Chapter 1

INTRODUCTION: SIGNIFICANCE OF THE STUDY OF RURAL INDEBTEDNESS

1.1 INTRODUCTION

Agriculture is an important industry and like other industries, it also requires capital. Due to the peculiarities of agriculture, especially its uncertainties, low returns, high rate of rent and limited scope for employment, a large number of cultivators cannot manage the needed finance without recourse to borrowing. One of the most important lessons of universal agrarian history is that the agriculturist must borrow, due to the fact that his capital is locked up in his lands and stocks. For stimulating the tempo of agricultural production, it is necessary that the farmer must be provided with adequate and timely credit. Agricultural credit in a practical sense is a nucleus of the system of farm operation. It provides a flow to the system averting ruin which would have occurred due to the lack of monetary capacity of a farmer (Sadhu and Singh, 1995). Agricultural finance or credit “is an economic study of borrowing funds by farmers; of the organization and operation of farm lending agencies, and of society’s interest in credit for agriculture” (Murrey, 1953). However, the same credit may become catastrophic when it is employed for non-productive purposes other than for agricultural production. It then gives rise to a situation known as indebtedness, which has become one of the dreaded tribulations in the life of households living in rural India. Many government studies and individual researches have exposed that indebtedness among the rural households is very high and ever increasing in the country. Social scientists have, therefore, been trying to look at the reasons for this high level of incidence of rural indebtedness in the country from time to time.

Indebtedness, as stated above, has been one of the serious and persistent problems faced by the Indian farmers. There has been a significant improvement in agricultural output and
productivity and also in distribution of credit through institutional sources since the introduction of the new agricultural technology. The need for capital has also greatly increased for the purchase of various inputs, but indebtedness among the rural households is still found to be widespread even today. The escalating burden of rural debt has crippled the rural economy. It has turned into a serious threat to economic, social and political life of rural India. However, increasing debt for agricultural production is not bad. In fact it is a necessary element for the smooth conduct of agricultural operations. As stated in a recent study by FAO, “If credit is essential to the conduct of progressive agriculture, in such agriculture as opposed to static subsistence farming, the amount of a farmer’s debt at any particular time may be an indication of prosperity and efficiency rather than of poverty and financial difficulties. It is only debt which has ceased to be productive that is dangerous”. Thus, a loan for productive purposes is beneficial as it adds to the productivity of the land and income of the farmer. A productive loan creates its own means of payment; but when this fund is diverted to unproductive channels, it becomes not only burdensome (as the principal and interest go on increasing) but a great cause of hardships and sufferings for rural households who are already fighting poverty. Indian agricultural debt in that sense is a great curse to the cultivators. The burden of crushing debts has been a serious impediment in the way of all-round development in the rural areas of the country. This burden is indeed a big one because the number groaning under debt is very large. The amount involved is large too. And the repayment capacity of the debtors does not correspond to the amount of debt as most of the debt goes into unproductive uses.

In the words of Henry Wolf, ‘It is burden of debt which shackles agriculture and condemn the cultivator to a life of penury and slavery which deprives him of the incentive of production.’ The burden of this debt generally passes on from generation to generation in multiple processes. It is aptly said that ‘A farmer is born in debt, lives in debt and dies in debt’. A cultivator who is already poor is not able to liberate himself from the vicious circle of poverty so that he can improve his economic condition. He remains in the clutches of chronic indebtedness, which is more pronounced in the agricultural sector.
The lexicographic meaning of ‘indebtedness’ is the state (of a person, family or organization) of being under obligation (more often financial in nature). Indebtedness is not the state of being under the financial obligation undertaken on account of productive utilization of resources promoting economic achievement of the borrower; rather, it is the state of being under the financial obligation undertaken on account of compulsion and being ensnared in the cobweb of usury. The borrower need not repay his debt in terms of a pound of flesh; a pint of fresh blood would suffice. Indebtedness of an Indian rural household often finds its genesis in the borrowing on account of certain exigencies like accident or illness of a member of the household or a pressing need for certain social occasion like marriage, etc. First, because a household hardly saves enough to meet such needs and second, because there is no provision for institutional borrowing in such cases, the only source of loan is the local money lender who charges exorbitant interest for such a loan. Now the borrower does not have enough resources or incomes to enable him repay the debt, the principal multiplies itself rapidly to ensnare him in the cobweb of usury. More often than not, he makes a provision of repayment by either mortgaging his land or his labour captivating his sources of income to disable him pay his debt off. Very soon he is drowned in debt (Mitra, Roy and Mishra, 1986).

"Indebtedness, in particular farmers’ indebtedness, has long been treated as a distress phenomenon. It is indeed so if the debt taken is not used for productive purposes like purchase of inputs that augment output or creation of assets that augment the earning base of the borrowers and instead is used for consumption purposes or marriages and social ceremonies. Debt can also become a distress phenomenon if the borrower’s crop fails due to natural calamities, drought, use of spurious inputs, infructuous investments or other unforeseen reasons, or if production becomes uneconomic because of high input costs, stagnant technology and lack of remunerative prices which make it impossible for the farmer to repay his capital and interest. Finally, and this is quite common, interest becomes a heavy liability if the loan is taken from non-institutional sources like moneylenders at high rates of
interest. The accumulated liability of principal and compound interest can sometimes become crippling, and the borrower is forced to mortgage or sell his land losing thereby his only means of livelihood. In some cases, indebtedness and failure to pay can become one of the important causes for farmers’ suicides” (Report on Agricultural Indebtedness, GoI, 2007).

Economically, increasing rural indebtedness has resulted in growing pauperization of the small and marginal farmers. The small farmers mortgage their landed property to the moneylenders and ultimately lose it to the latter. Then, they join the ranks of the landless labourers. Thus, rural indebtedness is the cause as well as the effect of the growing poverty of the Indian farmers. The analysis of the productive and distributive effects of indebtedness in four tribal villages of North Lakhimpur sub-division, Assam indicated that it leads to decline in agricultural productivity, captivation of productive resources and aggravation of inequalities in the rural community (Iyengar, 2005).

The study of rural indebtedness assumes added significance in recent times in view of the most bizarre consequence of indebtedness in the country which has led to suicides of Indian peasantry. In 1997, India experienced its first bout of farmers’ suicides and since then over 25,000 farmers have taken their own lives. The crisis has stemmed from a number of hardships which has led to the irreversible indebtedness of small and marginal farmers from even the most historically productive regions of the country such as Karnataka, Punjab, and West Bengal where farmers are ending their lives because of their massive indebtedness. In Karnataka 49 suicidal deaths occurred between April and October 2003 in the drought-prone region of Hassan. Over the same period of time, 22 suicides occurred in Mandya, the state’s ‘sugar bowl,’ 18 occurred in Shimoga, a heavy rainfall district, and 14 occurred in Heveri, a district that receives average rainfall. While comparing regional suicide statistics might seem callous, such comparisons reveal that suicide is not only occurring in areas where low production is caused by drought. Small farmers in all of these regions owe lakhs of rupees because institutional loans, which have fixed interest ceilings of no more than 14 percent, only provide for about 10 percent of their credit needs. The other 90 percent of
small to marginal farmers loans comes from private moneylenders who are infamous for constantly harassing their ‘clients’ in order to enjoy heavy profits of the 24-60 percent interest that they charge on their loans. When their crops fail time after time regardless of the money the farmers have invested in fertilizers, pesticides, and bore wells, there is no profit to be seen and no conceivable way to repay their lenders. When the harassment persists many farmers become emotionally fatigued and end their lives in solemn hope that the meager relief package provided by the government will give their family hope of a better future. In Punjab, the nutrients of the soil are being destroyed by the over-use of pesticides and chemical fertilizers needed to successfully grow the genetically modified seeds. The use of these chemicals gives farmers the false notion that costly inputs will ensure a higher output; when in reality it only leads to further devastation of the land. This repeated degradation may result in the loss of land productivity thus putting future generations of farmers at even greater risks of poverty and famine. Over 500 farmers in the state have committed suicide. Also, the disintegration of the joint family in Punjab has negatively affected landholding which has lead to decreased earnings and increases in indebtedness. In Burdwan, the region of West Bengal commonly called the “rice bowl of the East,” 1,000 farmers ended their lives in 2003. The leading cause of these suicides was the inability of farmers to repay heavy debts while trying to compete with the cheap imports of Southeast Asia. The tragedy of farmers suicides in Andhra Pradesh has been occurring regularly since 1998, hardly a sudden phenomenon. In the past few months, however, farmers of the region have been ending their lives at an alarming rate - 6 to 10 suicides per day (Navdanya.org, 2004).

Recently, recurrent suicides of farmers in Vidarbha region of Maharashtra, also known as ‘India’s orange bowl’, have deeply embarrassed the central and state governments. Farmers have been killing themselves due to chronic debt and depression and the number has increased to 612 since June 2005. Lack of proper irrigation, low yields, high medical expenses, cost of weddings, apart from the debt trap and crop failures have been identified as the major cause of high suicides. It has been observed that farmers in this region take loans, in most cases, only to pay a previous high-interest loan. The favourite crop of the region – cotton –
has been failing to fetch the right price, multiplying the miseries of farmers every year (The Nagaland Post, 2006).

1.2 MAGNITUDE OF INDEBTEDNESS

Several studies have been carried out focusing on the agricultural credit and indebtedness in India by various authorities, experts and committees, and individual researchers. The magnitude of debt was estimated both before and after independence. Let us take a look at the extent of indebtedness before and after independence under the following heads.

1.2.1 PRE-INDEPENDENCE ESTIMATES

Before independence scientific and systematic estimates of rural indebtedness were made by the Deccan Ryots Commission, the Famine Commission, the Agricultural Credit Department of the Reserve Bank of India and the Central Banking Enquiry Committee etc. The Deccan Ryots Commission in 1875 estimated that one-third of the occupants of government land were in debt and that the average debt per occupant was Rs. 371. According to the Famine Commission of 1880 and 1901, at least 80 per cent of the cultivators were in debt and were fast losing the possession of their lands. Edward Maclagon in 1911 estimated the total agricultural debt at Rs. 300 crores in British India alone while M.L.Darling estimated it at Rs. 600 crores in 1923. The Indian Central Banking Enquiry Committee in 1934 found the total rural indebtedness at Rs. 900 crores. P.J.Thomas estimated it as Rs. 1200 crores in 1935. The Agricultural Credit Department of the Reserve Bank of India in 1937 noted that the burden of indebtedness became really much more crushing than could be judged from a comparison of the growth of its volume owing to the great depression of 1930 attended with falling prices of agricultural produce. It was Rs. 1800 crores and the interest on this was Rs. 100 crores per annum. The purpose for which these debts incurred was classified as under (Mohan Prasad and Gagneja, 1984):
Table 1.1

Purpose of loans during the pre-independent period

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment of old debts</td>
<td>25.1</td>
</tr>
<tr>
<td>Purchase of land</td>
<td>13.8</td>
</tr>
<tr>
<td>Trade</td>
<td>12.9</td>
</tr>
<tr>
<td>Marriages and ceremonies</td>
<td>10.5</td>
</tr>
<tr>
<td>Agricultural expenses</td>
<td>10.0</td>
</tr>
<tr>
<td>Building houses</td>
<td>5.6</td>
</tr>
<tr>
<td>Relief of distress</td>
<td>6.1</td>
</tr>
<tr>
<td>Improvement of land</td>
<td>4.4</td>
</tr>
<tr>
<td>Payment of land tax</td>
<td>3.3</td>
</tr>
<tr>
<td>Education of children</td>
<td>1.4</td>
</tr>
<tr>
<td>Other purposes</td>
<td>6.9</td>
</tr>
</tbody>
</table>

The above table reveals clearly that the most important purpose of loans during the pre-independent period had been payments of old debts, followed by purchase of land and trade. Marriages and ceremonies, which is one of the important constituents of non-productive debt, had been a major purpose of loans. One interesting aspect we note that expenditure on children’s education formed a least important cause of borrowing, despite the fact that it significantly influences the borrowing behaviour of rural households.

The estimates of indebtedness in various provinces as made by the Banking Enquiry Committee in 1929 revealed that the amount of indebtedness in Bombay (including Sind), Madras, Bengal, United Provinces, Punjab, Bihar and Orissa, Central Province and Berar and Assam were Rs. 81 crores, Rs. 150 crores, Rs. 100 crores, Rs. 124 crores, Rs. 135 crores, Rs. 155 crores, Rs. 36.5 crores and Rs. 22 crores respectively (Mamoria, 1953).

1.2.2 POST-INDEPENDENCE ESTIMATES

The first systematic estimates of the extent of rural indebtedness were made in the ‘First Report of the National Income Committee’ in 1949. The committee estimated the rural debt at Rs. 915 crores of which about 83% was non-productive and only 5% was supplied
by cooperatives. The Reserve Bank of India did the first survey on rural debt known as ‘Rural Credit survey’ in 1951-52, in which, it was found that the amount of debt owed to the agriculturists and professional moneylenders constitute 24.9 and 44.8 per cent respectively of total debts. The proportion of borrowing families among the rural families was 51.7% of which about 63% of rural families were in debt, and the average amount of debt per family was Rs. 283. The total rural debt was to the tune of Rs. 750 crores. This comprised loans to the extent of 42% for agriculture, 47% for consumption purposes, about 5% for non-farm business and 6% for miscellaneous purposes.

All India Rural Debt and Investment Survey, 1961-62 revealed that the percentage of indebted households to total households did not show any significant changes as it remained between 67 and 69 for cultivators and at 52 for non-cultivators. The average debt for an indebted household recorded an increase and was Rs. 647 crores in 1961-62. The outstanding total debt stood at Rs. 2380 crores.

All India Rural Debt and Investment Survey, 1971-72 data show that the aggregate debt of rural households at Rs. 3848 crores on June 30, 1971 represented a two-fold increase over that in 1961, viz., Rs. 1956 crores. Cultivator households accounted for 88% of the total rural debt in June 1971 (Vijaya Kumari, 2005). The NSSO’s survey of debt and investment during 1981-82 showed that the average debt of rural households in 1981 was Rs 803 for cultivators and Rs 205 for non-cultivators. In 1971, this was Rs. 605 and Rs. 223 respectively. Percentage of households reporting indebtedness i.e., incidence of indebtedness was 22.3 per cent and 12.4 per cent respectively for cultivators and non-cultivators. Debt owed to different credit agencies by rural households during 1951 to 1981 is shown in the table 1.2.

According to ‘Indebtedness of Rural Households Debt and Investment Survey’ (January - December 1992) NSS 48th round, out of the overall aggregate outstanding debt of Rs. 37,343 crores reported by the household sector as on 30.6.91, rural households accounted for roughly 60%, i.e., Rs. 22,211 crores. Cultivator households owed Rs.17, 668 crores,
Table 1.2

Debt owed to different credit agencies by rural households during 1951 to 1981

<table>
<thead>
<tr>
<th>Category of debt</th>
<th>1951</th>
<th>1971</th>
<th>1981</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-institutional</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional moneylenders</td>
<td>45</td>
<td>14</td>
<td>8</td>
</tr>
<tr>
<td>Agricultural moneylenders</td>
<td>25</td>
<td>23</td>
<td>9</td>
</tr>
<tr>
<td>Relative and friends</td>
<td>14</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>Traders and commission agents</td>
<td>6</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>Landlords</td>
<td>2</td>
<td>9</td>
<td>4</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td><strong>Institutional</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>3</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Cooperative</td>
<td>3</td>
<td>20</td>
<td>29</td>
</tr>
<tr>
<td>Commercial banks</td>
<td>1</td>
<td>2</td>
<td>28</td>
</tr>
</tbody>
</table>


which was about four-fifths of the outstanding debt of rural households. In 1991, over 23 per cent of rural households were found to be indebted. One out of every six rural households was indebted to institutional agencies. Only one out of 10 households was indebted to non-institutional agencies. A sharp rich-poor divide prevailed in rural areas with respect to the burden of debt. This burden was as high as 14% for the poorest households viz. those owning assets less than Rs.5,000, but only 1% for the richest, namely, those owning assets at least Rs.2.5 lakhs. Debt incurred just for household expenditure, other than those for expenditure on fixed capital, accounted for about a third of the outstanding debt of households in both rural and urban areas in 1991. This share was even higher - as high as 60% - for the rural poor, who owned assets valued at less than Rs.10,000. Only about 11% of the debt of such poor households was for productive purposes.

According to Rural Labour Enquiry Report on Indebtedness among rural labour households (55th round of NSS), 1999-2000, at all-India level, during 1999-2000, about 25 percent of all classes of Rural Labour Households were reported to be under debt. State wise
analysis revealed that the incidence of indebtedness among all classes of Rural Labour Households was the highest in Dadar & Nagar Haveli (80.30%) and the lowest in Nagaland (3.10%). Andhra Pradesh, Assam, Gujarat, Haryana, Kerala, Punjab, Rajasthan, West Bengal, Jammu & Kashmir, Uttaranchal, Chandigarh, D & N Haveli, Daman & Diu and Lakshadweep reported the incidence of indebtedness higher than the national average of 25%. The overall trend among the Agricultural Labour Households was almost similar to that of the Rural Labour Households. However, the incidence of indebtedness was marginally higher among the Agricultural Labour Households (25.10%) than that among the Rural Labour Households (25.00%) during 1999-2000.

At all-India level, the average debt per household and average debt per indebted household stood at Rs.1515 and Rs.6049 during 1999-2000 as against Rs.1113 and Rs.3169 respectively during 1993-94. While most of the states reported increase in average debt per household during 1999-2000 as compared to 1993-94, Assam, Orissa, Rajasthan, U P, West Bengal, Nagaland, Tripura, and A & N Island reported decline in average debt per household over the period. Andhra Pradesh, Gujarat, Haryana, Kerala, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Mizorum, Uttaranchal, Chandigarh, Daman & Diu, and Lakshadweep reported average debt per household higher than the national average of Rs. 1515.

The main findings of the report on Indebtedness of farmers households of NSS 59th round (December-2003) highlights that at all-India level, estimated number of rural households was 147.90 million, of whom 60.4% were farmer households. Out of 89.35 million farmer households, 43.42 million (48.6%) were reported to be indebted i.e. having a liability in cash or kind with value Rs. 300 or more at the time of transaction. Estimated prevalence of indebtedness among farmer households was highest in Andhra Pradesh (82.0%), followed by Tamil Nadu (74.5%) and Punjab (65.4%). Estimated number of indebted farmer households was highest in Uttar Pradesh (6.9 million), followed by Andhra Pradesh (4.9 million) and Maharashtra (3.6 million). Households with one hectare or less land accounted
for 66% of all farmer households. About 45% of them were indebted. More than 50% of indebted farmer households had taken loan for the purpose of capital or current expenditure in farm business. Such loans accounted for 584 rupees out of every 1000 rupees of outstanding loan. Marriages and ceremonies accounted for 111 rupees per 1000 rupees of outstanding loans of farmer households. Among the states the proportion was highest in Bihar (229 rupees per 1000 rupees), followed by Rajasthan (176 rupees per 1000 rupees). The most important source of loan in terms of percentage of outstanding loan amount was banks (36%), followed by moneylenders (26%). Average outstanding loan per farmer household was highest in the state of Punjab, followed by Kerala, Haryana, Andhra Pradesh and Tamil Nadu.

1.3 SIGNIFICANCE OF THE STUDY

The important findings of various reports and committees bring out some significant features in regard to rural indebtedness. It has been found that about 70 per cent of rural families in the country are indebted and incidence of debt among small farmers is heavier. Moreover, cultivators are more indebted than non-cultivators. Further, most of the debts are taken for short period and are of unproductive nature. It is also revealed that there is grip of private creditors and more particularly of the money-lender-cum-trader on the life of the rural people. The seriousness of the problem still exists and the rise in agricultural prices and planned development and its benefits have still not affected the majority of the peasants of the country, who continue to be in the grip of severe indebtedness.

The problem of agricultural indebtedness is intimately linked up with the larger question of economic development. Poverty, ignorance, absence of industrialization, a static social organization, deep-rooted religious traditions, the uncertainties and insecurity resulting from fluctuations in world prices, are elements in a situation in which indebtedness and low agricultural productivity also enter. If poverty is to be removed from rural India, the problem of rural indebtedness needs to be tackled at first. The extent of agrarian poverty cannot be
fully realized without taking into account the nature and extent of the indebtedness of the Indian peasantry. In order to find the extent of burden of debt in rural India, it is necessary to analyze rural indebtedness. Burden of debt can be measured in relation to the size of owned land or in relation to the total assets.

It is required to carry out empirical investigations for understanding the process in which indebtedness becomes self-perpetuating. This would make for the rural people a way to fight chronic state of indebtedness.

Rural indebtedness has been an age-old problem that has troubled administrators and has received the continuous and anxious consideration of the government. Knowledge of rural indebtedness has steadily increased as the subject has again and again come under survey. Today, it is the most talked about problem, particularly, when the country is agrarian in nature. The subject has drawn much attention from all quarters—be it a government, an individual, NGO or any other agency working for upliftment of rural living. In fact, it has become the buzz-word among scholars and researchers. Everyone has bent upon to examine its nature, causes and magnitude and thereby suggest policy measures which would help rural poor to emerge out of such depressing situation.

It is thus evident that indebtedness is common feature of Indian farming households. It is against such background that there arises a serious need to study and analyze the magnitude of rural indebtedness in the country. An examination into the nature and causes of the rural indebtedness will help in suggesting various measures to this end and assist in formulating relevant policies by the government, in an attempt at reducing such debt. In a nutshell, the study of rural indebtedness is significant in several ways, which have been pointed out as under:

1. The study of rural indebtedness facilitate in analyzing the extent, incidence and structure of indebtedness in rural areas in different size groups of farmers.
2. Its study assists in identifying the socio-economic factors which cause rural indebtedness.
3. It helps to identify the reasons for non-repayment of loans by rural borrowers.
It helps to identify the various purposes for which loans are taken by the rural borrowers.

It helps to find relative shares of various sources of credit to rural borrowers.

The study helps in finding out the relation between incidence of poverty and the level of indebtedness.

It helps in estimating the intensity of burden of debt.

It helps in assessing pattern of consumption expenditure of rural households.

It helps in analyzing the problems of overdues and recovery of loans.

Rural indebtedness data also throw some light on the borrowing habits of the rural households.

It helps to identify the strategies for the expansion of supply of institutional credit to farm sector to serve as an instrument of agricultural development.

The study helps to assess the importance of non-institutional sources of credit in the life of rural people.

We can also study relation between the level of informal borrowings and the number of members in a household.

We can analyze relationship between farm-size and indebtedness and non-institutional sources; and relationship between farm-size and indebtedness and institutional sources.

The study of rural indebtedness also helps in establishing relationship between the level of indebtedness of a household and the level of development of the area where he resides.

It can show ways in suggesting suitable remedial measures to overcome rural indebtedness.

1.4 A BRIEF PROFILE OF NAGALAND

Nagaland is one of the seven sisters of the North-Eastern Region (NER) which comprises the states of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland and
Together, NER covers about 8 per cent of the country’s geographical area and about 4 per cent of its population. The region is well known for its ethnic, linguistic, cultural, religious and physiographical diversity. The economy of the region remains primarily agricultural. Primitive farm practices of slash and burn (Jhum) cultivation in many of the hills and mainly single crop traditional farming in the plains continue. As a result, the region is not even able to produce adequate food grain to feed its population. The average size of operational holding is smaller than the national average in Assam, Manipur and Tripura. In other states, due to Jhum cultivation and common ownership, it is larger. The industrial sector is weak and state sponsored industrialization has failed to take off. There is infrastructure bottleneck in the region.

Nagaland, a hilly state of the region has a total land area of 16,579 sq km and altitudes ranging from 100m to 3840m. The climatic conditions vary from sub-temperate to subtropical. The isolated geographical location and varied climatic conditions have contributed to the state’s unique ecosystems where numerous endemic and endangered species of flora and fauna are found. The agro biodiversity—consisting of both wild and domesticated varieties of plants and fruits—is amongst one of the most diverse in the region. The state has interesting land-use: 80.48% forest cover; 13.44% agriculture; and the rest are habitued areas like towns and villages or rivers and streams.

Forest and agriculture go hand in hand in Nagaland as they are interdependent. By practicing shifting cultivation, naga farmers practice agroforestry, which is the primary agricultural land-use system in Nagaland. The fact that more than 60% of naga farmers practice shifting cultivation and that local communities or individuals are responsible for over 90% of the total land of the state is significant and this makes it important to ensure that local people are involved in all aspects of forestry and agricultural planning.

Agriculture is the mainstay of the people of Nagaland and the two main agricultural systems are shifting cultivation and terrace rice cultivation. Shifting cultivation continues to be the
primary agricultural system in Nagaland. Statistics shows that it extends to over 9,17,087 ha. Jhum assures a cultivated land base to the majority of the people. It provides from 23 to 65 different crops including firewood and fuel meeting most of the farmer's survival needs. Despite 68.44% of the total population of Nagaland practicing agriculture over such a large area, the state's productivity per hectare is a meager Rs. 6677.32. The annual productivity per cultivator/agricultural labourer (in terms of money) is only Rs. 10,930 (2001 census). On the other hand the per capita of non-agricultural workers is Rs. 1,09,337 clearly indicating that non-agricultural workers earn almost five times more than farmers. However, in the last five years, agricultural growth rate has increased significantly (average growth rate is 24.50%).

The land ownership and management systems of the Nagas are unique and different from the rest of India, where local customary laws govern the land. Such laws are tribe specific where each tribe or even village has its own unique customary laws and traditions. The enforcement of these traditional laws and regulations rests on traditional village institutions such as Village Councils, tribal chiefs or headmen. Depending upon the tribe, the land either belongs to the headmen, the community or individual. Except for some tribes where the chief owns the land, the Village Councils and headmen are generally mere custodians of the land. In most community land, all members have a right to use it freely but with prior consent of the custodians. There are restrictions on transfer or even use of traditional land by outsiders. The state government owns just 7% of the total land area. Jhum land are generally owned by the community but regulated by the respective Village Councils. The respective Village Councils decide the area to be cleared for jhuming each year. Individual plots are allotted by draw of lots in most cases. Thus, the practices and trends of land ownership differ from tribe to tribe and largely depend on existing traditions, availability of land and interpersonal relationship with the traditional institutions or the headmen. (NEPED, 2007)
1.5 NECESSITY OF THE PRESENT STUDY

Nagaland like other North Eastern states suffers from slow rate of economic development. Out of total population of 19,88,636 in the state, about 16,35,815 persons live in rural areas. Thus, 82.25 per cent of the population lives in rural Nagaland. The most important activity is agriculture which occupies 68.44 per cent of the working force. There are a total of 1317 villages as per census 2001, of which 1286 are inhabited villages and 31 are uninhabited. The working population of the state is concentrated in the category of cultivators signifying the fact that the economy is land based. About 64.05 per cent of total workers of 8,49,982 (2001) i.e., 5,44,432 persons are cultivators. Of this, 6.21 per cent (33,852 in absolute number) are agricultural labourers. Another significant fact is that there are females in the category of cultivators. In 2001, female cultivators constituted about 50.11 per cent (2,72,825). However, the agricultural development in the state is far from satisfactory owing to a number of factors. Cropping intensity which is one of the important indicators of development in agriculture is very low in the state, i.e., 1.105 only. This is below the region’s (NER) average of 1.396 (Nayak, 1998). The state also suffers from problems of small holdings, and very poor fertilizer consumption, which helps in raising agricultural productivity.

Rural people in Nagaland follow the primitive system of agriculture known as shifting or Jhum cultivation. Apart from shifting cultivation, the state also has irrigated terraces where rice is grown. Other important crops grown are maize, pulses, oilseeds, vegetables and sugarcane. Potato is gaining popularity in the state and it is grown in terraces. Another important feature of agricultural sector in the state is Horticulture. It is considered as one of the means of extending settled cultivation in the hill areas and in fact many fruits are grown in the state. According to a survey of horticultural crops in 1985-86, there are 3248 hectares under fruits, which increased to 19,264 hectares during 1999-2000 and 24,700 during 2000-2001, comprising of 16 major fruits including others. These include apple, pears, plum and peach, orange, lemon, pomelo, pomegranate, papaya, banana, pineapple, mango, jack fruits, passion fruits, grapes, litchis etc. Orange (2,690 ha) occupies the largest area of
cultivation followed by banana (2,544 ha), pineapple (2,515 ha), passion fruits (2,262 ha) and pears (1,090 ha).

Poverty in the state is not less too. About 32.67 per cent of population is living below poverty line, which is higher than the all-India average (26.20 per cent for All India – 1999-2000) and in rural areas it is more prominent i.e., 40.04 per cent (Raghbendra Jha). Rural poverty in the state is, therefore, high and increasing. If we look at the poverty scenario from the evaluation of assets by households, it is observed that about 62.4 per cent of rural households in Nagaland have none of the assets such as TV, Telephone, Radio, Bicycle, Scooter, Car and bank A/c. against 40.5 per cent in rural India as a whole. This is the highest percentage among all the states in the country (Asim Bose, 2003). As already stated that the vast majority of the rural poor in the state are engaged in agriculture (including fishery, foresting and livestock) either as agricultural wage labourers or marginal farmers and self-employed. These are the most economically disadvantaged group (weaker sections) in the state, due to which indebtedness is assumed to be posing a serious problem in the state.

As far as rural credit scenario in the North East India and Nagaland is concerned it shows a dismal picture. The credit-deposit ratio in almost all the states of Northeast lags far behind the national ratio, which is an alarming situation. The credit-deposit ratio in Nagaland during 1991-92 was 43.4, which sharply fell to 12.8 during 2001-02 and this was the lowest among the northeastern states promoting us to select the state of Nagaland as our study area. There was 70.5 per cent decline in this ratio. The reasons for such low C-D ratio is due to lower level of utilization and misutilization of advances, improper identification of borrowers and lack of monitoring, poor recovery and writing off the bad debts by banks, etc (Jayanta Gogoi, 2004). The Commercial banks perhaps find it difficult to provide micro credit in the rural areas of this region due to high cost of operation of banks and very high transaction cost for borrowers and the banks. Another most crucial problem in the north east is the problem of recovery of agricultural credit that has become a constant source of
anxiety for the financing institutions. As a result large chunk of banks' funds remains unloaded. The basic causes include weather conditions, drought and floods as well as the socio-political involvement in which the rural credit institutions functions (K. Sivaloganathan, 2004).

Development of efficient and informative NGOs in the region is very essential, which work in tandem with SHGs and Banks. The total number of SHGs in the Northeastern region is around 4,069 i.e. only 0.7 per cent whereas in Andhra Pradesh alone, the figure is 2,81,000, which accounts to 50.7 per cent of all SHGs in the country (Amrit Patel, 2004).

Taking into consideration the backwardness of agriculture and mass rural poverty in the state, it is feared that farmers may fall into indebtedness. Against such a gloomy milieu, there is an urgent need of in depth analysis to this end in the state, where indebtedness may have developed into a major setback in the socio-economic fabric of the state’s economy. As such it becomes imperative to study this problem and find its magnitude and causes, which would also help the state machinery and credit supplying institutions to formulate various policy measures.

1.6 OBJECTIVES OF THE STUDY

It is against the above scenario that the present study outlines the following objectives. It is an attempt to analyze the extent and magnitude of rural indebtedness of households in Nagaland. It examines the economic conditions of rural people and weaker sections and tries to find out the causes of rural indebtedness in the state. The study pertains to the period of 2006-07.

1. To estimate the extent and magnitude of rural indebtedness.
2. To assess the level of indebtedness according to size of landholdings.
3. To examine the sources of credit to rural households.
4. To identify the causes of rural indebtedness.
1.7 HYPOTHESES OF THE STUDY

The study attempts to test the following hypotheses:

1. There exists a direct correlation relationship between rural poverty and rural indebtedness.
2. Proportion of debt is higher for unproductive purposes, than for productive purposes.
3. Borrowing from non-institutional sources exceeds borrowing from institutional sources.

1.8 SCOPE OF THE STUDY

The study aims at examining the extent, nature and causes of rural indebtedness in Nagaland. It attempts to throw light on the farm income, assets, credit requirements, consumption expenditure-productive and non-productive, agricultural production levels and other related aspects at the farmers' level. Hence, the study will help to identify the major problems faced by rural households in getting loans from the various institutions and examine the extent to which they are in the clutches of moneylenders. It shall reveal many important factors associated with rural people in regard to their demand for credit such as degree of accessibility to different sources of credit, pattern of utilization of loans, repaying capacity, overdues, level of poverty and so on. The findings of the study would help and benefit rural people, the government, banks, decision makers, NGOs, SHGs, and researchers in general. It would facilitate in taking appropriate measures in regard to development of rural credit delivery mechanism in the state. It will help the grassroot level institutions like Village Development Boards (VDBs) to take measures to remove rural indebtedness in their respective villages.

1.9 LIMITATIONS OF THE STUDY

The study is conducted by collecting primary data from 300 sample farmers for the agricultural year, 2006-07 only. One of the major limitations of the study is that rural households do not
maintain the accounts of their money transactions, income and production etc. So, they provided data by recalling from their memories with all its limitations. Most of the respondents were found to be reluctant to speak anything about the loans they have taken and about the utilization of the same. However, best has been done to take out the most of information from the rural families by explaining them the usefulness of the study and making rapport with them. Moreover, asking indirect questions and cross examining have helped a lot in getting right information. Furthermore, some of the villages in the sample district/s are inaccessible due to difficult terrain and lack of road transportation, which have been purposefully left out of the sample. There is also the problem of insurgency in the state, posing a major limitation during the survey. Besides, it was a location-oriented study as it was confined to three districts of the state with their specific agro-climatic conditions. Therefore, any generalization from the conclusions of this study may call for care and consideration to the basic conditions.

'1.10 CHAPTER SCHEME OF THE STUDY

The analysis of the present study is divided into six chapters. The significance of the study of rural indebtedness and the need of the present study has been presented in the Chapter I, namely Introduction: Significance of the study of Rural Indebtedness. Chapter II: Conceptual Framework and Methodology deals with sampling design, concepts and definitions and methodology used in the study. A brief review of selected studies has been made in Chapter III: Review of Literature. Chapter IV: Nature and Magnitude of Rural Indebtedness in Nagaland, examines the extent and causes of rural indebtedness in Nagaland. The factors that determine rural indebtedness in the state are analysed in the Chapter V: Factors Determining Rural Indebtedness in Nagaland. Summary of the study and conclusions are dealt with in Chapter VI: Findings and Conclusion.
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