Chapter II

Agricultural Indebtedness: a Policy Perspective
CHAPTER II
AGRICULTURAL INDEBTEDNESS: A POLICY PERSPECTIVE

2.1 Introduction

Several types of policy instruments have been initiated by the government in order to achieve the goals and objectives of agriculture development. The following discussions summarise the policy aspects of indebtedness.

Agricultural policy in India has witnessed different phases during the last five decades. The period from 1950-51 to the mid-1960s, treated as the pre-Green Revolution period, witnessed agrarian reforms, institutional changes and the development of major irrigation projects. The second phase started with the onset of the Green Revolution technology in the mid 1960s. The next phase in Indian agriculture began in the early 1980s. This phase witnessed a considerable increase in subsidies and support to the agriculture sector. During this period while public sector spending in agriculture for infrastructure development started showing a decline in real terms, but investments by farmers kept moving on a rising trend (Chand, 2001; Mishra and Chand, 1995). The rural economy started witnessing a process of diversification, which led to growth in non-food grains output like milk, fishery, poultry, vegetables, fruits, and so on. This accelerated a largely market-driven growth in agricultural GDP during the 1980s. The decade of the 1980s not see any major policy initiative for agriculture; wider spread of improved technology was the main factor for output growth.

A new phase was started in India’s economic policy in 1991 that marked a significant departure from the past. The government initiated a process of economic reforms which involved deregulation, reduced government
participation in economic activities and liberalization measures. Though these reforms were not directed at the agriculture sector, a devaluation of the exchange rate, liberalization of external trade and removal of protection to industry indirectly affected it. At the international level, there was a new trade accord and the WTO required the opening up of the domestic market. Initially, there were strong apprehensions about the impact of trade liberalization on Indian agriculture, which turned out to be a real threat for several commodities produced in the country. All these changes raised new challenges and provided new opportunities that required an appropriate policy response. The price intervention of the last two decades had a very limited coverage, and there was a sort of policy vacuum. There was a strong pressure on the government to make a formal statement regarding its agriculture policy so as to provide a new direction to agriculture in the new and emerging scenario. In response to this, the Government of India announced New Agricultural Policy in July 2000, which is known as National Agriculture Policy 2000. Strengthening agriculture is critical for facing the challenges of rural poverty, food insecurity, unemployment and sustainability of natural resources. Agriculture is the science and practice of activities relating to production, processing, marketing, distribution, utilization and trade of food. This definition implies that agricultural development strategy must address not only farmers but also those in marketing, trade, processing and agri-business. In this context, efficient rural credit system assures added importance (S S Acharya 2006). The need for agriculture credit however becomes all the more important when it moves from traditional agriculture to modern agriculture. The agriculture sector at present is facing with a number of constraints like very small land holdings, dependency of population on agriculture, agriculture labour if often under employed, production suffers from weather risks, capacity of saving and investment of the farmer is very low, low productivity due to low use of inputs etc. Therefore, farmers need credit to increase productivity and efficiency in agriculture. Generally, farmers need credit in order to purchase new inputs, purchase of
implements, better management of risks, permanent improvement in land, better marketing of products to face crisis etc. The following table (2.1) gives a clear picture about the history of rural credit policies initiated in India.

Table 2.1
Evolution of Policy instruments for agricultural development

<table>
<thead>
<tr>
<th>Year</th>
<th>Committee</th>
<th>Objective / major change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1875</td>
<td>Deccan Riots Commission</td>
<td>To obtain and destroy the bonds, decrees and other documents in the possession of the money lenders.</td>
</tr>
<tr>
<td>1880-1901</td>
<td>Famine Commission</td>
<td>Famine largely ended by 20th century.</td>
</tr>
<tr>
<td>1904</td>
<td>Co-operative societies Act</td>
<td>Premier institution for disbursing agriculture credit</td>
</tr>
<tr>
<td>1912</td>
<td>New Act passed</td>
<td>Gave legal recognition for the Provision of rural credit</td>
</tr>
<tr>
<td>1915</td>
<td>Maclagan Committee</td>
<td>Made 3-tier cooperative credit structure</td>
</tr>
<tr>
<td>1926-27</td>
<td>Commission on Agriculture</td>
<td>For rural credit</td>
</tr>
<tr>
<td>1929</td>
<td>Central Banking Inquiry Committee</td>
<td></td>
</tr>
<tr>
<td>1934</td>
<td>Reserve Bank of India Act</td>
<td>Specific provision for attention to agriculture credit</td>
</tr>
<tr>
<td>1935</td>
<td>Sir Malcolm Darling report</td>
<td>Submitted a report to set up an Agricultural Credit Dept in central and state governments, state coop banks to co-ordinate RBI functions for agricultural credit</td>
</tr>
<tr>
<td>1935-37</td>
<td>RBI 1st activity</td>
<td>Found that entire finance required by agriculturalists supplied by moneylenders, coop and other agencies were negligible</td>
</tr>
<tr>
<td>1935-1950</td>
<td>RBI builds a co-operative credit structure</td>
<td>Short term and long term credit</td>
</tr>
<tr>
<td>1945-1950</td>
<td>Dozen committee appointed</td>
<td>To study the progress of provision of rural credit</td>
</tr>
<tr>
<td>1951</td>
<td>Provision of credit</td>
<td>Legislation on money lending was advocated to their malpractices</td>
</tr>
<tr>
<td>1954</td>
<td>Report of All India Rural Credit Survey</td>
<td>Build a broader credit structure. Extended provision of credit through SBI and using it to extend commercial banking facilities to rural and semi-urban areas</td>
</tr>
<tr>
<td>1963</td>
<td>Agricultural Refinance Corporation</td>
<td>To provide funds by means of refinace, in vain.</td>
</tr>
<tr>
<td>1966</td>
<td>All India Rural Credit Review</td>
<td>To review supply of rural credit to improve</td>
</tr>
</tbody>
</table>
Committee | flow of agriculture credit.
---|---
1969 | Social control and nationalization of commercial banks played catalyst role to efforts of leveraging the bank system for extending agriculture credit. Concept of priority sector was introduced to help neglected sectors like agriculture
1975 | Agricultural Refinance and Development Corporation (ARDC) credit allocation for agriculture lending
1977 | Recommendation from Narasimham Committee in 1975, Regional Rural Banks or RRBs were set up
1982 | National Bank for Agriculture and Rural Development (NABARD) set up
1991 | Report of Committee on Financial System setting up of various committees/task forces
1995-96 | RIDF or Rural Infrastructure Development Fund Strengthening , rural credit delivery system

Despite all these efforts, the productivity level remained low. To find out reasons for this and remedy the situation the Government of India set up the Royal Commission on Agriculture in 1926. Based on its report submitted in 1928, several far-reaching steps were taken. One of them was the establishment of the Imperial Council of Agricultural Research (ICAR).

### 2.2 Evolution of rural credit in India

Here an attempt is made to sketch the historical evolution of Indian agriculture which is followed by the agricultural policies.

During the colonial period, government policy with respect to land settlement and the extent of commercial penetration into the agrarian economy differed from region to region depending on various considerations such as extraction of raw materials, mobilizing revenue, defense etc. This extraction of revenue was facilitated by the creation of revenue collectors who had no interest in productive cultivation. These revenue cultivators were later converted into absentee landlords and a zamindari system of land tenure was ushered in
throughout the eastern states. This led to sub-infatuation and growth of a parasitical class of land lords, merchants and money-lenders (Bhaduri 1983).

2.2.1 Land Reform

As is well known, the land reforms taken up by the Indian Government were in three spheres: (a) abolition of intermediaries, (b) tenancy reforms, and (c) ceiling on landholdings.

Abolition of Intermediaries

All the states passed Acts in this respect by 1953. The implementation was under process throughout the decade of the 1950s. As a result, 20 million tenants were brought into direct relationship with the state (Dandekar and Rath, 1971). This legislation was implemented quite forcefully and led to some positive changes. However, compensation was paid to the landlords.

At the time of independence, the prevailing land tenure system was complex. The agrarian structure at the time of independence had several features that inhibited agriculture. These were the existence of rent-receiving parasitic intermediaries between the actual tillers of the soil at the bottom, and the government at the top, great inequity in the ownership of land, concentration of agricultural land in the hands of the upper classes who shunned physical labour and took little personal interest in farming, widespread prevalence of insecure tenancies on extortion terms inhibiting the optimum utilization of the tenants’ land, a preponderance of miniscule uneconomic holdings and to the extreme fragmentation and subdivision of holdings.” The post-independence land reform agenda naturally included the abolition of intermediaries between the state and the cultivator, tenancy reform, reducing concentration of land ownership and the consolidation of land ownership and the consolidation of fragmented holdings. However, not all items in the agenda were effectively implemented (Appu P.S, 1996, pp.XV-XII).
The inefficiency and slowness of the implementation of the legislation abolishing intermediaries across states due to various reasons including resistance by intermediaries, nonetheless concluded, and mentioned Gunnar Myrdal and Wolf Ladejinsky in his support, that the social and economic powers of the former intermediaries came to an end with the implementation of legislation. However, the reforms had some major weaknesses. It allowed the intermediaries to retain a substantial amount of land for their “personal cultivation,” a term that was so “loosely defined in the legislation that no rights were conferred on tenants-at-will and share croppers,” resulting in millions of tenants and under-tenants being evicted. Also the payment of compensation to the former intermediaries resulted in heavy public expenditure. (Appu, 1996, pp. 72-79)

**Tenancy Reform**

After the introduction of the Permanent Settlement in the early years of the 19th century, there was a large scale eviction of tenants. The colonial government responded by legislating a measure of protection to the tenant, starting with the Rent Act of 1859 and culminating in the Bengal Tenancy Act of 1885, which extended security of tenure and fixity of rent to a claim of tenancy. The other provinces also enacted similar laws. The first Five Year Plan defined that owners of land in a holding not exceeding a family holding as small owners and those holding land in excess of a family holding but less than the limit for resumption for “personal cultivation” (three times the family holding) as middle owners.

Appu (1996, p. 91) clearly remarks that “all these meticulous exercises in hair splitting in verbal juggling aimed at reconciling the conflicting interests of landowners and tenants, seems to have been undertaken ignoring the realities of the power equation in the countryside and the character and capability of the administrative machinery. The basic fact is that the policy of
‘land to the tiller’ could not have been carried out without hurting the private property rights. But the policymakers were unwilling to wound and afraid to strike.” Ignoring ground realities and overestimating the honesty and capability of administrative machinery at application levels in the context of tenancy reform is equally applicable to India’s planners from the fifties to now.

NSS (2004) claims that “though the measure of land reform undertaken since independence appear to have deterred the growth of exploitative tenancy, there is still a huge proportion of tenanted land in total operated area”. What is most remarkable about farming in rural India is the significantly high proportion of total tenanted operated land by a small proportion of holdings.” What is remarkable is that NSS does not define what is meant by exploitative tenancy, let alone what its growth would have been in the absence of land reform. Nor does it say why concentration in leased-area is unduly high.

Ceiling on Landholdings

The origin of the policy of ceilings of landholdings in the post-independence era is the report of the Agrarian Reform Committee (chaired by J.C. Kumarappa) submitted in 1950. The Committee evolved three norms for holdings sizes: Basic, Economic and Optimum. The economic holding was defined as one that would, based on the prevalent agro-economic conditions, afford a reasonable standard of living to the farmer and his family, provide full employment to his family, and a pair of bullocks. Under the assumption that the rehabilitation of the large number of uneconomic holdings would not be feasible, the committee defined the Basic holding as one, though smaller than an Economic holding, was nonetheless viable, thus determining the lowest viable holding size. While viability considerations determined the lower limit of holdings size as the Basic holding, social justice considerations led committee to define upper limit or ceiling as three times the size of Economic holding, which
it called the Optimum holding. In effect, the committee expected holdings below the basic holding to be exempt from any land ceiling laws and only land above the Optimum holding was to be acquired by the state.

Ceiling on landholdings was imposed with a purpose to reduce the inequality in the distribution of land. The objective was to acquire the surplus land and redistribute it among the landless labourers and medium and small farmers. The ceiling laws in India were enacted in two phases, first in the early 1960s and later in the early 1970s. However, of all the land reforms measures, ceiling on landholdings was most unsuccessful in India. Primarily due to the failure of land redistribution to the extent expected by the rural poor, rural unrest grew all over the country in latter half of the 1960s. The policy on ceiling on land-ownership and agricultural property has been driven solely by consideration of social justice in a context in which a large proportion of the population will remain dependent on agriculture for their livelihood.

So far as overall failure in implementation of land reforms is concerned, it is attributed to lack of political will. However, it also needs to be admitted that despite all the shortcomings, there have been some achievements through land reforms. Abolition of Zamindari was fairly efficiently implemented in all the states as compared to tenancy and ceiling laws (GOI, 1976:87). Jammu and Kashmir was the first state to implement all the legislation properly (Kotovsky, 1964:50, 116). After national guidelines were framed, there has been some progress in the implementation of ceiling, by the early 1980s, West Bengal, Karnataka and Kerala made progress in implementation of land reforms. West Bengal protected the rights of sharecroppers through ‘Operation Barga’; Karnataka conferred occupancy rights of land to the tenants through Land Tribunals; and in Kerala the implementation of Tenancy Laws was effectively done through tenant associations (Joshi, 1982:66).

2.3 Estimates of Rural Indebtedness
Attempts have been made from time to time to assess the extent of rural indebtedness. The status of debt was estimated before and after independence. The major commissions estimated rural indebtedness before independence is Deccan Riots Commission 1875, Famine Commission 1880, Central Banking Enquiry Committee 1929, etc. All of these committees found that, pre-independence period witnessed the dominant role of non-institutional sources in supply of rural credit. The noteworthy among them were indigenous bankers and the money lenders. They exploited the illiterate farmers with exorbitant interest rate.

After independence, the committee on agrarian reforms (chaired by J.C. Kumarappa) in its report of 1950, observed that, collective farming to be suitable essentially for the development of reclaimed waste land. After examining three other alternatives, namely capitalist farming, state farming and individual peasant farming, it categorically rejected capitalist farming as its adoption in its view “would deprive the agriculturists of their rights in land [and] turn them into mere wage earners,” was unenthusiastic about state farming, except once again, on reclaimed waste land, and opted for individual peasant farming.

The idea of co-operative farming surfaced in the form “cooperative village management” in the First Five Year plan with the village as the unit of land management with individual families or groups of families cultivating blocks of land allotted by the village management body. However, right of ownership of the village land would be recognized and compensated through an ownership dividend at the end of each harvest. Dandekar (1974, p. 53) strictly comments that “This was a rather naive concept based on a utopian notion of a village and plain ignorance, or unwillingness to see the truth, about village community functioned.”
The Second plan, according to Dandekar “offered lip service though with less conviction,” to cooperative village management and the third plan made no mention of village management and thereafter the concept was quietly dropped. The idea of bringing together holdings below a certain level into small cooperative farms did not proceed very far either. It also went out of consideration after the Third plan.

Although the problem of landless agricultural workers was recognized and the need to provide increased employment opportunities (on and off farm) was also recognized as Dandekar (1974, pp 84-85) points ideas on increasing employment opportunities “were not very clear, in any case, they were not elaborated . . . what was said with respect to the landless workers in the First Five Year Plan was plainly evasive.” In particular, there was no understanding that the development strategy being capital intensive by its very design could not generate the rising employment opportunities for such workers. Indeed the implicit presumption then was the problem of their employment was to be solved within the agricultural sector itself. Dandekar (1974, p. 87) points out that “the Eighth Plan emphasized that landlessness was a root cause of poverty and that access to land was a major source of employment and income; that such access could be achieved either by a more equitable distribution of land or providing security of tenure to tenants and share croppers who are the actual cultivators.” In his summing up of the official approach to transforming the traditional agriculture, Dandekar (1974, p.89) correctly argues that the so-called “land problem”, which the First Five Year Plan claimed overshadowed all other problems, was “an excessive burden of population which the land has to bear and a satisfactory solution is supposed to be to let the land continue to bear this burden”, again illustrating the lack of recognition of the lessons of development history.
2.3.1 National Income Committee (1949)

The first systematic estimates of the extent of rural indebtedness were made in the first report of the National Income Committee in 1949. The Committee estimated the rural debt at Rs. 915 cores of which 83 percent non-productive and only 50 percent of this was supplied by co-operatives. The government of India and Reserve Bank of India were to play an active role in the supply of rural credit since the launching of First Five Year Plan in India in 1951. Many expert committees were appointed from time to time to improve the flow of credit from institutional sources.

2.3.2 All India rural credit survey committee (1951-52)

The committee, appointed by the Reserve Bank of India in 1951 under the chairmanship of Gorwala, undertook a comprehensive survey of rural credit and submitted its report in August 1954. The survey revealed that the shares of institutional and non-institutional sources of rural credit were 7.3 percent and 92.7 percent respectively. The committee recommended (i) production oriented short term credit called “the crop loan system”, based on crop outlay and not on the basis of ownership of assets as done in the past; (ii) creation of new institutions like National Cooperative Development and Ware Housing Boards, the All India Warehousing Corporation and state warehousing companies in order to promote storage, processing and marketing facilities etc.

The Reserve Bank of India has undertaken systematic surveys to assess the liability of the Indian peasantry at intervals. The first of these surveys known as Rural Credit Survey 1951-52 estimated amount of debt owed to the agriculturist and professional moneylenders from 14.2 percent and 44.8 percent respectively of total debts. According to the survey, the percentage of borrowing families among rural families was 51.7 percent and of which about 63 percent of rural families were in debt and average amount of debt per family was Rs. 283. The average amount of outstanding debt per family varied from Rs. 29 to Rs.
1200. The survey assessed amount of total rural debt at Rs. 750 crores. The burden of debt was higher on small cultivators as compared with cultivators with large holdings and the portion of borrowing families was large among cultivators than among non-cultivators. After this report, Rural Credit Follow up Survey, 1956-57 found that there is a general trend of an increase in the volume of debt.

The decadal surveys by the NSS of assets and liabilities provide a rich source of data on indebtedness of farmers and their access to institutional credit. The Expert Group on Agriculture Indebtedness (EGAI, 2007) draws extensively on this body of data. The share of cultivators among rural households has steadily declined from 72.4 percent in 1971 to 59.7 percent in 2002 (NSS, 2005a, statement 2), with significant interstate variations. The incidence of indebtedness having drastically declined from 43 percent in 1971 to 20 percent in 1981 has increased slowly since then to 27 percent. There are substantial interstate differences in the extent of indebtedness, but the pattern of change over time is broadly similar across states. However, the debt-asset ratio of rural cultivator households declined from 4.13 percent in 1971 to 1.61 percent in 1991, increased in the nineties to reach 2.49 percent in 2002.

On sources of borrowing and hence of accumulated debt, rural households (cultivator and non-cultivator) borrowed more than they repaid in 1971-72, 1981-82, 1991-92 and 2002-03, with differences increasing substantially from being relatively small in 1971-72 (NSS, 2006). The proportion of households reporting cash borrowing, after falling from 29.3 percent (23.4 percent) for cultivators (non-cultivators) in 1971-72 to 20.6 percent (16.7 percent) in 1981-82, started rising steadily to 22.4 percent (18.4 percent) in 2002-03. However, there is no jump in the proportion between 1991-92 and 2002-03. The proportion of cultivator households reporting cash repayments fluctuated. However, the proportion of non-cultivator households reporting repayments increased steadily.
All-India Rural Credit Review Committee (1967) estimated the short term credit requirements by 1973-74 at Rs. 2000 cores. The actual supply of institutional credit for short term purposes amounted to Rs. 859.30 crores, i.e., 42.97 percent of the estimated requirements. A sum of Rs. 2550 crores would be anticipated advance in 1979-80 as estimated by the Planning Commission of India, while the real advances extended by the institutional sources was Rs. 2928.10 crores, i.e., 114.83 percent of the anticipated advances (AIDIS, 59th round).

2.3.3 Mehta Committee (1959)

This committee favoured revitalisation of a large number of credit societies to expand rural credit. The committee felt that the Government could contribute to the share capital ranging from Rs. 1000 to Rs. 10,000 on a matching basis and its contribution to “the special bad debt reserve” to weak societies. The committee recommended for the provision of funds even to the tenant cultivators. It desires that a large portion of the loan would be in kind form to avoid misapplication of loans. It favoured quick measures to link credit with marketing to reap the benefit of organized marketing that would help in the recovery.

2.3.4 Patel Committee (1961)

The Government of India appointed this committee in July 1961 to examine the question of organizational, procedural and administrative difficulties associated with routing taccavi loans and other facilities of the Government through cooperatives. The committee’s report came in 1963. The committee recommended that all loans for normal production should be arranged through the cooperative institutional agency and Government would have provided finance directly to the farmers only in certain cases of high financial risks.
The Government should continue making budgetary provisions increasingly in strengthening the cooperative resources. It recommended that the recovery of cooperative overdue would have priority over the outstanding/overdue of taccavi loans. The committee desired effective steps to rationalise the central banking structure so that there would be one central bank for each district. The committee also recommended that steps would be taken to create an agency of the land mortgage banks at a level below the district level wherever the primary land mortgage banks functioned at the district levels only. The Government of India generally accepted its recommendations.

2.3.5 Mirdha Committee (1964)

The committee on Cooperation was constituted by the Government of India in August 1964, and it submitted its report in August 1965. It felt that the cooperative movement is the best organization to protect the small man from the exploitation of the rich and that it is an instrument for promoting social justice.

2.3.6 All-India Rural Credit Review Committee (1966)

This committee, headed by Venkatappiah, submitted its report in July 1969. The committee observed that “except in a few areas, the predominance of non-institutional credit continued over the years, despite inroads made by the growth of cooperative credit, and suggest reorganization of cooperative credit. Its main recommendations were (i) introduction of crop loan system in areas where it was not in existence; (ii) fixation of scale of finance separately for as small an area as possible, preferably taluk and also separate scale of finance for irrigated and un-irrigated areas; (iii) simplification of lending procedures to improve production and recoveries; and (iv) establishment of two new organizations namely the Small Farmers Development Agency (SFDA) to identify the problem of potentially viable small farmers and ensure them supply of agricultural inputs, services and credit; and the Rural
Electrification Corporation to help rural electrification schemes through the State Electricity Boards.

The committee observed that the role of commercial banks in the sphere of rural credit might be considered in six areas like “(i) production credit; (ii) investment credit; (iii) credit for the infrastructure; (iv) distribution credit; (v) credit for activities jointly undertaken with agriculture and (vi) credit to cooperatives engaged in agricultural activities”. It also addressed that date should be fixed in each state beyond which no taccavi loan should be provided except to meet situations of widespread distress such as floods and famines. These recommendations had been implemented in the subsequent years.

2.3.7 Santhanam Committee (1969)

The Committee on Co-operation headed by Santhanam, in its report in 1969, recommended that “the scale of cultivation finance should include a reasonable amount towards the consumption expenses of the members’ family. It further recommended that village societies should be empowered to pursue action under the Land Revenue Recovery Act also to drive up recovery measures. In order to augment resources of the village societies, the committee recommended that the margin between lending rate to members and its borrowing rate from the central banks should be three percent.

2.3.8 Farmers Service Societies (1971)

The National Commission on Agriculture, in its interim report in December 1971 recommended for the establishment of a new type of organization at the base-level, called the Farmers Service Societies in order (i) to provide all types of credit, technical guidance and a full package of services especially to small farmers to develop their farms in an integrated manner; (ii) to cover effectively a large area of operation, a block or population of 10,000 so that it could function as a viable unit; and (iii) to provide for a two-third
representation to enable the weaker sections to control the society. Such societies could be either financed by commercial banks or by cooperative banks. It was accepted and a scheme was put into operation since 1973-74 in almost all the states.

2.3.9 Large-sized Adivasi Multi-Purpose Cooperative Societies (1971)

A special study group, under the Chairmanship of Bawa (1971) recommended the organization of large-sized Adivasi Multi-Purpose Cooperative Societies in tribal areas as the bottom level structure with the objectives of (i) providing all types of credit under a single rule. (ii) Providing technical guidance; and (iii) arrangement for marketing of agricultural and tribal based products and such societies were established in tribal areas.

2.3.10 The Committee on Cooperative Land Development Banks (1973)

This committee headed by Madhava Das studied the structure of the land development banks in different states and desired the continuance of the existing unitary and federal systems as they have their own advantages and disadvantages. It suggested for strengthening the existing structure by setting up regional/divisional officers of the Central Land Development Bank with adequate technical and other staff to provide necessary support to the base level structure in the matter of the formulation of the schemes and their implementation. The committee recommended that “there should be close link between the State Cooperative Bank and the various Government departments. The committee stated that there was concentration of overdue in the case of farmers holding above 10 acres in almost all states except in Punjab and recommended for amendment to certain provisions of the existing Acts for enabling the banks to take prompt and effective measures against the defaulters.

The post WTO period has thrown a new challenge to Indian agriculture, as domestic prices of several commodities have turned higher than
international prices. This has made imports attractive and caused an adverse effect on exports. The situation calls for improving the competitiveness of Indian agriculture. This requires improvement in efficiency in agricultural production, marketing, transport, and so on. This is the third challenge before Indian agriculture. There is also an equity concern relating to various regions and classes of farmers and labour households. There is a strong feeling in the country that while intervention in food markets has benefited only agriculturally progressive regions, rain fed and dry land agriculture regions have been ignored.

There is a widespread belief that India is currently in the midst of an agrarian crisis. The report of the Expert Group on Agricultural Indebtedness appointed by the Ministry of Finance claims that “Indian agriculture is currently passing through a period of severe crisis. Although some features of the crisis started manifesting themselves in certain parts of India during the late 1980s, the crisis has assumed a serious dimension since the middle of the 1990s. One of the tragic manifestations of the crisis is the large number of suicides committed by the farmers in some parts of India.” (EGAI, 2007, p13).

The Government of India announced New Agricultural Policy in July 2000, which is known as National Agriculture Policy 2000. The National Agriculture Policy (NAP) aims to attain a growth rate in excess of 4 per cent per annum in agriculture over the next two decades. It lays down a couple of other goals to attain this growth. These are: growth that is based on efficient use of resources and that conserves India’s soil, water and biodiversity; growth with equity, that is, growth which is widespread across regions and farmers; growth that is demand driven and caters to domestic markets and maximizes benefits from exports of agricultural products in the face of challenges arising from economic liberalization and globalization; and growth that is sustainable technologically, environmentally and economically. It is further stated that the policy will seek to promote technically sound, economically viable, environmentally non-degrading and socially acceptable use of the country’s
natural resources – land, water and genetic endowments–to promote sustainable development of agriculture.

The National Agriculture Policy (NAP) proposes to put large areas of wasteland to use for agriculture and afforestation. To manage land resources, another measure emphasized by the NAP consists in the use of the watershed approach, which is also proposed for rain fed agriculture. The NAP calls for special efforts to raise the productivity and production of crops to meet the rising demand for food. It says that major thrust will be given to rain fed and irrigated horticulture, floriculture, roots and tubers, plantation crops, aromatic and medicinal plants, bee keeping and sericulture for segmenting food supply, export and generating employment in the rural areas. Emphasis is added on raising livestock and fishery production. The NAP expresses concern about the narrowing and erosion of India’s plant and genetic resources in the last few decades.

A very high priority has been accorded by the NAP to evolving location-specific and economically viable improved varieties of agricultural and horticultural crops, livestock species and aquaculture. There is an added emphasis on regionalization of agricultural research based on identified agro-climatic zones. The policy reiterates the government’s resolve to provide a favourable economic environment for promoting farm investments through: (a) the removal of distortions in the incentives, (b) improvement in terms of trade with manufacturing, and (c) external and domestic market reforms.

The NAP acknowledges the problem of declining public sector investment in agriculture. It proposes to re-channelize available resources from support measures towards asset formation. The NAP advocates land reforms by focusing on a consolidation of holdings, redistribution of surplus/waste land among the landless, tenancy reforms, development of the lease market and recognition of women’s rights in land. Other areas listed for policy attention are
private sector participation through contract farming, assured markets for crops especially for oilseeds, credit, and horticultural crops, and increased flow of institutional credit, and strengthening and a revamping of the cooperative credit system. The NAP recommends the institution of the Agriculture Insurance Scheme covering all farmers and all crops throughout the country with a built-in provision for insulating farmers from financial distress. Other measures suggested under this include: (a) enhancing flood proofing and drought proofing through insurance, (b) ensuring remunerative prices through the announcement of the Minimum Support Price (MSP), and (c) future trading in agricultural products.

It is widely believed that India is in the midst of an agrarian crisis. The Expert Group on Agricultural Indebtedness appointed by the Ministry of Finance and Chaired by the eminent econometrician Professor R. Radhakrishna, former Director of the Indira Gandhi research Institute for Development Research, Mumbai, on page 13 of its report (July 2007) firmly asserted that “Indian agriculture is currently passing through a period of severe crisis…the crisis has assumed a serious dimension since the middle of the 1990s. One of the tragic manifestations of the crisis is the large number of suicides committed by the farmers in some parts of India.”

The Expert Group and contributors to the growing literature on the crisis have attributed the crisis to several factors: the role of systemic economic reforms of 1991; the opening of the Indian economy to external competition and investment after decades of insulation; the impact of India’s implementation of its commitments under the Agreement on Agriculture of the Uruguay Round of Multilateral Trade Negotiations; neglect of Agriculture in the planning process since the mid 1980s; the decline of public investment in agriculture; slowing of the rate of agricultural output; stagnation of yield per hectare of land and growing indebtedness of farmers.
Among the contributory factors of the agrarian crisis cited by EGAI (2007), agricultural indebtedness seems to have some firm empirical support. The NSS data show that the incidence of indebtedness among farmers has increased slowly from 20 percent in 1981 to 27 percent in 2002, although there is no evidence of a faster rate of increase during the decade of the nineties. Moreover, the share of the institutional sources of credit has been fluctuating since 1981 after rising dramatically from 31.7 percent in 1971 to 63.2 percent in 1981, in part due to the expansion of bank branches in rural areas after nationalization of banks in 1969. Unfortunately the share of money lenders, having fallen from 69.7 percent in 1951 to 16.1 percent in 1981 began rising thereafter reaching 27.8 percent in 2002. Debt incurred for production purposes also declined after 1981, most of the decline being accounted for by increase in debt-financed household expenditure. Thus the rise in the incidence of farm indebtedness, the share of money lenders as a source of debt finance and in the use of debt for financing household expenses is disquieting. However without a detailed analysis of these trends one cannot draw a firm conclusion that they contributed to the agrarian crisis.

The National Commission on Agriculture (1976) projected that the realistic/graduated requirement of credit for agriculture would be Rs9400 cores by 1985. But the Planning Commission’s targets for 1984-85 were Rs5415 cores, while the actual disbursement of credit in 1984-85 was Rs5810 cores as reported in the Seventh Plan Draft. Although Planning Commission’s anticipated target of credit for 1984-85 was surpassed by actual disbursement in 1985 was not fulfilled.

2.3.11 High Level Standing Committee (1974)

The Reserve Bank of India appointed a high level standing committee under the headship of Ojha to review the flow of institutional credit to the rural sector. The terms of reference of the committee were to review and
assess; (i) the requirements and availability of institutional credit for agriculture and rural sector; (ii) the progress of flow of credit and complementary inputs to weaker sections; (iii) the matters connected with delivery, timely recovery and regional imbalances related to the institutional credit; and (iv) the coordination between credit institutions and the various State Government agencies. The committee was expected to make suitable recommendations to strengthen the rural credit system in India.

2.3.12 Sivaraman Committee (1979)

The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development, headed by Sivaraman, in its interim report submitted in November 1979, recommended the establishment of a National Bank for Agriculture and Rural Development under the control of the Reserve Bank of India to decentralize its functions. The committee, in its final report, submitted in January 1981, has made several recommendations for strengthening the rural credit system in the country. The committee felt that through (i) identification of target groups like small/medium farmers, landless agricultural labourers, rural artisans, scheduled castes and schedules tribes; (ii) simplification of terms and procedures of credit; (iii) updating of land records, (iv) project-based lending; and (v) creation of suitable infrastructure to ensure supply of inputs and services, the credit to the weaker sections could be quickly facilitated. It recommended that “the development agencies including the credit institutions have to plan and progress together and ensure that credit is tied up with development programmes and supported by appropriate backward and forward non-credit linkages”.

The committee strongly urged that in the matter of dispensing long term credit, primary agricultural credit societies should act as agencies of land development banks. Regarding overdue, it did not favour the State Governments in giving total exemption to all classes of defaulters. It desired that there should
be strict observance of financial discipline by all concerned for sound and sustained growth of the cooperative credit system in India. It recommended for amending the Indian Penal Code to provide for deterrent punishment to willful defaulters.

The Government of India accepted the committee’s interim report for setting up a new National Bank for Agriculture and Rural Development and the same came into being on 12th July 1982. At a conference arranged by the Planning Commission in March 1982, most of the recommendations of this committee had been endorsed by the representatives of the Central Government, State Governments, Reserve Bank of India, Agricultural Refinance and Development Corporation financing banks and others concerned.

Though several investigations were made on various aspects of rural credit and committees were appointed from time to time ever since the establishment of the Reserve Bank, the epoch making event in the history of rural credit was the launching of the All-India Rural Credit Survey (AIRCS) by Reserve Bank in 1951-52.

2.4 Estimates on Agricultural Indebtedness-Evidences from AIDIS (All India Debt and Investment Surveys)

This section analyses the salient aspects of debt of rural households, as revealed by the results of the decennial household surveys on debt and investment, for different benchmark years during the period 1951-52 to 2013-14. The incidence of debt of rural households and the relative role of institutional and non-institutional agencies in financing rural households is discussed. The results indicated that the proportion of households reporting indebtedness declined over the decades. However, the share of institutional agencies in total debt, in particular the commercial banks, steadily increased over the decades, while non-institutional sources showed a steep decline. Also,
the share of debt for productive purposes for both farm and non-farm business has increased during these period.

In order to study both the demand and supply sides of credit in the household sector, the Reserve Bank had conducted the ‘All-India Rural Credit Survey’ in 1951-52 and the results of the Survey were published in 1954. Information on assets, economic activities, particulars of credit operations and the incidence of indebtedness in the rural areas were collected to assess the demand for rural credit. Further, data on the extent and mode of operations of different credit agencies were also collected with a view to examine the supply side of credit. The first Rural Credit Survey was followed up with a similar Survey in 1961-62 by the Reserve Bank. The scope of the survey was extended to include capital expenditure in the household sector and other associated indicators of the rural economy. The second survey was accordingly titled ‘All India Rural Debt and Investment Survey’ and results were published in 1965. Both the surveys by the Reserve Bank were conducted for rural areas only.

2.4.1 Surveys by the NSSO

The National Sample Survey Organisation (NSSO) has been conducting All-India Survey on Debt and Investment, decennially, since its 26th round (1971-72) in both rural and urban areas. These surveys generate basic information on assets, liabilities and capital expenditure in the household sector of the economy. The All-India Debt and Investment Survey (AIDIS), which was carried out as part of the 59th round of the National Sample Survey (NSS) during January to December 2003, was the sixth such survey conducted at the all-India level. These reports by NSSO give the estimates of indebted households and the amount of debt classified by various aspects at the State and all-India level in both rural and urban areas. At present, the decennially conducted AIDIS is the only nation-wide enquiry providing data on household assets, indebtedness and capital expenditure.
The main objective of the AIDIS is to generate reliable estimates on assets, liabilities and capital expenditure of the household sector. The survey provides the details of household liabilities required for the formulation of credit policy of financial institutions and planning for development. According to the AIDIS, the agency from which a loan was taken treated as the credit agency. The credit agencies were either ‘institutional agencies’ or ‘non-institutional agencies’. The various agencies which were treated as ‘institutional agencies’ are: government, co-operative agencies, commercial banks including Regional Rural Banks, insurance, provident fund, financial Corporation/institution, financial company and ‘other institutional agencies’. The agencies which were treated as ‘non-institutional agencies’ are: landlord, agriculturist money lender, professional money lender, trader, relatives, friends, and professionals, and ‘others’. Of all the parameters in AIDIS, credit agencies and terms and rate of interest of loans have been probed into more deeply than the rest, in view of their historical importance with respect to the supply side and cost of loans, respectively.

2.4.2 All India Debt and Investment Survey (1951-52)

Although, India inherited a basic network of credit cooperatives from the colonial era, the Reserve Bank’s first decennial AIDIS 1951-52 (RBI, 1954) report found that 92.8 per cent of rural households relied on informal financial sector. The investigation extended over nearly 1, 30,000 families having residents in 600 villages and all types of credit agencies in 75 selected districts. During 1951-52, an increase in debt was recorded in all the 75 districts (in 20 districts the increase in debt was below 50 per cent; in 31 districts the increase varied from 50 to 100 per cent; in 19 districts from 100 to 200 per cent; and in 5 districts the increase exceeded 200 per cent).

The moneylenders’ continued dominance in the beginning of Plan period (around 70 per cent of rural credit) despite all measures to control them, suppress or supplant had led to the suggestion that ‘any realistic system of rural
credit should seek to incorporate him in itself rather than compete with him or wishfully expect to eliminate him’ (RBI, 1954). Among creditors, the moneylender, and among moneylenders the professional moneylender dominates the rural credit scenario. The dominance itself has been made possible by the ineffectiveness of all attempts to organise a competitive agency for supply of rural credit. The first AIRCS (All India Rural Credit Survey) had opined that the co-operatives were ‘utter failure’ in providing rural credit, but added they had a vital role in agricultural credit. Loans from relatives (virtually interest free) accounted for 14 per cent of the reported borrowings of cultivators. About 6 per cent of the total borrowings of cultivators were from traders and commission agents. The combined contribution of Government and Cooperatives was about 6 per cent of the total rural credit, each accounting for about 3 per cent. As for commercial banks, 1 per cent represented the insignificant part played by them in the direct financing of the cultivator. In 44 out of the 75 districts selected for the Survey, not a single pie was reported as having been borrowed by cultivators from a commercial bank.

AIDIS (RBI, 1954) pointed out that “agricultural prices during the Survey year witnessed a stagnation followed by a steep decline for the first time in a period over ten years”. However, a large part of the working funds borrowed by subsistence farmers seems to be related to consumption rather than production. The problem turned into more complicated due to the socio-economic structure of the village with its characteristics of caste and inequality. Other factors that might have aided to the trend towards an increase in debt were relatively large incidence of drought, famine and inclement seasonal credit.

As our description built upon statistical data analysis and survey of literature, the brief about significance of informal credit agencies in supplying credit to rural areas during 1950s can be summarised as follows: Moneylenders were dominant not only due to their effective adaptation to rural areas, but also the ineffectiveness of any other competitive agency. Traders and
Commission Agents were in direct contact with the cultivators and much of this financing was really in the nature of advance payment for purchase of products. The indigenous bankers were financier of trade and also traders themselves as well as finances moneylenders. Commercial banks were more interested in rural areas more for the purpose of getting deposit rather than financing either agriculture or cottage industry.

2.4.3 All India Debt and Investment Survey (1961-62)

In this second Survey by Reserve Bank, the outstanding loans owed to agriculturist moneylenders accounted for about 46 per cent of the aggregate outstanding of all rural households, nearly double the share compared to first Survey. The share of outstanding loans owing to professional moneylenders was next highest though their share declined constituting 15 per cent of the aggregate outstanding. As per the Survey findings on all-India basis, the share of cooperatives was at 9.1 per cent, ‘others’ at 8.9 per cent, traders and commission agents at 7.7 per cent, relatives at 6.8 per cent and government at 5.3 per cent in the total outstanding debt. The shares of landlords and commercial banks in the aggregate outstanding were negligible at 0.9 per cent and 0.4 per cent, respectively. This fact signifies the continuance of informal finance in rural India that might have prompted the nationalization of commercial banks in 1969 in the first phase. The State-wise position in respect of outstanding loan owed to different credit agencies. It can be ascertained that the outstanding loans owed to agricultural moneylenders constitute 74 per cent of the aggregate outstanding of the rural households in Bihar, about 64 per cent each in Andhra Pradesh and Madras and about 60 per cent in Mysore. Their share was very low in Jammu & Kashmir (7 per cent) and reflects low dependence on agriculture and Gujarat (9.8 per cent) due to higher share of cooperatives (20.3 per cent). On the other hand, the share of cooperatives was below 5 per cent in Bihar (0.9 per cent), Rajasthan (2.0 per cent), and West Bengal (4.1 per cent). For other states, it varied between 7 – 14 per cent. The
share of professional moneylenders in the aggregate outstanding was the highest in Orissa (37.3 per cent) followed by Rajasthan (35.3 per cent), Madhya Pradesh (31.0 per cent), and Uttar Pradesh (24.5 per cent). It was very low in Mysore (1.4 per cent), Jammu & Kashmir (5.4 per cent), and Kerala (5.6 per cent) and varied between 6-15 per cent in other states. The share of Government in the aggregate outstanding was about 19 per cent in West Bengal and Maharashtra, 15 per cent in Assam and 12 per cent in Orissa. In all other States, it was 5 per cent or less.

The first three categories of informal lenders – landlords, agricultural moneylenders, and professional moneylenders – are not necessarily distinct from one another depending on the locality. But generally speaking, landlord money lenders extend credit to tenants; agricultural moneylenders primarily deal with agricultural labourers and small farmers; and professional moneylenders service a wider range of customers and may register themselves as companies, partnerships, and trusts (Ghate, 1992). Those in the fourth official category, ‘traders and commission agents’ are also known as indigenous bankers. In contrast to professional moneylenders who lend their own money, indigenous bankers broker funds between banks and their clients, who tend to be traders rather than farmers. One of the important reasons for continued dependence on moneylenders is that the formal credit delivery structure has not stretched to the villages despite its penetration (Ghate 1988). The formal credit delivery channels also lack the personal bonds that moneylenders enjoy with the borrowers. Borrowers obtain their loans more promptly from non-institutional sources. The survey revealed that the percentage of indebted households to the total households was between 67 and 69 for the cultivators and at 52 for non-cultivators. The average debt for an indebted household recorded an increase and was Rs647 cores in 1961-62. The outstanding total debt stood at Rs2380 cores.

2.4.4 All-India Debt Investment Survey (1971-72)
This survey, undertaken by the Reserve Bank of India, revealed that a Rs. 3,848 core was the total debts of the rural households as on 30th June 1971. This accounted for an increase of Rs. 96.73 percent in the total rural debts over the position in 1961. Rs. 3,374 core was the total debt of the cultivation in 1971. This represented an increase of 102.04 percent as compared to their total debts in 1961. In the report, it was found that “although the non-institutional agencies still occupy a dominant position in the supply of credit to the rural households, their predominance is steadily declining while the institutional agencies are foregoing ahead. Thus, debt owed to non-institutional agencies formed 68 percent of the total debt of cultivators in 1971 as against 82 percent in 1961. On the other hand, there was a relative rise in the proportion of debt owed to institutional agencies from 18 percent in 1961 to 32 percent in 1971”.

2.4.5 All-India Debt Investment Survey (1981-82 to 1991-92)

At the outset, it may be mentioned that the Survey results of 26th round (1971-72), 37th round (1981-82), 48th round (1991-92) and 59th round (2002-03) of AIDIS are comparable across the Agency-wise and State-wise over the periods. In order to compare the progress of formal and informal finance after the bank nationalization and to provide an overview of the flow of credit to rural areas in terms of credit agency-wise, we have analyzed these Survey results in a comparative manner and State-wise separately. It is important to note that there are problems in using data from these surveys given the sharp reduction in sample size of households and villages, especially in the 37th round in 1981-82. It may further be mentioned that, the estimates of household debt starting from 48th round in 1991-92 are based on both cash and kind, whereas earlier that it was based on cash debt.

2.4.6 All-India Debt Investment Survey (2001-02)

It can be assessed that the informal/non-institutional finance was gradually declining during the 1960s, was very nearly broken during the 1970s,
with the institutional agencies making steady inroads into the rural scene. The share of institutional credit agencies in the outstanding cash dues of the rural households at the all-India level increased from 29 per cent in 1971 to 61 per cent in 1981 and then the pace of increase was arrested rising to 64 per cent in 1991. During the following decade, the share declined by about 7 percentage points and reached 57 per cent in 2002. It seems that credit cooperatives, commercial banks, and other formal financial sector programs in rural areas have not displaced informal sources of credit, altogether. The 2002 AIDIS survey revealed that 43 per cent of rural households continue to rely on informal finance, which includes professional moneylenders, agricultural moneylenders, traders, relatives and friends, and others.

2.4.7 All-India Debt Investment Survey (2013-14)

The survey period of the 70th round was from January to December 2013; covered 35000 households. For this survey, the NSSO defined an agricultural household as one in which at least one member was self-employed in agriculture (even if part-time) and which produced at least Rs 3000 worth of agricultural produce in a year. The Survey found that, nearly 90 percent of India’s farmers have less than two hectares of land, according to the most extensive survey of farm households (NSSO 2013-14). The survey says the average farm household makes less than Rs 65000 a month from all sources of income. Over half of all agricultural households are in debt; and 42 percent of them owe money to banks and 26 percent owe money lenders. Over 40 percent of agricultural households have Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNRE GS) job cards, showing that even those households not classified as ‘labourers’ utilise the scheme. One in three farm households has less than 0.4 hectares of land and less than 0.5 percent are large farmers, having over 10 hectares of land. Large farmers are often absentee landlords, the data indicates; 54 percent of farmers with over 10 hectares possess land in other states. Scheduled Caste and Scheduled Tribe farm households were over
represented among the poorest class with the smallest land holdings. Large farmers were almost exclusively OBC or forward caste. While wheat is the most commonly grown crop in the first half of the year, paddy growing dominates the second half. In both seasons, however, sugarcane is the most profitable crop, giving its cultivator an average of over Rs 80000 per season.

2.4.8 Agriculture and indebtedness

Agriculture sector is the kingpin of Indian economy. It accounts for 13.2 percent of Gross Domestic Product (GDP). It employs 63.3 percent of the population directly engaged in agriculture (Economic Survey, 2014-15). Therefore, agriculture is viewed as the engine of economic development and is the only activity capable of generating surplus large enough to stimulate growth in other sectors of the economy (William 1981). Though agriculture plays an important position; Indian agriculture has entered a phase where it is facing multiple and complex challenges in growth, sustainability, efficiency etc. The biggest challenge seems to be the sharp decline in the growth rate experienced after the mid 1990s. The income levels of a large part of agricultural population namely, small, medium holders and agricultural labours continue to be low and it results in certain imbalances. This slowdown in output growth is largely responsible for stagnation in farm income and is causing heavy indebtedness and rural distress. Majority of the agriculturists in India are either owners of small and medium landholdings or landless agricultural labourers. Agriculture sector in India has undergone significant structural changes in the form of decrease in share of GDP, indicating a shift from the traditional agrarian economy toward a service dominated one. This decrease in agriculture sector can be seen from table (2.2).
Table 2.2

Income distribution of agriculture sector in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture share in GDP</th>
<th>Population dependent on Agriculture</th>
<th>Agriculture Per Capita (in Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>39</td>
<td>70</td>
<td>4745 (56)</td>
</tr>
<tr>
<td>1990-91</td>
<td>32</td>
<td>65</td>
<td>5505 (48)</td>
</tr>
<tr>
<td>2000-01</td>
<td>25</td>
<td>59</td>
<td>6652 (42)</td>
</tr>
<tr>
<td>2010-11</td>
<td>16</td>
<td>58</td>
<td>10865 (32)</td>
</tr>
<tr>
<td>2015-16</td>
<td>13.8</td>
<td>58</td>
<td>31618 (41)</td>
</tr>
</tbody>
</table>

Source: Government of India (GOI), Ministry of Finance, Department of economic Affairs, Economic Division (various years).

Note: Figures in brackets are percentage of the total.

Credit is the basic input for rural poor not only for productive purposes but also for consumption requirements. Therefore institutional credit at reasonable terms and conditions to the rural poor get significance and a precondition for farming activities. Credit from the moneylenders who charge exorbitant rates of interest and often resorts to several questionable practices leading to the rural poor being permanently trapped into the clutches of moneylender and landing him into bonded labourer. Because of vicious circle of poverty in which, with the deficit family budgets, the expenses of the rural poor far exceed their income. Thus, the poor villagers are permanently trapped in the net of usurers. The number of those in the grip of this vicious problem is very large. As a matter of fact, the evil facet of India’s rural sector is heavy indebtedness of the rural people. These poor people are permanently trapped in the vicious circle of poverty.
2.5 Agricultural stagnation and indebtedness

Development of rural credit system has always been a complicated affair and this is clear from India's farming history. Intermittent failures of monsoons, unscientific farming practices and rural indebtedness, seasonal need for credit and other risks has ensured that high interest rates remain a norm rather than an exception with respect to credit. When loan is taken under unfavorable terms or for non-income generating purposes and a farmer in turn is unable to repay over time and thus fall in persistent indebtedness. The extent and incidence of this debt depends on many factors such as cropping pattern, land use pattern, cost of production, sources of credit, utilization pattern of loan amount, etc. Here the sources of borrowing are classified into formal and informal sources. Sources such as Government, co-operative society and banks fall under formal sources and moneylenders, traders, relatives and friends, and others belong to the informal category. The unproductive needs are often not met by the institutional sources. Indeed institutional sources have been unable to meet the demand for credit even for productive purposes. While loans used for unproductive purposes can become a problem especially for the economically backward farmers, they can be particularly burdensome if accompanied by high rates of interest; as is well known, this depends on the sources of funds. The poor villagers are being crushed under the burden of heavy indebtedness. This debt burden passes and increases from generation to generation.

2.5.1 Cropping Pattern, cost and returns

Cropping pattern is one of the determinants of indebtedness; which shows the proportion of the area under different crops at a definite point of time, is an indicator of development and diversification of the sector. Food crops and non-food crops or cash crops are the two types of crops produced by the agricultural sector. As the prices of the cash crops are becoming more and more attractive, thus more and more land has been diverted from the production of food crops into cash or commercial crops. This has been creating the problem
of food crisis in the country. Since the early days of green revolution there are signs of imbalance in cropping pattern. Technological changes of mid-sixties caused significant shifts in land utilization, in favour of crops like wheat and rice at the cost of area under coarse cereals, pulses and oilseeds. This shift was the combined effect of differentiate rates of technological changes among crops, irrigation bias of new technology causing shift of land away from dry crops in favour of irrigated crops and the associated policy of price support system as well as market intervention by the government for certain crops. A change in cropping pattern is determined by factors like agro-climatic conditions, technological, infrastructural and institutional environment and profitability signals (SRK Reddy, 2011).

The level of cropping intensity is determined by several factors. The most important factor is the availability of water from natural rainfall and man-made resources. However, the scope for year round cropping activities in most states of India is severely constrained by the seasonal distribution of rainfall. The other crucial variable that determines the level of cropping intensity is the availability of labour. The characteristics of the farms according to holding size in India suggest that labour availability is an important determinant. It showed that, as the average size of holding increases, the average family size increases but not in the same proportion. As a result, land per capita will go up and population density decline with an increase in the holding size. In other words, an inverse relationship is established between cropping intensity and holding size (Mruthyamjaya and Praduman Kumar 1989). Therefore, the relationship between indebtedness of farmers and the cropping pattern can be considered to be mutually complementary, reflecting a resemblance of cause and effect relationship. Cropping pattern is a function of several variables such as climatic conditions, nature of soil, availability of irrigation facilities, agricultural technology, development of transportation and marketable and marketed surplus (B Singh 2012). A change in all of these factors leads to a
change in cropping pattern, which will change the crop yields and ultimately affect the income of farmers. It primarily depends on the nature of crop concerned. Cropping pattern is generally understood as the proportion of area under different crops during a particular period. A change in cropping pattern implies a change in the proportion of area under different crops which generally brings about a change in agricultural output.

Increasing input utilization, low productivity rates and the increasing cost of cultivation required huge finance for agricultural practices. The cost of cultivation has gone up on account of growth hybrid variety crops while productivity of the land and selling price of agricultural produce have not increased proportionately. These factors have contributed to the stress of farmers. Therefore, the lower section of the peasantry is forced to sell or lease-out their land and many of them join the labour market. Cultivation of two or more crops on the piece of land is an age-old practice in India’s agriculture. The importance of cropping system can be considered in a wider perspective as combination of activities leading to diversification and specialization in agriculture. It has importance both from the point of view of individual farm and the nation as a whole (B R Kumar et al 2012).

2.5.2 Risk and Agriculture

Agriculture has always been a risky prospect, where ever it is depending on the monsoon and climatic conditions and thus subject to vagaries of nature like flood, drought etc. It becomes risky with intermittent failure of the monsoons and other customary vicissitudes of farming. The distress is also caused by growing risks of the commercialized and modernized farmers which further leading to rural indebtedness. Here, the farmer has some risk of taking the loan because the repayment is subject to the yield from agricultural production; that also a risky prospect. Rural farmer households require credit for a number of reasons, which include both productive and unproductive purposes.
Short-term requirements of credit to meet the working capital needs and long term credit needs for the capital goods for farm sectors are well recognized. Since the savings of these households being small, any other needs such as health related expenses, social obligation are also met through borrowings. It is because of the declining share of public agricultural investment and support systems.

2.5.3 Instabilities

Instabilities in the agricultural sector imply fluctuations in prices, fluctuations in income or output etc. There are two types of instabilities in the agricultural sector. They are: instability in prices and instability in income. Fluctuations in agricultural prices will not allow the farmer to have efficient crop planning. The crop pattern cannot be changed in mid season because of the biological nature of the crops. The ex-ante efficient crop plan may turn out to be most inefficient ex-post crop plan due to price fluctuations. It can be resolved by diversification of the crops by farmers only by using additional costs. It will further increase cost of production. Ultimately these fluctuations in the prices lead to fluctuations in the income of the farmers. It creates fluctuations not only the standard of living of the farmers, but also the demand for the non agricultural products. In short, the instability in the agricultural prices affects not only in the agricultural sector, but also in the non agricultural sector.

2.5.4 Income Instability

A change in agricultural prices may also result in a change in income of the farmers. i.e., price instability may also result in income instability. If the demand for agricultural products, in general rises, but the supply conditions remain unchanged, prices will rise and the total income will also rise. Similarly, if the supply of agricultural products increases due to some reasons but the demand conditions remains unchanged, prices will fall and if the demand for agricultural products is inelastic, fall in prices will result in fall in income also.
There are situations in agriculture when income may change without a change in prices or in other words, agricultural sector may experience income instability, without price instability. The repayment of debt was a major compulsion for farmers to sell their crop and the creditor usually insisted on repayment in the immediate post-harvest period at a very low price. To do this, the debtors were forced to borrow once again. Rural people have been under heavy indebtedness of the village moneylenders and co-operatives and banks and finance. The burden of this debt has been passed one from generation to generation.

2.6 Debt trap and vicious circle of poverty

Although all sections of peasantry have been adversely affected by the deceleration in agricultural growth rates, it is the small and medium farmers with limited resources who have been hit the hardest. The magnitude of the crisis affects the farmers in two ways; as distress associated with poverty stricken farmers struggling for subsistence and distress associated with risk prone upwardly mobile farmers. Limited access to resources and low productivity reduces the farming community to living on the margins of subsistence. They suffer from chronic hunger irrespective of their farm size. While technology and finance hold the key to ameliorate poverty, the poor farmers do not have adequate access to the formal banking sector. It creates a wide range of problems as declining output and total factor productivity growth, supply-side constraints etc. Revealing declining factor productivity requires concerted efforts in refining the available technologies and developing new technologies. For this purposes, the farmers are forced to take loans from formal and informal sources. Since the formal credit agencies are giving money after lengthy formalities, it takes more time than the informal sources like the money lenders or traders etc. They are charging high rate of interest. But the time constraint forced the farmers to borrow money at a usurious rate of interest. In fact, the farmers are not in a position to clear off the loans due to the frequent failure of the crops, low returns from the farm operations, increased cost of
productions etc. In the real context, the existing problems of poverty, debt-trap, poor access to credit, etc are dragging the sector again into distress condition. This burden of the debt passes from generation to generation. Thus, all the farmers are caught in a vicious circle of poverty and debt-trap irrespective of their farm size is the ultimate result. It is explained by Ragner Nurkes in his theory of “vicious circle of poverty”. According to him, it is the situation where under developed countries are locked in a poverty situation, due to low productivity, low per capita income, low level of per capita saving, low level of per capita formation, which are again leading to low productivity. Finally, the standard of living of the people also will be affected because of this debt-trap. The upwardly mobile farmers are associated with commercial/modern farming and their distress is subject to risks. Given this background, we have to agree with the fact that, Indian farmers are in a debt-trap resulted by low investment, low productivity and low farm income.

Rural indebtedness has been the evergreen companion of the Indian peasants (Puja Mondal). According to a well-known saying, the Indian peasant is born in debt, lives in debt and dies in debt. The prevalence of poverty among agricultural laboring households is underlined by the prevalence of the rural indebtedness. With the increase in level of poverty as the result of decrease in income, the level of indebtedness increases. This burden of debt passes from generation to generation. From this chapter it is conclude that, despite number of policies were attempted to solve the problem of agricultural sector in the country especially the problem of indebtedness, majority of the farmers are under the grip of severe crisis, economic distress and vicious circle of indebtedness even today. It is because of factors like low farm income, poverty, price volatility, ancestral debt, small sized land holdings, illiteracy of the farmers, higher rates of interest for borrowings, types of crops cultivated etc. in this context, it is essential to investigate agricultural credit system and the
extend of indebtedness among the farmers in India in general and Kerala scenario in particular.