INTRODUCTION

Agriculture has attained phenomenal growth since independence and is the backbone or the core sector of the Indian economy, accounting for nearly forty per cent of the aggregate national income and providing livelihood for more than seventy per cent of the working population. Thus the development of this sector is essential for the growth of the economy and for placing it on a sound footing.¹

Agriculture in India has always been a way of life rather than a business and has suffered from stagnation due to low productivity arising from inadequate investment. Low investment is caused by low farm income which follows in turn from low resource productivity completing the vicious circle. Therefore, the crucial problem, is to break through this vicious circle somewhere and somehow. The only way to bring about an effective break-through from such a state of affairs towards an upward movement is to find ways of increasing capital investment.

The Green Revolution, which has taken roots in the country over the last decade has opened up new possibilities for the speedy development of agriculture. There is a

growing tendency among the farmers to replace the traditional farming practices with scientific and modern practices, which include the use of improved seeds and intensive use of agriculture inputs. These involve heavy financial investment which the majority of farmers cannot offered from their own savings. As it has been rightly stated, "The farmers in the underdeveloped countries cannot expect their capital needs to come from savings, because their income from farm operations is barely sufficient to provide the minimum necessities of life." Therefore, farmers have to depend to a large extent on borrowed funds which has naturally increased the demand for providing credit to a large number of farmers. Thus credit assumes greater importance in Indian agriculture passing through a transitional stage of transformation from the traditional subsistence type of modern and scientific farming.

The new technological possibilities thrown open by the recent researches in agricultural science has proved that the total yield per acre can be boosted up (independent of the size of the farm) by applying the optimum package of farm inputs such as high yielding variety seeds, fertilisers,

pesticides, insecticides under assured irrigated conditions. These also indicate that the desired adoption of new technology demands higher and higher capital deployments. Therefore, the response of a farmer to new technology could, be visualized as a function of his financial resources.

Supporting this conjecture, majority of the field level investigations indicated that only that group of farmers equipped with better financial resources is able to derive mostly the benefits of new technology. Shortage of finance has been identified as the major constraint in case of marginal and small farmers to shift over to the new methods of cultivation. Therefore, creation of adequate credit facilities, has been identified as the principal solution for all Indian agricultural problems. This need has received timely attention of the policy makers too, the introduction of one agency after another to the agricultural credit over time is a clear indication of this recognition. Thus, credit plays a crucial role in the modernization of agriculture. It not only can remove financial constraints but may also provide the means and incentive to adopt new technologies for accelerated agricultural development. Traditionally, the role of credit is that of giving a push to the developmental process. It is a lubricant that keeps the

wheels of development moving.

The increased importance of capital in making agriculture a powerful engine for growth, has been stated by Schultz as follows: "Once there are investment opportunities and efficient incentives, farmers will turn sand into gold". However, it is experienced that the technological changes have increased the importance of capital in Indian agriculture. Since the present strategy for development of agriculture consists of intensive method of cultivation, multiple cropping and extension of area under HYVs, cultivators demand for capital is insatiable.

The credit avenues open to farmers can broadly be classified into two types, namely i) formal credit channelled through institutional agencies, comprising co-operative societies, Central and State Government agencies and commercial banks; and ii) informal credit flown through non-institutional agencies, comprising the money lenders, traders, landlords and relatives. Till recently, the latter group, in particular the moneylenders were the major financial agents to the farmers, both for production and consumption purposes. Their lending policy being simple money lenders are known for quick service. But the interest rates they charge make their finances costly. Also they are

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7. Schultz, T.W., Transforming Traditional Agriculture, New Haven, 1964, p.70.

known for their land-grab policy. This has brought to the fore the urgent need for protecting the interests of marginal and small farmers. In pursuance of this and to tackle the problems in a more effective manner the Government of India in recent years has formulated several agricultural credit programmes at action level, having a significant bias towards marginal and small farmers.9

The main difference between credit supplied by the money lenders and that supplied to the farmers by credit institutions, like co-operatives and commercial banks lies in the fact that the former is exploitative whereas the latter is production-oriented.10 In view of the evil effects of non-institutional agencies, attempts have been made to regulate the activities and operations of money lenders by enacting various acts from time to time. But control sought to be exercised through legislations had little effect on the operations of moneylenders.11 In a country like India where majority of the farmers have meagre savings, the role of institutional credit to supplement their investment capacity more importantly in modern capital-intensive agriculture

cannot be overstressed. With the growing accent on the role of institutional credit as a positive aid to intensified agricultural production, it is of vital interest to ascertain how far the increasing tempo of institutionalization of agricultural credit has actually helped the process of agricultural growth.\textsuperscript{12}

Till recently, the modern banking system had an urban-bias with commercial banking offices found largely in the urban and industrial centres of the country and the banking needs of the rural sector being ignored by them. However, since 1969, there has been a significant change in the banking expansion policy with considerable progress been attained in expanding banking facilities in rural areas by the adoption of the multi-agency approach.\textsuperscript{13} The multiple credit requirements of agriculturists could not for obvious reasons be met by any single institutional agency. Therefore, a multi-agency approach has, been viewed as a better alternative. Recognising this the government has assigned the responsibility of farm development to three agencies namely co-operatives, commercial banks and regional rural banks forming the three components of the multi-agency approach. Each of these institutions has its own importance in the

\textsuperscript{12} S.R. Mehrotra, op. cit., p. 12.

\textsuperscript{13} N.S. Bhat, Aspects of Rural Banking, Commonwealth Publishers, 1988, p. 5.
matter of providing credit to farmers and is presumed to function as a part of a 'system' having a close co-ordination while planning credit provisions. Further, they together are visualized as the instruments for routing out the non-institutional agents specially the agricultural moneylenders from the scene over a period of time.

A comparative analysis of credit supply by different agencies overtime suggests that the non-institutional agencies continue to play a vital role in providing short-term credit to farmers. However, their share in relative terms has declined. The institutional credit, if well organized can play a dynamic role in the development of agriculture.

After the nationalisation of major commercial banks in 1969, both Government of India and Reserve Bank of India have been encouraging banks to simplify and liberalise their lending procedures in the field of credit to agriculture and other priority sectors. A working group was constituted by the Government of India in 1978 to bring about uniformity in the lending procedures followed by the banks, in terms of which the security norms and margin requirements for lending to small farmers have been liberalised or totally waived.

The National Commission on Agriculture emphasised the urgent need for strengthening of the credit structure. Against this background, it was increasingly felt that commercial banks could supplement the efforts of the co-operative societies to meet the credit needs of agriculture, both by way of production finance and investment capital. Introduction of the Scheme of Social Control over Commercial Banks in 1968 and establishment of the National Credit Council assisted the process of directing the flow of commercial bank credit towards agriculture, by declaring 'agriculture' as 'priority sector' for bank lending. Targets were laid for the banking system in respect of the deployment of funds for agriculture and other priority sectors and banks were encouraged to lend to agriculture. The major objective is to ensure that bank finances are made available to the productive needs of all sections of the population, irrespective of the size and social status of a beneficiary. The emphasis is now centered on production, the banks are asked to move away from their security oriented lending to purposive productive and incremental income oriental lending, and to finance small and potentially viable farmers. In brief, they are advised to pay greater cognizance to the viability of a project rather than to the credit-worthiness of the

borrower, in the traditional sense. In particular, the banks are asked to help the small and potentially viable farmers in their pursuit to move to higher technological planes.

Though commercial banks since nationalisation had made a commendable progress on their agricultural credit operations front, there exists a considerable leeway to be made up in the direction of the extension of credit facilities in the coming years.17

Co-operatives is the second source of institutional credit emerged with the enactment of the All-India Co-operative Societies Act, 1904. The principal tenets of this Act were made in consonance with the recommendations of Sir Federich Nicholson who had been to Europe to study the working of co-operative societies there.

Although co-operatives were the second institution to emerge next to the Government, as the institutional source of credit in the history of rural credit in India, since their formation they have been encouraged to act as the single source of institutional credit for agriculture in the country.18

At present, the co-operative credit structure is a three tier one, with Primary Agriculture Credit Societies at the village level advancing short-term and medium term loans.

The long-term loans are advanced mainly by the Central Land Development Banks and Primary Land Development Banks. Besides these, at the apex level each State has a State Cooperative Bank for the provision of short-term and medium-term loans to co-operative societies, individuals which includes landless labourers, although direct loans that is advanced to individuals form a very negligible proportion of the total loans. There are Central Co-operative Banks at the intermediate level, for the supply of short-term and medium-term loans to co-operative societies and individuals. In addition to this, there are Farmer's Service Societies (FSS) which work at a single contact time for the provision of credit and other services to the farmers.

Of all the co-operative credit institutions, however, the major suppliers of direct co-operative credit to farmers are the Primary Agricultural Credit Societies (PACS) and the Central and Primary Land Development Banks. The PACS cover nearly 93 per cent of the Indian villages with a total membership of about 53 million.¹⁹

The Banking Commission (1972) observed that though there has been larger flow of credit to the co-operative structure, the movement was still weak in certain parts of the country. The commission was of the view that in areas

where the co-operative structure is generally weak, a rural bank may be established. The present Regional Rural Bank (RRBs) set up in 1975 by the Government of India can thus be said to be the by-product of the thinking emerging from the Banking Commission of 1972. The Regional Rural Banks were set up to with a view to provide credit to weaker sections of the rural society and a major part of their loans are advanced to small and marginal farmers, landless labourers and rural artisans. The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD), in view of such a commendable role by the RRB's has recently recommended that they should be given preference and help in the opening of new branches in the rural areas. The RRB's are state-sponsored, regionally based rural oriented commercial banks. Another institutional set-up is the large-size Agricultural Multi-purpose Credit Societies (LAMPS) in the agricultural credit scene in the rural areas, specifically meant for tribals in order to meet their diversified credit needs and was set up in pursuance of the recommendations of the Bawa Committee (1971).

20. S.R. Mehrotra, op. cit., p.3.


While considering the rural credit structure in the country, it will be of interest to examine the supporting institutional framework, which has been created. In this category, the first and foremost institution which could be mentioned is the Agricultural Refinance and Development Corporation (ARDC) established in 1963 with the object of augmenting the lendable resources of the co-operative term lending institutions and later to provide refinance facilities to commercial banks also to enable them to take up project lending for agricultural development. The corporation was later taken over by the National Bank for Agriculture and Rural Development (NABARD) established in March 1982. The ARDC/NABARD lending policies have a built-in bias in favour of small and marginal farmers, which has facilitated a larger flow of investment-credit to them, on concessionary terms such as lower margins, longer repayment period and facility of 90° refinance.23

In addition to these multifarious agencies and programmes which operate for the expansion of the supply of credit, there are also other development agencies which work for the benefit of weaker sections and the funds of most of which are channelised through the co-operatives. They are Small Farmer's Development Agency (SFDA), marginal farmers

and Agricultural Labourer (MFAL) Agency, Drought Prone Area (DPAP), Integrated Tribal Development Programme (ITDP), Command Area Development Agency (CADA) etc.\textsuperscript{24}

The Narasimham Committee report on the financial system, with respect to directed credit programme is of the view that they have played a useful purpose in extending the reach of the banking system to cover sectors which were neglected hither to.

The Committee proposes that the directed credit programmes should be phased out. This process of phasing out would also recognise the need for a measure of special credit support through direction. Therefore, the committee proposes that the priority sector be redefined to comprise the small and marginal farmer, the tiny sector of industry, small business and transport operators, village and cottage industries, rural artisans and other weaker sections. The credit target for this redefined priority sector should henceforth be fixed at 10 per cent of aggregate credit as directed by the Committee.\textsuperscript{25}

For the development of agriculture in a particular region, the supply of adequate credit is a necessary though not a sufficient condition. For the assessment of credit requirements, against which a comparison of the supply of

\textsuperscript{24} Raj Kishore Pany. op. cit., p. 12.

credit would indicate the adequacy and inadequacy of credit, an examination of the agricultural situation of the region is also necessary.

Economic Background of Assam and Kamrup

Assam occupied a strategic position and is the pioneer state of the North-Eastern region having an economy which is full of potentialities. The State posses different valuable natural resources and can set the pace for the economic development of the region. But Assam is not able to flourish inspite of its rich natural resources due to being subject to a variety of problems.26

Importance of Agriculture in Assam

The economy of Assam predominantly centres round agriculture and this predominance remains more or less unchanged even after more than two decades of economic planning. Agriculture is the major source of state income with the agricultural sector contributing more than 50 per cent of the state income. For its important role in the generation of state income, any fluctuation in the agricultural production has tremendous impact upon the growth of the economy. The percentage of population dependent on agriculture would be more than 70. Agriculture also employs the largest proportion of working population about 68 per

cent according to 1961 census and 65.8 per cent according to 1971 census. Thus the economic position of the major portion of the state's population depends on the agricultural prosperity. This has made people vulnerable to the uncertainties of agriculture, as any shortfall in agricultural output shoots up the prices of agricultural commodities which, in turn, immediately raises the general price level.27

The occupational distribution of workers in the state of Assam, like any other developing economy is more tilted to agriculture and allied activities by the Primary Sector which alone constitutes 76.7 per cent of the total workers according to 1971 census. Out of which cultivators constitute 55.9 per cent, agricultural labourers constitutes 9.9 per cent and livestock, forestry, fishing, hunting, plantation orchards and allied activities constitutes 10.9 per cent.28

Moreover, agriculture holds the key to the industrialization of Assam. Apart from agriculture providing vast possibilities of industries based on it, it caters to the growing demand for foodgrains in course of development and also provides an expanding market for the sale of industrial products.29


29. Dr. Alam, K., op. cit., p. 117, 118.
Geo-physical, Climatic and Soil Conditions

Agricultural pattern of a particular region is mostly influenced by its geo-physical, climatic and soil conditions. Assam is situated in the extreme north eastern region of India, between 24° and 28° north latitudes and 89°50' and 96° East longitudes with an area of 78,523 sq. kms. of which 63,300 sq. kms. are plains and 15,223 sq. kms. are hills. The State has three physical regions - The Brahmaputra valley in the north, the Barak valley in the South and The Hill region that lies between the two valleys. On the basis of rainfall, terrain and soil characteristics Assam has been broadly delineated into six Agro-climatic zones - North Bank Plains, Upper Brahmaputra Valley, Central Brahmaputra Valley, Lower Brahmaputra Valley, Barak Valley and Hills zone.

Assam has a rugged and uneven topography ranging from low lands with 3 per cent slope to almost steep slopes having more than 45 per cent slope. The soils have been developed from rocks varying greatly in age and composition. The major soil groups of Assam are new Alluvial soil, old Alluvial soil, old Mountain Valley Alluvial soil, non-


laterised red soils (mixed red and black soils) and Laterised Red soils.  

Assam has a humid subtropical climate characterised by high rainfall, high humidity and reflected by three dominant seasons rhythm, viz., winter (from November to February); summer (from March to May) and mansoon (from June to October). The mean annual temperature (July-August) ranges between 30°C to 33°C while the minimum temperature (December-January) ranges from 6°C to 12°C. The total annual rainfall in a year is around 2300 mm. On an average winter (December to February) brings about 60 mm; summer (March to May) brings about 640 mm; mansoon (June to September) brings about 1460 mm; and post mansoon (October to November) brings about 140 mm of rainfall. The annual average relative humidity of Assam varies from 74.0 to 87.0 per cent.

Kamrup district of Assam in recent years has gone through a series of reorganisations and now comprises of the

37. Ibid. (34), p.2.
erstwhile Guwahati sub-division of the undivided Kamrup district. The district lies between 25 degrees 43 minutes and 26 degrees 51 minutes north latitudes and between 90 degrees 56 minutes and 92 degrees 12 minutes east longitudes. On the north the district is bounded by Bhutan, on the south partly by Meghalaya State and partly, by the Goalpara district, on the east by Nagaon and Darrang district and on the west by Nalbari district. The greater part of the district consists of wide plains. The river Brahmaputra flows through the district dividing it into two parts the North Bank and South Bank, with major portion of Guwahati sub-division on the Southern Bank and Rangia sub-division and a small portion of Guwahati sub-division on the northern bank.

**Area and Administrative Setup**

The reorganised Kamrup district comprises of three civil sub-division viz., Guwahati, Pragjyotishpur and Rangia. Agriculture sub-divisions are also three, they are Guwahati (including Pragjyotishpur), Boko (Western part of Guwahati civil sub-division) and Rangia. The total geographical area of Kamrup district is 4,70,700 hectares comprising of 10 community development blocks, 1447 villages of which 1333

villages are inhabited and the rest 114 are uninhabitated. It has 9 towns of which 3 are under Guwahati Municipal Corporation. Administratively the district is headed by a Deputy Commissioner with its head quarter at Guwahati which is situated 5 kms from the present State capital, Dispur.

Topography and Climate

Kamrup has a widely varied topography ranging from low-lying plains, elevated plains and hills of varying degrees. The hills are mostly formed of igneous rocks which are part of the extended Khasi Jaintia hills ranging from 100 meters to 300 meters in height. The plains are of alluvial origin, derived mainly from the materials deposited by the river Brahmaputra and its tributaries which meanders through the district from east to west direction enriching its flora and fauna. During the rainy season the Brahmaputra along with its tributaries and subtributaries are in spate and inundate vast areas of cultivation.

Kamrup has a sub tropical climate with semi dry hot summer and cold winter. The average maximum temperature is 34° Calcius and minimum is 9° C. During February to April,

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42. Agriculture in Kamrup District, op. cit., p.2.
dust storms are common because of the proximity of the area to the sandy beds of Brahmaputra.\textsuperscript{43} The coldest months of the year are December and January. The annual rainfall varies between 1000 mm to 2000 mm with average rainy days being 100 days from May to September. The relative humidity of the district is around 75 per cent to 85 per cent.

Soil

The district has mainly alluvial soil but sandy loam soil is also available. It is generally observed that the soil is medium in organic matter and available phosphorous, but low in available potassium. The PH ranges from 4.8 to 7.\textsuperscript{44}

Kamrup has 3.25 lakhs of working population which constitute 27 per cent of the total population of the district. Of the total population the percentage dependent on agriculture is 55.85 per cent.\textsuperscript{45}

Banking and Insurance

In Kamrup about 30 financial institutions/banks are functioning which also meets the credit requirements of the district. Guwahati, the district headquarter and also being

\begin{footnotesize}
\begin{enumerate}
\item Ibid (40), op. cit., p.2.
\item \textit{Agriculture in Kamrup District}, op. cit., p.3.
\item \textit{Annual Credit Plan. 1990-91}, U.C.O., Bank, op. cit., pp. 2-3.
\end{enumerate}
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the nerve centre of the entire North East Region, most of the banks and financing institutions have opened their controlling Regional Offices in Guwahati. At the end of June 1989, there were altogether 145 branches of commercial banks, Regional Rural Banks, and Assam Co-operative Apex Bank. Of this nearly 71 branches are in rural and semi-urban areas.46

**Layout of the Thesis:**

The present study is divided into six chapters. In the Introduction is presented the importance of the agriculture sector in the Indian economy, the role of credit in the modernization of agriculture, the economic background of Assam and Kamrup district along with the plan of the study. A review of literature on the related issues of the present study has been presented in Chapter I along with the scope of the study, aims or objectives of the study, data base and methodology and hypotheses. Chapter II is on the profile of Kamrup district agriculture which gives a brief outline of the agricultural situation of the district. The objective is to indicate how far technological progress has been made in the district since such progress is associated with the credit

requirements for agriculture. Chapter III review the major developments in the institutional credit structure of the state from 1951 when the introduction of national economic planning brough a fresh promise to the co-operative movement in Assam. Subsequently, the present position with regard to the number of co-operative institutions and commercial banks and their coverage alongwith the financial need of farmers and the assessment of credit, requirements have been exhibited. In Chapter IV the supply and direction of institutional credit for agriculture by Co-operatives, Commercial Banks and Regional Rural Banks have been dealt with in the State of Assam and in Kamrup district. Chapter IV, is on the experiences of beneficiaries or farmers who all had borrowed loans for agriculture. It also shows the results of the field survey undertaken in Dimoria and Hajo development blocks of Kamrup district. Chapter VI, is on the summary of the study, the major conclusions of the work and offers suggestions for future policy. Lastly, the bibliography and references of the study has been stated.