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## **Institutional Rural Credit in Assam – An Overview**

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**Abstract:**

*Rural credit plays an important role in improving agricultural production and productivity and thus mitigating the distress of the farmers. Initially farmers were depended on village money lenders, relatives, friends and to some extent by taccavi loans from government. But with the growing modernization of agriculture, the requirement of agricultural finance has considerably increased. The Rural Planning and Credit Department are formulating and regulating the policies and procedure to make the credit facilities available to the vulnerable sections of rural people in the country. More specifically, since 1969 commercial banks have been in providing credit to the farmers, which has led to increase in rural bank branches. In a state like Assam where the average operational holding is 1.1 hectare and more than 85 percent of the farmers' family are included in small and marginal farmers, the bulk and agricultural credit is channelized through the Gaon Panchayat level Co-operative Societies. Agriculture, as a priority sector in Assam credits are provided by the Assam Co-operation Apex Bank, Nationalized Banks including the State Bank of India, Regional Rural Banks etc. It is an attempt in this paper to analyse the recent trend of institutional rural credit in Assam with the help of secondary sources of data.*

**Keywords:** Rural credit, KCC, NABARD, Assam

### **1. Introduction**

Agricultural finance is considered as the life blood for conducting all agricultural development programmes. With the growing modernization of agriculture in recent times the requirement of agricultural finance has increased tremendously. For stimulating the tempo of agricultural production, an adequate and timely credit is most important factor. For a state like Assam where agriculture is the major contribution to the domestic economy of the state by providing livelihood to a significant proportion of state population, credit to agriculture and allied activities is playing a very important role like circulation of blood in human body. In Assam, the net cultivated area is 28.11 lakh hectares (2010-11) which is about 88 percent of the total land available for agricultural cultivation [Economic survey, Assam 2012-13]. As per provisional figure of 2010-11, Agricultural Census, the average operational holding is 1.1 hectare only and more than 85 percent of the farmer family is included in small and marginal farmers. In such a state supply of credit in short term, medium term and long term is considered as basic input for not only the development of agriculture sector, but also accelerate the path of overall economic development.

Basically, the short term credit is required only to meet the short term needs like purchasing seeds, fertilizers, paying wages to hired workers, etc. which are generally of not more than 15 months. Again, medium term credits are provided for a period of 15 months to 5 years for purchasing cattle, pumping sets including other agricultural equipments. On the otherhand, long term credit are provided for more than 5 years for purchasing additional land or permanent improvement of land like sinking of wells, reclamation of land etc or even for payment of old loans. In Assam, agriculture finance to farmers is provided by both institutional and non-institutional sources where institutional sources include village moneylenders, commission agents, relatives and landlords whereas non-institutional sources include co-operatives, commercial banks including the SBI Group, RBI and NABARD.

### **2. Flow of Agricultural Credit in Assam**

In Assam, the bulk of the agricultural credit is channelized through the Gaon Panchayat level Co-operative societies. In the state, the Assam Co-operation Apex Bank, Nationalized Banks, including the State Bank of India, Regional Rural Banks are the main credit providing agencies. Agriculture, as a priority sector, the volume of aggregate advances has increased from ` 616.15 crore in 2004-05 to ` 5733.91 crore in 2011-12. It clearly shows that the volume of aggregate advances has recorded growth from 9.48 percent in 2004-05 to 19.91 in 2011-12 to total advances in Assam. According to the State Level Bankers' Committee reports, the volume of aggregate advances under priority sector has increased from ` 3119.99 crore in 2004-05 to ` 11314.92 crore in 2009-10 and then further increased to ` 16080.72 crore in 2011-12. Thus the volume of aggregate advances has recorded 161.5 percent growth during the last six years. This growth was recorded as 415.41 percent in 2011-12 when compared with the credit extended to the priority sector during the year 2004-05 [Economic survey, Assam, 2012-13]. During the period from 2004-05 to 2011-12, the priority sector advances have been above the bench mark of 40 percent of the net bank credit. The percentage share of priority sector loans has extended to agriculture and allied activities achieved all India benchmark of 18 percent during the year 2009-10 in the state.

According to the report published by the State Level Bankers' Committee, the disbursement of advances to agriculture and allied activities was ` 5733.91 crore which was 19.91 percent of the total priority sector advance during 2011-12. It significantly shows that the per capita priority sector advances has increased from ` 1170.00 in 2004-05 to ` 6226.00 in 2012-13. The following table 1 reveals the advances outstanding under priority sector in Assam from 2004-05 to 2011-12.

Sector → Year ↓	Aggregate Advances	Total Priority Sector Advance	Agriculture & Allied Activities	Per capita Priority Sector Advance (in `)
2004-05	6497.59	3119.99	616.15	1170
2005-06	9811.15	4248.21	1212.84	1594
2006-07	12989.44	6148.70	1596.74	2307
2007-08	16081.43	8322.25	2158.80	3122
2008-09	17750.99	10705.50	2345.86	4016
2009-10	20910.97	11314.92	3868.37	4245
2010-11	23843.62	13242.59	4557.40	4968
2011-12	30363.22	16080.72	5733.91	5154
2012-13	32825.11	19429.10	6614.39	6226

Table 1

Source: Various Reports of State Level Bankers' Committee, Assam

If we keep a close eye, we can observe that with the priority sector, while the share of agriculture advances in the state had been the highest with 35.66 percent as on March 2012 as compared to 34.41 percent as on March 2011. During the period as on March 2010, the share of agricultural advances was 34.19 percent of the total priority sector credit. According to the State Level Bankers' Committee report, bankers are operating in the state have disbursed agricultural credit of ` 2002.47 during the year 2011-12 against the annual commitment of ` 2123.18 crore which was 94 percent of the targeted amount. It should be noted that during the year 2010-11, the annual achievement of disbursement of agricultural credit was 67 percent of the targeted amount. During 2003-04, credit flow to agriculture and allied activities under annual credit plan was ` 100.81 crore and has achieved at ` 2002.47 crore in 2011-12 which was ` 876.76 crore in 2010-11. It clearly shows that the annual growth of advances to agriculture and allied activities during the year 2011-12 is 128.39 percent over 2010-11. As against it, the crop loans in 2003-04 was ` 43.82 crore and the same has achieved at ` 373.63 crore in 2010-11 which has further increased to ` 1082.03 crore in 2011-12. It identifies that the growth of crop loans has recorded 189.5 percent in 2011-12 as compared to 2010-11 which seems to a great sign for an economy like Assam. But unfortunately in the state the growth of crop loans has come down by 16.06 percent with the decline in 7.56 percent agricultural advance in 2012-13 over 2011-12. The credit flow to agriculture and allied activities under annual credit plan from 2003-04 to 2012-13 is shown in table 2.

Year	Advance to Agriculture & Allied Activities (in crore)	Crop Loans (in crore)	% share of crop loan to total agriculture advances	Per capital crop loan (in `)	Crop loan per farmer family (in `)
2003-04	100.81	43.82	43	16.44	161
2004-05	243.76	79.46	33	29.81	293
2005-06	331.89	84.31	25	31.63	311
2006-07	468.91	79.44	17	29.80	293
2007-08	566.71	121.61	21	45.62	448
2008-09	523.38	203.12	39	76.20	749
2009-10	814.69	359.39	44	134.82	1307
2010-11	876.76	373.63	43	139.94	1359
2011-12	2002.47	1082.03	54	346.80	3935
2012-13	1851.01	908.28	49	292.05	3303
Percent of Growth 2012-13 over 2011-12	-7.56	-16.06	-	-15.79	-16.1

Table 2

Source: Reports of State Level Bankers' Committee, Assam.

The State Level Bankers' Committee report, Assam shows that during 2000-01, total farmer family was 27.12 lakh which has increased to 27.5 lakh in 2005-06 where such figures are actually estimated by Agriculture Census.

### 3. Financing under Kishan Credit Card Scheme

The government of India had introduced the Kishan Credit Card Scheme in 1998-99 with a view to facilitate access to credit from commercial banks and regional rural banks to the farmers. NABARD has advised banks to bring into the KCC fold all farmers,

including defaulters, oral lessees, tenant farmers, etc. in a hassle-free manner, extend and renew crop loans to ensure quality in operations. Regarding the issue of this scheme to the farmers, only 7,388 cards were issued in Assam as on 31<sup>st</sup> December 2001 with sanctioned loan of ` 1397.73 lakh which was quite negligible in comparison with some other states in India. But during 2003-04, the issue of cards had increased to 94377 with sanctioning of loan amount of ` 9728.64 lakh. During the year 2011-12, the number of issuing cards have raised to 371474 against the sanctioning of loan amount ` 1303.29 crore by the banks. Since inception of the scheme, cumulatively about 9.67 lakh cards have been issued in the state upto March 2012. Thus the scheme has covered around 35.2 percent of the total farmer family of the state. The numbers of issuing cards (KCCs) and its loan sanctioned amount under Kishan Credit Card Scheme since 2003-04 is shown in table 3

Year	Annual Achievement		Cumulative Achievement	
	Card Issued (In Numbers)	Amount (` in lakh)	Card Issued (In Numbers)	Amount (` in lakh)
2003-04	94377	9728.64	----	----
2004-05	86822	9382.86	172965	22202.28
2005-06	70238	9677.79	339750	38839.94
2006-07	50067	7862.03	359395	40580.52
2007-08	62132	16365.83	329932	67908.97
2008-09	103361	37589.23	480393	104682.06
2009-10	149822	43055.94	630070	158372.04
2010-11	163063	50495.87	793801	209071.23
2011-12	371474	130329.35	967220	307834.01
2012-13	265797	93219.58	1329203	393538.41

Table 3

Source: Reports of State el Bankers' Committee, Assam

#### 4. Contribution of NABARD towards Rural Credit in Assam

NABARD has taken over the functions of the agricultural credit department of the RBI and the Agricultural Refinance and Development Corporation (ARDC). During the course of explaining the objectives of NABARD, R. Venkataraman has opined that NABARD being established to provided credit for promotion of agriculture, small scale and village industries, handicrafts and other rural crafts, other allied economic activities in rural areas with a view to promote integrated rural development and securing property to rural masses. The NABARD is playing an important role to flow agricultural credit in Assam through Co-operative Banks, Commercial Banks, Regional Rural Banks (RRBs) etc. NABARD is working as an apex body dealing with policy planning and other operational aspects of rural credit for accelerating overall economic growth path in the state. During 2010-11, the NABARD had disbursed refinance to banks in the state to the amount of ` 172.85 crore as against `66.84 crore refinance disbursed to the banks during 2008-09 which was 158.6 percent more than the previous year. But during 2011-12, it has disbursed refinance to banks to the tune of `168.37 crore which is 2.59 percent less than 2010-11. The agency wise, purpose wise and activity wise refinance disbursed by the NABARD is shown in table 4 since 2009-10.

(` in lakh)

Purpose	2009-10			2010-11			2011-12			2012-13		
	Comm ercial Banks	RRBs	Total	Commer cial Banks	RRBs	Total	Commer cial Banks	RRBs	Total	Comm ercial banks	RRBs	Total
Minor Irrigation	---	9.22	9.22	---	---	---	---	13.66	13.66	--	0.75	0.75
Farm Mechanization	---	92.31	92.31	744.12	83.82	827.95	28.3	1186.24	1214.54	---	705.89	705.89
Plantation & Horticulture	11.00	40.67	51.67	84.80	115.82	200.62	100.41	12.45	112.86	---	----	----
Animal Husbandry	4.71	329.62	334.3 3	1053.54	386.20	1439.74	400.83	286.57	687.39	34.17	---	34.17
Fisheries	2.99	1.76	4.75	46.81	27.81	74.62	-----	----	---	---	----	---

Table 4

Source: Economic Survey, Assam (Various Issues)

### 5. Agricultural Credit and Government Initiative

The World Bank had granted a loan amount of ` 901 crore to Assam in 2004 for undertaking various projects under Assam Agricultural Competitive Project (ACCP). It should be noted that total loan Component with the contribution of state government would come to `966.82 crore in order to boost the state's agrarian economy. Out of this loan amount, 47 percent would be spent on rural roads, 26 percent on agriculture and farm mechanization, and 7 percent on marketing of agricultural and horticultural projects and the remaining percent on forest pilot project under joint forest management.

During 2006-07, the state government of Assam had prepared a scheme to provide 2 percent interest relief to the farmers availing crop loans from banks in consultation with NABARD. This scheme was prepared in view of severe drought like situation experienced in the state which was continued upto the year 2008-09. But from the year 2009-10, the state government has decided to continue the 3 percent interest subvention scheme. It is observed that as many as 195749 crop loan account holders are benefited under the scheme during the period 2009-10 and 2010-11.

### 6. Constraints and Suggestions for Improvement of Rural Credit in Assam

According to All India Rural Credit Survey, "Agricultural credit is a problem when it cannot be obtained; it is also a problem when it can be heard but in such a form that on the whole it does more harm than good. It may be said that, in India, it is thus a twofold problem of inadequacy and unsuitability that is perennially presented by agricultural credit." One of the foremost constraints of agricultural credit is that its coverage is very limited where weaker sections of the society are not being given proper emphasis. As a result, they mostly have to depend on village money lenders and landlords who charge a relatively a high rate of interest and even sometimes its unbearable for them. Secondly, for providing credit facilities the banks have given to satisfy a number of formalities to the farmers and as the farmers are not well-educated they cannot able to furnish the requisite information. Therefore, it is better to normalize the formalities so as to accelerate agricultural growth through bank credit. Thirdly, it is also observed in Assam that there exists a gap between disbursement and the requirement in the farm sector which should try to minimize. Today's credit system in Assam is city oriented where most of financial institutions are situated. It always results wastage of time as well as manpower because of which efforts should be given to banks branch expansion in the remote areas in the state. It can also be observed that in Assam the banks are suffering huge overdues problem because of which agriculture sector is going to become stagnant. It is seen that more than half of the borrowed funds are utilized for unproductive family expenditure as against which only one third is spent on the farm improvement. Therefore, it becomes necessary to check agricultural credit in such a way that it minimizes unproductive expenses that cannot only help to improve recovery of credit system, but also accentuate the total volume of production and productivity in agriculture. By minimizing the existing leakages and providing efficient administration, active co-ordination between the people in the village area and credit providing institutions can be well set up as a result of which Assam can expect to become evergreen. It can also help to maintain sustainable agricultural development.

### 7. Conclusion

As Assam is dominated by its rural economy, thus rural credit structure has to play an important role in transforming the rural economy. But at the same time, we observe that due to various reasons, financial institutions are not able to cover their operations in the rural areas of Assam as profitable as they are operated in the urban areas. Such type of attitude on the part of financial institutions must become subservient to social considerations if the rural areas is to be supplied with liberal institutional credit. There should be an attempt in the rural sector for replacing private banking to social banking. It should be noted that the role of credit to agriculture cannot just be viewed as a support to food-producing activity, but it should focus on the need to improve the overall income and economic well-being of the farmers as a whole.

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