CHAPTER - I

INTRODUCTION

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1.1 ROLE OF AGRICULTURE

Agriculture is the art and science of raising plant life from the soil. Agriculture is one of the oldest activities of humankind and today it includes not only cultivation of crops but also domestication of animals. Agriculture is the most basic resource, which not only supports human beings for their subsistence, but also helps a large number of industries. Agriculture is the largest and the most important sector of the Indian economy. Within the agriculture sector, the allied sectors such as horticulture, animal husbandry, dairy and fisheries have an important bearing on the overall economic growth and also on health and nutrition of masses. Agriculture is the largest user of land and water. To maintain the ecological balance, there is a need for sustainable and balanced development of agriculture and allied activities (Narasaiah and Veerachari, 2009, Pp. 1-2)[1].

Agriculture is the backbone of the Indian economy and the major portions of the total population are living in the rural areas. Thus the development of rural areas must be the top priority and it requires development of agriculture sector. Apart from being the provider of food and fodder, it has been the major contributor to national income, source of livelihood, government revenue and supply of raw-materials to the important industries of the country, having vital role both in the internal and external trade and providing a impetus towards prosperity of the Indian economy (Dhar, 1999, Pp. 103-104)[2].

Among the total workforce engaged in this primary sector, 79% of rural women are involved in agriculture who remains “invisible workers”. Because of low “visibility” of their contributions, they are not regarded as equal partners in the development process (Das, Mishra, Nath, 2006, Pp. 21)[3].

Agriculture in India is at crossroads today due to deceleration of growth, many new opportunities and possibilities are emerging in recent years. Agriculture, particularly traditional farming, is risky-riskier than other types of business because of the nature of the crop cycle. Various factors such as the time taken by the crops to mature, energy used for crop cultivation, resource availability and their production response, dependence on weather, proneness to natural calamities and markets are either too demanding or fraught with uncertainty. It is realized now that the focus has to shift to the farmer- his capability, economic viability and welfare (Mishra, 2008, Pp. 3-4)[4].

The agriculture sector occupies centre-stage in our country to promote inclusive growth, enhance rural incomes and sustain food security. The better agricultural performance is a result of: a) farmers' response to better prices; b) continued technology gains; and c) appropriate and timely policies coming together. Yet India is at a juncture where further reforms are urgently required to achieve greater efficiency and productivity in agriculture for sustaining growth. There is need to have stable and consistent policies where markets play a deserving role and private investment in infrastructure is stepped up. An efficient supply chain that firmly establishes the linkage between retail demand and the farmer will be important. Rationalization of agricultural incentives and strengthening of food price management will also help, together with a predictable trade policy for agriculture. These initiatives need to be coupled with skill development and better research and development in this sector along with improved delivery of credit, seeds, risk management tools, and other inputs ensuring sustainable and climate-resilient agricultural practices (Singh Shivay and Rahal, 2013, Pp.16-17)[5]**.**

Agriculture is truly India's giant in chains. Few sectors are regulated by so many central and state laws relating to land holdings, supply, pricing and stocking, transportation, marketing export, import, taxation and credit. However, benefit of the glamour attached to industry and finance, agriculture has as yet not even been considered important enough by planners to be addressed with a specific national policy (Sharma, 1999, Pp.29)[6].

From the inception of Indian economic planning, development of agriculture sector received primary importance. The growth target for agriculture in the Twelfth Five Year Plan (2012- 17) remains at 4 per cent, as in the Eleventh Five Year Plan (Singh Shivay and Rahal, 2013, Pp. 17)[7]. The XIth Five Year Plan (2007-12) reflected an average annual growth of 3.6 percent in GDP from agriculture and allied sector against a target of 4 percent realized agriculture growth has been higher than the average annual growth achieved 2.5% and 2.4% respectively during the IXth and Xth Five Year Plans despite drought and deficient monsoon conditions (Das, 2013, Pp. 38)[8]. Thus, fast agricultural growth is important for rural jobs, income and assets and the overall food security (Tripathy, 2013, Pp. 6)[9].

“The economy of Assam continues to be predominantly agrarian. Agriculture sector continues to support more than 75 percent population of the State directly or indirectly providing employment of more than 53 percent of the total workforce. The net cultivated area of the State is 28.11 lakh hectares (2010-11) which is about 88 percent of the total land available for agricultural cultivation in the State. According to the Agricultural Census, Assam, 2010-11, the average operational holding is 1.10 hectare only and more than 85 percent of the total farmer family is small and marginal farmers. The contribution of Agriculture Sector to the State economy [GSDP at constant (2004-05) prices] has been recording gradual fall during the period 2005-06 to 2012-13(Quick estimate). In Assam, the Agriculture alone has registered a growth rate of 4.35 percent and all together Agriculture and Allied sector has attained a growth rate of 4.33 percent in 2012-13” (Economic Survey of Assam, 2013-14, Pp. 3and 30)[10].

1.2 AGRICULTURAL FINANCE

Meaning

Agricultural finance generally means studying, examining and analyzing the financial aspects pertaining to farm business. The financial aspects include money matters relating to production of agricultural products and their disposal.

Definition of Agricultural finance

Murray (1953) defined agricultural. Finance as “an economic study of borrowing funds by farmers, the organization and operation of farm lending agencies and of society’s interest in credit for agriculture.”

Tandon and Dhondyal (1962) defined agricultural. Finance “as a branch of agricultural economics, which deals with and financial resources related to individual farm units.”

Nature and Scope

Agricultural finance can be dealt at both micro level and macro level. Macro-finance deals with different sources of raising funds for agriculture as a whole in the economy. It is also concerned with the lending procedure, rules, regulations, monitoring and controlling of different agricultural credit institutions. Hence macro-finance is related to financing of agriculture at aggregate level.

Micro-finance refers to financial management of the individual farm business units. And it is concerned with the study as to how the individual farmer considers various sources of credit, quantum of credit to be borrowed from each source and how he allocates the same among the alternative uses within the farm. It is also concerned with the future use of funds. Therefore, macro-finance deals with the aspects relating to total credit needs of the agricultural sector, the terms and conditions under which the credit is available and the method of use of total credit for the development of agriculture, while micro-finance refers to the financial management of individual farm business.

1.2.1 FEATURES OF AGRICULTURAL FINANCE

Finance has been recognised as the life blood of all economic activities. According to an old proverb "Credit supports the farmers as the hangman's rope supports the hanged". This statement is fully true in the context of Indian farmers. Growth in agricultural output is important but it is not enough. Agricultural finance contained some salient features recognising the position of agriculture sector in the Indian economy:-

- **High risks and uncertainties: -** India's agriculture vitally depends on the monsoon. The Indian agriculture are characterised by risky affair due to lack of sufficient irrigation facilities, natural calamities like droughts, floods etc. The marketed surplus tends to deteriorate in storage due to lack of proper storage facilities. Thus, with so much uncertainty, agriculture has always been a risky affair to be handled by the commercial banks and insurance companies.

- **Lack of co-operation in the agriculture sector: -** Absence of co-operation between the small lands holding farmers for a common purpose due to individualistic and suspicious nature in the agriculture sector.

- **Existence of economic lags: -** Due to the presence of long interval between the reward and effort in the firm operations led the farmers to face difficulties regarding the aspect of finance.

- **Finance for unproductive purposes:-** Small and marginal farmers spends the finance into the unproductive purposes like social and religious functions, litigation etc. rather to invest into the firm operations. Moreover, small and marginal farmers need credit for consumption purposes due to crop failure.

- **Large existence of small peasants:-** In India, small and marginal farmers faces more difficulties in borrowing credit from the formal institutions due to lack of proper securities and having low repayment capacity, although they comprising majority of farming community (Lekhi and Singh, 1996, Pp. 247-248)[11].

1.2.2 NECESSITY FOR AGRICULTURAL FINANCE

The agriculture sector assumes as a potential source and the Government presented this sector as a profitable sector and encourages the new entrepreneurs to invest in agriculture sector although this sector working as a major employment opportunities of the country and accounts about 52 per cent of the employment in the country. Those who live outside villages also depend in one way or the other on agriculture, selling agricultural products, working in agro-based industries etc. In spite of it, the agricultural sector remains the most backward one. Agricultural development is essential for the overall economic progress. In spite of the decline in its share in Gross Domestic Product (GDP) from 44.5 per cent in 1970-71 to 22.2 per cent in 2003-04 there has been no significant change in the proportion of workforce depending on agriculture (Narasaiah and Veerachari, 2009, Pp. 1)[12]. Moreover, it is mere source of food and fodder for the vast majority of the population and also plays supplier role of raw-materials to the important industries of our country. Nearly 50 per cent of income generated in the manufacturing sector comes from all agro-based industries of our country. The prospect of planning in India also depends on agriculture sector. A good crops always provides a impetus towards a planned economic development of our country by creating a better business climate for the transport system, manufacturing industries, internal trade etc. and also brings a good amount of finance for the government (Dhar, 1999, Pp. 103-104)[13].

Agriculture sector is the most crucial sector of the Indian economy because the main objectives of economic policy of output growth, price stability and poverty alleviation are best sub-served in this sector. There is thus a need to increase the credit flow to agriculture, raise productive capacity of land and enhance the potential of water resources as well its use efficiency for agricultural development (Sidhu and Gill, 2006, Pp. 11)[14].

In recent years, the growth rate of agricultural sector in India decelerated because of the declining production efficiency, lack of access to institutional credit, high cost of inputs and unfavourable market conditions. For the gradual growth of agro-socioeconomic of the country both at the individual/micro and at the aggregate/macro level rural credit pretended requisite demand. Rural credit, no doubt, an essential requirement for the farm operations raises the productivity entails upward moving of income level of rural masses for the overall improvement regarding the aspect of standard of living (G. Prasad Babu and S.Subash, 2009, Pp. 4)[15].

The need of finance for agriculture can hardly be over emphasised where its productivity is still low due to financial constraints. In this context, All India Rural Credit Survey committee observed that “Agricultural credit is a problem when it cannot be obtained; it is also a problem when it can be had 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 two fold problems of inadequacy and unsuitability that is perennially presented by agricultural credit” (Lekhi and Singh, 1996, Pp. 249)[16].

The development of agriculture sector is more dependent on banking sector because small and marginal farmers comprises majority of farming community. They cannot procure sufficient funds from their farm activities for reinvestment and highly depends on the outside finance. The growth of institutional credit did not equally spread in all the regions of the country although the amount of institutional agricultural credit has increased over the years. The developed regions of our country had greater access to credit as compared to less developed regions. Similarly, the dependence of small and marginal farmers on non-institutional sources is still very extending upwards. Some common important problems led these farmers to adopt the non-institutional finance for continue their farming activity. Due to high transaction costs of borrowing from formal institutions than the informal sources discourages small and marginal farmers to capture under the fold of non-institutional sources. High complicated lending procedures, heavy overhead costs, requirement of loan security and documentation policies led the small and marginal farmers to borrow the finance from informal sources. Further, the rural financial institutions are reeling under the problem of poor recovery due to variability in agricultural incomes, low incomes of small farmers and expectation of waiver of loans causing wilful default, multiplicity of lending agencies, etc. (Sidhu and Gill,2006, Pp. 11-12)[17].

1.2.3 SIGNIFICANCE OF AGRICULTURAL FINANCE

1) Agriculture finance assumes vital and significant importance in the agro–socioeconomic development of the country both at macro and micro level.

2) It is playing a catalytic role in strengthening the farm business and augmenting the productivity of scarce resources. When newly developed potential seeds are combined with purchased inputs like fertilizers & plant protection chemicals in appropriate / requisite proportions will result in higher productivity.

3) Use of new technological inputs purchased through farm finance helps to increase the agricultural productivity.

4) Accretion to in farm assets and farm supporting infrastructure provided by large scale financial investment activities results in increased farm income levels leading to increased standard of living of rural masses.

5) Farm finance can also reduce the regional economic imbalances and is equally good at reducing the inter–farm asset and wealth variations.

6) Farm finance is like a lever with both forward and backward linkages to the economic development at micro and macro level.

7) As agriculture is still traditional and subsistence in nature, agricultural finance is needed to create the supporting infrastructure for adoption of new technology.

8) Massive investment is needed to carry out major and minor irrigation projects, rural electrification, installation of fertilizer and pesticide plants, execution of agricultural promotional programmes and poverty alleviation programmes in the country.

1.2.4 IMPORTANCE FOR INSTITUTIONAL FINANCE

In present time, agriculture activities are a costly affair. In India, agriculture finance plays a crucial role in regarding two aspects- due to use of primitive methods of cultivation arises insufficiency crop productivity and to increase agricultural production to attain self-sufficiency and also to save valuable foreign exchange (Lekhi and Singh,1996, Pp.247)[18].

The importance of the institutional finance has been growing after the green revolution because of the weakness or inadequacy of informal sources to advance credit to the farmers (Datt and Sundharam, 1999, Pp. 553)[19]. Informal sources remained a preferred source because of easy access, no fear of court; flexible procedures of lending at any time, provisions of all sorts of credit, etc. influence the small and marginal farmers getting the loan (Lekhi and Singh, 1996, Pp. 257)[20]. Institutional credit is not exploitative rather than the non-institutional credit. The institutional credit is not based on profit motive and aim of these agencies is to increase the agricultural productivity and maximises the earning capacity of the Indian farmers. The formal financial institutions not only support the financial requirements of the farmers but also providing guidance in the planning of their agricultural operations to maximising their income. Provision of credit facilities and extension services should be integrate for the development of agriculture sector of the economy (Datt and Sundharam, 1999, Pp. 553)[21].

After the inception of green revolution, the need for credit has greatly increased in our country to purchase HYV technology. Agricultural credit is considered as one of the most basic input for conducting all agricultural development programmes. Agricultural growth and modernization need to be underpinned by an efficient credit system capable of providing an expanding flow of credit for both investment and working capital (Singh Ahluwalia, 1996, Pp. 422)[22]. So, its timely availability in right quantity at reasonable interest rate is a pre-requisite for improving rural livelihood and accelerating economic development (Singh, 2009, Pp. 16)[23].

1.3 NEED FOR AGRICULTURAL CREDIT

Credit is required in every type of business and agriculture is not exception of it. The need for agriculture credit becomes more important when it moves from traditional agriculture to modern agriculture. The farmers therefore, need credit to increase productivity and efficiency in agriculture. This need is increasing over the years with the rise in use of fertilizers, mechanization and rise in prices. Briefly the need for agricultural credit can be summed up as follows:

1. Purchase of new inputs: The farmers need finance for the purchase of new inputs which include seeds, fertilizers, pesticides, irrigation water etc. If the seed of high yielding varieties and other modern inputs are made available to the farmers they can increase productivity not only of land but also of labour.

2. Purchase of implements: Credit is required by the farmers for the purchase of tractors, threshers, harvesters, water pumping sets etc. The use of appropriate machinery in land will increase production by growing more than one crop on the same piece of land at the same time.

3. Better management of risk: Credit enables the farmers to better manage the risks of uncertainties of price, weather etc. They can borrow money during raining days and pay back the loans during peak years of crops.

4. Permanent improvement in land: Credit also helps the farmers to make permanent improvements in land like sinking of wells, land reclamation, horticulture, rotation of crops etc.

5. Better marketing of crops: If timely credit is available to the farmers, they will not sell the produce immediately after the harvest is over. At that time the prices of agricultural goods are low in the market. Credit enables the farmers to withhold the agricultural surplus and sell in the market when prices are high.

6. Facing crises: The credit is required by the farmers to face crisis. The crisis can be caused by failure of crop, draught of floods.

7. Balanced development: Agricultural sector generally remains neglected compared to industrial sector in the country. For balanced development, it is essential that credit should be provided at concessional rates to the agriculture sector so that it should also expand and help in "take off" process of the country.

1.3.1 TYPES OF AGRICULTURAL CREDIT

The need for various types of agricultural finance can be classified under the following grounds:

1. Finance Requires According to Purpose

According to Reserve Bank of India, credit needs can be distinguished by its purposes:

- **For Meeting Family Expenditure:-** Credit requires for meeting the domestic expenditure includes food, clothing, paying for medical, educational and other family expenses etc.

- **For Non-Farm Business Purpose: -** Non-Farm Business Purpose includes the repair of production and transport equipment or non-farm capital expenditure.

- **For Agricultural Purposes:-** The farmers requires finance for the purpose of seed, manure and fodder, payment of rent, wages, irrigation of crops, hire charges of pumps, purchase of livestock's, repair of agricultural implements, land improvement, for laying of orchard and capital expenditure on agriculture.

- **Other Purposes:-** Farmers also requires finance for the repayment of old debts, deposits with cooperative agencies, shares and unspecified purposes etc.

2. Finance Requires According to the Length of the Loan Period

Broadly, credit in agricultural sector may be divided into short-term loans to meet the input expenses and medium and long-term loans to agriculture sector to facilitate the development of fixed farm Assets such as land:-

- **Short Term Credit**: - Short term finance requires for the purchases of seeds, fertilizers, pesticides, feed and fodder of livestock etc. provided by the money lenders and the co-operative societies. The period of such loans is up to 15 months are normally repaid after the harvest and serve both productive and unproductive purposes of the farmers.

- **Medium Term Credit**: - Farmers require finances for medium period ranging between 15 months and 5 years for the purpose of making some improvement on land, buying cattle, agricultural implements, etc. provided by the commercial banks and money lenders etc.

- **Long Term Credit**: - Long term loans requires for making improvement on land, purchase of expensive machinery, purchase of additional land , digging of wells and repayment of old debts etc. These loans are advanced for a long period ranging between 5 to 20 years.

3. **Finance Requires According to the Productive and Unproductive Needs**

- **Productive Credit Needs: -** The loans which are used in productive operation if agriculture are called the productive credit. Productive requirements of the farmers are loans for purchase of cattle, implements, fertilizers, inputs, better seeds and machinery etc.

- **Unproductive Credit Needs:-** The loans which are used in consumption purposes if agriculture are called the productive credit. Between the moment of marketing of agricultural produce and harvesting of next crop, there is a long interval of time. Most of the farmers do not have sufficient income to sustain them through this period. Therefore, they have lake loans for meeting their consumption needs (Lekhi and Singh, 1996, Pp.249-250)[24].

1.3.2 SOURCES OF AGRICULTURAL CREDIT

In India agricultural credits are being advanced from different sources. Broadly, these different sources can be categorised under the two sections- **(A)** Institutional Credit Agencies and **(B)** Non- Institutional Credit Agencies.

A. **Institutional Credit Agencies:** Institutional credit agencies formed by the Co-operative credit societies, Land Development Bank, Commercial Banks, Regional Rural Banks and Government. The importance of institutional credit agencies has greatly risen slowly from the period of 1951.

   1) **Co-operative credit societies:** In India, the co-operative movement was initiated in 1904. The cheapest and the best source of rural credit in India is the co-operative finance.

   2) **Land Development Bank:** Land Development Banks are advancing long term loans to the farmers against the mortgage of their lands for its permanent improvement.

   3) **Commercial Banks:** During pre-nationalisation of commercial banks (1951-1968), the commercial banks were reluctant in providing credit to

the priority sectors of the economy. Commercial banks totally neglected the agricultural sector and small industrial sector and serving only trade and industry. But after the nationalisation of commercial banks in 1969, public sector banks made an effort to extend liberal credit facilities to the priority sectors. With the help of “Village adoption scheme” the commercial banks have started extending financial support both directly and indirectly and also for short and medium periods. Commercial banks through the regional rural banks made an effort to save small and marginal farmers from the clutches of moneylenders by providing lubricate credit facilities.

4) **Regional Rural Banks:** As per the recommendations of working Group on Rural Banks, the Regional Rural Banks (RRBs) were established in 1975 for supplementing the commercial banks and co-operatives in advancing institutional rural finance in those regions where potentialities of agricultural development are higher. Regional rural banks are advancing loan to the small and marginal farmers and landless labourers for productive purposes.

5) **The Government:** The Government advancing loans to the farmers in the time of emergency (flood and famine etc.) both for short-term and long-term are popularly known as “Taccavi Loans”. Due to official red tapism, corruption, more formalities rigidities and delay in getting loans, the performance of this formal source is very discouraging.

B. Non- Institutional Credit Agencies: The non-institutional credit agencies consist of moneylenders, traders and commission agents, relatives and landlords.

1) **Moneylenders:** From the initial period, moneylenders have been advancing a major share of farm credit despite rapid development of banks in rural areas. Moneylenders are distinguished into two types-professional moneylenders and agriculturist moneylenders. They provided loans both for productive and unproductive purposes and enjoy the virtual monopoly in the field of agricultural finance although charged exorbitant rate of interest on their loan.

2) **Traders and commission agents:** Traders and commission agents advance loans to the farmers against their crops without any legal agreement and forced the farmers to sell their crops at very low prices. They advanced loans mostly for cash crops.

3) **Relatives:** Cultivators also borrowed the finance from their relatives at the time of crisis without any interest and repaid after harvest.

4) **Landlords:** Before the abolition of Zamindari system in our country, mostly small and marginal farmers depend on the landlords in order to meet their financial requirements. Landlords also bear high interest rate against their loan like moneylenders (Dhar, 1999, Pp. 119-123)[25].

The following **Table No. 1.1** presents the contribution of institutional and non-institutional sources to the total agricultural credit in India about last 60 years.

Table No. 1.1: Relative share of Borrowing of cultivator Households from different sources (Percentages)

Sources of credit	1951	1961	1971	1981	1991	2002	2010
1	2	3	4	5	6	7	8
Non-Institutional of which	92.7	91.3	68.3	36.8	30.6	38.9	29.7
Moneylenders	69.7	49.2	36.1	16.1	17.5	26.8	21.9
Institutional of which	7.3	18.7	31.7	63.2	66.3	61.1	68.8
Co-operatives Societies/Banks	3.3	2.6	22.0	29.8	23.6	30.2	24.9
Commercial Banks	0.9	0.6	2.4	28.8	35.2	26.3	25.1
Unspecified	-	-	-	-	3.1	-	1.5
Total :	100	100	100	100	100	100	100

Source: Dhar, P.K (1999): “A Text Book of Higher Secondary: Economics”, Assam, Volume No. I and Devaraja, T.S (2011): “An Analysis of Institutional Financing and Agricultural Credit Policy in India”, Pp. 6 accessed from sibresearch.org.

The above table highlights the fact that in the time of independence our economy totally depends on the non-institutional sources for financial support in the agriculture sector. Moreover, the entire financial demands of the farmers of the country supplied by the non-institutional agencies accounted 92.7 per cent in 1950-

51 where the formal funding agencies accounted only 7.3 per cent. In the initial period of planning, the contribution of informal sources in the advancing of credit to the agriculture sector declined to the extent of 29.7 per cent in 2010. In the independence period, money lenders enjoyed the monopoly power but due to different reasons the share of moneylenders in total firm credit has declined from 69.7 per cent in 1951 to 26.8 per cent in 2002 and greatly fall down to 21.9 per cent in 2010. In the case of non-institutional finance of sectors, it shows that the moneylenders advanced more to the farmer's than the other agencies. In 1951, the share of commercial banks to distribute the formal credit in the agriculture sector was more negligible and covered only 0.9 per cent from the total formal credit 7.3 per cent. After then the percentages of commercial banks has greatly improved to 26.3 in 2002 and then declined to 25.1 in 2010.

1.4 PLAN OUTLAY IN AGRICULTURE AND ALLIED ACTIVITIES IN DIFFERENT FIVE-YEAR PLAN PERIOD

In India, the agriculture sector plays an important role in the respect of contribution to GDP, employment and income and its slow growth rate will have an adverse impact on the overall growth of the economy. Investment in the agriculture sector requires to be highly accelerated to attain the satisfactory level of growth. Therefore, high rate of investment in the primary sector needs to be well appropriately structured, timed and well implemented with maximum effectiveness to achieve the desired level of growth.

Factors like natural factors, inadequate finance, dependence on weather, inadequate marketing system, small size of holdings, technological factors hindered the process of agricultural development (Dhar, 1999, Pp. 110-113)[26]. Agricultural credit is a nucleus of the system of farm operations. Adequate and timely supply of agricultural credit influence the small and marginal farmers to adopt modern technology specially the high yielding variety technology to spread green revolution in the entire country to achieve self-sufficiency in food grains for ensuring food security. The different studies conducted show a strong positive relationship between agricultural growth and availability of credit (Lekhi and Singh, 1996, Pp. 247)[27].

From the initial stage of economic planning in India, improvement of agriculture sector has been receiving special priority. But a very special emphasis was given to this agricultural sector only after 1962, i.e., from the IIIrd Five Year Plan. Since then a huge amount of fund was assigned for the development and modernization of this sector every year. All these have influenced to –

- A rapid increase in area under cultivation.
- A steady rise in agricultural productivity or rise in average yield per hectare and
- A rising trend in agricultural production (Dhar, 1999, Pp. 104-105)[28].

The following **Table 1.2** highlighted the plan outlay in agriculture and allied activities in the different five-year plan period:

Table 1.2: Plan Outlay in Agriculture and Allied Sectors in India

(Rs. in Crores)

Plans	Total plan outlay	Agriculture and Allied sectors	%age of Agriculture and Allied Sectors to Total
I Plan (1951-56)*	2378	354	14.9
II Plan (1956-61)*	4500	501	11.3
III Plan (1961-66)	8577	1089	12.7
Annual Plans (1966-69)**	6625	1107	16.7
IV Plan (1969-74)**	15779	2320	14.7
V Plan (1974-79)	39426	4865	12.3
Annual Plan (1979-80)	12177	1997	16.4
VI Plan (1980-85)	97500	5695	5.8
VII Plan (1985-90)	180000	10525	5.9
Annual Plan (1990-91)	58369	3405	5.8
Annual Plan (1991-92)	64751	3851	6.0
VIII Plan (1992-97)	434100	22467	5.2
IX Plan (1997-2002)	859200	42462	4.9
X Plan (2002-2007)@	398890	20668	5.2
XI Plan (2007-12)@	3644718	136381	3.7
XII Plan (2012-2017@)	3568626	363273	4.7

*****Include Animal Husbandry, Special Area programme, Rural Development and Forestry and Wildlife.

**Includes buffer stocks of Rs. 140 crore for 1968-69, Rs. 24 crore for 1969-70, Rs. 50 crore for 1971-72 and Rs. 25 crore for 1972-73 and Rs. 24 crore for 1972-73. Thus the figures for plan work out of Rs. 124 crore against the original plan provision of Rs. 225 crore.

@: (at 2006-07 prices).

Source: Singh, Gurmeet (2007): "Importance of Rural Credit in Indian Agriculture", Kurukshetra (A Journal of Rural Development), Vol. 55, No. 9, p.34 and https://books.google.co.in.

From the above table we have been seen that the Government of India has been given special emphasis on the development of agriculture and allied activities by taking the initiative of increasing the amount of total plan outlay from the First Five Year Plan. The Government of India had sanctioned Rs. 354 crore for the primary sector which covered only 14.9 percentages of agriculture and allied sectors to total outlay of First Five Year Plan. From the Third Five Year Plan, the Government raised the percentage of total plan outlay in the primary sector and spend highest Rs. 42,462 crore in the Ninth Five Year Plan for increase the productivity of agriculture. Under the 10th Five Year Plan, the Government has sanctioned Rs. 20,668 crore from Rs. 398890 crore for agriculture and allied sectors covered only 5.2 percentage of total plan outlay.

Against the target of Rs. 2,80,000 crore of credit flow of agriculture for 2008-09, the banking system has disbursed Rs. 2,87,000 crore as on 31st March, 2009, achieving nearly 3 percent more than the target (Singh, 2009, Pp. 16)[29]. To ensure greater flow of institutional credit to agriculture, the budget raises the target Rs.3, 25, 000 crores for such credit for the year 2009-10 (Sud, 2010, Pp. 31)[30]. As against the target of Rs. 3,75,000 crore of credit flow to agriculture for 2010-11, the banking network of our country disbursed Rs 4,46,779 crore, as on 31 March 2011, achieving 119.14 per cent of the target. Commercial Banks, Co-operative Banks and Regional Rural Banks (RRB's) disbursed Rs.3,32,706 crore, Rs.70,105 crore and Rs.43,968 crore, contributing 74 per cent, 16 per cent and 10 per cent respectively, of the total credit flow during 2010-11 (RBI, 2010-11, Pp. 7)[31].

The Union Budget 2010-11 also proposes a four-pronged strategy for boosting agricultural growth and tackle supply side constraints includes- enhancing agricultural production, reducing agro- wastages, strengthening credit supply channels at rural areas and promoting food processing sector for processing, value addition of the agro produce would ensure sustainable growth in this sector (Tripathy, 2013, Pp. 6-7)[32]. As against the target of Rs. 4,75,000 crore credit flow to agriculture for 2011-12, the banking system disbursed Rs. 5,09,040 crore as on 31 March 2012, achieving 107.2 per cent of the target. Commercial Bank (CB), Co-operative banks and Regional Rural Bank (RRB) disbursed Rs.3,68,616 crore, Rs.86,185 crore and Rs.54,239 crore, respectively, sharing 72 per cent, 17 per cent and 11 per cent of the total credit flow during 2011-12 (NABARD, Annual Report, 2011-12, Pp. 10)[33].

Agricultural credit works as the engine of agricultural production and timely availability of adequate agricultural credit at reasonable rate with affordable cost, especially for small and marginal farmers is crucial for improving agricultural-sector growth. In Rural Development Budget 2013-14, the Union Finance Minister taking into consideration the importance of the credit for the needy small and marginal farmers, proposed to increase the target to Rs 700,000 crore for 2013-14 as against the target of Rs 575,000 crore fixed for 2012-13. The government will continue the interest subvention scheme for short term crop loans and a farmer who repays the loan on time will be able to get credit at 4 per cent per annum extended by public sector banks, RRBs and cooperative banks. The Finance Minister also proposed to extend the scheme to crop loans borrowed from private sector scheduled commercial banks in respect of loans given within the service area of the branch concerned. To ensure production, productivity and spread Green Revolution to Eastern India, initiated in 2010-11, intends to address the constraints limiting the productivity of 'rice based cropping systems' in eastern India comprising seven states, viz. Assam, Bihar, Chhattisgarh, Jharkhand, Odisha, Eastern Uttar Pradesh, and West Bengal. The Green Revolution in Eastern Region has been a remarkable success in the current financial year (2012-13). Assam, Bihar, Chhattisgarh and West Bengal have increased their contribution to rice production tremendously. The Union Finance Minister in 2013-14 Budget proposed to continue to support the eastern Indian States with an allocation of Rs 1,000 crore out of total allocated Rs. 27,049 crore to the Ministry of Agriculture. While Rs. 3,415 crore would be utilised for agricultural research activities and Rs. 500 crore has been allocated for starting a programme of crop diversification. The Government propose to identify priority research areas and to incentivise State Agricultural Research institutions to bring in scientific and technological breakthroughs in raising productivity, especially in eastern India and to promoting of location-specific plant and seed varieties that would yield more and can withstand negative impact of climatic change (Singh Shivay and Rahal, 2013, Pp. 16-23)[34].

1.5 CREDIT DELIVERY MECHANISM IN RURAL FINANCE: MULTI-AGENCY APPROACH:-

Credit has been considered not only as one of the critical inputs in agriculture, but also as an effective means of economic transformation (Narasaiah and Veerachari, 2009, Pp. 74)[35]. Due to the drawbacks of the informal lending agencies, a multi-agency approach consisting of Co-operative Banks, Commercial Banks and Regional Rural Banks – popularly known as institutional credit source- has been developed to provide cheaper and adequate credit to the farming sector in our country. The major policy in the sphere of agricultural credit has been its progressive institutionalisation for supplying agriculture and rural development programmes with adequate and timely flow of credit to assist weaker sections and less developed regions. The main thrusts of this policy are to ensure timely and adequate flow of credit, to reduce and gradually eliminate the network of informal sources, to make available credit facilities to all the regions of the country (Datt and Sundharam, 1999, Pp. 553)[36].

The All-India Rural Credit Survey Committee (1954) reported that: "In the village itself no form of credit organisation will be suitable except the Co-operative society - co-operation has failed, but the co-operation must succeed." On the basis of this report, Reserve Bank of India (RBI) promoted some measures to strengthen the co-operative movement. The Government agreed the view that co-operative societies are not sufficient for advancing the rural credit and took the initiatives for adoption of "multi-agency approach" to finance the priority sector after recommendations of the All-India Rural Credit Survey Committee (1969). The commercial banks should play an important role in the rural sector which resulted in the following-

- Nationalization of 14 banks in 1969.
- Setting up of credit Guarantee Corporation in 1971.
- Setting up of Regional Rural Banks (RRB's) in 1975.

- Second time nationalization of 6 banks in 1980.
- Setting up of NABAD in 1982.
- SHG-Bank linkage programme in 1992 by NABARD.
- Concept of local area bank was introduced in 1996-97.
- Launching of Kisan Credit Card (KCC) scheme in 1998 by NABARD.
- The concept of financial inclusion has been introduced in 11th Five Year Plan. (G. Prasad Babu and S.Subash, 2009, Pp. 5)[37].

The Working Group under the chairmanship of C. E. Kamath brought out the problems that performance of the multi-agency approach was not satisfactory rather increasing the amount of lending outstanding. Despite the adoption of lead bank scheme and district credit plans, the formal institutions failed to implement the agricultural credit programmes at the root level. The Government of India also introduced "service area approach" (SAA) for implementing the different credit programmes developed by the government and also eliminating the bottlenecks of the formal institutions faced in advancing the credit. Due to falling interest rates of banks not reaching to the farmers led them dependent on moneylenders though existence of different credit policies in the country. There were a series of suicides among farmers in Andhra Pradesh, Maharashtra and Punjab was the important reasons for the fall of NDA government in 2004. In this context, the United Progressive Alliance (UPA) Government took some initiatives consulted with RBI, NABARD and commercial banks for expanding the flow of agricultural credit in the economy in June 2004 are highlighted below:

- To enhance the amount agricultural credit form all lending institutions from about Rs. 85,000 crores to Rs. 1, 05,000 crores (30 percent increase) will evolved year after year.
- To initiate a branch expansion programmes under formal banking institutions for extending liberal credit facilities to the agricultural sector.

- At every rural and semi-urban branch, at least 100 new farmers should be financed under special agricultural credit plan during 2004-05, resulting in 50 lakh new farmers.
- Provision of rural credit to tenant farmers and landless farmers.
- Debt restructuring policies under two grounds:

  (a) Relief to farmers in distress by rescheduling their loans and making them eligible for fresh loans; and

  (b) One-time settlement for small and marginal farmers and consider them eligible for fresh loans (Datt and Sundharam, 1999, Pp. 555-556)[38].

1.6 KISAN CREDIT CARD (KCC) SCHEME:

1.6.1 CONCEPTUAL FRAMEWORK ON KISAN CREDIT CARD (KCC)

One of the important criteria for the development of agricultural in our country has been to enhance the prominent role of institutional sources of finance. To coverage a large number of farmers under the fold of institutional credit are considered as a big challenge to the Indian Banking Industry. On this aspect, Kisan Credit Card (KCC) has come into view as an innovative credit delivery mechanism from the banking system in 1998-99 for meeting the production and consumption expenses of the farmers in a timely, flexible, cost-effective and hassle free manner. Kisan credit card is a package of services which is positive, productive and thrift creating (Rao, 2006, Pp.15)[39].

Honourable Union Finance Minister announced in his budget speech for 1998-99 that NABARD would formulate a Model Scheme for issue of Kisan Credit Cards to farmers, on the basis of their land holdings, for uniform adoption by banks, so that the farmers may use them to readily purchase agricultural inputs such as seeds, fertilizers, pesticides, etc. and also draw cash for their production needs. For operationalisation of the KCC scheme, the NABARD, in consultation with the RBI and select banks, formulated a model scheme for the issuance of the Kisan Credit Card Scheme by banks across the country.

The KCC scheme is a landmark in the history of rural credit delivery system in India. The model scheme was circulated by the RBI to commercial banks and by the NABARD to co-operative banks and RRBs in August, 1998, instructed to introduce the same in their respective area of operation. Since its launch, the scheme has been implemented in all the States and Union Territories, except Sikkim, Chandigarh, Daman and Diu, and Dadra and Nagar Haveli (Sarkar and Dodkey, 2002, Pp. 37-38)[40]. The Scheme has gained popularity and its implementation has been taken up by 27 Public Sector Banks (PSBs), 373 District Central Co-operative Banks (DCCBs) and 196 Regional Rural Banks (RRBs) (Shete, 2002-03, Pp. 33)[41]. Financial inclusion has become a vibrant channel to promote and attract the kisan credit cards to the rural population (Paramasivan and Subramanian, 2010, Pp.8)[42].

The Kisan Credit Cards (KCCs) scheme with the announcement in the GOI Budget 2001-02, Personal Accident Insurance Scheme (PAIS) has been introduced as a ‘add-on benefit’ and all the Kisan Credit Card holders would be insured for Rs. 50, 000 at a nominal premium of Rs. 15/- per annum as agreed to by General Insurance (Public Sector) Association. Personal insurance cover for accidental death or permanent disability for KCC holders has also been finalized. The policy will cover the KCC holder upto the age of 70 years. The non-farmer workers and tenant farmers were kept outside the KCC scheme. In August, 2003, credit card scheme even for the artisans, weavers and fisherman were announced.

With a view to make KCC more comprehensive in its coverage of credit needs of the farmers through a single window, the scope of the KCC scheme has been extended to cover term loans for agriculture and allied activities and a reasonable component for consumption loan. The banks have also been advised to ensure that the crop loans are routed through KCC only. Crop loans disbursed under KCC Scheme for notified crops are covered under Rashtriya Krishi Bima Yojna (National Crop Insurance Scheme), a crop insurance scheme introduced at the behest of Government of India to protect the interest of the farmer against loss of crop yield caused by natural calamities, pest attacks etc.

1.6.2 OBJECTIVES OF KISAN CREDIT CARD SCHEME

As a pioneering credit delivery innovation, Kisan Credit Card Scheme aims at provision of adequate and timely support from the banking system to the farmers for their cultivation needs including purchase of inputs in a flexible and cost effective manner.

1.6.3 CONTENTS OF KISAN CREDIT CARD SCHEME

* Beneficiaries covered under the scheme are issued with a credit card and a pass book or a credit card cum pass book incorporating the name, address, particulars of land holding, borrowing limit, validity period, a passport size photograph of holder etc., which may serve both as an identity card and facilitate recording of transactions on an ongoing basis.

* Borrower is required to produce the card cum pass book whenever he/she operates the account.

1.6.4 SALIENT FEATURES OF THE KCC SCHEME

- One KCC-cum-SB account instead of two separate accounts. Credit balance in account to earn interest at SB rate.
- Adequate and timely credit support under a single window to all farmers including oral lessees, tenant farmers, share croppers, SHGs/JLGs to meet:

  a) Short term credit requirements for cultivation of crops

  b) Post harvest expenses

  c) Produce Marketing loan

  d) Consumption requirements of farmer household

  e) Working capital for maintenance of farm assets and activities allied to agriculture, like dairy animals, inland fishery etc.

  f) Investment credit requirement for agriculture and allied activities like pumpsets, sprayers, dairy animals etc.

- Revolving cash credit facility involving any number of drawals and repayments within the limit.
- Limit to be fixed on the basis of operational land holding, cropping pattern and scale of finance.
- Entire production credit needs for full year plus ancillary activities related to crop production to be considered while fixing limit.
- Card valid for 3 years (period enhanced to 5 years from October 2004) subject to annual review. As incentive for good performance, credit limits could be enhanced to take care of increase in costs, change in cropping pattern.
- Each drawal to be repaid within a maximum period of 12 months.
- Conversion/ reschedulement of loans also permissible in case of damage to crops due to natural calamities.
- Flexi KCC with simple assessment prescribed for marginal farmers.
- Farmers can avail loan facilities from the bank against warehousing receipt.

1.6.5 ADVANTAGES TO FARMERS

- Access to adequate and timely credit at subsidized rate of interest.
- Short term and Long term credit requirements both taken care of at one window.
- One time documentation at the time of first availment and thereafter simple declaration (about crops raised/ proposed) by farmer.
- Flexibility to draw cash and buy inputs.
- Rate of Interest: 7% upto Rs. 3 lakh to farmers.
- Interest Incentive: For prompt repayment- 3% (upto Rs. 3 lakh) from Government of India and 2% (upto Rs. 30,000) for 2012-13 from Government of Assam.

- Disbursement through various delivery channels, including ICT driven channels like ATM/PoS/Mobile handsets.
- Assured availability of credit at any time enabling reduced interest burden for the farmer.
- No need to apply for a loan for every crop and repayment only after harvest.
- Sanction of the facility for 5 years subject to annual review and satisfactory operations and provision for enhancement.
- Flexibility of drawals from a branch other than the issuing branch at the discretion of the bank.

1.6.6 BENEFITS OF THE SCHEME TO THE BANKS

- Reduction in work load at branches due to sanction of KCC limit for 3-5 years subject to annual renewal.
- Minimum paper work and simplification of documentation enabling banks to achieve the priority sector target more easily.
- Improvement in recycling of funds and better recovery of loans.
- Reduction in transaction cost to the banks.
- Better Banker-Client relationships.
- Validity, Repayment period, Processing fee and Margin to be decided by banks.

1.6.7 BANKS IN AGRICULTURAL SECTOR IN INDIA

Nationalisation of banks was a major step for channelising credit to various sectors of economy of which agriculture is a major sector. A dynamic and growing agricultural sector needs adequate finance through banks to accelerate the overall growth. Following is a list of offers of credit from some of the nationalised banks.

Allahabad Bank (www.allahabadbank.com)

- Kisan Credit Card (KCC)
- Kisan Shakti Yojana Scheme
- Farmers are free to utilise the loan at their own choice
- No margin is required
- 50% of the loan amount may be utilized for personal/domestic purposes including repayment of debt to money lenders

Andhra Bank (www.andhrabank.in)

- Andhra Bank Kisan Green card
- Coverage under Personal Accident Insurance Scheme (PAIS)

Bank Of Baroda (www.bankofbaroda.com)

- Baroda Kisan Credit Card (BKCC)
- Purchase of second hand tractors scheme for dry-land farming
- Working capital needs to dealers/distributors/traders of agrl. Inputs/livestock inputs
- Hiring agrl. machinery
- Development of horticulture
- Working capital for units engaged in dairy, piggery, poultry, sericulture etc.
- Financing Scheduled Caste/Scheduled Tribes for purchase of farm implements, tools, pair of bullocks, creation of irrigation facilities.

Bank of India (www.bankofindia.com)

- ***Star Bumiheen Kisan Card*** **–** for share croppers, tenant farmers and oral lessees

- ***Kisan Samadhan card*** – Kisan credit card for crop production and other related investments
- ***BOI Shtabti Krishi Vikas Card*** – electronic card for anywhere anytime banking for farmers
- Funding for contract farming in hybrid seed production, cotton industry, sugarcane industry etc.
- Special schemes for SHGs and to empower women folk
- ***Star Swarojkar Prashikshan Sansthan (SSPS)***, a new initiative to provide entrepreneurial training tofarmers
- Crop loans : Upto Rs. 3 lakhs at the rate of 7% per annum
- Collateral security: loans up to Rs. 50, 000, no collateral required, but for above Rs. 50, 000, RBI directives are followed.

Dena Bank (www.denabank.com)

- Dena bank is most active in Gujarat, Maharashtra, Chhattisgarh and UT of Dadra and Nagar haveli.
- ***Dena Kisan Gold Credit Card Scheme***
- Maximum credit limit up to Rs. 10 lakh
- Provision of 10% towards domestic expenses including education of children
- Longer repayment period up to 9 years
- Loan is available for any type of investment in farm such as farm implements, tractors, sprinklers/drip irrigation systems, oil engine, electric pump sets, etc.
- Short term crop loan up to Rs. 3 lakhs @ 7%
- Disposal of loans within 15 days of application
- No collateral up to Rs. 50, 000 for farm loans and up to Rs. 5 lakhs for setting up agri-clinic and agri-business units.

Indian Bank (www.indianbank.in)

- **Production Credit :** Crop loans, Tie-up with sugar mills & Kisan Credit Card Scheme, Crop loans to tenant farmers, share croppers and oral lessees
- **Agricultural Investment Credit :** Land development, minor irrigation, micro irrigation, farm mechanization, plantation and horticulture
- **Agricultural Structured Loans :** Kisan Bike, Agri- Vendors Bike, Agri. Clinics and Agri Business Centres
- **Group Lending for Agricultural Development:** Loan to joint liability groups / Self Help Groups
- **New Agricultural Avenues:** Contract farming, Organic farming, rural godowns, cold storage, medicinal and aromatic plants, bio-fuel crops etc..

Oriental Bank of Commerce (www.obcindia.co.in)

- Oriental green Card (OGC) Scheme
- Composite Credit Scheme for Agricultural lending
- Setting up of cold storages/godowns
- Financing commission agents

Punjab National Bank (www.pnbindia.in)

- ***PNB Kisan Sampuranrin Yojana***
- ***PNB Kisan Icha Purti Yojana***
- Growing potatoes/fruits against pledge of cold storage receipts
- Self propelled Combine Harvestors
- Development of Forestry nursery
- Wasteland development
- Mushroom/Prawn culture and mushroom spawn production

- Purchase and maintenance of milch animals
- ***Dairy Vikas Card Scheme***
- Schemes for pisciculture, piggery, bee-keeping etc.

State Bank of Hyderabad (www.sbhyd.com)

- Crop loans and Agrl. Gold loans
- Marketing of agricultural produce
- Cold storage/private warehouse
- Minor irrigation & Dug well scheme / development of old well scheme
- Land development finance
- Purchase of tractor, power tiller and implements
- Purchase of Agrl. Land/fallow/wastelands
- Vehicle loans for farmers
- Drip irrigation and sprinklers
- Self Help Group
- Agri Clinics and Agri Business Centres
- ***Yuva Krishi Plus Scheme***

State Bank of India (www.statebankofindia.com)

- Crop loan Scheme (ACC)
- Storing produce in their own premises and renewal of loans for next season
- Kisan Credit Card Scheme
- Land Development Schemes
- Minor Irrigation Schemes
- Purchase of combine Harvestor

- Kisan Gold Card Scheme
- *Krishi Plus Scheme*- for customized hiring of tractor to rural youth
- *Arthias Plus Scheme* – for Commission agents
- *Broiler Plus Scheme* – Broiler farming
- *Lead Bank Scheme*

Syndicate Bank (www.syndicatebank.com)

- Syndicate Kisan Credit card (SKCC)
- Solar Water Heater Scheme
- Agri-clinics and Agri-business centres

Vijaya Bank (www.vijayabank.com)

- Loans to Self Help groups
- Vijaya Kisan Card
- Vijaya Planters Card
- KVIC Margin Money Scheme for Artisans and Village Industries

1.7 STATEMENT OF THE PROBLEM

Agricultural development bears a close positive correlation with credit and finance. The relationship between credit and agricultural development is high but indirect. Agricultural credit is one of the most crucial inputs in all agricultural development programmes in India. At the time of Independence, the most important source of agricultural credit was the money lenders. The prominent position of the money lenders was due to the reason that there was no other source worth the name and the farmers were forced to borrow from them. This almost total dependence of farmers on the money lenders enabled the latter to dictate terms and exploit the former in a number of ways. On account of this reason, they can be termed antisocial elements. The Government has, therefore, undertaken various steps to regulate the activities of the money lenders. The most important move to free the agriculturists from the clutches of the money lenders was the expansion of institutional credit to agriculture (Roy, 2010, Pp. 111-112)[43].

Since India attained her Independence, a large number of committees were set up by the centre to analyse the arrangements for institutional credit delivery mechanism for increase the productivity and development of farmers but these committees were more sector-oriented rather than being people centered (Purkayastha, 2004, Pp. 28)[44].

Modern banking system, being basically urban oriented, and dependent on quick recovery with adequate interest, was found to be not quite a suitable replacement of the traditional money-lenders operating in rural areas (Tripathy, 2004, Pp. 23)[45].

Considering the dominant role of the agriculture sector and the importance of credit as an input, a multi-agency approach has been adopted by the Reserve Bank of India (RBI) for ensuring credit flow to the sector. In spite of several improvements in the delivery systems that have been undertaken over time, making institutional credit available to a large number of farmers, particularly small and marginal farmers, continues to be a challenge to the banking industry. Financing for agriculture has been a gigantic task for banks, given the enormity of the credit requirements on the one hand and vagaries of nature on the other. Both RBI and National Bank for Agriculture and Rural Development (NABARD) have taken several initiatives for simplication of systems and procedures and designing of innovative credit delivery products in dispensation of agriculture credit. However, the traditional system of procedures, documentation etc. adopted by the banking system had rendered availment of credit by the farmers rather cumbersome. Provision of timely, adequate and hassle-free credit to farmers continues to be one of the major tasks for banks in India. In this context, the Kisan Credit Card (KCC) scheme introduced in 1998-99 was a step towards facilitating the access to Short Term (ST) credit for the borrowers from the financial institutions. The scheme was conceived as a unique credit delivery mechanism, which aimed at provision of adequate and timely of short term credit to the farmers to meet their crop production requirements (Rao, and Sahu, 2005, Pp.4)[46].

In the 10th Plan document on 'Sectoral Policies and programmes' Vol. II, GOI, it was highlighted that "The progress of scheme is dismal in the North-East which is attributed to low level of loans issued to farmers availing crop loans from banks"(10th 5 year Plan. Vol. II, 2002-07, p.523.)[47].

The Report of the Expert Committee on Rural Credit (2001) mentioned that the weak banking infrastructure, poor recovery ratio, scarcity of sound bankable proposals, uncertain political climate, poor transport and communication etc. were the main obstacles on the way to greater flow of credit into the North-Eastern Region (NER).

In North-east states, the green revolution has not much impact on agricultural advancement due to some constraints as these states are much hilly. Despite impressive growth performance in India, the agriculture sector in eastern India continues to be inefficient and plagued by constraints resulting in sluggish farm sector growth. Despite a large network of Rural Financial Institutions (RFI), a sizeable proportion of the rural population continues to be outside the fold of the formal banking system. According to the report of Situation Assessment Survey (SAS) of farmers during 2003 (January-December) covering 51,770 households spread over 6638 villages across the country carried by the National Sample Survey Organization (NSSO) that cooperative societies which used to be the most institutional source earlier have now become much less important in Assam. Credit flow hindered through the formal channels due to lack of flexibility in the lending process and security- based lending. The need for providing bank guarantee and absence of proper land title deeds has also resulted in keeping a majority of the farmers outside the fold of formal credit institutions. Rural credit needs to expand at a much higher rate or the system will choke itself (Sinha and Singh, 2008, Pp. 202-211)[48].

Lack of involvement of FMCs, poor coordination among the agricultural extension officers, bankers and the farmers, incomplete land record and the exceptionally low recovery ratio etc. were responsible for such a poor performance (Purkayastha, 2004, Pp. 29)[49].

An interim assessment of the working of the KCCs scheme from 1999-00 to 2004-05 in Cachar district reveals that there are two edged problem regarding the credit delivery system- poor coverage of farmers as well as cropped area and the disbursed loan amount is inadequate to satisfy the farmers' requirement. (Dey and Rakshit, 2006, Pp. 50)[50].

The accentuation of debt burden on farmers was attributed to the declining production efficiency, lack of access to institutional credit, high cost of inputs and unfavourable market conditions (Mishra, 2008, Pp. 4)[51].

It is a matter of concern that when the national leaders were thinking of providing KCC's to all the eligible farmers by 2004, the progress of North-East as a whole and specifically the district of Hailakandi is found to be very tardy. 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 in Hailakandi district. In this context, the study aims at reviewing and examining the effectiveness of KCC Scheme in Hailakandi district of Assam with analyzing the nature of agricultural finance.

1.8 REVIEW OF LITERATURE

The scope of the work of the proposed study is to review the KCC Scheme in order to improve the strengths and competitiveness. By now numerous articles, reports have been published in newspaper, journals, periodicals; various studies at national or regional level have been carried out. But not single remarkable studies on KCC in Hailakandi District of Assam have so far been undertaken.

Mishra (1986)[52] holds the view that the Regional Rural Banks were established with a view to providing financial help to the rural poor. But the beneficiaries of these banks are mostly the rich farmers but not the small and marginal ones. According to the author, this practice is mainly due to the connivance and corrupt practices of the bank officials with the local leaders.

Rao (1987)[53] makes an attempt to evaluate the role of banks in the rural economy. He opine that commercial banks have contributed substantially for the development of rural sector mainly through agricultural development, but landless labourers and small and marginal farmers have not been benefited by the bank credit so far. He emphasizes that the banks shall have to play a leading role in this respect in the days to come.

Narayana (1987)[54] has discussed the small and marginal farmers for not taking bank loans. He holds that farmers are unwilling to go to ban due to non-co-operative attitude of the bank employees, complicated and dilatory procedure and their dependence on the sarpanch and other functionaries for getting loans. At the end some suggestions have been made to set right these drawbacks.

Negi (1990)[55] presents a comprehensive analysis of various issues relating to agricultural co-operative credit with reference to Pauri –Garhwa district of Uttar Pradesh. The reason behind for the mis-utilization of co-operative credit are general poverty, illiteracy and ignorance, spent on unproductive purposes, untimely credit etc. can checked by proper identification of farmers; adoption of rational policy for advancing loans, proper supervision by the concerned officials, etc. There is an impact of credit on money income, generation of additional employment, productivity, consumption level, standard of living, refund of the loan etc. The author has given importance on policy implications on the issues of mis-utilization of credit, inefficient management and inadequate supervision, forced lending policies implemented merely for achieving statistical targets, lack of co-ordination between co-operative institutions etc. for making co-operative credit more efficient and more productive.

Phukan (1990)[56] observed that the growth of crop output and productivity in Assam is in a situation of stagnation particularly after 1975-76 due to the primitive methods of cultivation, lack of irrigation facilities, small size of holdings, lack of finance scanty use of fertilizer, use of ancient implements and also for natural reasons etc. Adequate attention has not so far been given to study the problems of Agricultural Development of Assam. In credit concerned, the performance of formal credit societies was not satisfactory and short term loans is more or less confined to marginal and small farmers and long term loans are confined to comparatively large farmers. Assam did not try to formulate a long term agricultural development policy and strategy with action plans which includes providing extension service, advanced technology, finance etc. for the development of farmers. It is also necessary to understand the situation in which the farmers exist and adjust development programmes accordingly.

Suryakumari (1992)[57] has discussed that the inadequacy of rural credit is one of the important handicaps faced by the tribals for their improvement. In this paper, an attempt has been made to study the impact of credit on agricultural output among scheduled tribes by analyzing primary data in the Visakhapatnam district of Andhra Pradesh. The author highlighted that there is large impact of credit to increasing the agricultural output and provision adequate funds will greatly help the tribals to improve their level of living.

Desai and Namboodiri (1992)[58] shows the performance of various Rural Financial Institutions (RFIs) at the field level individually and together with four performance criteria like size and functional structure of operations, loan delinquency rate of farmers' credit and its association with selected features of RFIs, viability and average administrative costs of RFIs and scale economies in administrative costs of RFIs. The density of branches of co-operative land development banks (CLDBs) and Indian scheduled commercial banks (ISCBs) have continuously improved with ensuring more sustained growth rate in the short run. The inequality in the distribution of loans is higher for Primary agricultural cooperatives (PACs) than the Indian scheduled commercial banks (ISCBs). The loan delinquency rate of all rural financial institutions (RFIs) is found to be very high. Improvement in the functional structure and in non-price related policies could reduce high loan delinquency rate. Some suggestions have been made with reduction in loan delinquency by developing suitable policies for loan, recovery and sanction of new loans, enlarging borrowing from central financing agencies and providing temporary credit accommodation and reducing liquidity ratio requirements of commercial banks to set right these drawbacks.

Narasaiah and Venkatesulu (1999)[59] have given focused on the progress and performance of the commercial banks in Anantapur district of Andhra Pradesh in general and specifically State Bank of India Uravakonda branch with respect to financing of agriculture. The period of this study is limited to 1988-1994. The authors have taken 120 sample borrowers who belong to the area of operation of State Bank of India Uravakonda branch to study the impact of the agricultural loans provided by the bank branch on income and employment of the farmers with the problems in financing agriculture.

Sarkar and Dodkey (2002)[60] focused the impact of KCC scheme in Solapur and Jalna districts of Maharashtra covering 200 KCC borrowers representing the three different types of banks namely District Central Cooperative Banks (DCCBs), Commercial Banks (CBs) and Regional Rural Banks (RRBs). Both 'pre and post' and 'with and without' approaches were followed to study the extent of awareness of the benefits to the KCC borrowers and impact of KCC scheme. The study revealed that the KCC borrowers of the commercial banks were more aware of the benefits of reduction of interest burden by withdrawing the credit facility as and when required, provided that they repaid the loan in time. The implementation aspect of the KCC scheme tried to assess at borrowers and bankers level. Access to financial transactions, availability of timely credit, flexibility of credit accessibility, flexibility in purchase of inputs, freedom to withdraw, neutralisation of commission margin and reduction in documentation etc., made the borrowers self-reliant, confident, which, in turn, helped them establish personal rapport and relationship with bankers in a sustained manner. Substantial reduction of work in terms of appraisal, supervision and monitoring of loans, improvement in recovery performance and simplification of procedures after the introduction of KCC scheme facilitated the bank officials.

Shete (2002-03)[61] shows the overall progress of the Kisan Credit Card scheme from 1998-99 to 2001-02 in the country. The author argued that a broader study at the national level to analyse different operational aspects and policy issues needs to be carried out before implementing the scheme as a sound practice in rural lending. At the instance of Planning Commission, Government of India, the Bankers Institute of Rural Development (BIRD), Lucknow, conducted a comprehensive study of Kisan Credit Card scheme and observations of this study are shared by the author in his article. The study revealed that most of the commercial banks and

RRBs have been issuing KCCs, mostly to their existing borrowers, tractor owners, irrigated farmers and big farmers. The coverage of small and marginal farmers under KCC scheme is far from expectation. The criteria adopted by the three financial institutions in fixing credit limit under KCC scheme varied and common guidelines need to be developed and agreed upon by all the institutions in fixing the minimum and maximum limits for KCCs, at least at the district level.

Bhaumik and **Rahim (2004)**[62] observed that misutilisation of loans increases the burden on the borrowers because they are not in a position to generate enough income to repay the loans which they have availed from the banks. A study of problem of overdues in a West Bengal districts provides the reasons with the broad idea about the structure of rural credit markets. Small and marginal farmers have suffered from shortage of credit, the medium and large farmers have been provided relatively better support by the institutional agencies. The rate of participation of the rural households in credit markets has been extremely very high. The issue of term and conditions of credit contracts has been dealt with by examining aspects such as purposes of loan, loan duration, collateral securities offered by the borrowers and interest charges on formal and informal loans. The first priority should be given on the adequate provision of institutional credit with reducing the delay in disbursement of loans among the borrowers.

Tripathy (2004)[63] observed that the co-operative credit delivery institutions in the rural financial system have constituted an indispensable credit outlet in disbursing timely and adequate credit faces some problems like poor recovery performance, low levels of diversification in business operations, inadequate loan physical system and credit planning, low capital base the share of the flow of cooperative credit to the most needy tenants, landless agricultural labourers etc. is insignificant, uneven distribution of credit among states, high management cost, lack of professionalism along with low-skilled staff etc. Keeping in view the widespread network of the cooperative structure, a vibrant and effective credit flow in rural India depends on the strength of the cooperative credit societies in different tiers like appropriate credit planning and right loan appraisal system for ensuring viability and feasibility in disbursing loans to the borrowing members with diversification of loans for new profitable ventures and export promotion activities and also start operating micro-finance institutions by organizing, adopting, promoting and financing SHG's. Professionalisation of cooperatives is a must along with modernization of their operational procedures.

Purkayastha (2004)[64] attempts to address various issues relating to Agricultural finance of India with Kisan Credit Card (KCC) Movement in Assam and reasons for its poor performance. It is observed that marginal farmers are getting KCC's and repaying their loans in time due to the contribution of SHG's group movement and high success rate in repayment against micro credit influences many banks to developing interest in lending to SHG's and KCC's to SHG's members even if these were formed by the downtrodden. Improvements in the existing relationship between the poor and banks are due to the intervention of NGO'o and SHG's as intermediaries contributed in reducing the transaction cost of both banks and borrowers side. The author argues that lack of involvement of the FMCs, poor coordination among the agri-cultural extension officers, bankers and the farmers; incomplete land record and the exceptionally low recovery ratio etc. were responsible for the poor performance of Kisan Credit Card Scheme in Assam. Shortage of staff, frequent transferred of bank managers, non-cooperation from the local administration for are recovery are the main excuses for many managers who perform badly in the sphere of debt- recovery.

Mohanan (2004)[65] observed that the rural credit system is getting derailed for variety of indicators like non-viable farming system, instability in agriculture production and marketing, falling interest rate regime, high non-performing assets and mounting over dues at bank level. The sustainability of credit market has to view from various perspectives like policy makers' agenda, bankers' mission to serve the rural areas and clientele's perception regarding the efficacy of the banking system to serve their needs with risk and uncertainty in agriculture arise problems in rural financial market and viability of credit institutions. The study was taken up in Nalleppily village of Palakkad district in Kerala state. 60% of the sample household families borrowed from the cooperatives for agriculture purpose and 13.33% of the sample households borrowed from the commercial banks for meeting emergency cash needs by way of gold loans. The major reasons for not choosing to borrow from the commercial banks are inaccessibility, gap in information, the cumbersome loaning procedures and restricted banking hours. Lending portfolio of the banks shows that gold loans are the prime business activity rather than the crop loans. Although the cooperatives and the commercial banks are playing complimentary and supplementary roles in the rural credit markets in this village but delivery of credit system has neither facilitated easy access to credit nor accelerated the pace of growth in the flow of investment credit.

The operational efficiency of rural credit institutions is closely linked to their efficiency in recycling of funds but due to high over dues, poor recovery of loans, high non-performing assets, falling rate of interest, low volume of business with low interest margins, unhealthy competition in respect of mobilization of deposits and delivery of credit, high operational, transaction and management cost has attributed for the non-viability of rural credit institutions. To overcome the difficulties of non-viability of rural credit institutions suggests some measures like arrangement of group marketing of farm produce, minimization of non-performing assets in banks, taking incentives to promote repayment culture among the institutional borrowers, to promote computerization and professional management training to meet the growing challenges in the credit market. The Government should play only facilitating roles rather than exercising span of control over their working. The author emphasized that the sustainability of credit marketing system should be viewed from two angles namely institutional profitability (supply side) and clientele satisfaction (demand side) along with the operational freedom to diversify their lending portfolio from a long-term perspective.

Chen and Huang (2004)[66] observed that financial institutions may solve the problems of farmers by actively participating in different stages in the production and distribution process in the agriculture sector. Commercial Banks play the role of financial intermediary through being friendly to clients, simplifying procedures, expanding branches, and reducing transaction costs without a commitment to really solving problems for clients. To increase profits, in addition to price competition, non-price competition such as service quality should be emphasized on a new framework of relationship with clients is needed for banks to really solve the problems of clients with their vast pool of resources and advantages.

Agriculture has played a significant role in Tiawan's economic development and 99% agricultural loans are made with agricultural financial institutions for farmers to produce crops. Agriculture financial institutions do not involve in the production and distribution process of agricultural production which hampering farmer's debt-servicing ability and stability of a long-term relationship. For protecting the farmer's interest and enhancing the ability power to repay the loans, the banks represent farmers to negotiate prices with middlemen. Different patterns of service may be formulated in accordance with the different production and distribution cycle of each crop with limited costs which raise farmers' financial strength.

Raja Rathnam (2004)[67] observed that the effectiveness of the credit institutions in tribal areas depends on the provision of production and consumption credit, undertake marketing of agricultural and minor forest produce and distribute consumer goods and agricultural inputs. Operational performance of credit institutions, the borrowing pattern and repaying capacity of tribal's and impact of rural credit on their socio-economic development are the main issues of this article. Tribal's people depend on institutional credit sources and non-institutional sources for productive purposes and for unproductive purposes respectively. Size of loan, purposes of loan and subsidies, repayment behavior of the tribal's, borrowers gender etc. factors attributed to get the institutional credit. Proper implementation of government programmes, participation of tribal's communities, arrangement of awareness campaign among the targeted borrowers, improvement of the operational efficiency of credit institutions, to improve their lending policies and procedures with strict supervision for the proper utilization of resources and to enable optimum use of rural credit for their socio-economic development.

Narasaiah (2004)[68] shows the impact of banks finance with its structure and growth on Indian agricultural development on the aspect of the share of agriculture in national income, occupational structure and exports. To signify the agricultural development since 1950-51, the situation of agriculture, before and after Independence is critically analysed. The commercial banks have been financing agriculture since the nationalisation of big banks in 1969. The development of the commercial banks and the financing of agriculture by them also studied. But commercial banks extended benefits mostly to the richer sections of the rural areas and to speed-up the flow of institutional credit, especially to meet the needs of the weaker sections of the rural community, Regional Rural Banks (RRBs) came into existence. The author also highlights the growth of Regional Rural Banks (RRBs) in India as well as Andhra Pradesh. The progress of the Regional Rural Banks (RRBs) is commendable; still there are certain gaps in their functioning. It is observed that credit channelized through the institutional agencies is less than the requirement. In spite of widespread bank expansion, still there are under banked areas. The gap between the demand for and supply of the credit from existing institutional agencies is wide.

Kumar (2005)[69] observed that agriculture sector in India continues to be inefficient and plagued by constraints like, stagnancy in production and factor productivity growth, inadequate institutional support, migration of agricultural labour, land market and use, agricultural labour, capital formation and investment, agricultural inputs-supply and availability, Agriculture credit- Extent of and Access to Institutional Credit and Agriculture Extension Network. Despite a large network of Rural Financing Institutions (RFI's), a sizeable proportion of the rural population continues to be outside the fold of the formal banking system. The issue of reluctance of RFI's to cater increased credit requirement of the farmers with the relatively higher resource cost in terms of delivery and monitoring of credit, lack of flexibility in the lending process and security based lending hinder the credit flow through the formal channels which influence the farmers to take recourse of non-formal sources. The author takes the instance of North-Eastern States where agriculture land is held under community ownership so that the farmers are outside from the fold of formal credit institutions need for policy intervention with measures like raising credit requirements by increased investments, strengthening the credit and extension institutions to achieve and maintain a balanced and sustainable growth trend in the agriculture sector.

Vanloon, Patil and Huger (2005)[70] highlights that there are strong linkages among the three types of securities, namely food, employment and health. To secure the food, employment and health security for all the people is necessary and that for the needs of the firm family as well as to satisfy global food requirements, they gave importance on sustainable agricultural system. They insisted that besides providing sufficient food for an adequate diet, agriculture as an occupation should also make available some measure of comfort, access to education, health care, as well as opportunities for relaxation, recreation and cultural participation.

Das (2005)[71] attempts to described the lag in agriculture sector development in the region of North-Eastern in India because of factors like lack of capital, problems of market labour scarcity, the adverse topography of the hill areas, wide diversity in social relations among the people of the region, lack of infrastructural facilities and skills and the related economic and credit institutions closely associated with many social and cultural customs, patterns and even habits. A great deal of care in and initiative approaches is necessary to bring about the desired change in attitudes of the tribal people to move their attention for improving the condition of agriculture. In addition to all this, credit and banking facilities, developmental of infrastructural facilities and marketing organizations etc. are to be speeded up so that the area catches up with the rest of the country.

Mohan (2006)[72] shows the importance of institutional finance and problems faced by the rural poor farmers in getting institutional credit in the farm production in the country. Despite increasing the flow of institutional credit, there are some faults regarding the aspect of inadequate provision of credit to small and marginal farmers, paucity of medium and long-term lending and limited deposit mobilisation and heavy rely on lending funds.

Rakshit and Dey (2006)[73] has been made an attempt to address various issues relating to the growth and constraints of crop loan provided through KCC by nationalized commercial banks including Cachar Gramin Bank (RRB) in Cachar District of Assam during 1999-00 to 2004-05. Regarding the credit delivery system, there exist a large gap between the target and achievement of KCC scheme, the poor coverage of farmers as well as cropped area and inadequate disbursed loan amount than the actual requirement. Although unsatisfactory performance, the Commercial banks have the national obligation of a steady and substantial hike in credit outflow to the agricultural sector. It was observed that only 17% of sample farm households got crop loan under KCC scheme from commercial banks including Cachar Gramin Bank during 2003-04. The slow progress of KCC scheme and also poor off take can be attributed both the demand constraints like lack of Entitlement set, high transaction cost, absence of title to the land, high default rate, infrastructure gap, traditional farming, lack of irrigation facilities, inadequate extension service network, informal credit market with the supply side constraints like asymmetric information, high administrative cost, lack of applicants, high incidence of overdue in agricultural credit. Suprisingly, KCC holders are totally deprived of insurance facility for crop damage. The authors suggested that measures like motivation programmes for the farmers, awareness creation programmes, some schemes relating to off-farm activities should be introduced by Commercial banks with establishment of a post harvest management facilities.

Umdor (2006)[74] shows the structure of the rural credit markets in the north-eastern region of India with analyzing the participation of households in the rural credit markets. In Meghalaya, the incidence of rural household indebtedness is among the lowest in the country and the government and the formal source plays an important role in the rural credit markets. There is a significant inter-districts and inter-states variation in the participation of rural households in the rural credit markets although the maximum number of loan is supplied by the formal credit agencies. But the informal sector is more effective in financing small borrowers than the formal sector and Ninety-two per cent of the total amount of loans form formal sources were used for productive purposes.

Sharma (2006)[75] has given stress on the incidence of indebtedness in rural India and shows that the amount of outstanding loan had positive and statistically significant relationship with size class of land possessed and per capita monthly expenditure in most of the states. The rising input cost has increasingly forced the farmers to borrow both for capital and current expenditure on farm business. The author also highlighted that indebtedness is the main responsible factor for farmer's suicides. The author in his state level analysis reflected that most of the states are depend on the non-institutional sources for borrowing. An interesting and important fact of the study is that which states are borrowing from institutional sources, these states also dependence on the non-institutional sources.

Rao (2006)[76] addressed the perceptions of farmers towards the claims due to Kisan Credit Card (KCC) system and different reasons for not frequently using the KCC despite of its flexibility of frequent withdrawals and repayment of credit is embedded within the system. A case study was undertaken which covered 60 farmers of different land sizes from Adilabad district, Andhra Pradesh. The study revealed that a majority of the sample farmers have felt that absence/ inadequate non-farm income is an important reason for the low frequency of withdrawals and repayment of credit through KCC and 92 percent of farmers in aggregate terms were not satisfied with the claim of KCC that it provides adequate credit to the farmers. 90 percent of sample farmers have felt that credit limits be fixed not merely on the basis of land size but also on the cost of production.

Singh (2007)[77] observed that agriculture sector requires higher credit to strengthen primary production base like land, and water, support investment in farm machinery and current inputs, in order to enable it to high value addition and export orientation. The efficient delivery of credit in rural areas will need to minimize the transaction costs through reduction in layering of intermediaries, much greater use of information technology in information collection, risk averment and risk monitoring. Agricultural diversification and growth is not possible without the provision of rural infrastructure like roads, storage facilities, transportation, telecommunication and power need a new financing mechanism. Domestic commercial banks contribute to the fund to the extent of their shortfall in stipulated priority sector lending to agriculture. To accelerate the agricultural growth, corrective policies must not only focus on the small and marginal farmers who continue to deserve special attention, but also on middle and large farmers who suffer from productivity stagnation arising from a variety of constraint. To improve the performance of organized credit system, fiscal policy plays an important role in terms of targeting the food subsidy for poor and enhancing public and private investment. To make agriculture commercially viable, costs and benefits of continuing with the existing allocation of resources for subsidizing water, power and fertilizer need to be assessed by providing funds for risk mitigation, investments for enhancing supply, ensuring quality and rationalizing availability.

Kumar, Singh, and Kumar (2007)[78] shows the performance of rural credit system has been assessed by different indicators like access of rural households to different credit outlets, share of formal credit agencies, availability of credit, etc. Generally, the poorer households are more exploited by the non-institutional sources of finance. Availability of institutional credit was higher in the developed states and lower in the backward states like Bihar and North Eastern states. Due to different shortcomings of getting institutional credit, the poor households are mostly preferred non-institutional credit. Age of the head of the household, gender of the head of the household, household size, operated land size (hectares), educational level, household type, agro-ecological zone, etc. are the different factors considered for choice of credit outlets as well as holding of Kisan Credit Cards by rural households. Organising training programme for the borrowers regarding procedural formalities of financial institutions could be helpful in getting formal credit and the access to institutional credit can be enhanced.

Narayanamoorthy (2007)[79] argued that in our country poor performance only for policy fatigue not technology fatigue. Policy fatigue like faulty agricultural price policy followed for different crops influenced low agricultural productivity as well as growth. In the present situation, agricultural activity is a costly affair and most of the poor farmers were unable to recover even the cost of farming only for absence of good agricultural price policy. So, both the cost and value of output should be under consideration while fixing the price in compared with the cost of cultivation. Gradual reduction of public investment in agriculture, high rely on non-institutional sources of credit, high interest rate are the important reason for slow agricultural growth in the country.

Patil (2008)[80] addressed the different problems regarding the aspects of agricultural indebtedness and different bottlenecks of getting institutional finance which influenced the poor farmers to go under the trap of moneylenders. For the development of formal credit delivery mechanism in the country by given more concentration on the aspect of one-time settlement for non-wilful defaulters, improvement in risk mitigation arrangements, constitution of the agriculture relief fund, improving the functioning of the agricultural credit societies, implementation of liberal debt redemption schemes and protecting farmers from distress sale with long term agricultural credit policy.

Gupta and Kumar (2008)[81] focuses on the structure of priority sector lending by public sector banks and private sector banks and overall incidence of Non-performing Assets in priority sector from the year 1997 to 2005. It shows that rapid increase in credit is that besides lending on commercial considerations banks in India have to fulfill the prescribed directed credits to meet socio-economic obligations and the public sector banks has deployed a higher amount of credit to the priority. Priority sector lending is considered as double edged weapon for commercial banks although it escalates the cost of operation and yields lesser income. Private sector banks increases agricultural lending due to increasing bank branches network and dilution of concept of agricultural finance, but in case of public sector banks, agricultural lending has stagnated due to lack of proper credit assessment techniques and expertise, higher transaction costs and more importantly the higher incidences of Non-performing assets. Weaker sections lending is a high risk activity. So, the major responsibility of financing weaker sections is undertaken by public sector banks and co-operative system rather than private sector banks. Non-performing Assets (NPAs) of public sector banks is very high than the private sector banks.

Rajkonwar and **Neog (2008)**[82] shows role of Scheduled Banks in the development of agricultural entrepreneurship in Karbi Anglong district of Assam. The performance and practice of agricultural entrepreneurship is very poor due to unavailability of finance. In their study, they focused that despite of continuous efforts for mobilization of credit to the agriculture sector, there exist a large gap between the requirement of credit and supply of agricultural credit. To make the finance available to this sector, continuous efforts have been necessary by the credit delivery agencies to expand credit to agriculture and allied activities.

Kumar and **Singh (2008)**[83] shows that India's cooperative credit system is unique in its reach and diversity but it emphasizes quantitative aspects rather than the qualitative aspects resulting in loan defaults and erosion of repayment ethics by all the categories of farmers. This paper examines the overdues and fresh flow of credit by the Primary agricultural Cooperative Credit Societies and the repayment capacity of the borrowers. The authors in their study gave guidelines for the improvement of overdues problem and fresh flow of credit. They suggested that through the professional approach, operation using state of art technology, computerized accounting, market intelligence and participative decision making etc. can improve the efficiency of the cooperative societies with proper supervision and effective guidance from the Primary agricultural cooperative societies for the proper utilization of credit to increase the agricultural production.

Narasaiah and Veerachari (2009)[84] addressed facts about the background to or prehistoric of commercial banks involvement in agricultural finance in India. The study extends to the whole field of agricultural credit sources, growth, composition, trends, problems, prospects and views thereon at the national, state, regional and district levels. It gives a panoramic view of the subject over a century pertaining to the country. The authors analysed the growth of Syndicate Bank in Kurnool district of Andhra Pradesh in terms of its mobilisation of deposits, advances and profitability with the structure of agricultural finances and changes that have taken place in the pattern of agricultural credit. The authors also tried to evaluate the impact of bank credit on the cropping pattern, employment and standard of living of borrowers in rural areas. An empirical study was undertaken which covered 270 sample respondents from nine villages of three divisions related with three branches of syndicate bank. The study revealed that agricultural credit demand remains an area of challenge in Kurnool district due to which a correct evaluation cannot be made of the performance of agricultural credit, not of its dynamics. The authors have given some suggestions to improve the performance of Syndicate bank operations and to ensure an effective use of bank finance.

Chakraborty (2009)[85] made an attempt to study the internal factors for slow flow of institutional credit in agriculture sector is marked with plethora of paper work which turns away the credit worthy borrowers to traditional sources that people credit readily. The institutional credit providers also lack in manpower that understand the nature and necessities of the rural farmers which force the borrowers get all the credit from traditional source. Some borrowers who get the loan from both sides, first pay off the loan from traditional sources then pay institutional sources. The immorality of the borrower plays a greater role in low performance made by the institutional sources. For ensuring smooth flow of credit in the rural areas, some measures has been addressed by the author, i.e. ,ensuring economic activities by adequate insurance policies, adoption of debt waiver scheme, simple procedure for financing, intervention of SHG's etc.

The works of **G. Prasad and S. Subash (2009)**[86] shows the growth scenario of rural credit in India and various recommendations were set up the Commercial banks from nationalization of banks to the concept of financial inclusion has been introduced in 11th Five Year Plan. They made a study on recent initiatives of Government of India like Interest Subvention Scheme for short term crops, Scheme of debt waiver and debt relief for farmers, rehabilitation package for farmers etc to ensure adequate credit flow in rural areas. The authors highlighted the fact that rural financial institutions were found in poor shape characterized by several weakness such as declining productivity and efficiency, erosion of repayment of ethics and profitability. To overcome these weaknesses, NABARD should safeguard and strengthen the economic viability of cooperative and RRB's. Seeking help from NGO's, Voluntary agencies, Panchayat Raj Institutions (PRI"S) can help in mobilizing deposits, disbursement of loans and its proper utilization, loan recovery etc.

Singh, Singh and Kingra (2009)[87] show the status of farmers, particularly the small\ marginal farmers who have left farming in an agriculturally developed state of Punjab. The declining productivity, higher input costs, low output prices, extensive farm mechanisation, fragmentation of land holdings, low net income of the farmers, etc., led small and marginal farmers find increasingly hard to sustain on farming are getting pushed out from agriculture. The authors have shown that the process of farming families leaving farming gathered momentum particularly after 2000 since when the proportion of farm families who left farming stands at 63.6 per cent. After leaving agriculture, the small and marginal farm families generally adopt lower level of activities due to scarcity of capital and technical skills. The authors have taken attempts to assess the level of satisfaction from the new occupation and percentage of satisfaction of the small and marginal farmers are very less.

Rao and Joshi (2009)[88] shows compares the differences in agricultural activities between urban and hinterland districts and identifies key factors, in addition to urbanisation, responsible for the spatial differences in agricultural activities. Urban consumers spend more on high-value food commodities than do the rural consumers due to rise in per capita income. Due to better transportation and infrastructure facilities, agricultural production portfolio is more diversified towards high-value food commodities in urban and urban-surrounded areas because most high-value commodities are perishable and require immediate transportation to the demand centres. As a result the farmers in urban areas and peri-urban locations are taking greater advantage. The authors observed that high-value commodities generate larger returns to land, labour and capital; and an easy market access enables farmers, especially small farmers to enhance their income and employment in high value agriculture. Second, high-value commodities have considerable potential for value addition; can generate employment and income opportunities in processing and marketing of value added products for rural as well as urban poor. Third, farmers in remote locations however may remain deprived of the benefits of urbanisation- induced growth in high-value agriculture due to transport and infrastructure bottlenecks.

Sivachithappa and Thimmaiya (2010)[89] addressed facts about agricultural development through Regional Rural Banks in India as well as Mysore district of Karnataka state. The authors tried to assess the effectiveness of various schemes adopted by the Cauvery Grameena Bank for the development of farming community in Mysore district with policy recommendations for the further effective working of the RRBs for the agricultural development of the region. They insisted that significance of formal credit institutions in terms of credit delivery for the agricultural sector has increased over time and major achievements have been made through Kisan Credit Card scheme. A case study was undertaken which covered 250 sample respondents on the basis of activity-wise namely crop loans, tractor loans, digging wells, dairy activity and bullock carts loans to examine the reasons for seeking bank loans and diversion of bank loan, reasons for default and impact of bank credit as well as KCC on farming community. Fear of repayment, satisfied with own resources, bad experience in the past with the institutional source of credit and lack of awareness are the reasons influenced the Non-KCC farmers for non-adoption of KCCs where a survey was pertaining to 30 Non-KCC farmers. Wilful, insufficient income from the activity financed, adverse family circumstances, non-follow up by bank officials and hoping for loan writing off are the reasons for default by KCC farmers. The study revealed that, in 59.2 percent cases, the amount of loan was found to be inadequate for the activity financed by the bank forced the loaners to borrow money from other sources. 42.80 percent were found to be defaulters where in maximum cases of default, the loaners were wilful defaulters.

Reddy (2010)[90] addresses various issues that Commercial banks due to the uncertain character of Indian agriculture, lack of proper accounting of agricultural transactions, small amount of individual loans, inadequate security, and difficulty of collection from farmers have not participated willingly in rural areas leads an urgent need for rural banking to be competitive. High non-performing assets, controlled credit rates and high operating costs leads to the banks to become economic unviable. It analyses various attributing factors like the directed and pre-approved nature of loans sanctioned under sponsored programmes, absence of any security, lack of effective follow up due to large number of accounts, legal recovery measures being considered not cost effective, riddance of repayment culture consequent to loan waiver schemes etc. leads to inefficiency of rural credit institutions. All individual based credit delivery are profitable rather than the self-help groups due to high cost involving in nurturing, maintain and sustaining group operations.

As operation and overhead cost reduction is the main focus of this study, the author proposed an improved and efficient credit delivery system within the existing framework of coexistence of commercial banks and RRBs simultaneously and encouraging healthy competition with the less government support. For efficient credit delivery mechanism gave importance on SHG-linkage (credit delivery through self-help groups- unsecured), ISB (industry, service, business loans- unsecured), KCC (kisan credit cards- credit limit for three years based on land or other assets), and NPS (Non-priority sector advances secured through gold etc.). The author suggests that lean banks with skilled manpower, high level of computerization and other technical facilities and reduction of bank branches and builds other alternate sources like mobile-banks and act as multi-service providers to reduce operating and overhead costs. The Government may provide subsidy to the banks for incurring additional costs. In this way cost incurred in setting up of many branches are avoided, operations become incentive driven and costs of operation will reduce.

Laha and **Kuri (2010)**[91] have given focused on the arrangement of appropriate environment by integrating two agrarian institutions namely land tenancy and rural credit for enhancing the operational efficiency of rural institutions for ensuring sustainable rural development. An attempt has been made to explore the operation of rural credit market and its associated linkages with the rural development. To meet the credit gap, the borrowers are bound to depend on non-institutional sources because the institutional credit agencies are unable to meet the entire credit demand of the rural poor. The authors in their article reflect on the tendency of positive association between institutional credit availability and owned landholding of the households. At the end some suggestions have been made to set right these drawbacks.

Chowdhury (2010)[92] was of the opinion that an appropriate institutional design can help in tapping into the informational pool available at the local level among the borrowers themselves and innovative features joint liability lending, sequential lending, contingent renewal, lender monitoring etc. can improve the efficiency of the formal credit agencies. This paper focuses on the institutional aspects of microfinance organizations which help to sort out the informational problems associated with rural credit markets. The author in her paper gives importance on the SHG-Linkage program me and The Grameen Bank in Bangladesh.

Kamath, Mukherji and Sandstrom (2010)[93] focused that large segments of society still remain outside the formal financial credit system. This requires an in-depth identification of the segments, sectors and areas in the country that are financially excluded and should be included in this fold. According to the authors the growth of the state gross domestic product (GDP), per capita incomes in rural areas, and the extent of commercialization of agriculture will be some of the factors that will affect the level of indebtedness in rural areas. The "financially excluded" vary from state to state in terms of occupation, landholding, and other socio-economic characteristics. At the end some suggestions have been made to set right these drawbacks.

1.9 GAP IN THE EXISTING LITERATURE

Most of the existing literature emphasized rural credit on agriculture sector with reference to KCC scheme at national and regional level. But the subject demands an in depth study at micro level. But, in the region of Hailakandi District of Assam, so far, no remarkable study on the subject has been undertaken. So, there is a gap in the existing literature.

1.10 OBJECTIVES OF THE STUDY

In an attempt to examine the "PATTERN OF AGRICULTURAL FINANCING BY COMMERCIAL BANKS IN HAILAKANDI DISTRICT OF ASSAM-WITH SPECIAL REFERENCE TO KCC SCHEME", the present study has taken into account five different objectives which are delineated as below:

(1) To study the socio-economic condition of the Kisan Credit Card holders of the Hailakandi District.

(2) To examine the nature and extent of agricultural finance by Commercial Banks in Hailakandi District during 2003-04 to 2012-13 with special reference to KCC Scheme.

(3) To evaluate the effectiveness of the KCC Scheme in Hailakandi District during the period of 2003-04 to2012-13.

(4) To examine the magnitude and causes of mounting over dues of bank credit under Kisan Credit Card scheme.

(5) To suggest possible remedies based on the findings of the study.

1.11 RESEARCH METHODOLOGY

Types of Research: Exploratory and descriptive.

Nature of data and analysis: Qualitative and Quantitative approach.

1.11.1 SAMPLING FRAMEWORK

A. SIZE OF THE SAMPLE

The research study area is Hailakandi District of Assam. This district constitute by five Development Blocks, namely Hailakandi Development Block, Algapur Development Block, Lala Development Block, Katlicherra Development Block and South Hailakandi Development Block. In this research study, the researcher has taken four Development Blocks namely Hailakandi, Algapur, Lala and Katlicherra. For the purpose of investigation, a field survey of the KCC holders as experimental groups and Non-KCC holders as control groups are included in the sample. There are 83,011 farm families consisting of 88,488 farmers (land holding) practising agriculture in Hailakandi District of Assam. Therefore, by using the means of Maccor and Raosoft sample size calculator with 95% confidence level and 5% confidence interval, 384 sample size have been taken*[1]. Total sample size purposely equally divided into 192 Kisan Credit Card holders and 192 Non-Kisan Credit Card holders practising agriculture covering four Development Blocks of the district, namely Hailakandi Development Block, Algapur Development Block, Lala Development Block and Katlicherra Development Block. Again, sample size purposely equally divided into 48 number of Kisan Credit Card holders and 48 number

[1]. Note: According to the Maccor and Raosoft sample size calculator, the sample size is 383. But for equal distribution of sample between four Development Blocks, the researcher has been taken 384 size of sample.

of Non-Kisan Credit Card holders of different land holding sizes has been randomly selected from per four Development Blocks of the Hailakandi district for the purpose of this research study.

B. **METHOD OF SAMPLING:-** Purposive Random sampling method.

C. **METHOD OF PRIMARY DATA COLLECTION: -** In carrying out the research study the researcher have to rely both on primary data and secondary data. Primary data collected by means of Interview Schedule. Besides, views and opinion of persons acquainted with the problem of KCC Schemes helpful for the research study, although this requires greater care while using.

D. **METHOD OF SECONDARY DATA COLLECTION:-** Secondary data have been collected from various issues of RBI Bulletin, NABARD Bulletin, Journals, Annual reports of Economic Survey; Financial Papers, Indian Journal of Agricultural Economics, Books, articles etc. published on web sites also be a good source of secondary data.

E. STATISTICAL TOOLS AND TECHNIQUES

The data were analyzed by employing simple percentages and descriptive statistics. Chi-square has also been used to test the hypotheses.

1.12 HYPOTHESES OF THE STUDY

The hypotheses testing for the present research purpose were considered broadly on four different grounds:- (A) Economic Condition; (B) Productivity; (C) Profit and (D) Recovery Rate between the KCC holders and Non-KCC holders. In order to develop the hypotheses, the researcher has taken the KCC holders as experimental groups and Non-KCC holders as control groups.

The specific hypotheses that are delineated as follows:-

1. There is no significant difference in the socio-economic condition between the KCC holders and Non-KCC holders.

In order to test the above hypothesis, some socio-economic parameters have been taken namely literacy, livelihood source, possession of total land, cropped land holding, house structure, hygienic sanitation, availability of electricity, energy sources, food security, technology used for cultivation, possession of bank account, habit of saving in the bank and migration of rural work force. On the basis of these socio-economic parameters, above hypothesis has been divided into different sub-hypotheses to draw a conclusion about the socio-economic characteristics of the Kisan Credit Card holders and Non-Kisan Credit Card holders of Hailakandi District of Assam.

a. There is no significant difference in the literacy rate between the KCC holders and Non-KCC holders.

b. There is no significant difference in regard of source of livelihood between the KCC holders and Non-KCC holders.

c. There is no significant difference in the possession of total land between the KCC holders and Non-KCC holders.

d. There is no significant difference in the cropped land holding between the KCC holders and Non-KCC holders.

e. There is no significant difference in the house structure between the KCC holders and Non-KCC holders.

f. There is no significant difference in the hygienic sanitation between the KCC holders and Non-KCC holders.

g. There is no significant difference in the availability of electricity between the KCC holders and Non-KCC holders.

h. There is no significant difference in the energy sources between the KCC holders and Non-KCC holders.

i. There is no significant difference in the regard of food security between the KCC holders and Non-KCC holders.

j. There is no significant difference in the technology used for cultivation between the KCC holders and Non-KCC holders.

k. There is no significant difference in the possession of bank account between the KCC holders and Non-KCC holders.

l. There is no significant difference in the habit of saving in the bank between the KCC holders and Non-KCC holders.

m. There is no significant difference in the migration of rural workforce between the KCC holders and Non-KCC holders.

2. There is no significant difference in the productivity between the KCC holders and Non-KCC holders.

3. There is no significant difference in the profit between the KCC holders and Non-KCC holders.

4. There is no significant difference in the recovery rate between the KCC holders and Non-KCC holders.

1.13 NECESSITY OF THE STUDY

Agricultural credit through institutional channels is only the way to break agricultural stagnation in the economy with special emphasis to Hailakandi district of Assam may be possible to open a new era in the life of poor and small marginal farmers. In this context, various initiatives have been taken to strengthen the credit structure, so that timely and adequate credit is made available to the needy farmers.

In order to reinforce the credit functions and to make credit more productive, NABARD has formulated a model scheme for issue of Kisan Credit Cards (KCCs), an innovative scheme towards facilitating access to short term credit to all farmers. To increase the reach of the scheme, banks were even advised to issue KCCs for limits even below Rs. 5000. The banks have also been advised to issue cards to even those farmers who were defaulters of institutional credit and where the outstanding amount was not very high. Nevertheless, the defaulter farmers must clear their old dues in convenient instalments while enjoying the benefits under the KCC scheme.

In the Hailakandi District, some commercial banks are issuing KCC's to the needy farmers, but the number of KCC holders is very less and amount of loan disbursed between them is inadequate than the actual requirement of the farmers.

The research study aims at reviewing and examining the pattern, achievement and recovery level of agricultural credit as well as Kisan Credit Card scheme scattered over the banks of Hailakandi District of Assam.

1.14 SCOPE OF THE STUDY

The scope of the present study is limited to the Hailakandi District of Assam. In an attempt to examine the role of agricultural finance, the study has also reflected the significance of using KCC scheme as a potential tool for better agricultural growth in the context of today's food security mission in the country. From the findings of the present study, the planners and bank officials will gain an insight in developing a comprehension plan in the context of agriculturalist especially landless, marginal and small farmers. Apart from the above, focus has also been made to have a coverage of the matters relating to the institutional agricultural credit and specifically KCC scheme viability that the bank officials can exercise in order to influence the attitude of the KCC holders and also Non-KCC holders of Hailakandi district keeping in mind their camping, advertisement, consciousness about the schemes and marketing objectives.

1.15 CHAPTERISATION

The final report of the research study has been presented in seven chapters:

(1) Introduction;

(2) Agricultural Financing Pattern by Commercial Banks;

(3) Profile of Hailakandi District of Assam;

(4) Socio-Economic Analysis of Kisan Credit Card holders of Hailakandi District;

(5) Analysis of Effectiveness of Kisan Credit Card Scheme in Hailakandi District;

(6) Problems of Overdues of Kisan Credit Card Scheme;

(7) Summarizations of the Study; Suggestions and Conclusion.

These followed by Bibliography and Appendices.

1.16 LIMITATIONS OF THE STUDY

Like others, the study is also not free from limitations. In spite of the best effort, the researcher may not be able to avoid them because of many practical constraints. The limitations, however, may be pointed out as below:-

(1) The study is not free from inherent limitations of the sampling method and secondary data.

(2) It is difficult to memorize all the information's for the farmers which are gathered may be less reliable.

(3) The findings of the research study may not be equally applicable to other parts of the country due to unique characteristics of the region.

(4) A further limitation of the study is that methodology used in the research study do not gauge the qualitative attributes of the respondents like moral standards, social beliefs etc.