ACCESSIBILITY OF RURAL CREDIT AMONG SMALL FARMERS IN ASSAM WITH SPECIAL REFERENCE TO DHAKUAKHANA SUBDIVISION OF LAKHIMPUR DISTRICT

Sahadev Mili
Department Of Economics
Mahapurusha Sraimanta Sankaradeva Viswavidyalaya, Nagaon

Abstract- *The lesson of agrarian history from Rome to Scotland is that the importance of credit in the agricultural sector where Nicholson in 1896 said that " Neither the condition of the country nor the nature of the land tenures, nor the position of the agriculture, affects the one in great way that agriculturalists must borrow". Credit plays an important role in agricultural development and it is believed that expansion of credit programmes used to have positive effect on farm production and income of small farmers. It is helpful for poverty alleviation, livelihood diversification and increases business skills of the small farmers. But if we look at the amount of formal agricultural credit disbursement in Assam in the last decade then we find that there is an insignificant growth of credit disbursement in the sector. The agricultural credit mostly comes from the informal sources which are not in the favour of small farmers. The lenders of the loan amount charges very high rate of interest with an agreement that the farmers should have to sale the produced amount to the lenders and in a price of their interest which leads to exploitation to the farmers. Moreover the formal sector shows very less interest in providing credit to the small farmers and therefore access to formal credit remains low. Therefore, the accessibility of rural credit should have to examine further and investigation on the farmer's perceptions and preferences should be made regarding credit in order that their access can be improved and meet the needs of credit. The present study tries to collect information in proposing an effective credit system by understanding the perceptions of the farmers toward rural credit.*

Keywords: Agriculture sector, Rural credit, Formal Credit, Informal Credit, Small Farmers

I. Introduction

Agriculture sector of a country or a state is the most important sector especially in a developing country or a developing state which provides employment up to 50 percent of the total labour force and contributes 22 percent to the Gross Domestic Product or Gross State Domestic Product. The sector covers about 70% of the total population of the State who are dwelling in the rural areas and agriculture is the main source of their livelihood. Therefore the development of the agriculture sector is a must required step need to be taken up by the government. The lesson of agrarian history from Rome to Scotland is that the importance of credit in the agricultural sector where Nicholson in 1896 said that " Neither the condition of the country nor the nature of the land tenures, nor the position of the agriculture, affects the one in great way that agriculturalists must borrow". The rural masses borrow almost habitually and transfer the burden of debt to the next generation and this indebtedness of the farmer is expressed historically in the words that, "A farmer is born in debt, lives in debt and dies in debt (Mellor, 1969)." These words are still applicable in case of the cultivators of our country and Assam is also not an exception. Although the transfer of the burden of debt is observed over a period of time and thereby leading to farmer suicide because of unable to repay the debt amount, therefore the importance of credit cannot be ignored. This is because it is the credit which works as a source of development of agriculture as well as source and only hope of repayment of debt. The agriculture development requires timely and adequate supplies of essential farm inputs from the one hand and the investment capacity of the majority of the farmers is low on the other. Because of their poor investment capacity the farmers cannot afford to meet their needs of required improved seeds, recommended dose of fertilizer, hiring farm machinery etc. Therefore the lack of finance is one of the main reasons for low productivity in the agriculture sector and low income of the farmers. There are number of studies which have shown that the farmers' yields of various crops were higher for borrowers than non borrowers (Irfan and Nazi, 1999; Khan, 1981; Mukhtar, 1999; Qureshi and Shah, 1992; Gul and Khan, 1993; Idress and Ibrahim, 1993; Amir, 1999; Coleman and Brett, 1999; Anil and Bhumall, 2000; Rajagopalan, 2000; Arif, 2001; Rehman, 2003; Dawar, 2003). All these studies recommend that credit is one of the important inputs to meet the cash requirements of the farmers and play the role of a bridge leading from subsistence to cash economy and eventually to invisible surplus.

In the early history of Assam economy the main sources of agriculture credit were relatives and friends, landlords, shopkeepers commission agents etc. which is called as non institutional or informal source of credit. This source of credit imposes high rate of interest on the condition that the borrower would sell their output to the lender of the credit which leads to an emergence of exploitation of the poor farmers in two basic ways. One, by charging higher interest rate on the loans provided and second, by purchasing the farmers' output at comparatively lower prices.

II. Objectives

1. To analyse the access to credit market by the small farmers in the study area.
2. To identify the factors affecting farmers' access to credit as well as borrowers' choice between alternative sources of credit.
3. To identify farmers' perception and expectations of rural credit.

III. Research Method

The study is based on the primary data collected through a sample survey. An interview questionnaire was developed and was designed to collect the data to meet the objectives of the study. The data used for the study is collected from the study area in June 2016. A total of 60 households were randomly drawn from 6 villages keeping in view that villages selected for the study are suitable for agriculture operation which make the sample more representative for the study. The interview for individual farmers has two components as survey interview for the 60 farmers using the developed questionnaire and in-depth interviews for the 20 farmers chosen from the total farmers or total sample for the study. In the survey, the questions for the interview were divided into two sections; the first section comprises the set of household demographic and economic characteristics such as household size, educational attainment, occupation, household assets, land size etc. On the other hand the second section comprises the data regarding access to credit such as source of credit, quantity of credit received, purpose of credit, credit sufficiency etc.

The in-depth interviews with the 20 farmers is related to and focused on the rural credit facilities, farmers' choices and preferences of credit sources, constraints in accessing credit, factors that determines the source of credit and the farmers' suggestions on to improve the credit accessibility in the study area.

IV. Data Analysis

The following instruments have been used for the analysis of the data collected from the study area.

Profit Model

To meet the objective set Probit model has been used. Two separate Probit model has been formulated to estimate the probability of a farmer borrowing from formal credit markets and borrowing from informal credit market. Moreover, to determine the factors influencing farmers with regards to borrowing decision from formal and informal sources two latent variables (borrowing indices) has been define as Y_s^*, such that

$$Y_s^* = X_i\beta_s + u_s,$$

where the subscript 's' takes on the value of binary decision 1 and 2, representing the choice of the borrowing from the formal source and borrowing from the informal source respectively. X_i is a vector of factors that would potentially influence the choice of credit sources. β_s are slope parameters and u_s are the error terms which are assumed to be normally distributed. The subscript i indexes individual farmers.

Y_1^* is not observable but Y_1 can be observe which takes the value of 1 if the farmer chooses to borrow from formal credit markets and 0 if the farmer chooses to borrow from the informal credit market. The Probit model of the formal source choice is specified as under:

$$Y_1 = \begin{cases} 1\ if \quad Y_1^* > 0 \\ 0,\ Otherwise \end{cases}$$

The Probit model for informal source can be defined in the similar way as for the formal source.

V. Results and Discussion

In the light of econometric setting the results of the study is discussed in this section. The analysis is started by the incidence of borrowing followed by factors that explains the farmer's choice between formal and informal source of credit and access to credit in the study area.

Most of the farmers in the study area have access to credit from the informal sources which comprises private moneylenders, neighbours, relatives, traders etc. About 75 percent of the sample farmers borrow from informal sources of credit. On the other hand the rest 25 percent of the sample farmers borrow from formal source. During the study period, there was no respondent found to be borrowing from both formal as well as informal source of credit. The result in the study area shows that the informal sector is the preferred source of credit for financing activities of the farmers. Out of the total borrowers from informal source 25 has borrowed from traders, 8 from relatives, 7 from private moneylenders and 5 from landlords. Therefore traders are the most often accessed informal source of credit in the study area. Table.1 shows the incidence of borrowing during the study period in the study area.

Table.1.1

Incidence of borrowing

Sample villages	formal credit	informal credit	Total
Bokulguri	3	7	10
Moinapara	2	8	10
Moukhuwa	4	6	10
Dhangdhara	2	8	10
Ujani Dadabari	2	8	10
Khekuri	2	8	10
Total	15	45	60

Source: Field Survey, 2017

The responses from the in-depth interviews with 20 farmers reveal that it is the easy accessibility in the informal source of credit which leads the farmers to borrow from the informal source. Moreover the absence of rigid collateral system in the informal source and the distance of formal credit lending institution from village were expressed by farmers while choosing informal sector as their creditor. The finding shows that most of the sample farmers choose a creditor based on accessibility. Among the 20 farmers, 17 farmers replied that they choose creditors based on accessibility (cash of any amount, absence of collateral, short distance, easy procedure, etc.) from the source.

The sample farmers who have taken credit from formal sources have responded that it is difficult to get agricultural credit from the financial institutions because of many reasons. Only one farmer out of the total sample farmers or respondents has experienced an easy access to agricultural credit from financial institutions. The farmers have revealed that difficulty to obtain credit due to the fact that the Banking and Financial Institutions (BFI)s has less interest to give credit to the farmers especially to those having low income level and lack regular income source.

The farmers who have access to informal source of credit (basically traders) have expressed the loss of early sales of their produced due to agreement that the farmers bears the enforced sales of their produced amount only to the trader from whom the credit was taken by the farmers. Such agreement always leads the farmers to sale the quantity in a price which is lower than the market price which works in favour of the creditors.

VI. Factors affecting access to institutional and non-institutional credit sources

The econometric analyses of the study confirmed a number of consistent results from estimation method used in the study. The credit demand in the study area is significantly affected by many factors. The estimation performed by Probit model shows that education, household size, land size, income, interest, number of family members and cost of obtaining credit are the factors which explains borrowing activities from the formal sectors by the farmers. On the other hand, household size, education, income, children and cost of obtaining credit are the factors which significantly affect farmers' access to informal credit. The study found that the factors like household size, education, land size and income of the farmers affect positively towards access to formal credit but factors like number of children, rate of interest and transportation cost affect negatively towards access to formal credit. The negative effect of the factors towards access to credit refers to the fact that a unit or additional increase in factors would lead to decrease in access to credit in a specific amount. On the other hand, the household size, children and transportation cost have significant positive effect on access to informal credit, whereas education and income level of the farmers would have significant negative effect. For example, every additional family member would increase probability to access formal credit by 5.63 percent and an additional year of schooling would likely to affect by 4.65 percent. However, the impact of factors varies by credit market. Since every additional family member would increase probability to access informal credit by 2.34 percent and an additional year of schooling would likely to affect by -2.34 percent.

Likewise credit demand and credit choice of the farmers are significantly affected by the transportation costs of borrowing. The study found that an additional increase in transportation cost would reduce the probability of borrowing from the formal source of credit by 2.61 percent but would increase by 1.21 percent from informal source. Therefore, the distance to formal bank is associated with higher probability of accessing informal credit by the farmers. The statistically insignificant coefficients on the value of farmers' age, land size (for informal credit) and rate of interest (only for informal source) may be due to the fact that they do not play an important role in borrowing as well as in the credit market choice.

Table.1.2

Probit coefficient for formal and informal credit

Variable	Probit Institutional Source		Probit non-institutional source	
	Coeffecient	Sig value	Coeffecient	Sig value
Household size	0.0563**	0.032	0.0234**	0.048
Age	0.0043	0.212	0.0023	0.231
Education	0.0465***	0.000	-0.0234**	0.0326
land size	0.0615**	0.045	0.034	0.128
Income	0.0564**	0.012	-0.0453**	0.034
Children	-0.0452**	0.043	0.0342***	0.000
Interest	-0.0364**	0.043	0.0321	0.213
Transportation cost	-0.0261**	0.045	0.0121**	0.043
R^2	0.43		0.56	

Source: Author's calculation

*Note: ** means significant at 5 percent level and *** means significant at 1 percent level*

The statistically insignificant coefficients on the value of farmers' age, land size (for informal credit) and rate of interest (only for informal source) may be due to the fact that they do not play an important role in borrowing as well as in the credit market choice.

VII. Conclusion

From the study it is found that institutional and non-institutional credit coexist in rural area in Assam but non-institutional credit is the most accessed and favoured source of credit in the rural areas due to absence of collateral, short distance, easy procedure and availability of cash any amount in demand etc. The farmers' decisions to borrow and the selection of sources are determined by various factors like farmers' education, household size, land size, income, interest, number of family members etc. The paper suggest that the accessibility of formal credits by the farmers is an necessary step which will help the farmers in two basic ways- One, by lowering the interest rate charged by informal source of credit and second, by giving freedom to sale the produced amount by the farmers in an efficient market price. Moreover the government should extend institutional credit facility through commercial banks, Regional rural banks, Co-operatives, Kisan Credit card scheme etc to fulfil the demand for credit by farmers.

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