 2002).

Low availability of credit and low levels of fertilizer use are important factor for the low level of technology in the eastern states (Srinivasan 2003).

Dutta (1992), in his study, had shown that in the undivided Cachar district bank credit to farm sector was very low. Per bigha crop finance stood at Rs. 1.84 and per capita loan during 1990-91 stood at Rs. 14.45 only which failed to generate any impact on the overall farm production technique and agricultural development of the district as a whole.
According to the study made by NABARD, the declining trend in Ground Level Credit, the problem of declining/low credit deposit ratio, the sharp decline in the credit flow for agriculture and allied activities over the last few years and the poor rates of loans in Assam as well as in Cachar district are causes of concern and serious efforts are required to reverse the trend. In Cachar district, it is noticed that the ground level credit flow has not been commensurate with the potential existing in the district for financing various agricultural activities. (PLP, Cachar District 2002-03 to 2006-07, NABARD).

(c) Gap in the institutional credit supply – role of private money lenders: The commercial banks have not been free of the ‘exclusion problem’ in targeting. The gap in the existing institutional credit supplied by various agencies like cooperative, commercial banks, has been a central concern part for many studies (Desai 1979, Gupta Committee 1978). According to Gupta Committee, perhaps agricultural growth would have been higher than 2.1 percent, if the credit flow to agriculture was larger than what it was. The most expected cooperatives failed to live up to expectation despite concerted administrative, technical and financial support. Multi-agency approach brought no lasting improvement. More institutions and more diversification merely seemed to bring more mismanagement political abuse and mounting arrears in loan recovery. (Bouman 1989).

A major problem of the Indian peasantry is that many of them are heavily in debt to local money-lenders who are their only source of credit and are sometimes their landlords (Maddison 1970). The dependence of the rural people on the informal sources of credit for meeting their production/consumption needs on exploitative terms is
one of the causes that perpetuate poverty. (NABARD 1990-91).

Since interlinked contracts form an integral part of agricultural sector, the concept of the interlinkage has received a great deal of empirical attention (Stiglitz 1986, Rudra 1982). It has been observed that the interlinked market result in a suboptimal situation by denying the producer an economic and market determined price for his product (Gangopadhyay 1994). At the same time this market operates on the basis of personalized relationships. Chandavarkar observes ‘the absence of suitable assets which can serve as collateral for loans necessitates a close lender customer relationship’ (Chandavarkar 1984).

The lenders may refuse to finance any investment in a riskless high-return technology regardless of the interest rate that are offered - when they are imperfectly informed about loan applicants time preferences and, therefore, about their propensities to default intentionally. (Blackman 2001). In many areas, major part of the consumption credit needs of the farmers are met by what Weber (1978) describes as neighbouring help.

While explaining production relations in West Bengal, Bhaduri (1977) finds that the big landlords lease out land to the landless bargadars being indebted to them because they could not meet their consumption needs. Big landlords charged high rates of interest and earned a substantial part of their income from usurious rate of interest. This kind of bondage reflects exploitation of agricultural labourers and poor peasants by the big landlords.

‘Credit’ has been predominantly studied by most of the Economists as an ‘economic fact’. But there are some Economists who tried to show that the relations of credit are more than purely economic...
phenomenon. Bhaduri (1984) views 'forced commercialisation' and 'distress sale' in backward agriculture, caused by credit dependencies of small peasants as "a system of relations that are essentially social rather than technical in nature."

The All India Debt and Investment Survey (1991-92) report revealed that between 1981 and 1991, a steep increase was observed in the proportion of rural households reporting debt in all the states. In terms of the average debt per household, Punjab reported the highest amount at Rs. 5,596 in 1991 while Assam reported the lowest at Rs. 343/- (RBI 2000). The incidence of indebtedness for cultivator households from institutional agencies has been reported to be 18 per cent which was lower than that from non-institutional agencies at 21 per cent. Among the institutional agencies, commercial banks and cooperative societies were important agencies for cultivator households. The share of debt from commercial banks increased sharply from 2 per cent in 1971 to 28 per cent in 1981 and further to 29 per cent in 1991. Among the non-institutional agencies, professional money-lenders and traders held larger shares in total debt than other agencies.

The shortage of credit arises from the fact that the structure of agricultural credit has not been adapted to the needs of small farmer. Thus high rates of interest and a high burden of private debt are characteristics of bottlenecks in the growth of a developing country and India is under going the same strain (Ghosal 1972).

According to Report of the 'Expert Committee on Rural Credit, 2001, the number of Small Agricultural borrowal accounts (outstanding of Rs. 5,000 or less, now revised to up to Rs. 1 lakh) fell from 213 lakh to 178 lakh between 1997 and 1999. This is a disturbing trend
considering the fact that the rural sector, specifically agriculture sector, is dominated by a large number of small borrowers whose credit needs, in most cases, do not exceed Rs. 25,000 (ECRC, 2001). The lack of capital has been primary factor impeding the adoption of new technological inputs, which are capital intensive. Despite the stipulation of sub targets for agriculture at 18 per cent under priority sector, credit has not flowed to the desired extent. In its Reports on Currency and Finance, RBI observed that for small and marginal farmers, the deceleration in the credit disbursement has been the maximum in the 1990s (RBI 2002).

d) **Policy Suggestion:** The role of agriculture finance in the rural economy of India is crucial because it serves as a pivot to an all-round growth of the rural sector. But even a strong, efficient and resourceful credit institution cannot play its part purposefully and fully unless its effort is backed by steps to strengthen the supplies and services which credit can produce, to discipline the farmer in the prudent use of credit, and to reorganise the agricultural marketing system which, under present conditions, does not assure the grower an adequate reward commensurate with his productive effort (Ghosal 1972).

The banker’s professional competence in dealing with the rural sector and rural client will be very crucial in effectively implementing the development programmes for the rural areas, (Patel et al 1984). At the same time, less than required professional competence would create confusion leading to detrimental effects on the clients activities and economy and the banker’s loanable funds and profits.

Many writers stress the importance of linkages between Commercial banks on the one hand, and NGOs and SHG on the other,
as a mechanism for channelling credit to the poor on a sustainable basis. McGuire and Conroy (1997) in their studies (one in India and one in Philippines), found that transaction costs of lending were much lower where banks used NGOs and SHGs as intermediaries. Transaction costs facing by the borrowers were also significantly lower. Several studies indicate that group lending through Self Help Groups could reduce the lending and supervision costs of public sector banks (Puhazhendhi 1995) and raised repayment rates (Karmakar 1999).

Mere policy reforms in agricultural sector would be inadequate without corresponding investment in rural infrastructure so that closer connection required between the farmer and the market can be achieved. (Mohan 2002, Puhazhendhi and Jayaraman 1998). For strengthening credit delivery system, Expert Committee on Rural Credit (Vyas Committee 2001) suggested that credit for short term and long term for both agriculture and non-farm activities progressively should be brought under Kisan Credit Card (KCC) scheme.

*In spite of the various efforts by the government to free the rural people from the clutches of the private money-lenders, it is surprising to note that the role of the private money-lenders is not get eliminated.*

The task that awaits financial institution is that of matching the quantitative increase in agriculture credit by a corresponding improvement in its qualitative aspects. In the light of critical role that agriculture can play in the areas of providing food security, minimizing the incidence of rural poverty and earning foreign exchange through export of farm products, the rural financial systems has to accept the challenge of providing adequate and timely credit facilities to each and every eligible rural households. Rural credit system should play a
development banker's role rather than traditional and conservative role of a mere lender (Patel, 2002).

1.6 GAP IN EXISTING LITERATURE

Above cited studies have focussed the different aspects and problems of institutional finance in India as well as in Assam. But in the district of Cachar, no such studies were made towards the bank financing particularly in the agricultural sector. The present study is one of its own kind so far as the study of agricultural financing by the commercial banks in the Cachar district is concerned. It makes a humble attempt to study the magnitude of the problem, the repayment behaviour of the debtors and different causes of mounting overdues in the agricultural credit sector.

The study is likely to reveal many hitherto unexplored variables regarding agricultural credit in Cachar district. It will reveal rural, local, socio-economic specificities of the district. The findings are likely to be not only academically revealing but also useful to the policy makers.

1.7 SCOPE OF THE STUDY

The present study is one of its own kind so far as the study of agricultural financing by the nationalised commercial banks in the Cachar district is concerned. Without giving too much attention on the conceptual and measurement problem of agricultural credit, it is more important to analyse why the problem of poor credit off take originates and aggravates both from the supply side as well as demand side. Moreover landless and marginal farmers constitute the core of the weaker section of the rural Cachar. Why these sections are deprived of bank finance in spite of so many developmental (crop land / production
loan) schemes introduced during the decade of nineties, is a vital issue from the point of view of social and distributive justice. So the present study made a humble attempt to analyse the existing credit delivery mechanism relating to agricultural production in the Cachar district, so that the anatomy of agriculture can be understood and it may also be properly diagnosed for increasing flow of production credit in required amount. The study is likely to reveal many unexplored region specific variables regarding agricultural credit in Cachar district. The scope of the study is made limited only to the agricultural finance provided by Scheduled Commercial Banks including RRBs (Cachar Gramin bank) in the district.

1.8 PERIODICITY OF THE STUDY

Since July 1991, the Indian Economy had entered into an era of economic reform based on the principles of liberalisation, privatisation and globalisation which affected almost all the sectors of the economy of which banking is a predominant sector. According to some critics, the adverse environment created by the reforms of the financial sector is primarily responsible for the present somnolent state of rural credit (Mazumdar, 1999). The relative size of the flow of credit to the rural sector appears to have shrunk during the period 1991-2004.

So, after thirteen years of this reform experiments, it is prudent to have a fresh look on the performance of the banking sector in regard to agricultural credit. And therefore, the period of the present study has been choosen 1990-91 to 2003-04.

Out of the various problems in the agricultural credit sector, the present study makes a humble attempt to study the magnitude of the
problems of mounting overdues and indebtedness of the farmers to different informal sources in some details because of the acuteness of these problems.

1.9 OBJECTIVES OF THE STUDY

The main objectives of the present study are:

i] To study the socio-economic conditions of the agriculturists of the Cachar District.


iii] To examine the magnitude and causes of mounting overdues of bank credit.

iv] To suggest possible remedies based on the findings of the study for a better integration of the banking sector with the requirements of the agricultural sector.

Objective one has been analysed in Chapter 4, Part I. Objective number two has been discussed in Chapter 3 and Chapter 4 by using both secondary data and primary data. Chapter 5 is devoted to study the objective number three whereas Chapter 7 is associated with study of objective number four.

1.10 HYPOTHESES

For the purpose of the present research study, following three hypotheses have been formulated and tested.

i] Low level of availability of agricultural credit from
Commercial Bank in Cachar district has significantly contributed to poor performance of agricultural sector.

ii] Lack of supervision and follow up by bank officials are responsible for high overdues.

iii] The expansion of the commercial banking structure has not succeeded in significantly slackening the grip of the money lenders.

1.11 STRUCTURE OF THE STUDY

The details of the Chapters of the study are as follows:

CHAPTER 1: INTRODUCTION

This chapter discusses the role of agriculture and agricultural credit (both institutional and non-institutional) in Economic Development. A review of the researches undertaken earlier has also been summarised. It also deals with the objectives, relevance, hypotheses, methodology and limitations of the study.

CHAPTER 2: CACHAR DISTRICT - A BRIEF PROFILE

Agricultural Profile of Cachar District and a brief profile of study area. This chapter examines in detail the prospects, potentialities and weaknesses of agriculture in the district.

CHAPTER 3: COMMERCIAL BANKS IN CACHAR: PERFORMANCE EVALUATION

In this chapter, an attempt has been made to analyse critically the working of all scheduled commercial banks including SBI and Cachar Gramin Bank (CGB), and expansion of the Commercial banks in the Cachar district in terms of branch expansion, deposit mobilisation
and agricultural advances etc. A separate analysis of the performance of the three major banks (UBI-Lead Bank, SBI and CGB) made exclusively in terms of deposit mobilisation and agricultural credit advancement and overdues.

CHAPTER 4: AGRICULTURAL FINANCING BY COMMERCIAL BANKS : DATA ANALYSIS AND INTERPRETATION

This chapter is based on field survey and it deals with the 1st and 2nd objectives of the study. The chapter contains three parts. Part one deals with socio-economic characteristics of sample farmers of the district. Part two makes an attempt to examine critically various constraints operating on the demand side as well as on the supply side, impeding agricultural credit provided by commercial bank and Part three has been devoted to find out the attitude of the sample farmers towards private borrowing.

CHAPTER 5: RECOVERY PERFORMANCE – A CRITICAL ANALYSIS

This chapter highlights the overdue syndrome among the sample borrowers (bank loan) as it seems to be an important constraint. The probable reasons of default at the borrowers level are also analysed.

CHAPTER 6: ON-GOING CROP LOAN SCHEME – KISAN CREDIT CARD (KCC) : AN EVALUATION

This chapter deals with the KCC and on-going innovative agricultural lending scheme, specially designed for the upliftment of the small and marginal farmers.

CHAPTER 7: FINDINGS, SUGGESTIONS AND EPILOGUE

Chapter 7 is the concluding chapter. Important findings of the
study are summarised and a few suggestions are offered in this chapter.

1.12 RESEARCH METHODOLOGY

The study is based on both Primary and Secondary Data

(A) PRIMARY DATA :

(i) Universe (ii) Size of Samples (iii) Tools of Data Collection (iv) Data Analysis.

i] Universe: Universe of the present study represents the entire farm population in the district of Cachar. Cachar district has been divided under three agricultural sub-divisions, namely Silchar, Sonai and Lakhipur. These sub-divisions again are divided under 19 Agriculture Extension Officer (AEO) Circles. Silchar sub-division has 10 AEO Circles, Sonai has 6 AEO Circles and Lakhipur has 4 AEO circles.

ii] Selection of Sample: A multistage sampling design was followed for selection of Agricultural Sub Divisions, Agriculture Extension Officer Circles; Villages and the respondents. For making the sample representative, 50 per cent of the circles (i.e. 10 circles) are selected from three agricultural sub-division. The following are the components of sample units. For the purpose of intensive study about the trend and pattern of agricultural finance in the district of Cachar, 280 farmers have been selected from 20 villages covering the entire district, by judgement sampling method.

In order to maintain parity among the disproportionate size of sub-divisions and Farm Household under the universe, I have taken 5 per cent of Farm Household (FHH) as sample farmers from the villages
where the number of FHH are more than 100 in absolute terms and 10 per cent of FHH as sample household where number of FHH are less than 100 in absolute terms in case of Silchar and Sonai sub-division. However, in case of Lakhipur sub-division, 10 per cent of FHH are taken as sample household as the number of AEO circles are less than Silchar and Sonai. Thus, there are 280 respondents which are taken as the final sample of the study.

On the basis of farm size the farms are categorised in the following manner.

<table>
<thead>
<tr>
<th>Category* (Land-Holding)</th>
<th>No. of farmers in 10 AEO Circles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Landless cultivator (0 to &lt; 0.5 Ha)</td>
<td>30 (10.7 per cent)</td>
</tr>
<tr>
<td>Marginal farmer (0.5 Ha to &lt; 1 Ha)</td>
<td>112 (40.0 per cent)</td>
</tr>
<tr>
<td>Small farmer (1 Ha to &lt; 2 Ha)</td>
<td>93 (33.2 per cent)</td>
</tr>
<tr>
<td>Big farmer (2 Ha and above)</td>
<td>45 (16.01 per cent)</td>
</tr>
</tbody>
</table>

**Total number of farmers** 280

*Source: Office of the District Agriculture, Silchar, Cachar.*

### Tools of Data Collection: Schedules

a) Schedule A – This schedule was used for collecting the information pertaining to Commercial Banks.

b) Schedule B – It was general questionnaire and was canvassed from every beneficiary / sample farmer for collecting the basic idea relating to socio-economic conditions of the farmers, availability of bank

*There is no mention of the medium category cultivators as it is seems from the report of the Agriculture Department. Here, actually as per the classification of the big cultivators it has been mentioned in some records of the Agriculture Department land holders possessing land 2 hectares (or 15 bighas) or more are treated as big landlord in the district of Cachar vide PLP 1996-97 Cachar District. NABARD, p. 43 and status paper of Cachar district 2002-03. Office of the DAO. Cachar, Silchar.*

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credit, utilisation of loans, recoveries etc.

c) Schedule C – It was used for collecting information relating to agricultural information like total cultivation land, cropping intensity of the AEO circles etc.

iv] Analysis of Data: The method of analysis followed in the study is descriptive as well as analytical. For analysing the data and establishing the inter-relationships of variables, data are first classified and tabulated for each criterion for the period under study.

On collection of raw data, they are tabulated and accordingly converted in such a way that statistical tests and analysis can be performed properly. The statistical tools like simple growth rate, compound growth rate, correlation coefficient, simple regression etc. are used. The tests used are Z-test, Chi-square tests etc. Other graphical techniques like line diagram, pie diagram, bar diagrams of different types are used such a way that the data can be represented properly. Some least-square lines are also fitted in order to study the trend in some cases.

B] SECONDARY DATA:

The Annual Action Plan of the Lead Bank provides data on bank deposit, advances, C.D. Ratios, direct agricultural advances and advances under agricultural and allied activities at the district level.

The Potential Linked Credit Plan (PLCP), NABARD, publishes data on the potentiality in the district regarding bank finance in the priority sector, as well as data regarding ground level credit flow in this sector.
The agriculture section in the reports provided by the office of Deputy Director, Economics and Statistics, provides data on crop area, crop output, crop productivity for several crops at the district for various years. Using these data, the aggregate agricultural output, gross cropped area and net sown area of Cachar district are computed.

A limitation of this approach is that since agricultural production for minor commodities are not available, these are not included in this study. As the principal crop, paddy, selected by this procedure has consistently covered more than 85 per cent of the gross cropped area of Cachar District, the methodology seems to be reasonable.

District level data on the total area covered by various irrigation sources are also provided in this report.

By going through the literature related to the research topic, information has also been collected from various journals, magazines, committee reports, survey reports, paper, books etc. Internet facility is also used to collect materials.

1.13 LIMITATIONS OF THE STUDY

The study is likely to have following limitations inspite of our best efforts.

i) The study is conducted on the performance of Commercial Banks operating in Cachar District of Assam. Each Districts’ operational areas have its own specificities due to the geographical and demographic factors. Therefore, there is a need for caution in making generalisation based on its findings.
ii] One important limitation of the primary data is that they pertain to a single agricultural year. The actual borrowings by the farmers may vary from year to year depending largely upon the weather conditions and the farmer's need for cash during the gap period between sowing and harvesting time.

iii] An attempt was made to test the first hypothesis that the low agricultural credit from commercial bank has significantly contributed to poor performance of agricultural sector. Variables others than Bank Credit were assumed as in 'ceteris paribus' conditions and more or less same in both cases of the KCC holders and non-KCC holders. So the conclusion arrived at by applying this assumption should be viewed taking into account the limitations of the method.

iv] Another universal limitation related to memory bias of the farmers. Farmers generally do not maintain any records of their farm business and information relating crop loans cannot be expected to be completely free from memory bias. They can hardly differentiate income from agri-business and the income from other subsidiary business.