Rural indebtedness has been one of the interesting subjects of research for a quite long time and gained ground with the number of farmers’ suicides increasing every year. A large number of empirical works have been carried out in India and outside to examine the nature and magnitude of indebtedness and causes thereof and also to find some kind of reasonable solutions out of the studies. Extensive research shall only bring out important facts about the problem that the rural economy of the country is facing today and may help the government to come out with some appropriate measures so that poor conditions of the rural households can be improved. The problem of rural indebtedness is intimately related to rural credit and poverty and therefore before we examine the problem of indebtedness it is important to discuss the state of rural credit delivery in the Indian economy. This has been done through review of some important studies related to rural credit flow and rural development in general. Findings of studies on indebtedness have been discussed with some instances of overdues and repayment of debt, which have important connection with indebtedness.

The discussion is organized in two sections. Section I reviews studies related to rural credit and rural development in general. Section II deals with the studies related to nature, extent of rural indebtedness, overdues and repayment pattern and determinants affecting borrowing behaviour.

3.1 STUDIES ON RURAL CREDIT AND RURAL DEVELOPMENT

Rural transformation and the attainment of a sustainable development has been one of the main objectives in India. It was conceived in the minds of statesman, politicians, and economists even during pre-independent period of India. A self-sufficient rural India was the Gandhian thought (John, 2004). While taking efforts to transform an underdeveloped
rural economy, several factors needs to be examined as population living in rural areas mainly suffer from abject poverty due to widespread unemployment, disguised unemployment, low income, lack of ownership of productive assets, illiteracy, indebtedness etc. A study by Hossian et al (2002) examining the transformation of the rural economy in the 1990’s revealed that the base of land productivity has increased because of the rapid expansion in the coverage of irrigation, the adoption of modern rice varieties during the dry season and the increase in physical and human capital. The incidence of tenancy has increased, thus providing additional access to land for land-poor households. The development of the water market had provided access to irrigation to households that cannot afford to invest in irrigation equipment, thus leading to better access of land-poor households to improved agricultural technology. The access to credit for land-poor households had improved substantially because of the expansion of social development programmes by NGOs. A major change in the livelihood system has been a reduction in the dependence of land-poor households on the agricultural labour market. The proportion of workers reporting agricultural-wage employment as their principal occupation had almost halved during the period 1988 to 2000, as a result of the increased employment opportunities available in the rural non-farm sector. This change has induced agricultural mechanization and a higher incidence of tenancy. The proportion of households dependent on the rural non-farm sector for their livelihood has increased substantially, developing a new ‘class’ of people in the rural areas, who depend more on physical and human capital than on land and manual labour. Per capita income has grown because of a rapid expansion in income from non-agricultural sources. This transformation from agriculture to a non-farm based rural economy has been facilitated by an improvement in human capital, the expansion of credit provided by NGOs and the development of rural infrastructure, particularly rural roads. Thus, basic elements required for rural development are physical infrastructure, natural endowments, skilled labour, and opening up of new avenues for generating income, besides improvement in land system.
Rural development relates to integral and functional relationship of land, man and resources available. Development of all these three vital elements is prerequisite for improvement of living standards of people living in rural areas. The study by Lanumungsang Ao (1993) dealt with grass root problems and prospects of rural development. He analyzed traditional and contemporary Naga villages, their development and the transformation that have been taking place in Nagaland. He found that Medziphema in Nagaland is the richest block in terms of paddy production and that Semas (a tribe) were better off than other tribes in terms of per capita income as they get additional income from business enterprises other than cultivation. Households belonging to this tribe spent maximum amount of money on children’s education. Moreover, households opened bank mainly to avail loans and not for real saving. About 33.33% of sample households had taken loans from the banks. The purpose of loan taken was for development of their farms, purchase of animals, and paddy etc but used for unproductive purpose. Most of the borrowers had used the money in contract work and also in log business and no household was found to be a debtor. It was also found that 77.33% were defaulters in case of loans. Of the total farmers 81% had taken loan for agricultural purposes and 19.09 % for non-agricultural items. 18.24% had taken loans for allied agricultural items which included purchase of paddy seeds, tools, and implements and also for repairing of their granary shed etc; 43 farmers had availed this loan for non-agricultural item, i.e., purchase of essential food items. Thus this socio-economic study revealed that rural households have not used loans for productive purpose.

The economic condition of rural people is reflected by the level of development of that area. The economic conditions of the Jhumias living in Tripura was examined by J.B. Ganguly (1969) based on their family income, expenditure and debt and found that Jhumias lived at the utter starvation level due to their low income. It was found that agricultural produce constitutes the most important source of income of the Jhumias. For the Jhumias wages accounts for only 9.1% of the total income; the rest come from production- agricultural, silvicultural and cottage industrial. Almost all the Jhumias depend upon crop advance taken mainly from the mahajans when the jhum work was in progress. However, a growing number
of Jhumia families were becoming defaulters. Owing to low income, repayment of loan was too low as a result of which loans were accumulating. About 50% had outstanding debts on the date of survey. About 20% of the outstanding debts were supplied by the fellow Jhumias. It was also found that 96.5% of the loans were used for the purpose of maintenance. As jhumias mainly lived on hills and practiced shifting cultivation, their miserable living status is clearly evidenced by this study.

Rural credit plays a very vital role in rural transformation and the attainment of a sustainable development. French proverb is quite apt here- “credit supports the farmer as the hangman’s rope supports the hanged”. That agriculturalists cannot carry on his business without outside finance is a fact proved by history and evidenced by the poverty and indebtedness of the persons engaged in the business of agriculture (Mamoria, 1983). Several studies have been carried out to reflect the importance of rural credit in rural transformation and rural development in general. Adequate credit flow in the rural areas is therefore, very essential for overall development of a rural area. For instance, the study by Mishra (2005) in Orissa which examined the impact of institutional finance on farm income and productivity revealed that the increase in yield of borrowing farms was due to use of credit financed inputs. Outlining the importance of rural finance, Ramachandran and Madhura Swaminathan (1977, 1985 &1999) examined rural banking and credit policy in contemporary India and evaluated the potential of micro credit projects controlled by NGOs - as a solution for problems of rural indebtedness in Gokilapuram, Tamil Nadu. Their findings revealed that about 68 per cent of landless labour households in 1999 were debtor households which have declined sharply since 1985; the reason for this is the fact that landless worker households no longer have the same access to loans from the formal sector as they did in 1985. Their share from the formal sector as a proportion of all borrowings increased from just 17.4 per cent in the Green Revolution phase (1977) to 80 per cent in the IRDP phase (1985), which however plummeted by almost 60 percentage points in the Liberalization phase (1999). This is due to the low share of advances to landless workers by commercial banks. There was sharp decline between 1985 and 1999 in the share of loans taken for
productive purposes reflect the reduction in access to formal credit over the period. The 1990s have not just been a period when the share of informal sector loans in the debt portfolios of the poor increased sharply; they have also been a period over which the process of informalization of the credit market intensified. Over the study period, the personalized nature of transactions in the informal sector intensified. There was sharp rise in the share of moneylenders in informal-sector advances, from 27.2 per cent in 1977 to 41.9 per cent in 1999. The traditional dependence of landless labour households on landlords for credit clearly became weaker. New sources of usurious loans have appeared in the village. With the post-1991 withdrawal of the formal sector from lending operations for the rural poor, usury has intensified. The major policy recommendation designed to fill this gap is the establishment of micro credit projects. The main institutional mechanisms envisaged for the disbursement of microcredit are NGOs. Thus, we have seen that reduction in formal credit flow in rural parts of the country has intensified the activities of informal credit sector. This study also indicated that efforts by NGOs for providing micro credit to rural poor has direct effect on increasing rural income and thereby reducing indebtedness. A similar study by Kareemulla (2005) in U.P. analyzed the credit flow to agriculture and identified the reasons for farmers’ indebtedness. As the per capita consumption expenditure of farmers increased, the loan outstanding increased as indicated by a significant correlation coefficient. Capital expenditure and crop loans accounted for 60.9 % of the indebted amount by the farmers. Among the major reasons for indebtedness and default, vagaries of weather and diversion of funds for non-productive uses were prominent. This study observed that measures to widen the crop insurance coverage and post-finance guidance would probably help to ensure proper use of credit and prompt repayment, which will pave way for smooth credit flow to agriculture. Borah and Chakrabarty’s (1990-2001) study on the spatial and temporal variations in the growth of Scheduled Commercial Banks’ credit to agriculture sector in the north east region examined the relative shares of different states in scheduled commercial banks’ credit to agriculture sector. Their study showed that the growth rate of SCBs credit to rural sector was lowest in Mizoram and highest in Assam. There was significant evidence of structural difference or temporal variation in the percentage share of agriculture
in total SCBs credit (outstanding) for NER between the time periods from 1990-91 to 1994-95 and from 1995-96 to 2000-01. The study expressed concern over the low percentage share of agriculture to state wise SCBs credit and emphasis on particular focus to priority sector advances to strengthen the credit portfolio of the states in the NER. Their study mainly focused the role of SCBs in rural credit flow and did not include other financial institutions to capture a more comprehensive picture.

Rural credit flow has increased in the country and so is the debt burden. This was also experienced by Darling in Punjab who stated that debt has increased with prosperity in the state. Arvind Awasthi (2005) also finds the similar conclusion from his analysis of the extent of institutional credit available to farmer households owning land and their degree of incidence of their indebtedness at the all-India and state level. He found that the economic reforms programme initiated by the Government of India since 1991 for improving profitability and viability of banking institutions through restructuring of RRBs, modernization of commercial banks and enhancement of efficiency of cooperative banks have adversely affected the flow of institutional credit to farmer households in India. The economic condition of the cultivator households owning land of less than 0.01 ha and between 0.01 ha to 0.40 ha was found to be miserable as they owe a high short-term debt to non-institutional sources and a relatively low annual per capita expenditure. At the state level the dominance of non-institutional sources was visible in Andhra Pradesh, Punjab, Haryana, Tamil Nadu and Rajasthan. Of all the states, the economic condition of farmer households was most vulnerable in Andhra Pradesh irrespective of the size of land possessed. Incidence of indebtedness in this state was as high as 82% which reflects that bulk of the cultivator households were living in miserable conditions. The study makes it a point that despite various measures taken by the government to increase credit flow and reduce the presence of informal sector, situation has become worse with increase in non-institutional credit in the rural economy; the debt burden of farmers has instead increased post-reform period.

The extent of indebtedness of a household is also determined by the source of credit, besides the purpose for which the debt has been used. Though institutional sources have
gained the ground, adequate inflow in rural areas is still not satisfactory. This is also experienced outside India. One study by *Cooperative Statistics and Research Organization* (1965) in East Pakistan estimated agricultural credit need and found that the credit in rural areas were mainly obtained from well to do rural people as well as friends (52%) and relatives (26%). Among the institutional source, the Cooperative Society stands first as a loan giving agency. Moreover, the percentage of loan spent for farm expenditure was higher in the villages where the percentage of families engaged in cultivation was higher. It was found that as many as 46% of the families on an average had no outstanding loan. When we say that credit in rural areas is not adequate we do not mean that government has not done anything on this front. In fact in our country, the drastic effort taken by the government since independence has reduced the activities of informal agencies. But the main question concerning us is whether poor farmers with low resource base are getting their legitimate share or not. Since, indebtedness would arise only when debt is not serviced in time and for that generation of income is required which in turn depends on the availability of finance to run the farm operation smoothly. Several studies reveal that well to do households living in rural areas have grabbed not only their share of credit but even the share of rural poor. *Harwant Singh and Kahlon's* (1969-70) assessment of loans and advances made by State Bank of Patiala, Punjab found that large farmers enjoyed larger share in loans advanced than the medium and small farmers. The analysis on recoveries showed that bank recoveries were more effective in the villages adopted under the ‘pilot project programme’ of the bank as compared to other villages where there was no such scheme. The study revealed that the short-term capital requirements increased with the increase in the size of holding and higher level of technology. Medium-term capital requirements also showed an increasing trend with the increase in farm size. Another study by *Sinha et al* (2002-03) in Bihar examined the flow of rural credit to different categories of farmers and found that the loan advanced by the institutional and non-institutional agencies accounted for about 77 and 23 % of the total loan respectively. Despite their higher share in the total land the marginal and small farms together accounted for only about 31% of the total loan advanced indicating thereby more preference for security-oriented credit especially by commercial banks to large farms.
Commercial banks provided the highest loan (50.68%) followed by RRBs and cooperative banks, when all the farms were considered together. The highest loan was given for purchase of farm implements and machinery especially to large farms. But small and marginal farmers obtained more loans for crop production. The study suggested the need of effective measures like proper technical and financial guidance to the farmers to increase their income for repayment as well as easy availability of credit to the farmers. Prihar and Narinder Singh (1984-85) in their study highlighting the different sources of agricultural finance available and the extent of agricultural loans obtained by different categories of farmers in Punjab showed that a higher percentage of the medium and large farmers obtained crop loans and tractor loans as compared to the small farmers from different credit institutions. A higher percentage of small farmers obtained loans from non-institutional agencies like commission agents as compared to medium and large farmers. It was also seen that with the increase in farm size, the percentage of farmers getting credit also increased. Further it was revealed that the medium and large farmers obtained higher amounts of short-term and medium-term loans than the small farmers.

Satya Sai (1983-84) also examined the flow of agricultural credit with special reference to inter-farm size class bias of formal credit agencies in west Godavari district in Andhra Pradesh. His study showed that about 86% of the total credit supply is provided by the institutional agencies consisting of cooperatives and commercial banks. The proportion has increased with the farm size. Cooperatives were the main source of finance to the marginal and small farmers followed by private sources and commercial banks in that order. Availability of short-term credit per crop hectare in the sample decreased with the increase in the farm size. The credit requirement per crop hectare also showed inverse relation with the farm size. It had been seen that the diversion of credit was for purposes like consumption, education, litigation, social obligation, etc. It has been found that as high as 9/10th of the total institutional credit was utilized for productive purposes. Further, the proportion of productive utilization has shown positive relationship with the farm size. Moreover, much of the diversion of credit among marginal and small farmers was to meet consumption needs.
In fact, diversion of credit for consumption expenditure was inversely related. On the other hand, diversion for other off-farm activities increased with farm size. The study suggested that there is a need for redirecting loan funds going to the large farmers to the small farmers should be encouraged to tap subsidiary sources of income to meet their consumption needs rather than extending consumption loans. Uduman Mohideen (1982-83) in his study in Coimbatore district for assessing the supply of farm credit, the extent of overdues and causes thereof, impact of credit and to identify the strategies for the expansion of supply of institutional credit to farm sector found that 79% of the sample households borrowed from different sources. The expansion of institutional credit substituting non-institutional credit resulted in more efficient use of credit by farmers. It was found that returns per rupee of investment and repayment capacity, there is scope for improving gains from supply of credit to farmers through changes in pattern and procedure for lending. Moreover, efficient use of credit depends also upon the availability and use of complementary inputs like technical advice, irrigation, and policy support for input supply and marketing of products. Another study by Nirmal Veena Pandey and Dinesh Kumar (2005) in Hisar district revealed that non-institutional sources of loans were still prevalent in the region in spite of the fact that institutional sources were cheaper.

Indebtedness results from wrong use of credit. It is a normal trend that households borrow funds for productive purposes but finally use the same for non-productive purposes such as consumption expenditure, social ceremonies, litigation, medical expenses etc., due to which loan accumulates aggravating the burden of debt for a farmer. Panda (1998-99) in Orissa found that farmers of relatively developed region have a greater preference towards non-farm investment; the farm households of relatively less developed and backward regions invest more in agriculture. There lies negative relation between farm size and level of farm investment and positive relation between farm size and non-farm investment. In case of allied and non-farm sectors the marginal farms were found more efficient in realizing higher returns from their investment as compared to small and large farms. Growth in the term credit deployment for agriculture by the institutional agencies was less as compared to crop
loan and loan for other purposes in the state. The institutional credit allocation was not in line with the investment efficiency realized in different sectors. However, the conclusion of the study that the farm households of relatively less developed and backward regions invest more in agriculture cannot be generalized. A study by Kingra et al (1999-2000) revealed that the major component of the total loan comprised crop loan covering about three-fourth of the total loans taken in Punjab agriculture. Commercial banks played a major role in financing loan, which was followed by cooperative banks and moneylenders. It was found that there was direct relationship between loan required and the farm size. The farmers were unable to repay loan increasing the farmers’ indebtedness over time. The study suggested that there is a need to redirect the commercial banks to extend loan facilities liberally to the small farmers. This would pave the way for lessening the role of non-institutional agencies and thus help the farmers to escape from the clutches of the money-lenders.

Kumar Kant Jha (1978) studied the state of agricultural finance in Nepal and found that a large part of the borrowings by farmers was for family expenditure and very little was spent on improvement of the productive resources of the agriculturalists. A sizeable part of the borrowed money was used to pay land tax. As agriculture is subsistence-oriented, the productive element in the agricultural credit is weak and it is difficult to distinguish credit for productive purposes from that for consumption purposes. Borrowings were generally against personal security. The repayment capacity of the cultivators was low. The proportion of repayments to total liabilities, i.e., the total outstanding at the end of the year plus repayments made during the year was 34% only. The repayment capacity decreased from big to small cultivators. It may be noted that the farmers are subsistence farmers and hence produce little surplus which could be used for repayment of loans. Besides, a large number of cultivators also borrowed paddy loans both for farming and food purposes. A large number of farmers were found to be indebted at the end of the year. A large part of debt has been incurred for unproductive purposes at high rate of interest. Thus, it was found that the small farmers are faced with problems such as consumption loans, high cost of credit, indebtedness, low saving, low investment, excessive dependence on money-lenders and lack of institutional
Another study by A. K. Singh and S.K. Singh (2000-01) in Varanasi district revealed that the major financing to sample farmers were contributed by commercial banks followed by Coopertative Rural Development Bank and PACs. The extent of unproductive use of credit was found to be maximum for marginal farmers followed by medium, small and large farmers. The extent of unproductive use of credit showed a significant amount diverted to other purposes. The pressure on consumption expenditure, excess expenditure on social obligation, delay in disbursement of loan, inadequacy of loan, lack of supervision of bank officials over use of credit were reported as the reasons for diversion of credit among the farmers in the study area.

Similar conclusion was derived from the study conducted by Pokharkar Sale and Yadav (2005) in Western Maharashtra where they found that per hectare requirement of loan went on increasing with increase in the size of holding. The average per family borrowing increased with the increase in the size of holdings. Misutilisation of crop loan was more among the small and medium group of farmers. The proportion of amount repaid was the highest in medium size group followed by small and large holders. The important reasons for non-repayment reported by the farmers were low income, non-remunerative prices and crop failures due to natural calamities. The unproductive use of credit was also evidenced from the study by Shivappa (2004-05) in Davangere district of Karnataka. The study revealed that about 75% of the sample borrowers had borrowed funds from Gramina Bank as well as from private agencies. The delay in renewal of loan under lending, and non-availability of loan for domestic purpose forced the farmers to depend on private sources. About 28% of the total sample beneficiaries had used the total credit in farm expenditure while the remaining 72% had partly used in farm expenditure and diverted partly for other purposes. Only about 78% of the sample had repaid loan in time. Desire for getting enhanced loan in future, legal and moral duty to repay loan, persuasion by bank personnel, minimization of loan burden, better yields etc were the major factors responsible for regular repayment. Non-repayment of loan in time was due to crop failure, low yield, low income, heavy domestic expenditure and unremunerative prices.
Anand Kumar Singh et al (2005) examined in Uttar Pradesh that farmers had taken both short-term and medium-term loan and the proportion of farmers with short term loans was extremely high on marginal farms and it decreased with the increase in size of farms. More than 50% farmers of small and large size groups availed medium term loan to purchase small equipment and machinery as working assets. Borrowed funds were properly utilized by the large farms and its proportion decreased with the decrease in size of farms. Partial utilization and misutilisation of borrowed funds was higher on lower size groups of farms indicating the diversion of borrowed funds from the productive to unproductive use. Several factors were responsible for overdues performance in the repayments of borrowed funds. The farmers borrowed the most for emergent family needs followed by low profit due to higher input cost and lower output prices, crop failure due to natural hazards, lack of supplementary source of income, poor resource conditions and fragmented holdings. Yet another study by Ramesh Prasad Adhikari (2005) in Morang district of Nepal found that farmers were found to be not using all the credit borrowed for production purpose. The marginal farmers were using only 59.65% of the total credit borrowed, small farmers were using 60.53% and medium and large farmers were using 76.56%. The remaining amount of credit was used for family expenditure. The study indicated that the level of indebtedness also depends on the level of development of the area in which the farmers reside. The proportion of indebted families decreased from low developed area to developed area. One of the main reasons for relatively high burden of debt among marginal farmers was due to their inability to use all the borrowed credit in production to realize the potential level of output.

Satyendra Prakash Gupta (2001-02) found in Chhattisgarh state that about 75% to 90% was borrowed from various commercial and cooperative banks by the farmers. The money is used by the farmers for various purposes like land improvement, purchasing the animals and various inputs used in agriculture to produce the crop. Besides, a small portion of the money borrowed was used for home consumption and social functions. It was found that farmers of watershed area were relatively more liable to repay the money as compared to
farmers of control area. The average indebtedness was observed to be about 79.34% to 86.36%. L.R. Singh et al (1968-69) examined the level of use of credit and the rationale of its allocation between different farm inputs on the progressive and less progressive farms in Varanasi district of U.P. Survey revealed that local moneylenders, neighbours and relatives provided 20% of the credit used by farmers on the progressive and less progressive farms on an average. The reason was the easy accessibility of the farmers to indigenous sources of credit. Further, a large proportion of the less progressive farmers borrowed money for the purchase of bullocks and fertilizers mainly. In case of progressive farmers, the majority obtained credit for investment in developing owned irrigation equipment. Investment on irrigation and fertilizers had significant and positive impact on the level of total credit availed on the progressive farms but on the less progressive farms the volume of credit was also influenced significantly by the level of investment for draft cattle in addition to that of the level of own irrigation equipment and fertilizers. On the progressive farms there was no significant response of the level of investment for draft cattle on total credit. It was also found that on both progressive and less progressive farms investment in the form of owned irrigation equipment, fertilizers and operated area have significant and positive impact on farm crop returns. The impact of bullock labour was found to be non-significant on both the types of farms.

3.2 STUDIES ON NATURE AND EXTENT OF RURAL INDEBTEDNESS, OVERDUES AND REPAYMENT OF LOANS

We have seen in the preceding section that unproductive use of credit results in non-repayment of loans and ultimately to indebtedness. Indebtedness is a big problem today for rural economy in India. Several studies have confirmed that farmers have become increasingly indebted despite tremendous effort by the government to increase flow of credit in rural areas and reduce the debt burden by waiving off the previous loans. Farmers in some states even took extreme steps of suicides when they found themselves unable to pay back the borrowed amount. Darling (1930) examined the extent of indebtedness in Punjab and
brought out a very important fact that if prosperity has increased in the state, so also the
debt. It was also seen that in 1873, 5 out of the 7 most heavily mortgaged districts of the
province were amongst the most prosperous and wealthy. The main factor in the increase in
debt in Punjab peasantry was the expansion of credit which followed the rise in the value of
land. Lavish expenditure upon marriages was also found to be one of the strongest points in
favour of increase in debt. Further, falling prices, poor harvests, and a rapidly increasing
population have all contributed to the cause of rising debt. The study also revealed that land
revenue was not a primary cause of debt in the state. The main reasons, therefore, for a
Punjab peasant to borrow were- small size of holdings, constantly recurring losses of cattle
from drought and disease, ingrained improvidence, extravagant expenditure upon marriage
and other domestic ceremonies. Another study in Punjab by Sukhpal Singh (1990-91)
which examined the extent and determinants of poverty and indebtedness in rural Punjab
brought out the similar conclusions. It was found that only 9.11 per cent persons were living
below the poverty line based on per capita consumption expenditure but 67.56 per cent
were under debt. The proportion of households under debt was directly related to the
productivity levels of the regions. In absolute terms also weaker sections were indebted, in
general, mainly on account of borrowings from non-institutional sources, particularly
moneylenders. The extent of outstanding loans was observed to be high in case of those
weaker section households, which diverted the loans for use in marriage and social
ceremonies and for construction of dwelling houses. The study by the same author Sukhpal
Singh and Toor (2002-03) later in Punjab found that 78.40% of the farm households in
Punjab were under debt. The percentage of indebted households was the highest (88.57%)
in case semi-medium farmers (5.0 to 10.0 acres of land) while the lowest (45%) was in
case of large farmers. The study revealed that the average amount of debt per sample
household in the state was Rs. 92,394. Further, it was found that the farming community
was under debt amounting to Rs. 9886 crores during the study period. This shows that
Punjab farmers got severely entrapped in the indebtedness. It was found that an average
farm household in the state has 58.13% of debt from non-institutional credit agencies. The
share of commission agents was higher because they provided loans for consumption and
other non-productive credit requirements besides meeting their production requirements. Moreover, an average farmer in the state incurred a debt of 41.03% and 58.97% for productive and unproductive purposes respectively. The highest debt was reported on unproductive purposes like marriages, social ceremonies, family maintenance and health care. The marginal farmers incurred the highest proportion (71%) of their debt on unproductive purpose, followed by small farmers, medium farmers, semi-medium farmers and large farmers. It was evident that the coefficient of multiple determination ($R^2$) was 0.8023. The contribution of explanatory variables such as family size, ratio of credit from institutional to non-institutional sources, income from subsidiary occupations, expenditure on unproductive purpose and farm size were significant. However, the coefficient for education level was statistically non-significant.

The nature, extent and burden of farmer’s debt and availability of short-term and long-term credit to them was also examined by Shergill (1998) in Punjab, who found that 89.29 per cent of farmers were found to be taking short-term loans from different credit agencies to carry out their crop production operations. About 63.85 per cent of farmers were taking crop loans from Commission Agents, 51.35 per cent from Cooperative Credit Societies and 8.85 per cent from Commercial and Rural Regional Banks. About 54.22 per cent of farmers were found to be borrowing from more than one of these credit agencies. Amount borrowed (of short-term loans) per operated acre was the highest among small farmers and the lowest among large farmers. For all farmers taken together the average amount borrowed per operated acre comes out to be Rs. 3590. Amount borrowed per acre declined as farm size increased. About 34.43 per cent of the farmers borrowing short-term crop loans failed to repay the entire amount borrowed after harvesting and sale of their crops. The incidence of outstanding short-term loans was highest in the case of Commission Agents’ loans and the lowest in the case of Cooperative Credit Societies’ loans. Moreover, 23.04 per cent of Commercial Banks’ short-term loans towards farmers remained outstanding. About 70 per cent of small farmers, 40 per cent of semi-medium, 47 per cent of medium, and 28.30 per cent of large farmers were not able to fully repay the crop loans taken by
them. Total estimated debt of farmers in the state comes to Rs. 5700.91 crores. Farmers attributed indebtedness in the state to their excessive expenditure on domestic consumption and social ceremonies; followed by abnormally high prices of farm inputs; and by frequent crop failures and yield fluctuations. A similar situation was revealed by another study in Punjab carried out by Hardyal Singh Paul (1997) who found that Punjab farmers are under heavy debt of loan taken at very high interest rates ranging from 24 to 36 percent. This has resulted in slowing down of agricultural growth in Punjab and even in stagnation in farm production. The study revealed that approximately ninety percent of farmers of Punjab had taken short-term loans to carry out agricultural operations, totaling a debt of Rs. 5,700 crores. The outstanding loan comes to Rs. 2,809 per operated acre in the state. The farmers were found to have preferred short-term loans from commission agents rather than from commercial Banks. Of the 91 percent farmers who had never gone to the commercial banks, 26 percent did not know of their existence, while 40 percent feared the paperwork and other formalities at these Banks. Thus even in the state of prosperity, Punjab farmers have been facing the problem of severe indebtedness as a result of which agricultural growth has slowed down.

This situation is also widespread in other states of the country as revealed by different studies. The study by National Sample Survey Organisation (2003) at All India level revealed that out of 60.4% of rural farmer households in India, 48.6% were reported to be indebted. The incidence of indebtedness was highest in Andhra Pradesh (82.0%), followed by Tamil Nadu (74.5%) and Punjab (65.4%). States with very low proportion of indebted farmer households were Meghalaya, Arunachal Pradesh and Uttaranchal where less than 10% farmer households were indebted. Almost 80% of indebted farmer households possessed land less than or equal to 2 hectares. It was observed that the two most important purposes of taking loan were 'capital expenditure in farm businesses and 'current expenditure in farm businesses. At all-India level, about 58.4% of loan was used for these two purposes. The next important purpose was 'marriages and ceremonies'. In terms of percentage of loan amount taken, this purpose was most important for farmer households of Bihar, followed
by those of Rajasthan. Farmer households in Himachal Pradesh borrowed 29% for the purpose of ‘non-farm business’, and those of Arunachal Pradesh about 20% for the purpose of ‘education’ and those of Manipur borrowed 22% for the purpose of ‘medical treatment’. Moreover, it was found that the two most important sources of loan were ‘bank’ and ‘agricultural/professional money lenders’, in almost all the states. It was found that farmers from Maharashtra and Gujarat borrowed the highest amount (48.5% and 41.8% respectively) from this source. Some of the north-eastern states like Meghalaya, Arunachal Pradesh, and Manipur etc. borrowed sufficient amount of loans from their ‘friends and relatives’. In Jammu and Kashmir, 85% of indebted households and in Nagaland 52% had taken loan for the purpose of ‘consumption expenditure’. At all-India level, on an average, 29% of indebted households borrowed from ‘agricultural/professional money lender’. The incidence of borrowing from this source was highest in Andhra Pradesh (57%) followed by Tamil Nadu (52%). ‘Bank’ and ‘cooperative societies’ were the next two important sources. Kerala and Uttarakhand showed the highest incidence of ‘bank’ loans: 42% and 40%, respectively. Farmer households of Meghalaya mainly depended on ‘relatives and friends’ for loans (91%). It was found that the average outstanding loan per farmer household varied widely from state to state. The averages were quite high for the states of Punjab, Kerela, Haryana, Andhra Pradesh, Tamil Nadu, Rajasthan and Karnataka and quite low for Meghalaya, Arunachal Pradesh and Assam.

In a similar study based on NSSO report on Indebtedness pertaining to the period Jan-Dec, 2003, Narayanmoorthy and Kalamkar (2003) observed that the incidence of indebtedness ranged from 18% in Assam to 82% in Andhra Pradesh during the year 2003. While the incidence of indebtedness was found to be higher among the agriculturally advanced states like Andhra Pradesh, Punjab, Tamil Nadu, Karnataka and Haryana during 2003, the same has increased substantially across the states in 2003 as compared to the situation prevailed at 1991-92. The extent of indebtedness had also increased significantly across the states between 1991-92 and 2003. While the average debt per household increased from Rs. 1254 to Rs. 3884 during the period, it was found to be very high in states like
Punjab, Kerela, Haryana, Andhra Pradesh and Tamil Nadu during the year 2003. The analysis carried out to understand the economic and other characteristics of the state having above national average and below national average in terms of incidence of indebtedness and extent of indebtedness showed that above national average states were better placed than the states below national average. The study also showed that wherever the availability credit per hectare of net sown area was higher, the extent of indebtedness was also higher.

Ramachandran and Madhura Swaminathan (2001) reviewed the major results from five papers, each reporting the findings of detailed village surveys on rural credit in the contemporary period covering the states of Jharkhand, West Bengal, Kerala, Tamil Nadu and Haryana. These village studies presented some striking observations with respect to rural credit in the liberalization phase. First, all the village studies reported high levels of indebtedness: ranging from 64 per cent to 83 per cent. Secondly, the share of formal sources of credit is extremely low. Surprisingly, in the relatively advanced agricultural state of Haryana, landless labour households continued to depend on informal sources of credit. In Udaipur village, somewhat paradoxically, it was observed that the formal sector accounted for 80 per cent of total principal borrowed. Given the limited scale of borrowing, this observation may be explained by the poverty of the village and the absence of informal lenders. It is worth noting that among landless labour households in Gokilapuram the share of principal borrowed for productive purposes fell from 44 per cent in 1985 to 14 per cent in 1999. Borrowing for consumption purposes dominated the loan portfolio of almost all classes of households. In the study villages in West Bengal and Tamil Nadu, informal lenders are thriving and in fact gained ground after 1991 as a result of the withdrawal of the banking sector from rural areas. The village studies also indicate the gross inadequacy of credit, especially for crop cultivation and other productive activities. The growing and unmet demand for credit, both for direct production as well as for demands of health, education, and other needs, is resulting in what S. L. Shetty terms “credit starvation” among rural households. Despite over three decades of systematic expansion of the banking infrastructure in the country, the village studies indicate that informal sources of credit – including usurious
moneylenders - remain important, and often dominant and growing, sources of credit for rural households. By 1999, the share of landowners had fallen to 2.4, per cent while moneylenders accounted for 42 per cent. A major finding of this study was the phenomenal rise in the number of moneylenders. A distinctive feature of the Haryana villages was that the dependence of landless manual worker households on their employers for credit, together with conditions of severe unemployment, forced workers to enter into unfree labour relationships with their creditor employers. It is particularly noteworthy that unfree labour relationships in these villages coexisted with significant technological advance and commercialisation in agriculture. In short, the study found that the dependence of manual workers households on employers for credit was an important factor in sustaining unfree conditions of employment. If financial liberalization had the effect of damaging the system of formal credit severely, case studies show that changes in national banking policy have had a rapid, drastic and potentially disastrous effect on the debt portfolios of the income-poor. In general, as formal sector credit withdrew, the informal sector rushed in to occupy the space that it had vacated.

Jagannath Lenka (2005) examined the incidence of debt of the rural farmer households and highlighted the relative role of the institutional and non-institutional agencies in financing the rural indebtedness across major states of India. It was found that nearly half of the rural farmer households in the country were indebted in various degrees. The agriculturally prosperous states were found to have become home to a large number of indebted farmer households compared to their number in less prosperous ones. Most of the indebted farmer households belonged to the category of marginal and small farmers and concentrated in ST, SC and OBCs. About 40% of the farmer households have availed loans for unproductive purposes. It was found that money lenders were still the predominant source of lending for the rural farmers.

Atteri et al (2005) analyzed the indebtedness of Indian farmers in various regions in the country and found that the principal source of income above 50% farmers in most of the
regions in the country was from the cultivation of field crops. Above 45% of the farmers pursuing cultivation activity were indebted. Only a relatively lower number of farmers availed loan for the purpose of animal husbandry related activities and plantations/orchards. Above 80% of the farmers in most of the regions in the country, having land less than 2 ha, were indebted. The average amount of loan taken by the farmers increased with the increase in farm size. It was found that money lenders and traders still remained the important sources of borrowing among the farmers.

In their study in Palanpur *Peter Lanjouw and Nicholas Stern* (1983-84) observed that indebtedness of households was quite high in relation to the level of income. Outstanding household debts added up to Rs. 4,29,863. About 85% of the households are involved in credit transactions, as borrowers or lenders or both. Both form the point of view of the number of households involved, credit transactions were a highly significant aspect of Palanpur’s economy. One basic feature of credit in Palanpur was the prominent role played by public lending institutions, which accounted for nearly 80% of total debt outstanding. Data on debt outstanding suggested that private credit plays a relatively minor role in the village economy. In another study in U.P. *Singh and Mehrotra* (1973) who have made a comparative analysis of credit and indebtedness among the landless labourers and various categories of farmers in a study conducted in the Ballia district of Uttar Pradesh found that most of the highly indebted household belongs to the landless labourers and the marginal farmers. It was observed that the percentage of households in debt decreased with the size of holdings while the size of debt per household increased with it. Further, the village moneylenders were the main source of finance. The marginal and small farmers obtained about 80 per cent of their total borrowing from the institutional sources like the government and the cooperatives.

*H.G.Hamumappa and K.N.Ninan* (1961-1971) have attempted to find out whether there were any changes occurring in the distribution of rural credit through institutions to different sections of the rural population in Karnataka and made a comparative analysis with that of
India as a whole. It was found that rural poor who accounted for about 50% of the rural households owned less than 10% of the assets held by all rural households in 1961-62. Indebtedness of cultivators households measured in terms of the debt-asset ratio seemed to be serious in Karnataka (7.2) as compared to the all-India picture (4.1). The study found that rural poor in Karnataka were relatively more indebted as compared to the rural poor in the rest of the country. It was to be noted that debts as a proportion of assets tended to decline as one move along the higher asset groups. It was found that almost 70% of loan borrowings of the rural poor were channelised towards household expenditure confirming that the marginal propensity to consume was the highest among the low income groups. It was noted that over 90% of credit needs of the rural poor were met by non-institutional agencies. Of this, over 60% was met by land-lord-cum-moneylenders. The role of trader in this respect was relatively less compared to all-India picture. Relatives and friends were found to be an important source of credit in Karnataka (22%). Commercial banks accounted for only a negligible portion of the credit borrowings by the rural poor. The share of non-institutional agencies in the borrowings of rural households tends to decline as one move on to higher asset-groups.

Vijaya Kumari (2002-03) made an attempt to assess the extent and structure of farmers’ indebtedness in Northern Telangāna Zone and studied the socio-economic factors causing indebtedness. It was found that 81 % of sample farmers were indebted in the four districts. The farmers in Nizamabad district were found to be more heavily indebted (Rs. 30564/ha) than those in other three districts. Further, of the total credit taken by the sample farmers, the maximum share (58 %) was attributable to non-institutional sources. The same trend was observed in all districts except Adilabad where the maximum 57 % of total credit was from institutional sources. Farmers in Nizamabad district were found to have least accessibility to institutional credit (17%). It was also seen that there was inverse relationship between per hectare indebtedness with the farm size, which clearly indicates the higher need of farm credit by small category farmers as compared to the other two size groups. The analysis of structure of indebtedness showed maximum indebtedness to cooperative societies (34%)
followed by friends and relatives (31.2%) and moneylenders (27%). With regard to loan repayment, only 63% of the sample farmers were found to be regularly repaying the loan amounts. The main reasons for non-repayment of loans were found to be crop failure, low yields, lack of irrigation facilities and low market prices etc.

*Rao and Charyulu* (2001-02) studied the level of income and indebtedness, nutrition status and living standards of farm households in Andhra Pradesh. The study brought out that about 42% of the sample households lived below poverty line and that both the income as well as the consumption standards were very low, approximating to less than $ 0.50 per day person. None of the six villages had the benefit of surface irrigation. Successive droughts and growing population had accentuated water scarcity and poverty. The quantity and quality of resources were depleting due to increased demands from the given population. The decline of agriculture due to inadequate investments and unfavourable policies require the attention of policy makers to implement effective policies and programmes backed up by adequate investments and incentives for agricultural and rural development.

*J.C.Jack* (1975) in his study in Faridpur district of Bengal discovered that cultivators who borrowed much rarely deal with a single money-lender. It was found that villagers' land consists of two or more separate holdings under different landlords and mortgaged each holding to a separate money-lender. It was found that 55% of all cultivators were free from debt and that of the 45%, who were in debt more than a half were in debt to a less amount than one-quarter of their annual income. Of non-agriculturalists 73%, were free from debt. Among cultivators the average debt of each family in debt was about 121 rupees, while amongst non-cultivators it amounted to the much larger sum of 258 rupees. In the district as a whole the debt amounted to 11 rupees per head of the population and to 59 rupees for each family, or roughly to 1/5th of the annual income. Amongst cultivators classified as living in comfort 80% are either without debt or in debt only in a very small amount. Of the lowest class of all – the indigent – 48% are without debt, 3% are in debt to more than a year's income and 11% to more than half a year's income. The study also showed that
Mohammedans incur debt more eagerly than Hindus. It was revealed that the great majority of agricultural debtors get into debt through improvident expenditure upon domestic ceremonies and in particular upon marriages.

*Mandal* (1977) who conducted a study of Kalipur village of Nadia district in West Bengal to analyze the nature of rural indebtedness found that about 66% families have taken loans from informal personal agency, about 11% families from formal personal agency (businessmen) and remaining about 23% families from government agency (BDO). The villagers first try to clear off debts taken from private sources because of high interest, and they gradually clear off the loans taken from the government agency. The study revealed that the villagers are still under the clutches of the village moneylenders and 84.74% of the total amount of loan is utilized for unproductive purposes.

*Borbora and Mahanta* (2005) tried to assess the extent of rural indebtedness and flow of institutional credit among rural households in Assam. It has been found that in Assam, even though the incidence of indebtedness is less in comparison to other major states in India, the use of credit for productive purpose was found to be as low at 7.8%. As a result, there is not much improvement in farm productivity. Again, institutional credit to agriculture in the state was not satisfactory and has been declining over the years, which needed further analysis and calls for remedial measures. Cooperative banks were found to be playing important role in comparison to commercial banks. Microfinance through SHGs has an important role in providing credit to the rural sector and in poverty alleviation. With the poor growth of SHGs and flow of funds was poor in the state compared to other states of the country, some innovative measures need to be taken at the institutional level and there is need for development of efficient and non-governmental organisations in the region which may help in the growth of microfinance thereby increasing the credit delivery to the state and the North-Eastern region.

*Pratapaditya Datta* (1989) conducted a study in Tripura to find out the nature and extent of the indebtedness of the farmers. It was revealed from the study that farmers under debt
are maximum in the case of marginal farmers, which constituted 82.92% of the total marginal farmers. The percentage distribution of farmers under debt in the case of small, medium and large farmers was 73.91%, 53.84% and 40% respectively. Average amount of indebtedness was calculated as Rs. 4267.98 for the marginal farmers, Rs.4147.14 in case of small farmers and Rs.3229.75 and Rs. 4143.75 for medium and large farmers. Moreover, they were more indebted to the non-institutional source, which was estimated as 24.28% of their total debt. The study revealed that farm size and indebtedness to non-institutional sources is negatively related. Among the institutional sources, farmers irrespective of size group were more indebted to RRB. Large farmers had more access to cooperative credits and others and they were more indebted to institutional sources than others. Thus, there was positive relation between indebtedness to institutional sources and farm size. One of the purposes of loans for all types of farmers was found to be livestock purchase. Marginal farmers spent 25.02% and 22.56% of the loan in the home consumption and social obligation respectively. For small and medium farmers this amount was 11 to 16%. The study showed that about 61.29% of marginal and 80% of large farmers were defaulter on institutional sources.

*Mitra et al (1986)* in their empirical study for measuring indebtedness, identifying its correlates and for assessing the consequences of indebtedness on the productive and distributive performance on the rural economy in Assam found that out of 101 households 82 of them were under the financial obligation. This revealed the extensive aspect of indebtedness. About 50% of the borrower households had a per capita burden of loan exceeding Rs. 120. On an average, per capita debt on the households of was Rs. 158 that amounts to about 20% of the per capita income. It was a substantial burden on which they had to pay about 12% per month rate of interest. At this rate, the principal would be double within 8-9 months. But this was only an initial point of the distributive effects of indebtedness. Data revealed that about one third of the total agricultural output was sold immediately after harvest, a large portion of which went for paying off the debt or interest on it. The debtor had to dispose off the produce at the harvest price, which was at the lowest. Moreover, about a half of the total land owned by the sample household was mortgaged against loan.
and about 50% of the agricultural labour households had mortgaged their labour to work for the lenders. These figures were indicative of the adverse distributive effects of indebtedness on the rural tribal community. The study concluded that indebtedness has led to decline in agricultural productivity, captivation of productive resources and aggravation of inequalities in the rural community. Further, indebtedness was initiated by unproductive expenditure. This in turn captivates agricultural assets, abates productivity and reduces the repaying capacity of the borrower.

*Tilakaratna* (1950) examined the extent and nature of rural indebtedness in Ceylon in 1950 and during Pre-War period. The incidence of indebtedness in the Pre-War period ranged from 57.9% to 75.8%. The proportion of indebted families had fallen to 30.2% during 1950-51. The average indebtedness per family the Pre-War surveys ranged from 29.6% and 89.9%. On an average debt per indebted family was 40.4% of average annual income per family. In 1950-51 the average debt per indebted family had fallen to 22.6% of average annual income per family. The surveys showed that the average debt per indebted family as a percentage of average value of property owned per family in the Pre-War samples ranged from 17.5% and 30.2%. In 1950-51 the proportion had dropped to 9.5%. The purchase of food, presumably between harvests and medical expenses causes a high proportion of indebtedness. Ceremonial purposes contributed a fair proportion of rural indebtedness. Litigation did not appear to be an important cause of rural indebtedness.

*Elizabeth Dunn* (1996) examined the characteristics of different types of debt, the role of indebtedness in the household economic portfolio, and the use of debt in the enterprise in their review of selected empirical studies from Africa, Asia, and Latin America in view to refine the understanding of the role of debt in household economic security and in enterprise stability and growth. The empirical studies consistently pointed to the significant role played by informal borrowing. Even though informal loans tend to be small in size, they often account for a large proportion of total funds borrowed. The studies confirmed that consumption borrowing comes almost exclusively from informal sources. The empirical
evidence indicated that there was only limited substitution between formal and informal sources of debt, in that micro enterprises with higher levels of profits and assets tend to borrow more from both formal and informal sources. In Madagascar, 84% loan amount came from the informal sector. The majority of all loans (74%) were extended by friends and relatives. Other sources of informal borrowing exhibited some tendency toward interlinked transactions. Moreover, Group-based lending schemes were an important source of formal sector loans (77%). The Madagascar data support the generalization that formal borrowing is largely for production purposes, as 86% of formal loans were used for farm inputs, livestock, farm implements, and off-farm enterprises. On the other hand, only 23% of informal loans were used for production while 63% went to consumption purposes (food, education, health, and social events). In rural Tanzania, relatives, neighbors, and friends were the most important source of informal borrowing (about 66%). In a survey of studies from urban and rural Asia it was found that the share of informal borrowing ranges between one-third and three-quarters of all borrowing. Moreover, the relative number of informal loans is even higher, since the informal loans tend to be smaller and shorter in duration. The data indicate that the most important sources of loans were relatives, neighbours, and friends. Another Bangladesh study identifies three distinct types of interlinked transactions involving loans. These interlinked transactions result in unfavorable prices for the borrower and the transfer of risk from the lender to the borrower.

As we have seen that indebtedness is a big problem today and the problem has accentuated due to non-payment of loans by the rural households. Owing to extreme poverty and low income households are unable to repay loans in time and therefore increasing becoming willful defaulters. Overdues have become a great concern for the banks as a large chunk of fund becomes non-performing assets due to which profitability of banks have gone down. The large level of overdues is the single largest demonstration of the weakness in the credit system, reducing the amount of credit available for the expanding number of borrowers. Recycling of funds by the bank branches not only hamstrings operation in their service area but jeopardizes the developmental efforts in other backward regions/sun-rise investment
avenues (Gangadharan, 2004). Studies related to overdues and repayment behaviour of the households confirms that the problem needs to be addressed urgently for smooth flow of credit in the rural economy of India. A study by Rao and Chowdary (2005) looks into the performance of three cooperative societies in Andhra Pradesh from the view point of assessment of the repayment behaviour of the farmers. The study revealed that majority of the farmers were found to be highly irregular in the payment of installments of loans due to fall in prices or lower prices for agricultural commodities, short time limit for repayment of loans, pressure for clearance of old debts and crop failure were some of the other problems cited for irregular repayment of loans. Chidambaram and Ganesan (2002) examined the problems that have encountered on account of over dues in Primary Agricultural Societies (PACS) in Tamil Nadu and found that the demand for the PACs increased over the period and the over dues showed alarming increase. It was found that the genuine defaulters who failed to repay was attributed due to natural calamities, whereas the other class i.e., willful defaulters who were financially well off but purposely delayed defaulted the repayments. Various causes that led to the over dues included illiteracy, protests by association of farmers, concessions extended by the government, loan being not utilized for the purpose for which it was granted, policy of government, writing off of loan in case of occurrence of natural calamities etc. Similarly, Ravi Verma (1992) in Andhra Pradesh found that agriculture is not a lucrative occupation in the Nagari block and agriculture is rather a gamble on monsoons and one of the causes of loan default was the failure of crops due to pest menace. Yet another reason was exorbitant increase in the cost of cultivation. In many cases there has not been any supervision over the end use of credit and further the defaulters have not been persistently asked to repay the loans. There were cases of misuse of credit. Many borrowers were not sanctioned adequate amount of credit for the intended purpose. Therefore, it was observed that sanctioning and disbursement of inadequate amount of credit leads to misuse and ineffective use of credit.

Singh and Sah (2001-02) examined the repayment performance of borrowers with respect to agricultural loan in Jharkand. He found that the outstanding loan per farm increased with
decrease in the size of farm holding. The magnitude of overdues in loan outstanding was high for the marginal, small and medium farmers. The proportion of defaulters and non-defaulters in total borrowers was around 70 and 30%. The number of defaulter borrowers was negatively associated with the size of farm holdings. The non-repayment of loan was very much affected by psychological feeling of waiving off loan by the government from time to time, followed by performance of neighbours in repayment of loan, poor saving and lack of other source of income except crop farming.

In their study in Uttar Pradesh Hatai et al (2005) analyzing the availability and utilization of credit by farmers and the major causes and determinants of overdues observed that the share of commercial banks in the total availability of credit per ha was the highest followed by the RRBs, PACS and LDBs. Out of total borrowings on marginal farms, the crop loan shared about 61 to 74% in the west and east zones of the state respectively. Crop loan had inverse relationship with the size of holdings; whereas a positive relationship was found between the term loan and the size of holdings. More than 80% of the credit was used for productive purposes and the rest for unproductive purposes. The major reasons identified for willful default were slackness in timely recovery by banks, diversion of income for purchasing land and other property and uncertainty about fresh loans in both the zones. Low crop yield and failure of crop due to natural calamities, inadequate finance were the main reasons of non-willful default. The analysis further revealed that the amount of loan borrowed and unproductive use of loan have been the important factors responsible for overdues in all farm sizes. Sanjay Kumar (2005) identified the important socio-economic factors responsible for the non-repayment behaviour of borrower farmers in Ranchi district and with the help of discriminant function analysis indicated that characteristics like literacy, percentage of income from other sources, percentage of cash expenditure for production purpose to the total expense, number of visits to the officials, percentage of borrowing from different institutions to the total production credit, percentage of productive utilization of credit to the total production credit, irrigation potential and cropping intensity all helped in differentiating the borrowers into the defaulters and non-defaulters.
Another study by R.K. Sharma and Sonika Gupta (2005) in Himachal Pradesh examined the extent of borrowing and repayments, cost of borrowings, overdues and the determinants affecting borrowing behaviour of farmers. To study the determinants of the borrowing behaviour of the households, they have applied Logit method of analysis. The study showed that institutional sources of credit were very popular among the farmers. In non-institutional, friends/relatives were important because they charged no interest and were risk free but had little role to play due to their inability to advance large amount of loan. House construction was the main reason of borrowing followed by crop production activity etc. The investment on farm machinery was nil due to its negligible use in the hilly terrains. The farmers availed loans for the purposes like sickness, social ceremonies and purchase of animals. The overdues with the farmers were found to be the highest in case of non-institutional sources. The overdues were the highest in case of social ceremonies and house construction. The study showed that the probability of being a borrower increased with increase in non-farm income of the farmer.

S.R. Bhosale and Dangat (1981-84) examined the repayment position of the loans borrowed from cooperative societies and the factors responsible for overdues in Kolhapur district in Maharashtra. The study showed that the proportion of repayment of principal amount was 40% of short-term and 31% of the medium-term loans. The repayment percentage showed an increasing trend from the year 1981-82 to 1983-84 in both the types of loans. Important reasons for non-repayment reported by the farmers were their low income, non-remunerative prices for agricultural produce and crop failure due to natural calamities.

The amount of overdues is related with the net income from crop production, amount borrowed, amount used for productive purposes and expenditure on family consumption, the source from where borrowing is made, literacy rate, besides other factors. In studying the problem of indebtedness, we cannot ignore the problem of overdues as it is also one of the causes of high indebtedness, particularly for the well off rural households who become willful defaulters. There is urgent need to tackle the problem and therefore research in this
direction is required to be geared up. One study suggests that in order to bring down over dues, several steps need to be taken which include impart of education as to the procedures for loan repayments, government to remain silent on representations from unions, change in the policy of the government on repayments of loan, rule enacting attachment of properties of defaulters, extending the period of repayment in case of occurrence of natural calamities etc (Chidambaram and Ganesan, ibid). Provision of extension services and input supply the share of middlemen and state market intervention, agricultural diversification including livestock and non-farm sector services and finally, formulating suitable policy to face the problems of drought, floods etc, were the other measures suggested to reactivate these inefficient societies overtime (Rao and Chowdary, ibid). There is the need to develop the cooperative sector in the hilly areas for input supply as well as for credit facilities. Further, small farmers will be much more benefited if emphasis on lending is given on ‘number of borrowers ‘ rather than ‘amount of lending’ because in the latter case banks are able to achieve their targets by advancing loans to the large farmers only (R.K. Sharma and Sonika Gupta, ibid).

Belavatagi (1999-2000 - 2002-03) analyzed the performance of SGSY and the extent to which SGSY reduces the problem of rural indebtedness. His study showed that SGSY has shown positive progress in states like Uttar Pradesh, Andhra Pradesh, Bihar, Madhya Pradesh, Maharashtra, Karnataka and Tamil Nadu. There is a need to improve the credit mobilization under SGSY with the coordination of banks in the country through involvement of NGOs in the development of SHGs and expertise from the RBI and NABARD about credit facilities. SGSY may go a long way in providing credit, creating assets to the rural poor and thereby minimizing the problem of rural indebtedness. Asokan and Anita Arya (2005) analysed the importance of contract farming in enhancing income and employment in agriculture by exploring the various issues like technology transfer, capital or institutional credit flow to the small and medium farmers and assured market for crops. Contract farming is explained as an institutional response to missing markets for credit, insurance, information, factors of production in an environment of pervasive risks. It brings producers and processors closer
on mutually beneficial terms. The firm is assured of quality raw materials. The farmers are insulated against volatility of the market and assured of a steady income. Apparently contract farming is an ideal solution to the ills plaguing the agrarian economy. There are several agricultural and horticulture crops for which contract farming is followed in the country. From the available literature it is evident that asset-specificity plays a crucial role in the success of a contract arrangement. If the firm and the farmer are locked in asset-specific investment whose alternative uses are limited or not cost effective the contract relationship is fairly smooth. For instance, production of certified seed, gherkin and certain medicinal plants under contract has been successful. Asset-specific and investment by the firm and no market for these crops outside the contract ensures its success. Therefore, banks should identify such contract arrangement where there is a high degree to asset specificity for both parties. Financing such activities while ensuring funds flow to agriculture also guarantees the recovery of the loans without jeopardizing the financial health of banks.

3.3 CONCLUSION

Although several empirical studies reviewed above have been carried out in different parts of the country and world, there have been no studies relating to Nagaland specifically in the area of rural indebtedness. This study focuses its attention on this aspect in the three districts of the state, namely, Dimapur, Kohima and Mon and therefore fills the gap in terms of research in this area. The methodological tools developed in the study are similar to some of the studies on indebtedness as reviewed above. The present study attempts to estimate the extent and magnitude of rural indebtedness, assess the level of indebtedness according to size of landholdings, identify the causes of rural indebtedness and examine the sources of credit to rural households. The studies referred as above are in line with the objectives outlined in the present study.

Findings of the above studies on rural indebtedness reveal that primary cause of indebtedness is poverty which is due to several correlated factors such as small size of holdings, recurring
losses of cattle from drought and disease, extravagant expenditure upon marriage and other domestic ceremonies and health care, excessive borrowings from non-institutional sources, particularly moneylenders, high prices of farm inputs, frequent crop failures and yield fluctuations. It was also found that the proportion of households under debt was directly related to the productivity levels of the regions. Another finding was that wherever the availability credit per hectare of net sown area was higher, the extent of indebtedness was also higher. Moreover, the average amount of loan taken by the farmers increased with the increase in farm size.

The studies bring out some important facts that money lenders and traders are still the important sources of borrowing among the cultivators. Further, large farmers have more access to formal credits and they are more indebted to institutional sources than others. Over dues have increased in the recent days and it has become a great concern as far as rural banking is concerned. The main reasons for non-repayment of loans were crop failure, low yields, lack of irrigation facilities and low market prices etc. Another major problem that has come to the light is increasingly number of willful defaulters in the country. Although it is clear that chronic indebtedness among the rural poor is a problem that cannot be solved by banking policy alone, and that the abolition of usury requires agrarian reform, a decisive change in banking policy is essential for the very survival of the working people in rural India (Ramachandran and Madhura Swaminathan, ibid).
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