CHAPTER I
INTRODUCTION

Money is the main life stream of all activities associated with production and consumption. Unable to cope with the functions concerning these activities from their own savings, people are compelled to borrow money. Need for borrowing assumes more significance in a country like India with more than three-fourth of its farming community owning small and marginal holdings and a large segment is unable to meet their subsistence level. In fact, borrowing and hence debt is related with the inherent nature of agricultural production. Because of large time lag in sowing and harvesting of crops, people borrow not only to smooth their consumption needs but also to meet many other social obligations. Borrowings become even indispensable in adverse circumstances like floods, droughts, pest attacks, and other natural calamities when even well-off segments of farmers are compelled to borrow not only to smooth their consumption requirements but also to invest on next crops and to purchase productive assets lost during such circumstances. Even in modern agriculture, farmers borrow to mechanise and modernise their farm operations to diversify into more rewarding farming and non-farming activities [Barry and Robinson (2001)]. Over and above all, exposure of agriculture to numerous production and marketing risks and uncertainties of such adverse outcomes not only compel them to borrow but also seriously jeopardise their self-financing and repaying capacities. Consequently, this leads to accumulation of debt that many a time assumes serious dimensions and outcomes. The recent agrarian crisis, rural indebtedness and large-scale farmer suicides in many parts of the country, presents extreme form of such a scenario. The present study is an attempt to examine various dimensions of the problem of indebtedness in rural India.

In fact, the problem of indebtedness is not new in India. Occurrence of large-scale starvation deaths during numerous famines in India is the extreme form of the manifestation of the problem [Sen (1981)]. Many studies undertaken during the British period had shown that the Indian farmers were
born in debt, live in debt and die in debt [Darling (1925)]. Two different arguments were put forth by researchers and various commissions, enquiry committees for the problem of indebtedness during this period. The government, enquiry committees and various researchers argued that the underdeveloped rural financial markets in the country, exploitative practices of the moneylenders and exorbitant rate of interest charged by them resulted in indebtedness and poor plight of the people [Darling (1925), Gupta (1939), Vakil (1939), Mukerjee (1949), and Benjamin (1971)]. Consequently, the government established rural co-operative credit institutions for development of the rural financial market and to provide farmers with affordable and adequate credit for productive purposes. Large laws were enacted to provide relief to the indebted peasantry from the accumulated burden of moneylenders. Besides the exploitative rural credit market, it was also argued that the spendthrift nature of the Indian peasantry on social ceremonies was also responsible for the problem of their indebtedness [Darling (1925), More (1953)]. Some researchers during the British period also argued that indebtedness had its positive side as well. Darling (1925) was in the forefront that strongly put forth the thesis that debt and prosperity went together in Indian agriculture.

Another argument that mainly came from the other group of researchers was that the exorbitant land revenue imposed by the British was responsible for poor plight and indebtedness of Indian peasantry. Many government commissions and enquiries also supported this [The Deccan Ryots commission (1875), The Famine commission (1880 and 1901), Bengal Banking Enquiry Committee (1929)]. Consequently, government reduced the land revenue at various places where the problem led to serious discontentment, resentment and even violent expression against the British umpire. The contradictory argument for the problem of indebtedness, notwithstanding, the British rulers enacted various legislative Acts and constituted various committees to provide relief measures for the salvation of rural peasantry from the clutches of indebtedness. These included Agriculturists Loan Act and Moneylenders Act (1827), Deccan Agricultural Relief Act (1879), Land Alienation Act (1909), Usurious Loan Act (1918),
Bengal Agricultural Debtors’ Bill (1935), Debt Settlement Board (1936). These measures, no doubt, provide breathing space to the rural peasantry yet the situation continued to be serious during the British rule. This is evident from information collected during the All-India Rural Credit Survey of 1951. The findings of the survey showed that as many as 70 per cent of the rural families were under debt in the country during 1951 and moneylender remained supreme in the field of rural credit to finance the debt. The survey report of 1951 as well as the subsequent survey report of 1961 underlined the need for checking the exploitative practices of usurious moneylenders and promotion of co-operative credit societies in rural India. This was the period when the Indian agriculture was passing through a serious crisis. The country was facing the grim situation of food scarcity. Huge amount of foreign exchange was utilised to finance the import of foodgrains and the country was surviving on shift to mouth basis. However, a ray of hope appeared with the development of modern wheat production technology. Dr. Normen Borlough at International Centre for Wheat and Maize Research (CYMMT), Mexico developed a new HYV variety of seed of Wheat that turned food production table in Mexico. From a big importer of wheat in early 1940s; Mexico became the exporter of wheat by early 1960s. The planners and policy-makers in India impressed by the new technology decided to adopt the same. However, the new technology was costly and highly input intensive. It was beyond the capacity of the majority of farmers in India. This was the period when researchers and policymakers in India and other developing countries realized some inherent problem of the rural money market leading to its underdevelopment. These include scarce collateral, underdeveloped complementary institutions and covariant risks and segmented markets [Besely (1994)]. These characteristics lead to the problem of imperfect information which many a time leads to the enforcement problem, high rate of interest, adverse selection and moral hazard in the rural credit markets. Consequently, there was almost a consensus in the developing world that government intervention is necessary to overcome these problems and for development of the rural credit markets. Furthermore, supply is adequate and affordable credit is essential for agricultural modernisation. The phenomenal
expansion of the co-operatives, nationalisation of private sector banks and establishment of regional rural banks (RRBs) and other micro financial institutions, establishment of small and marginal development agencies, mandatory priority sector lending to agriculture regulation and fixation of low rate of interest for agricultural loans are some of the policy measures undertaken in India and other developing countries may be seen in this perspective. Consequently, the focus of research in India and other developing countries shifted from analysis of indebtedness in the pre-independence period to the problems associated with the supply of credit by the rural financial institutions. The pendulum again swung back to the problem of indebtedness in the recent years. The agrarian crisis generated by the suicidal tendencies brought the problem of indebtedness in the limelight. As to be seen in the succeeding chapter, a large number of empirical studies were undertaken by the researchers in India and elsewhere exploring different dimensions of the problem. Again, two views emerged from the debate on indebtedness and suicides in the Indian peasantry. One group of researchers argued that the problem is partly self-inflicted by farmers themselves. They argue that excessive consumption expenditure by the farmers on social ceremonies, marriages; drug addiction, non-working attitude and excessive reliance on hired labour are responsible for maximising the problem of indebtedness. The group also argued that the exploitative practices of moneylenders and traders, and failure of market to supply the quality product of inputs like fertilizers, seeds and pesticides had also aggravated the problem [Mandal (1977), Mitra (1987), Bhalla et. al (1998), Shergill (1998), Iyer and Manick (2000), Singh and Toor (2005)].

The other group of researchers argued that the recent agrarian crisis is the outcome of policies and programmes adopted in India in the event of liberalisation and globalisation in Indian economy. They argued forcefully that it was increasing cost of production and decline in market prices of many agricultural commodities in the international markets that spilled over to the Indian farmers. The double squeeze of increase in cost of production and decline in market prices of agricultural commodities lead to decline in profitability, rise of indebtedness and hence suicidal tendencies among the
Indian peasantry [GOI (2007)]. They argued that globalisation in Indian agriculture under World Trade Organisation (WTO) is mainly responsible for it. After integrating of Indian agriculture under WTO in 1995, government unilaterally slashed the import tariffs on all agricultural commodities to a very low level. This was the period when international prices of almost all agricultural commodities moved to a depressing level. It led to an upsurge in the large-scale import of many agricultural commodities, when depressed their prices in the Indian market. Consequently, the surplus producer of these commodities was adversely affected. Besides imported agricultural commodities, there was depression in prices of many Indian agricultural export products in the international market. The low prices had their toll on the producer of these commodities [Mishra (2006), Jeromi (2007)]. This group of researcher also argued that the problem was further aggravated by policies of liberalisation undertaken since 1991. Under the new policy regime, the public investment in agriculture declined substantially that adversely hit the growth in Indian agriculture and hence the income of the farmers. Due to very liberal regime, the priority sector lending to the agriculture by the public sector declined rapidly from 18 per cent to about 11 per cent by 2002 [GOI (2007)]. Being unable to get the credit from the financial institutions, a large proportion of farmers were pushed to borrowing at a very high and exploitative cost charge by the moneylenders, traders and commission agents.

The contradictory view notwithstanding, the Government of India appointed an expert committee for the deep analysis of the problem of indebtedness in the country. The expert group also supported many arguments put forth by the second group of researchers. The expert group observed that all regions in India experienced a deceleration in the agricultural growth [GOI (2007)]. Although the stagnation of agricultural growth adversely affected the income and employment of vast majority of all sections of peasantry, it was the small and marginal farmers with limited resources who were hit hard. The expert group also pointed out that the small and marginal farmers still relied on moneylenders to finance their debt, which charged usurious rate of interest and increased the problem of indebtedness especially among the small and marginal farmers. The expert committee also felt that
the small and marginal farmers are being disadvantageously placed in accessing technology, credit and support. The report also brought that agricultural income was higher in non-agricultural sector but people did not move from agricultural sector to non-agricultural sector. Another factor seriously impinged the situation is the drive towards diversification in the rain fed areas in the Western and Southern regions of India. Diversification, no doubt, raised the income of farmers but it further created the problem of fluctuations in prices and risks. The expert group also analysed that the problem of debt was found to be more in agriculturally prosperous, highly input intensive and agriculturally diversified states than the least developed states particularly hilly areas. Incidence of indebtedness was found to be more from institutional agencies (Rs. 65, 000 crore) than the non-institutional agencies (Rs. 48, 000 crore) in 2003. The major proportion of debt was financed by the moneylender carried an interest rate higher than 30 per cent. On the whole, according to the expert group, the main reasons of agrarian crisis were weather uncertainties, liberalisation and globalisation policy regime, imperfect market, use of spurious inputs and credit related vulnerabilities.

Although a substantial literature is available on the problem of indebtedness, it has a limited coverage so far as the incidence, pattern and extent and sources of the problem are concerned. Some studies are-based on household level information from a few districts or states, while the others are macro in nature. Similarly, only a few studies examined the borrowing and repayment behaviour of the rural households that too at the state level. Similarly, a few studies pertain to identification of the determinants of indebtedness at household level. There is hardly any household level analysis covering various facets of the problem for the country as a whole. Therefore, there is a pressing need for filling these gaps.

The extant study is an attempt to bridge the gap in the existing literature and explore various dimensions of the problem of indebtedness in rural India by covering not only all Indian States including Union Territories but also provide wide information about the characteristics and determinants of indebted households at household level and it also examines the
determinants of borrowing and repayment behaviour of the households in rural India. Such information is an appropriate for policy initiatives not only for development of rural credit market but also to undertake various remedial measures to tackle the problem of over indebtedness in the country.

Objectives:

The main objectives of the present study are:

- To study the extent, nature and severity of indebtedness among the rural households.
- To analyse the borrowing and repayment behaviour among the rural households.
- To discern socio-economic characteristics of the indebted households.
- To identify the factors responsible for the problem of indebtedness.

Hypotheses:

In the context of the above objectives and based on the theory and empirical literature, we have tested the following hypotheses regarding the problem of indebtedness in India:

1. In absolute terms, debt and prosperity is expected to go together.

2. In absolute terms, the debt is likely to be more among the farmers borrowing from institutional agencies.

3. Relatively, the problem of indebtedness is expected to be more serious among the small and marginal farmers and those who borrow from the moneylenders and commission agents and located in ecologically fragile regions (facing high risk and uncertainty resulting from occasional problems of drought, floods, etc.).
4. We hypothesize that both the macro locational factors like infrastructure, environment conditions and household specific factors like life cycle of farming family, high dependency burden, and education and off-farm income are responsible for the severity of indebtedness among the farm households.

Data and methodology

Data

To carry out the objectives of our study, we have used data pertaining to 91,192 rural households in India collected during the sixth decennial All-India Rural Debt and Investment Survey (AIDIS) carried out by the National Sample Survey Organization (NSSO) during the 59th NSS round. During this round, a two-stage stratified random sampling method was adopted; village being the first stage unit and household being the ultimate unit of selection. Each sampled household was visited twice during the calendar year 2003. The first visit was completed during the first eight months from January 2003 to August 2003. During this visit, information was collected on demographic characteristics of the household, ownership of physical assets like, ‘land’, ‘building’, ‘livestock and poultry’, ‘agricultural machinery’, ‘non-farm business equipment’, ‘transport equipment’, ‘durable assets’, ‘shares and debentures’, ‘financial assets other than shares and debentures’ and ‘cash dues outstanding’ as on 30.6.2002. On the same visit, information was also collected on the borrowings and repayments made and sale, purchase and loss of assets of visited households made from 1.7.2002 to 31.12.2002.

The second visit was completed during the last four months – September 2003 to December 2003. In the second visit, data were collected on the borrowings and repayments made and loans written off during the second half of the agricultural year that is, 1.1.2003 to 30.6.2003. The
information was also collected on sale and loss of assets, acquisition and sale of assets and loss of assets, capital expenditure during 1.1.2003 to 30.6.2003 in the second visit.

In the present study, we have used information from both the visits 1 and 2 to know the borrowing and repayment behaviour of the households during 1.7.2002 to 30.6.2003 and to estimate the indebtedness of the rural households. Indebtedness for our present purpose is any amount outstanding due to any institutional or non-institutional agency as on 30.6.2003.

Besides the unit level data, we have also extracted and used data on various aspects of rural indebtedness collected during earlier such National Sample Survey Organisation rounds undertaken during the years 1971, 1981 and 1992.

Though substantial information on household demographic and economic aspect was collected during the survey, some crucial information in many accounts was still missing. Many factors and forces associated with idiosyncrasies of the rural households also play crucial role in economic decision by the household regarding their borrowing and repayment behaviour. Therefore, we have substantiated the household level data with additional information on the environment and infrastructural factors. These include level of agricultural development, access to markets, electricity, rural roads, institutional credit and risk and uncertainty in the districts where households are located. District wise information on these probable determinants of debt was taken from Singh (2008).

Our choice for this NSSO data has been dictated by two main considerations: firstly, it is extremely difficult for an individual researcher to conduct such a comprehensive survey of households spread throughout the length and breadth of the country. Secondly, All-India Rural Debt and Investment Survey is the only accessible source that collects extensive information on the assets and liabilities of households in the rural areas.
Methodology

Indebtedness is a multi-faceted problem and it is generally measured by its incidence, extent, nature, pattern and severity. The data were available on all these aspects except severity. To measure the incidence, extent, nature and pattern of indebtedness, we have extracted information from various National Sample Survey Organisation (NSSO) decennial surveys during 1971-2002.

Our choice for this period 1971-2002 underlines the three different reasons:-

1. Indian states (provincial governments) have undergone boundary changes during sixties.
2. Comparable information on rural indebtedness for this period is available from decennial survey 'Debt and Investment Surveys' undertaken by the National Sample Survey Organisation (NSSO).
3. Data for the post 2002 period have not collected by the NSSO.

The incidence of indebtedness was measured as proportion of households reporting outstanding due to any institutional or non-institutional agency as on 30.06.2002. It provides us the broader view of the problem of indebtedness. To discern the temporal pattern of indebtedness in absolute terms, we have converted outstanding debt into constant prices by using implicit price deflator provided by Central Statistical Organisation (CSO) in state specific estimate of Net State Domestic Product (NSDP) at current and constant prices for various years (1971-2002). The constant price figures of indebtedness enable us to study the spatial and temporal growth of indebtedness during different periods over 1971-2002 periods.

To capture the severity of indebtedness, we have used three indicators namely, average debt per reporting household at constant prices, indebtedness by hectare of land and debt-asset ratio. Average debt per
reporting household is measured in the terms of the total outstanding debt divided by the estimated number of households reporting debt. Since average debt per reporting household might not fully depict the actual burden of indebtedness among the cultivator households in case average size of farm may differ considerably across states, therefore, we have used information on outstanding debt among cultivator households per unit of net sown area. To find out the temporal and spatial patterns of indebtedness, we have used five different indicators by calculating debt by total assets, value of total assets minus value of land and building for all rural households and cultivator households separately. The nature of indebtedness among rural households has been examined by estimating the composition of debt by its source and purpose. The institutional sources include Government, Co-operatives and Commercial Banks and non-institutional sources include moneylenders, traders, commission agents and relatives and friends. The purpose of loan includes composition by productive and non-productive shares. The productive purposes include capital and current expenditure in farm business, capital and current expenditure in non-farm business whereas the non-productive purposes include household expenditure, expenditure on litigation, repayment of debt, other purposes and unspecified purposes.

To examine the impact of various demographic, economic, infrastructural and environment related variables on the borrowing and repayment behaviour of the rural households, we estimated the logistic and tobit models on unit level data. The models were also employed to study the short and long term behaviour of the households.

As to identify the determinants responsible for making households indebted in rural India, we have again used logistic regression and tobit regression techniques – econometric technique widely used by researchers to analyse this type of problems. In order to assess the inter-regional differences and understand the magnitude of the problem of indebtedness in diverse occupational groups, we have also extended this exercise to
households located in different regions and in diverse occupational groups of the households in India.

Plan of the thesis

The results of the empirical investigation carried out by us in the present thesis are organized as follows:-

Chapter I Introduction

Chapter II Review of Literature: The existing empirical literature and evidence is examined in this chapter related to the problem of debt expected to provide a broad view concerning the work that has been already done to probe rural debt in India.

Chapter III The Extent, Nature and Pattern of Indebtedness in rural India: The extent, nature and pattern of indebtedness among rural households in India are presented in this chapter.

Chapter IV Borrowing and Repayment behaviour among rural households: Borrowing and repayment behaviour of the rural households is analysed in this chapter.

Chapter V Determinants of indebtedness among rural households: This chapter deals with the role of various developmental, infrastructural, risk economic and demographic factors which are responsible for making some households indebted in rural India.

Chapter VI Summary and Conclusions: Summary of major findings and some policy implications to overcome the problem of over indebtedness are presented in this chapter.