Status of Institutional Credit in Assam with Special References to Small and Marginal Farmers

Chandrama Goswami[*], Sanghamitra Hazarika[**]

[*]Department of Economics, Mangaldai College
[**] Department of Economics, Gauhati University

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Abstract- Institutional credit is essential for economic development. It is considered as a pre condition for macroeconomic stability and monetary policy execution. It is also a key element of agricultural modernisation and increased crop production; it makes production possible even for those who do not possess their own funds for it. In India, along with institutional credit, a parallel system of non institutional credit delivery is highly prevalent in the rural areas. The interest rates are very high in this system. They also operate without any physical collateral and are very adaptable and flexible in their operations. In the fifty years of nationalisation of commercial banks, there has been a considerable progress made in the expansion of institutional credit in the rural areas. But the credit has not reached the small and marginal farmers who cultivate 75% of the total operational holdings. They still borrow heavily from the traditional moneylenders and landlord class who charge exorbitant high rates. In the process, they are not able to clear off their loans and the debt of the farmer goes on increasing. The policymakers have also stressed the need to give preference to the small and marginal farmers in providing formal credit. In Assam, also, there is wide spread inequality in the distribution of credit in the rural areas; the rural population constitutes 86% of the total state population; in of which 84.3% are marginal farmers and 12.3% are small farmers. Therefore, this study deals with the status of institutional credit in the rural areas of Assam and also the problems faced by the small and marginal farmers in availing it.

Index Terms- Institutional credit, small and marginal farmers, informal credit, loans, agriculture.

I. Introduction

Credit has been conceived to play a crucial role in fostering rural development. Since long, the policy makers have been expressing concern for transforming the credit delivery mechanism to enhance the rural household's access to institutional credit (Kumar et al, 2015). Agriculture and its allied sector are contributing around 13.9% to the total GDP of India. Agricultural exports also constitutes a fifth of the total exports of the country. In sync with this situation, it has become very urgent for the government to ensure that the farmers get the right access to credit. Since the early phase of institutional credit in India, such credit was viewed from the angle of protecting these borrowers from the grip of moneylenders and later on, as an instrument of production enhancement. Thus institutional credit is the nucleus of the system of farm operation. It can prevent loss, affect an economy or create something materially valuable and can provide a flow to the system averting ruins which could not have occurred due to the lack of monetary capacity of the farmer. Thus the overall economic development of a nation largely depends on the financial resources available in that country.

In India, the beginning of the banking sector dates back to the days of British rule. It started with the Bank of Hindustan in Calcutta in the 18th century. The Imperial Bank of India (presently the State Bank of India) also came into existence in 1921 by emerging three banks viz. Bank of Calcutta, Bank of Madras and Bank of Bombay. Eventually, many banks like Punjab National Bank, Central Bank of India, Allahabad Bank etc were established in the pre-independence period. After independence, in 1969 a historic incident took place where 14 banks were nationalised by the Government of India. An important argument in favour of bank nationalisation was that the commercial banks have kept themselves aloof from the problems of agriculture and remained indifferent to the credit needs of the farmers for agricultural operations and land improvements. The nationalised banks were expected to go vigorously in support of the farmers in general and small cultivators in particular. But, for obvious reasons these banks concentrated their attention on large cultivators and other special category farmers such as those engaged in raising high yield varieties of food grains. The commercial banks also seem to struggle with the coverage vis-a-vis the organisation and the personnel available to them. Also, the co-operative banking system which started operating way back with the passing of Co-operative Societies Act in 1904 was and is still facing the problem of heavy over dues in almost all the states of India.

In such a situation, in 1975 the Regional Rural Banks (RRBs) were conceived as institutions that combine the local feel and familiarity of co-operative societies and the business organisation abilities of commercial banks. In the beginning, RRBs had successfully maintained their image as a small man's bank by confining their credit facilities to the target groups viz. small and marginal farmers, agricultural labourers, artisans and small enterprises for productive activities but their recovery position on the whole was not satisfactory. However, recent reports say that, the rural branches of commercial banks in general and branches of RRBs in particular have been under financial strain on account of higher transaction costs involved in handling of large no. of small size loan accounts and somewhat lower account as a result of concessional rate of interest on small size loans. The lower proportion of current deposits in total deposits of rural branches has also placed them at a disadvantage with regard to cost of resources.

Soon after nationalisation, the Reserve Bank of India (RBI) also asked the commercial banks to be especially concerned with the financing of priority sector, known as priority sector lending (PSL), which include agriculture, micro and small enterprises, education, housing, export credit and others. The banks were given a target of 33.33% as share of the priority sector in the total bank credit. Initially the concept of PSL intended to improve the condition of small and marginal farmers, artisans, village and cottage industries, scheduled caste and scheduled tribes. But this enthusiasm gradually waned off because of their anxiety to reach the target of 40% they went in for indiscriminate lending. They were unable to monitor the distribution, follow-ups and recovery of tiny loans. The bank's lending to priority sector was also not uniform in all states leading to regional imbalance. The PSL classifications were revised and re-examined in August 2011, as proposed in the Monetary Policy Statement 2011-12 by the Reserve Bank of India. The recommendations were: a target of 40% for foreign banks; distinction between direct and indirect agriculture; establishment of Agricultural Credit Risk Guarantee Fund for Small and Marginal farmers; inclusion of loan for setting up off –grid solar and other renewable energy resources and ceiling for various activities for qualifying under priority sector to be revised. These changes are yet to bear the fruit which will benefit the small borrowers.

II. OBJECTIVE OF THE STUDY

The study has set before itself the following objectives:

- To study the status of institutional credit in rural areas of Assam.
- To study the problems faced by the small and marginal farmers in addressing formal credit institutions.

III. REVIEW OF LITERATURE

India has the co-existence of dual financial systems- formal and informal. They both operate in the rural credit market providing long term and short term loans. The formal credit institutions includes: i) co-operatives ii) regional rural banks (RRB) iii) scheduled commercial banks iv) non banking financial institutions v) self help groups vi) micro- financial institutions and vii) other government agencies. The informal credit sources comprise of village moneylenders, friends, relatives, traders/ shopkeepers and others (Das et al, 2009). In India access to formal credit is not scale neutral in spite of the efforts towards financial inclusion. Large segments of agricultural households still remain outside the formal credit system. Poor families are often excluded because they lack collateral or guarantors (Ray, 1998; Shoji et al, 2012).

In India with the growing population, the agricultural land holdings are being subdivided. The sizes of these holdings are thus declining year by year. It is leading to an increase in the number of marginal and small farmers in the country. The small and marginal farmers are those farmers cultivating (as an owner or tenant or share cropper) agricultural lands of more than 1 hectare up to 2 hectare and land up to 1 hectare respectively (RBI, 2008). The land holdings can be more specifically categorised as shown in the table below.

Table1: Categorisation of farmers in India.

Sl.No.	Category	Operated Area
1	**2**	**3**
1	Marginal holdings	Below 1.00 hectare
2	Small holdings	1.00 – 2.00 hectares
3	Semi-Medium holdings	2.00 – 4.00 hectares
4	Medium holdings	4.00 – 10.00 hectares
5	Large holdings	10.00 hectares and above

Source: Agricultural Census, 2010-2011.

Land size plays a crucial role in enhancing agricultural household's access to formal credit compared to marginal landowners, the probability of medium and large farm owners accessing formal credit is higher (Kumar et al, 2017). Therefore, the relationship between land size and access to formal credit is positive. Apart from this, the continuance of informal credit in rural areas can be attributed to several factors like minimal formalities, fast disbursement, geographical and personal proximity and flexibility in repayment (Das et al, 2009). Thus, accessibility has a role to play. Accessibility includes the access to the information about the bank loans, special schemes and subsidies, the ability of the small borrowers to contact the bank or the agency and their capacity to avail the services provided by the credit institutions.

The term access can further be divided into two, namely, formal access and effective access. The presence of or functioning of the bank branches, cooperative societies, marketing centres in the selected villages indicate the formal access of the small borrowers to such agencies. The effective access will be measured in terms of the small borrower's participation in the above said institutions and organisations, which in turn increase their economic well-being (Mohanasundaram, 1993).

Utilisation of loans borrowed for institution purposes have interested researchers for a long time. If a household borrows a loan and invest it in income generating purpose then it is likely to generate future income. It is also likely to enable the household to repay the loan in the first place. However if the loan is used for unproductive purposes, then repaying the loan becomes problematic (Gupta and Chakraborty, 2014). A study suggests that 40% of the loan amount borrowed by farmers for agricultural purposes is used on marriages, education, health etc (Tiwari, 2012).

An important aspect that has emerged is that credit is obtained by the small and marginal farmers for survival and by the large farmers to further enhance their income (Das et al, 2009). The effect of rural credit expansion on crop output is not large, but it has strongly increased fertiliser use and private investment in machine and livestock (Binswanger & Khandelkar, 1992). The impact of agricultural loans largely depends on their equitable distribution. There are also several gaps in the present agricultural credit delivery system like inadequate provision of credit to small farmers, paucity of medium and long term lending, limited deposit mobilisation and heavy dependence on borrowed funds by major agricultural purveyors (Das et al, 2009). Facilitating credit through input dealers, NGOs etc who are vertically integrated with the farmers through contract farming or critical inputs could increase the impact of agricultural loans.

IV. METHODOLOGY

The present study has been based on both primary and secondary sources of data. Information regarding various aspects of the study is collected from different sources. Various reports from Reserve Bank of India(RBI), Census of India, NABARD ,various rounds of NSSO surveys and various independent studies and reports has been consulted. These secondary sources of data provide a broader picture of the status of institutional credit prevailing in the state. In addition to this analysis, questionnaires were framed to collect primary data/information from the study area. The farmers were enquired about their accessibility to banks, problems faced by them in banks and any assistance from Village Level Extension Workers (VLEW).

Area of Study

It may be mentioned at the outset that due to constraints of time and resources, and for operational convenience, the selection of villages for this study is restricted to three districts: Lakhimpur, Nagaon and Sivasagar. These districts are selected purposively on the basis of the following conditions.

- The credit deposit ratio in the Regional Rural Banks (RRBs) is 73% in Lakhimpur, 50% in Sivasagar and 46% in Nagaon district.
- According to the composite index of backwardness of the districts of Assam, Lakhimpur is one of the most backward districts with rank 3, Nagaon is at rank 9 and Sivasagar is the least backward district of Assam ranked 23.
- In Lakhimpur, 75% of the total farmers are marginal and 19.3% are small farmers. In Nagaon, the figures stand at 78.7% and 16.3% respectively. And in Sivasagar, the figures are 86.5% and 12.4% respectively.

From these three districts, three blocks are purposively selected for the study. They are Rupahi block of Nagaon, Dhakuakhana block of Lakhimpur and Demow block of Sivasagar. These blocks are selected on the basis of the above criteria used for the district. Moreover, the agro-climatic conditions are uniform within the districts. This facilitated the selection of one block from each district. From these blocks, six villages have been selected randomly. Size of the sample is determined by the following formula given by Taro Yamane:

$$n = \frac{N}{1 + N * (e)^2}$$

Where, n- the sample size,
N- the population size,
e- the acceptable sampling error.
*95% confidence level and p= 0.5 are assumed

V. DISCUSSION

In Assam, the financial institutions are playing a major role in mobilising deposits and credits. With the spread of banking networks the dependence per bank branch has been reduced over the years. The Scheduled Commercial Banks (SCBs) , as in all over India, in Assam also are grouped under i) State Bank and its Associates ii) The nationalised banks iii) Foreign Banks iv) Regional Rural Banks v) Private Sector Banks. Assam also has two regional rural banks (RRBs) functioning in all over the state- The Assam Gramin Vikash Bank (AGVB) and Langpi Dehangpi Rural Bank (LDRB). The AGVB is operating in both the Brahmaputra Valley and Barak Valley covering 25 districts with 362 bank branches and LDRB in confined to 2 hill districts with 46 branches as on March 2011. The aggregate deposit of RRB was Rs 4653.08 crore at the end of March 2011 compared to Rs 3691.39 crore as on March 2010. Thus, registering a growth rate of 26%. Also, the volume of credit disbursed by these banks increased to Rs 2230.87 crore compared to Rs 1753.55 crore as on March 2010 indicating an increase of 27.2%.

The following table category wise shows the no of branches of SCBs, their deposits and their credit in Assam:

TABLE 2: Bank group-wise no. of branches of SCBs in Assam

Bank Group	**Assam/ India**	**No. of offices***	**Deposits (Rs. in crore)**	**Credit (Rs. in crore)**
State Bank of India and its Associates	Assam	265	24556	8766
	India	17899	1171917	902979
Nationalised Banks	Assam	734	26974	8612
	India	43908	2875049	2153335
Foreign Banks	Assam	2	109	48
	India	298	236405	197959
Regional Rural Banks	Assam	409	4650	2230
	India	15658	163928	98244
Old Private Sector Banks	Assam	10	629	216
	India	4779	250638	187375
New Private Sector Banks	Assam	84	2184	1181
	India	6568	728574	536976
All Scheduled Commercial Banks	Assam	1504	59101	21053
	India	89110	5426510	4076868

Source: Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks March, 2011, Reserve Bank of India.

The State Co-operative Agriculture and Rural Development (SCARD) banks have been playing an important role in investing capital in the agricultural sector. Overall, both the SCARD banks and ST (short-term) Co-operative credit structure have contributed to the growth in agricultural lending in the recent past. In 1993-94, the share of co-operative in the flow of agricultural credit was Rs 10,117 crore constituting 58% of the total. This has gradually declined. The performance of co-operatives has been very unsatisfactory in Assam. The Gaon Panchayat Samabai Samittees and other multipurpose societies which are the primary lending units in the co-operative credit structure of the state are most non functional since 1984-85, as far as, agricultural lending is concerned. Some studies even indicate that the people are mostly unaware of the existence of such banks (Khaund, 2002). The annual statements (1991-96) of ASCARD banks regarding loan disbursement also confirm the above observation. The statements also indicates that out of Rs 1.6 crore only Rs 29 lakh has been lent out for farm mechanisation and other land development measures during 1991-92, but this proportion has gradually decreased over the years. Presently these banks are facing closure due to large scale misappropriation of funds meant for agricultural investment in Assam. The following table shows the different sources of formal and informal credit accessed by farmers in India.

TABLE 3: Percentage distribution of outstanding loans by farm size

Source of Loan	Size Class of Land Possessed (hectares)			
	<=0.40	0.41– 1.00	1.01– 2.00	Above 2.00
Government	3.9	3.8	1.7	1.4
Co-operative society	14.1	17	2.5	22.8
Bank	24.4	32	35.4	42.6
Total: Institutional	42.4	52.8	57.6	66.8
Agricultural/Professional Money Lender	32.4	30.8	25.9	20
Trader	4.9	4.6	4.2	6
Relatives & friends	15.2	9.1	8.8	5.2
Doctor, lawyer & other professionals	1.4	0.7	0.8	0.8
Others	3.6	2	2.6	1.2
Total: Non Institutional	57.6	47.2	42.4	33.2

Source: Computed using NSS unit level data 59th Round on Situation Assessment Survey of Farmers 2003.

Thus in India, it can be seen that that the large farmers have monopolised the agricultural credit cooperatives and thus derived the maximum benefits from this agency. In Assam also, the situation is similar. The majority of the poor small and marginal farmers, landless agricultural labourers, rural artisans etc are left out of agricultural extensions and credit systems. In our study, in which we have surveyed 297 small and marginal farmer's households from six villages in the Nagaon, Lakhimpur and Sivasagar district of Assam, it was found that the concerned farmers were excluded from the benefits provided by the formal credit institutions due to many reasons. These reasons are listed below:

- Firstly, the farmers are not aware of the facilities the credit institutions to them are providing at a much lower rate of interest.
- These farmers are not acquainted with paper works in their day to day activities. They find the bank paperwork difficult and lengthy. Moreover, many banks ask them to open accounts in their branch before the credit is disbursed. The farmers find it difficult to cope up with the formalities as KYC (Know Your Customer) is essential for opening an account now-a-days.
- Accessibility to credit is a major problem in the process of financial inclusion. Most of the villages in Assam do not have any bank branch in their periphery.
- The farmers have the fear of being a defaulter. They consider formal loans as a burden; which they think that if they are unable to repay in time, the bank will take them to the court and sell their property.
- These small and marginal farmers also do not find the behaviour of the bank officials very welcoming. The big farmers are preferred over them.

VI. CONCLUSION

Therefore, we can see that the credit to these farmers has not come to be institutionalised. For the longest period, they have been exploited by the landlords, money lenders, traders and commission agents. To ascertain their well being and growth, they must be covered by the formal credit institutions. They are suffering due to lack of innovative technologies, access to physical units, lack of food and nutritional security and minimum support price protection. This suggests the need for simplification of the credit disbursement procedures; so that even the less educated and illiterate farmers can have access to them. The bank should also focus on forming farmer's club in collaboration with the National Bank for Agriculture and Rural Development (NABARD).These clubs can do commendable work such as helping the banks to identify farmers for issue of loans, organise training for the farmers, mobilising deposits, helping in recovery of loans etc. This will also make them more aware of the loan schemes available. This will ultimately help the small and marginal farmers to escape the vicious circle of poverty and contribute towards economic development of the country.

The proposed study will highlight the status of the formal credit banking expansion in the rural areas of Assam. It will focus on relevant issues such as accessibility of rural poor to institutional credit, the utilisation of credit and the impact of credit on the economic condition of the small and marginal farmers. This study may contribute some relevant ideas to the existing literature. The foremost need of the hour is to ensure higher productivity of institutional credit and better recycling of funds. The analysis of the empirical data in this study may provide more insights into the particular aspect. Since, the strength and weakness of the credit delivery system in the rural sector need to be reassessed. The present work in a modest way would help to develop some policy measures to improve the rural credit delivery system.

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AUTHORS

First Author – Chandrama Goswami, Associate Professor, Department of Economics, Mangaldai College, chandrama06@gmail.com
Second Author – Sanghamitra Hazarika, Research Scholar, Department of Economics, Gauhati University, sanghamitrahazarika12@gmail.com