Chapter-6

FINDINGS AND CONCLUSION

6.1 INTRODUCTION

Credit has been considered not only as one of the critical inputs to agriculture, but also an effective means of economic transformation. Despite its declining share in GDP, agriculture continues to be an important sector of the Indian economy. The National Agriculture Policy-2002 envisages that agriculture growth has to exceed 4 per cent a year to attain a 7 per cent overall growth rate. Both production credit and capital formation in agriculture have to be accelerated to achieve this growth rate. Commercial banks, co-operative banks and regional rural banks (RRBs) are the main providers of agriculture credit at present under the multi-agency approach. They have established an impressive branch network over time. Even so, the outreach of banks has remained restricted for various reasons which is caused by a weak credit delivery structure. Large parts of states such as Orissa, Chhattisgarh, Jharkhand, Bihar, West Bengal, most of the North-east and parts of Maharashtra are handicapped by weak RRBs and co-operatives in addition to branch network of commercial banks that is below the national average. The pace of credit disbursement to agriculture is slowing, regional imbalance seems to be widening and the share of small farmers is declining (RBI Report of the Advisory Committee on Flow of Credit to Agriculture and Related Activities from the Banking System, 2004).

Despite efforts taken by both state and central governments to augment rural credit flow in the Indian economy, farmers have still been facing the problem of credit crunch which has prevented them to generate additional income and improve their condition. The crux is that they are still living in the conditions of poverty and distress. Though there has been increase in institutional credit the share the actual tiller gets is very less and as a result cultivators have to depend on informal sources to meet their credit demand who charge exorbitant interest
rates making the plight of farmers miserable. Illiteracy of farmers and reduced procedural formalities has made non-institutional credit more popular. But due to higher interest charges borrowings most often remains un-serviced giving rise to indebtedness, the most dreaded crisis faced by Indian farmers today.

The main objective of the present study was to examine the nature, magnitude and determinants of indebtedness among rural households in Nagaland. More specifically the objective was to study the extent of rural indebtedness and the sources of credit to rural households. The study is a cross-section analysis and pertains to the agricultural year 2006-07.

6.2 MAIN FINDINGS

The main findings of the study are summarized as under:

The study revealed that in Nagaland, most of the sample households' belonged to the category of small and marginal farmers constituting about 59 per cent of total households investigated. Out of 300 sample households, 107 were marginal farmers and 70 were small farmers in the state. Agricultural labourers and large farmers constituted 73 households and the rest 50 were non-cultivators households (i.e, 'Others' category). It was found that about 43 per cent of the total sample households were under debt including 16 per cent of the indebted households belonging to non-cultivator rural households (i.e, 'Others' category).

The debt burden is higher in case of Agricultural labourers who are mostly non-local people migrated from other parts of the country. Agricultural labourers were found to be involved in interlinked transactions. They have shortage of food for around three months during which they migrate to urban areas in order to earn wages to meet the food requirements. About 42 per cent of these were found to be illiterates and nearly 52 per cent have completed schooling only up to primary and middle levels. None of the agricultural labourers whom we contacted were found to be graduate or above.
About 45.23 per cent of agricultural labourers, 43.92 per cent of marginal, 41.42 per cent of small farmers and 44 per cent of households belonging to ‘Others’ category were found to be indebted. Thus variation of debt among different categories of rural households was not significant in the state.

If we take a look at the amount of debt by each household, it was found that average amount of debt per sample household is Rs. 17,041.88 and that of indebted household is Rs. 39,327.43. It was revealed that the amount of debt per indebted household increased from agricultural labourers to marginal farmers and further to small and large farmers in the state. Per capita debt for an average sample household in the state was found to be Rs. 3126.95 while that of indebted households, it was Rs. 6825.85.

The extent of exploitation of a borrower is largely determined by the source of debt from where he has raised the loan. It was revealed that an average rural household in Nagaland has taken loan of about Rs. 13,840.87 (35 per cent) from non-institutional agencies while it is Rs. 25,486.51 (65 per cent) from institutional sources showing a reverse picture as against common experience in rural India, where most of the loans are taken from non-institutional sources, particularly from village moneylenders. Friends and relatives (about 19%) constituted one of the important sources of non-institutional debt in the state. One of the reasons is insignificant presence of professional moneylenders. Agricultural labourers have taken the highest proportion of debt from non-institutional source i.e., 83.96 per cent, out of which 56.25 per cent was taken from relatives and friends.

The institutional source from where most of the loans have been taken by rural households was ‘Commercial and other banks’. This source provided the highest proportion of debt that is about 41 per cent, to the rural households. Small farmers and non-cultivators have taken maximum loans (about 82-84 %) from institutional sources. The key players of institutional credit in the state are the State Bank of India and Nagaland State Cooperative
Bank Ltd, who provide loans to the farmers for development of agricultural farms and for the rearing of livestock and poultry birds through on-lending facility provided by NABARD.

An average rural household in the state utilized about 38 percent of loans for productive purposes and 62 percent for non-productive purposes like marriage and other ceremonies, medical bill, repayment of earlier loans and domestic consumption. Of 38 per cent of productive loans, about 14.66 per cent was spent for agricultural development. Consumption expenditure alone constituted about 30 percent of the households’ total non-productive loan. Large farmers and agricultural labourers have been using the highest amount of loans on unproductive purposes i.e., 82.06 per cent and 74.39 per cent respectively.

Households also borrowed for the purpose of repayment of earlier debts. However, a very less amount (6.9 per cent) was being used for this purpose as a result of which loans accumulated in case of an average household. A major part of the loans earmarked for repayment purpose was diverted to other uses and as such repayment of debt becomes a burden for an average family.

One very important feature that can be noted is that a significant amount of loan was used towards meeting the expenditure on education by all categories of households in rural Nagaland. About 11.87 per cent of credit was used for this purpose. This is a healthy trend as it shall further the development of human capital; the only panacea to come out of clutches of poverty and indebtedness.

District-wise analysis of indebtedness of rural households in Nagaland revealed that Dimapur reported 75 per cent of indebted households while Kohima and Mon 31 per cent and 39 per cent respectively. The percentage of indebted households ranged between 13.51 per cent of marginal farmers in Kohima to 100 per cent of agricultural labourers in Dimapur. Among all categories of households, lowest amount of debt per indebted household was reported in Dimapur whereas it was highest in Mon. Similarly, among all categories of
households, lowest amount of debt per sample household was reported in Kohima and highest in Mon. It was found that Mon has the highest per capita debt of indebted households i.e., Rs. 9526.63 and the lowest was Rs. 4076.13 in Dimapur. This finding indicates that backward region generally has low income due to which people are poor and unable to repay their loans as in case of Mon.

As regards the proportion of credit from different sources in the three districts it was revealed that an average indebted household in Dimapur has taken about 52 per cent of the debt from institutional sources while the corresponding figures were 72 and 65 per cent in Kohima and Mon respectively. While proportion of debt from non-institutional sources was lowest in Kohima i.e., 27.59 per cent, it was highest in Dimapur i.e., 48.15 per cent. The highest proportion of debt under non-institutional sources was provided by the moneylenders in Dimapur i.e., 23.32 per cent whereas in Kohima and Mon, it was ‘relatives and friends’ who provided the highest proportion of loan.

The highest proportion of debt was spent on an average on non-productive purposes by all the categories in all the districts. The proportion of debt spent on non-productive purposes ranged between 28.67 per cent by small farmers in Mon to 100 per cent by agricultural labourers in Dimapur. The major proportion of debt spent on non-productive purposes went in the direction of consumption expenditure, which ranged from 20.24 per cent in Dimapur to 49.36 per cent in Kohima.

The estimates of regression coefficients suggest that though literacy rate did not affect per capita debt in a direct manner in Nagaland nevertheless it was indeed an important determinant of debt in the general case. The regression models revealed that literacy level of the head of the family and non-institutional debt had inverse relationship but statistically insignificant. The poor statistical significance of the coefficient of family size indicated that debt from non-institutional source is not a common phenomenon in Nagaland as in other parts of the country. Income is also not a determinant of non-institutional debt in Nagaland.
The coefficient of expenditure on agriculture was found to be statistically insignificant indicating that very little debt was used for productive purposes. However, the coefficient of expenditure on education was found to be statistically significant.

Social ceremonies appeared to be the strongest determinant of non-institutional debt. Consumption expenditure explained thirty percent of the debt incurred from non-institutional sources. Repayment of earlier debt which is a perennial problem under Indian situation also explained twenty six percent of the debt in the state.

The estimates of regression coefficients suggested that the variations in the institutional debt are better explained by family size and income of the household. The coefficient of repayment of earlier debt was found to be statistically insignificant in explaining institutional debt burden in the state. The most important purpose of institutional source of borrowing was for productive purposes but it was found that coefficient was statistically not significant. The coefficients of expenditure on marriage and other social ceremonies were found to be important determinants. Coefficient of medical expenses explained fifty eight percent of the relationship and the variable was also statistically significant.

Let us now examine to what extent our findings have satisfied hypotheses formulated for the present study. One of the hypotheses of the study was that -'there exists a direct correlation between rural poverty and rural indebtedness'. As we have seen poverty exists in the state and people are still engaged in primitive method of cultivation, rural households find it difficult to run their family. Agriculture is normally undertaken on subsistence basis which only allows them to lead their life somehow. In such a situation cultivators need to borrow and the borrowed money is not returned back in time resulting in accumulation of loans. Repayment of loan was not done due to non-generation of additional income as loan amount was generally put to unproductive uses. Even in the state of poverty and misery, people spent their borrowed money for providing education of their children. All these
results in indebtedness and causes further poverty. This suffices the point that poverty and indebtedness have positive relationship.

Another hypothesis was that – 'proportion of debt is higher for unproductive purposes, than for productive purpose'. It was found that rural households had mostly used their loan amount for unproductive purposes than for productive purposes. Out of every Rs.100, about Rs. 62 of loan money was used for unproductive purpose whereas only Rs. 38 was put to productive uses. Domestic consumption alone constituted 30 per cent of the unproductive loan. We have seen earlier that only about 15 per cent of the productive loan was used for agricultural development. Therefore the findings of the study confirm that people in rural Nagaland used debt more on unproductive purposes, than for productive purposes.

Our final hypothesis was that – 'borrowing from non-institutional sources exceeds borrowing from institutional sources'. In this case, however, the findings are in reverse direction. That is, borrowing from non-institutional sources does not exceed borrowing from institutional sources. In Nagaland, about 65 per cent of loans owed to institutional sources and only 35 per cent of it were from non-institutional sources. The region has presence of all nationalized banks and other financial institution, but these are primarily located in Dimapur and Kohima. So, people living in and around these areas actually benefit from the banks, which had been the two sample districts in the present study. Despite weak banking infrastructure and complex land system, people get credit from state sponsored agencies and through VDBs, VCs etc. Moreover, the significance of credit as an instrument of socio-economic change and development is being realized now. As such financial institutions have come up to provide soft loans to the poor for their upliftment. SBI and NSCB Ltd provide the most of the credit requirement through various schemes to the poor. Loans taken from banks are in most cases not returned. People take loans just to have the share of subsidy. Thus, we find that borrowings from institutional sources are more than that from non-institutional sources. In fact, the soft attitude of the financial institutions in regard to
recovery of loans sets a smooth path for the people to borrow more from these sources and forget about the repayments. Moreover, sometimes officials of the financial institutions get threats for asking repayments. Another fact evidenced was that households belonging to ‘Others’ category have taken maximum loans i.e., about 83 per cent from the institutional sources owing to their good financial standing, which has also contributed substantially to the total debt taken from institutional sources. Again, there is absence of professional moneylenders in Naga society, which is also one of the reasons. Therefore the reverse relationship between borrowings and institutional sources is obvious.

Basing our discussion on the results of tabular analysis done in chapter-4 and regression analysis in chapter-5, we find that there exists a direct correlation between rural poverty and rural indebtedness. Moreover, the hypotheses that proportion of debt is higher for unproductive purposes, than for productive purpose can be accepted but the third hypothesis that borrowing from non-institutional sources exceeds borrowing from institutional sources cannot be accepted.

The present study highlights some findings which are unique. The most important finding was that loans from institutional sources are greater than that from non-institutional sources. Moreover, indebtedness in the state is not due to poverty alone but partly due to poverty and partly due to willful non-payment of earlier debts. We can therefore say that the nature of indebtedness in Nagaland is different from that prevalent in other parts of the country. Though people are poor but not in such misery as to kill themselves due to inability on their part to pay back the loans. In fact, dynamics of poverty in Nagaland is quite different from other parts of the country. Here, due to strong community spirit and social capital, the poor are looked after, and cared for, by kith and kin and the community. It is because of this that households usually take financial help from ‘relatives and friends’ which has emerged as an important source of non-institutional debt in the present study. Another important issue is that repayment culture is not yet developed and therefore it is not regarded as compulsory. And this attitude of being willful defaulters has actually made them indebted. Only the
agricultural labourers and marginal farmers are indebted due to their low income and poverty. In this sense, we can say that indebtedness is not a big problem in the state. Again, it was evident from the survey that both cultivators and non-cultivators spend a substantial portion of debt for education purpose which in the short run may seem to be unproductive but in the long run, it becomes fruitful as educated and skilled persons are able to get source of livelihood easily. Furthermore, consumption expenditure was quite high as revealed from the study.

In fact, the study is different from the other studies in its genre owing to certain characteristics of the study area. For instance, the unique system of ownership and management of land in the state is, in fact, not found anywhere except in some states of north east India. The usual norms of land system or measurement fail here. Local customary laws govern the land and cropping pattern and therefore applications of new techniques have become difficult in such situations. So, progress in agriculture here cannot be achieved in conventional way. For instance, shifting cultivation which is a primitive method of cultivation is practiced and it is attached to the customs of each tribe. People are reluctant to alienate themselves from such agricultural system and their customs. The study also included non-cultivators living in rural areas as against in most studies which only investigated cultivators for finding the extent of indebtedness. Moreover, since moneylenders are not the main source of finance, households as observed in other studies were not under the clutches of moneylenders and as such the question of exploitation does not arise.

6.3 CONCLUSION

In summary we can say that rural people in Nagaland are mainly indebted owing to their excessive domestic expenditure, non-repayment of debts, extravagant spending on unproductive consumption like social and religious ceremonies, agricultural backwardness, and poverty. Generally, borrowers are willful defaulters due to which the problem of indebtedness has, in fact, arisen. Non-institutional debt has become almost insignificant due
to absence of professional moneylenders. Friends and relatives only constituted one of the important sources of non-institutional debt in the state. The increase in per capita debt in the recent years is attributed to increased access to the institutional credit in rural areas due to various schemes introduced by the state government through VDBs and other organizations. Micro credit initiative taken by NEPED is helping farmers, to some extent, in transition from traditional farming to commercial farming. The government of Nagaland with the financial help from the centre installed various new ministries and departments including the rural development ministry with a view to changing entire basic set up of rural society. The NEC and the ICAR extended their hand to gear up agro-economy of the state through new researches. The department of soil and conservation of the government of Nagaland adopted schemes by the year 1989-90 to increase productive potentiality of the Naga farmers. New varieties of crops and fruits appeared in the market, which helped the rural people in changing their economic conditions. New development blocks were set up to assist the rural people in their self-development under the rural development schemes and programmes. Nevertheless, it is also true that such efforts would be fruitful only when we change the mind set of the people and bring them out of subsidy regime. We cannot blame the farmers alone for low productivity and inefficiency and low income resulting in their poor standard of living. The land system, traditional beliefs and tribalism are also some important reasons for making agriculture backward and farm operation at subsistence level. Thus there is an urgent need to look at these issues.