CHAPTER-II
REVIEW OF LITERATURE

2.1 INTRODUCTION

One of the serious and unrelenting problems faced by the Indian agriculture households has been indebtedness. Despite substantial improvement in agricultural output as well as distribution of credit through institutional sources since the introduction of new agricultural technology, indebtedness among the farmer households is found to be widespread even today. While studying the Punjab’s Peasants, Darling (1925) wrote, “The Indian peasant is born in debt, lives in debt and dies in debt”. Though this was written about eight decades back, the problem of indebtedness not only remains true today but it has been aggravated further in recent years.

Ever since many studies have been conducted by researchers concentrating on indebtedness in agriculture sector showing credit delivery to agriculture allied sector, non-repayment of loans by the farmers, impact of indebtedness on income, employment and assets generation, etc. THESE STUDIES have generated a wide spectrum of results. But not many studies have been conducted as the theme of impact of indebtedness on agriculture sector with special reference to state of Haryana. Those who have done some research work in this regard could cover only a few aspects of indebtedness. A brief review of there studies has been given here under.

Prasad (1975) used personal interview method on 144 farmers (large farmers having operational holdings 3.04 hectare to 5.05 hectare small farmers having operational holding 1.01 hectare to 3.04 hectare and marginal farmers having operational size of holdings upto 1.01 hectare in ratio of 36:72:36 respectively) selected on the basis of stratified random sampling method from
Rampura district in Uttar Pradesh. The study was conducted particularly in an area where no special agency was operating to provide finance to farmers.

The study reveals that commercial banks supplied short term loans only to large farmers. It also reveals that default of short term loan from all sources was highest (56%) on large size farms and default of long term loan in case of Land Development Bank was highest (84%) on large size holdings. However, default on marginal farms was highest (86%) in case of loan from private moneylenders.

Pandey and Singh (1981) in their study of ‘Risk’ and credit management in changing agriculture in purposively selected Banda district in Uttar Pradesh find that the factors such as area under high yielding verities (H.Y.V.) to the total operated area, total income from all sources, percentage of loan utilized for production purposes and owner’s equity, of the borrower influence their ability to repay the loan. The borrower’s optimal or best bet decision of utilization of credit for production purposes above 75 percent will ultimate need to the higher income and consequently higher ability to repay. But the willing to repay the loan, according to the study, completely rests on the borrowers.

Pandey, Suhag and Manocha (1983) in their study of ‘Growth in co-operative credit and production of loans and levels of default in Haryana’ have utilized secondary data for the period ranging from 1966-67 to 1979-80. And have worked out simple linear growth rates to know the temporal rate of growth. Nerlovaion model and regression equation have been used as statistical tools.

The study concludes that both disbursement and default of loans have significantly increased over the period of time. The outstanding loans were overdue and bad doubtful debts are expected to increase by 41.12, 23.94 and 50 percent respectively in Primary Agricultural credities. The study further reveals
that co-operative credit has positive and significant effect on increase in agricultural income and repaying capacity and temporal loss in agriculture income due to loan default is about 7.53 crores per annum. Moreover Rs. 1000/- of loan default causes the loss of agricultural income by about Rs. 5000/-.

Pandey, Gangwar, Aggarwal, Karwasra and Panghal (1984) in their study of repayment performance of defaulter and non defaulter borrowers with respect to agricultural loans in purposively selected Kurukshetra district of Haryana have revealed that with increase in size and total consumption expenditure, the amount of the outstanding loans and overdue also increased considerably. Regarding the reasons for default, 65 percent of total defaulters attributed the default to failure of crops due to adverse weather and inadequate and erratic supply of electricity.

Satyasai, Venkateshwarlu and Seetharaman (1987) in their study of overdue pattern of agriculture credit by choosing 80 borrowers representing 20 each of marginal, small, medium and large by two stage random sampling method, from co-operative and commercial Banks in 100 percent irrigated west Godavari block of Andhra Pradesh, have observed that overdue credit per holding has increased with increase in farm size. Further, the outcome of the analysis reiterate the observation that though the proportion of defaulters to total defaulters decreased with the increase with the farm size, the proportion at overdue credit increased with farm size. The study further reveals that the main reasons of default credit have been late accrual of income from sale of produce, crop failure and immediate investment of Kharif income in the Ravi cultivation. To remedy the situation, the study suggests the need for educating the farmers regarding repayment of loans and consequences of overdue through voluntary organization.
Balisher (1989) in his study of 'Agricultural loan: Menace of overdue' have selected two district purposively one having maximum percentage of overdue and other having minimum percentage of overdue. Then from each district one block with maximum percentage of bank overdue has been selected. Then defaulters have been selected by applying random sampling technique from both the blocks and have been categorized into small (Up to 2 hac), medium (2-4 hac) and large (above 4 hac) categories.

The analysis reveals that the extent of overdue problem has been more serious in agriculturally backward area than in progressive area. Farmer borrowers mainly discharge other loans from private agencies for different reasons, such as high rate of interest. Pressure from the agency and to ensure future supply of credit. In progressive area there are more wilful defaulters than in backward area. Reasons for wilful default were found to be slackness on the part of bank to insist on timely recovery, diversion of loan for purchase of land, motivation by few people for writing off, fear for not getting fresh loan and no botheration about legal action. Non-wilful default, on the other hand, is due to natural calamities such as crop failure and low yield.

Verma (1992) purposively selects progressive Nagori block of Chittoor district in Andhra Pradesh to assess the effectiveness of financing of agriculture by co-operative credit institution and applies stratified-cum-purposive sampling technique in selective at 150 borrower member of agricultural co-operative credit society. The study reveals that high percentage of defaulters are in the middle asset group of Rs. 20,000 to Rs. 1,00,000 and belongs to the operational land holding class of 5.00 acres to 7 acres. The study further reveals that majority of borrowers have not repaid their loan dues due to drought conditions prevailing in area.

It has been observed that recurring drought has drained the economic strength of kisans and hence mounting overdue. There are certain other causes
of default such as failure of crop due to pest menace and exorbitant increase in cost of cultivation due to exorbitant increase in labour charges coupled with increasing cost of fertilizers. Some of respondents have openly expressed that they have deliberately postponed repayment of loans with the expectation that one day government would write off all the crop loans. Other reasons for non-repayment of dues have been reported to be lack of supervision by the society officials, delay in disbursement of loans and under financing.

Banerjee (1992) attempted to elucidate the spatial distribution of credit facilities in the study area and to suggest a diagnostic plan proposing new location of credit facilities in order to achieve and optimal and spatial organisation of credit facilities. The study concluded that credit facility in the district was inadequate. It concentrated in towns and villages with higher population.

Hooda and Turan (1993) noted that the agriculturists were under higher average total indebtedness as compared to what it was at the over-all level. Crop loans accounted for the highest proportion of agricultural indebtedness for working capital, followed by purchase of fertilizers. Overdues were higher in the case of non-productive loans in comparison to productive loans. Among agriculturists, the proportion of average non-productive loan overdues was higher than the productive loan overdues for all the farmers except small ones. The large proportion of indebtedness had been financed by the organised sources. The commercial banks have financed the highest proportion of indebtedness in the general castes, whereas in the scheduled castes the cooperatives had made the maximum debt financing. The suggestions made in the study are: (a) the information regarding total debt liability, total income from all sources, and current value of entire asset base of every claimant should be collected before undertaking any debt relief for rural population; (b) the debt relief programme should be followed by an appropriate and viable long-run
package plan through which the overall economic well being of the chronically indebted household is improved; and (c) the diversion of funds to unspecified purposes should be checked through appropriate follow up action.

It again shows that on an average, each indebted household carries a total debt of about Rs. 8300. In the general castes, the average per household indebtedness (Rs. 11800) is much above that of backward castes (Rs. 5500) and scheduled castes (Rs. 3800). According to the further break up of productive indebtedness, other productive indebtedness is about Rs. 4300 and agricultural indebtedness is Rs. 14000 at overall level. The indebtedness is higher in the general caste (Rs. 6100) and lower in the backward class (Rs. 3800) and scheduled castes (Rs. 3700) categories, as compared to overall average. Agriculture indebtedness is lower in the general castes (Rs. 13800) and higher in scheduled castes (Rs. 15300) and the backward castes (Rs. 19100) than the overall average. The average non-productive indebtedness which is lowest at the overall level and is compared to the other types of indebtedness is again the highest in the general casts (Rs. 5300) as against Rs. 3500 at the overall level. It is about the same (Rs. 3000) both in the backward and scheduled caste categories. Except for the index of agricultural indebtedness, the indices at all other types of indebtedness are the lowest in the scheduled castes and highest in the general casts. The inter-caste variations are more pronounced in the index of productive indebtedness than those in the non-productive indebtedness.

Goyal, Pandey and Modi (1993) in their study of repayment capacity of defaulter and non-defaulter borrowers of Co-operative societies by applying three stage random sampling technique in selection of borrowers in Hisar district (Haryana) have observed that amount of loan borrowed per farmer households is highest in the medium group of defaulter having operational holding of 4-8 hac. But the loan borrowed per hac. in case of small farmers
having operational holding up to 4 hectare. It has been estimated that the percentage of overdue to amount of loan advanced is the highest in case of medium farmers than the other group of defaulters.

The study, hence, concludes that the non defaulters are well off and better placed with respect to average yield of major crops, value of form Assets, total cash return to the household and repayment capacity as compared to defaulter borrowers. The defaulter borrowers have utilized a relatively larger portion of their total earnings on consumption purposes and there by have left less for investment in production processes. This has resulted into low repaying capacity of the loan on the part at the defaulter borrowers. 

\[\sqrt{\text{Purkayastha (1996). The study reveals that the sample consisted of 300 labour households with the average family size of 5.42, of the 300 labour households as many as 201 were found possessing the average size of operation holdings below 1 biga. Most of these households were seen leasing/mortgaging out their tiny possessions at throw away prices.}}\]

The study further reveals that of the 300 labours households as many as 238 (79%) were found indebted. It is significant that as high as 91 percent rural labour households living in the villages located near urban centres was found indebted as against 68 percent in the case of remote villages. The percentage of indebted house holds (85.71) was found much higher among SC households compared to the general 82.88 and ST households 43.48 percent, (the segment of population where incidence of poverty was found highest, this is indicative that there is a negative link between the level of poverty and incidence of indebtedness.

The same study again shows that size of debt per indebted rural labour household was found to be Rs. 1191, while the debt per indebted agricultural labour household was recorded at Rs. 1234. The amount of loan overdue
constituted over 60 percent (51.9% and 72.7% respectively for with land and without land category) of the borrowing made by the labour households.

The study again shows that the productive purpose loans constituted below 23 percent of the total debt. Among the landless section, this share was found considerably lower (9%). One third of the total outstanding debt was taken for household consumption.

Mazumdar and Baruch (1996) examined the utilization pattern of allied activities loan and the problem faced by the borrower in utilizing credit. It concludes that credit is sine-quo-non for Indian economic growth and development. Credit in association with improved technology inputs, supervision and proper management has considerable impact on increasing income and employment of the farm borrowers. The constraints faced by the farmers in utilization of loan should be reduced to the minimum in order to make credit more effective to the farmer. There should be a condition the various agencies involved in rural development such as co-operatives and commercial banks and also among the District Rural Development Agencies, Panchayat Samities etc. for making the programme of agricultural credit a viable proposition for rapid agricultural growth and development.

Kundu (1997) observed that per household average amount of farm debt in Haryana is Rs. 42544 and its tends to increase with the size of the farm i.e. with the repayment capacity of the indebted households. It further reveals that the composition of debt in terms of formal sources and informal sources shows that, at the state level, for al the sample household taken together the formal sector provides a little less than two thirds (63.94 %) of the total debt and the remaining the little over one-third (36.06%), the farmers depends on the informal sector. Category-wise, the dependence on the informal sector is more pronounced in case of marginal and small farmers, being around 45%, whereas it is the much less in case of large and medium farmers, being only 25-30
percent. The study also shows that the debt is incurred by the sample households in terms of the purpose for which it is taken shows that, as a whole, farmers in the state incur 84.21 percent of their total debt for productive purposes, with 15.79 percent being taken for unproductive purposes. Category-wise, it is the small farmers who incur 80 percent of their debt for productive purposes followed by the marginal farmers with a figure of 75 percent. It is the large farmers who devote the maximum proportion of their debt to productive purpose i.e. 94.89 percent. Thus, unproductive use of debt is more among the marginal and small farmers, reflecting their comparative resources scarcities vis-a-vis the large farmers.

Shergill (1998) established that majority of the farmers were taking loans from commission agents. The amount of short term loans per operated acre was the highest among small farmers and the lowest among large farmers. As the farm size increased, the amount borrowed per acre declined. Amount of long term loans per operated acre was the highest among semi-medium farmers but the lowest among large farmers. The incidence of mortgage debt was very low and was negligible among semi-medium and medium farmers. Hooda and Turan found the average indebtedness continuously increasing with the increase in the size of land holdings. The average production indebtedness was lower in case of marginal, small and medium farmers and higher in big and very big farmers. The proportion of productive indebtedness continuously increased from the lowest in the marginal farmers to the highest in big farmers. The overdues relating to all sources of credit continuously declined with the increase in the holding size. The organised sources were facing higher overdues percentage than the unorganized sources in the case of all farmers, except marginal and large land holdings.

The study further reveals that about 89 per cent of farmers in Punjab were availing short term loans during 1996. The estimate of the average
amount borrowed per operated acre was Rs. 3590. The share of commission agents in total short term loans was about 61 per cent, and that of commercial and Regional Rural banks was only 4.71 per cent. The commercial banks advanced 54.59 per cent of total long term production loans. Out of the total amount of non-productive loans taken by Punjab farmers 81.92 per cent was outstanding. Total estimated debt of farmers in the state of Punjab comes to Rs. 5700.91 crore. Out of the total debt, 46.32 per cent belongs to commission agents, 7.12 per cent to agriculturist mortgagors, 27.14 per cent to co-operative institutions and 19.42 per cent to commercial banks. The annual interest burden of debt on Punjab farmers is estimated to be Rs. 1102.78 crore which is 11 per cent of net income originating from crop production. This burden comes out to be Rs. 1074 per acre of total operated area of Punjab. For short term crop loans, most of the farmers prefer commission agents, followed by cooperative credit societies. There was considerable dissatisfaction among borrowers about very high interest rate charged by commission agents and about suspected tempering of their credit accounts by them. Majority of the farmers felt that they can not carryon cultivation without credit supplied to them by commission agents.

Singh, Pandey and Singh (1998) examined the structure of rural credit and rural credit agencies, utilization pattern, extent of repayment and indebtedness of tribal farmers. In the study it is observed that more than 85 percent of total outstanding loan advanced by institutional agencies was overdue as against about 30 percent in case of non-institutional agencies. The overall repayment performance by the selected farmers with regard to institution loan was quite poor as compared to non-institution loan. The economic analysis showed that the average annual income of small and marginal farmers was far less than their annual expenditure leading to heavy financial deficit. It is concluded from the analysis that institutional agencies are functioning well compared to informal credit agencies. However, there is urgent need to modify the credit policy of institutional agencies in providing
non-agricultural loans to the farmers. Special attention is also required to improve the recovery performance through policy measures.

Mujumdar (1999) the study shows that according to the committee of R.V. Gupta in Dec 1977 by R.B.I. the target of 18 percent lending to agriculture was fixed at a time when reserve requirements were as high as 63 percent. These have progressively been reduced over the years and are now at 39 percent over the last five years, in absolute terms lendable resources based on effective reserve requirement increased from Rs. 113080 crore 1992 to Rs 270536 crore in 1996 and net bank credit increase from Rs. 1,17,443 crore to Rs. 2,28,583 crore in the same period. The base on which the target of 18 percent is calculated ‘doubled’ requiring banks to concomitantly double their lending to agriculture, to even maintain the share, i.e. 16 percent in conditions.

The study further reveals that the agriculture production itself was growing at 2.1 percent per annum. Although agricultural lending of Public sector banks increase of from Rs. 15857 crore in 1991 to Rs. 26357 crore is 1996, the share of such advances to net bank credit actually declined from 15 percent in 1999 to 14.3 percent in 1996.

Sharma and Mehar (2001), the study converse the changes which have come about in the incidence of indebtedness among rural households over the period 1981-1991. It shows the incidence of indebtedness, defined by proportion of households reporting cash loan, increased marginally from 19.4 percent in 1981 to 23.4 percent in 1991. The reported increase had remained faster among the non-cultivator households as compared to the cultivator households. Across the state there seems to be vide variations in the in incidence of indebtedness. During 1991, Assam, Haryana, Bihar and Himachal Pradesh and lower incidence compared to other states. During 1991, except Gujarat, all other states reported increase in the incidence of indebtedness and the state of Assam still remained lowest at 6.2 percent though there was a
marginal increase compared to the previous decades. At All India level, average value of debt has grown faster than the average value of debt per household except for non-cultivator households and barring a few variations across the states, which accordingly resulted in the variations of debt asset ratio in the two decades.

The institutional agencies cater to more than 60 percent of total cash loans to rural households in both the decades. The increase in case of non-cultivator households was sharp as compared to cultivator households. Cooperative and commercial banks continued to be the dominant contributors, whereas, among non-constitutional agencies, agricultural and professional money lenders had the dominant share. The study also reveals that the loan taken for productive purposes has declined sharply 69.2 (1981) to 22.5 percent (1999). The fall in the share of debt for productive purposes was accounted by the household expenditure for all categories of households.

Gautam Purkaystha (2001), this study was conducted under the jurisdiction of Tinsukia district in Assam. The study reveals that in present day economy the incidence of indebtedness is viewed neither with alarm nor with complacency. The study further reveals that on overall basis, two fifth of sampled households were indebted at the time of interrogation (January to Dec 1999). One third (33.98%) of the sample household obtained loan is cash. The incidence of borrowing was higher by more than 10 percentage points among the other households compared to the earlier estimates of 60s, 70s, 80s conducted by the R.B.I./N.S.S.O.

It is important to note that the amount of borrowing rose significantly in the southern states of Andhra Pradesh (12.22%), Kerala (15.96%) and Tamil Nadu (97.4%) as against the national increase of 66.7 percent, between 1971-72 and 1991-92.
The study reveals that the loan of small amounts obtained mostly for consumption purposes, were raised for less than one year time period. It further shows that the unproductive loans (24%) mainly comprised of repairing of house buildings, health cases and marriage while the productive loans were raised mainly for self employment activities (I.R.D.P/S.G.S.Y). In long term loan category the lowest numbers of households 22 percent were recorded. Quite a few defaulter households with a relatively large size of borrowings had reported in this category. About 39 percent of the aggregate borrowings fall in the long term category mainly raised for medical purpose, while the marriage and household consumption constituted much smaller proportion.

Rajesh (2001) the researcher found that in the Dadanpura village, crop failure over consecutive village, crop failure over consecutive years has brought Harpal Gujar’s Family a grim present and a gloomy future. The fields they had cultivated were first destroyed in flood, caused by heavy rains, which washed away the fertile top-soil and deposited gravel on it. Drought during the subsequent years turned the field into a hand barren started. Employing labour to cultivate this land would be expensive and, in the absence of water unproductive. He mortgaged his land and borrowed money at the flat rate 24 percent p.a. interest.

The study further shows that the farmers in the entire Silwasa village have been in the clutches of moneylenders. They had to mortgage their land and took loan from a moneylender of Jodhpur at interest rates ranging from 24 percent to 60 percent p.a. with the condition that if they failed to repay the amount in three years, their land would be forfeited. Every family has a debt of Rs. 30,000 to 40,000 to repay.

The study by Purkayastha Gautam (2001) shows that in the sample households of 256 the share of institution source was found considerably low at 42 percent of the principal amount of borrowings, 34.3 percent of the sample
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households had borrowed money from informal sources as against a mere 10.2 percent which went to the institutional sources.

The study again further reveals that in absolute terms, the source friends and relatives served the highest number of borrowers (14 percent) followed by commercial banks. (10 percent), moneylender 8 percent and shopkeeper (8 percent). The percentage share of commercial banks in outstanding debt was found to be almost one third of the total, followed by friends and relatives (25 percent) and moneylender (24 percent). These three sources together constituted above four fifths of the total borrowings. The source like government (5 percent), employer (5 percent), shopkeeper (4 percent) co-operative societies (4 percent) and others (0.4 percent) together contributed about around (18 percent).

Adhikari (2005). The study is based on a sample of 84 farm households selected from nine village’s development committee in Morgan District of Nepal. The study shows that there is a positive impact of credit on production of Paddy and wheat in the sampled area of Morgan district. Paired t-test is used to examine the difference between the production before credit use and after credit use. The farmers are not using the required amount of inputs as recommended by the Agri-technicians. The marginal farmers are using only 59.65 percent of the total credit borrowed, small farmers are using only 60.53 percent and medium and large farmers are using 76.56 percent. The remaining amount of credit is used for family expenditure. The study indicates 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 is due to their inability to use all the borrowed credit in production to realise the potential level of output.
Naraynamoorthy and Kalamkur (2005). The study showed that the incidence of indebtedness (proportion of farmer households reporting debt) ranges from about 18 percent in Assam to 82 percent in Andhra Pradesh during the year 2003, while the incidence of indebtedness is found to be higher among the agriculturally advanced states like Andhra Pradesh, Punjab, Tamil, Karnataka and Haryana during 2003, the same has increased substantially across the states during 2003 as compared to the situation prevailing during at 1991-92. The average debt (at constant price) per household increase from Rs. 1254 in 1991 to Rs. 3884 in 2003, it is found to be very high in states like Punjab (Rs. 12832), Kerala (10465) Haryana (8027) Andhra Pradesh (7397) and Tamil Nadu (7396) during the year 2003. The study on the whole shows that (a) the incidence as well as extent of indebtedness has considerably increased among the farmer households over last one decade across the states and (b) both the incidence as well as the extent of indebtedness is found to be relatively higher among those states that are relatively developed in terms of agriculture.

Jagannath Lenka (2005), the study seeks to highlight the incidence of debt of rural farmer household and the relative role of institution and non-institutional agencies in financing the rural indebtedness across major states of India. The study shows that nearly half of the rural farmer households in the country are indebted in various degrees. The agriculturally prosperous states are found to have become home to a large number of indebted farmer households compared to their number in less prosperous ones. In spite of fact that about 60 percent of the indebted households have borrowed for agricultural pursuits as high as 40 percent of them have availed loans for unproductive purposes. The most important findings is that even after a decade of economic reforms, the professional moneylenders are the predominant source of lending for the rural farmers.
Singh and Toor (2005) pointed out that the indebtedness from the Punjab state from different productivity level region and to avoid geographical contiguity of the sampled district, it was deemed fit to select Ropar from semi-hilly region, Ludhiana from the central region and Bhathinda from the south-western region. A total number of six villages were selected by selecting two villages from each district. Thus, in all a sample of 55, 120, and 75 farm households were selected respectively from each region.

The study reveals that 78.40 percent of the farm households in Punjab state were under debt. The percentage of indebted households was the highest 88.57 percent, in case of semi-medium farmers while this percentage was the lowest (45 percent, in case of large farmer, this proportion were 76.92, 82.00 and 77.08 in case of marginal, small and medium farmers. In Punjab the average amount of debt per sample household was Rs. 92,394 while the same was Rs. 117,849 for an average indebted household in the state. The amount of debt per sampled household was the highest (Rs. 175,206) in case of medium farmers and the lowest in case of marginal farmers Rs. 23602. The average amount of debt per sampled farms household was also the highest Rs. 125616 in Region III, followed by region II 85128 and region I 62946.

The same study also shows that an average farm household in the state has Rs. 53710 (58.13%) of debt from non-institutional credit agencies. The marginal farmers were under a debt of 74 percent from non-institution agencies and remaining 26 percent from institutional agencies. Small and semi-medium farmers were indebted from 69.86 and 60.12 percent to non-institution source and remaining with institution agencies. The medium and large farmers were 53.20 and 47.40 respectively with non-institutional and remaining with institutional.

Again the same study reveals that an average farm household in the state incurred a debt of 41.03 and 58.97 percent 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 percent of their debt on unproductive purposes followed by small medium, semi-medium and large farmers.

Sahu and Rajshekhar (2005) analyzed the data on the total outstanding credit provided by the scheduled commercial banks to agricultural sector during the period 1981 to 2000. In this study some questions like have banking sector reforms improved the share of net bank credit to the agriculture sector? What is the interest rate elasticity of supply of agriculture credit, etc. were analyzed.

The analysis brings out that the share of credit to agriculture in total net bank credit had significantly declined especially after the introduction of banking sector reforms. Across the bank groups also, a similar decline was observed. In case of co-operative banks the situation was grimmer. The share of farmers, borrowing less than Rs. 25,000 declined in both the total number of loan accounts and total loan amount during the reform period. The analysis also shows that SCBs provided larger quantum of funds to activities earning higher income. Credit flow to agriculture was negatively associated with investment in government securities.

The key observation in this paper is that interest rate serves the usual allocative role of equating supply and demand for loanable funds, on the one hand, and also affects the average quality of lender’s loan portfolio. Because of this, it is argued that banker may not use interest rates to clear the market and may instead fix the interest rate, meanwhile, rationing access to funds.

Golait and Chandra (2005) in their study, ‘A comparative study of direct institutional credit to agriculture and allied activities in the eighties and nineties’ revealed that the growth of long term credit has decelerated, while the short-term credit flow has stagnated. This phenomenon has even continued in later year and has reached an alarming proportion in 2000-01 and 2001-02,
which has a dampening effect on the agricultural environment for future growth. The farmer seems to borrow more short term credit in order to meet inputs need to maintain continuity in agricultural operations without much worrying about long term capital formation. It might be the case with supply side that, short term credit bears low credit risk, lower supervision and monitoring costs and a better asset liability management. The research paper concludes that the possible constraints causing slow growth in agricultural credit disbursement in the farmers at lower interest rate providing relief at the time of natural calamity and liquidity smoothening process, linking credit supply to input use and broadening organisational empathy i.e. matters relating to morals of debt repayment.

Mishra (2005) conducted a study to examine the impact of institutional finance on farm income and productivity in selected farms in Balioanta block of Khurda district of Orissa. Specially, the study aims: (a) to the sources of borrowing among different categories of farmers (b) to study the nature of utilization of borrowed funds and (c) to study the impact of agricultural income and productivity of sample farms. Multiple regression analysis was employed to study the impact of institutional credit for increasing output of farmer's level. The results show that among all the institutional agencies, the role of co-ops was quite commendable having the share of 39.35 percent followed by commercial banks 19.38 percent and RRBs with 6.91 percent. The small and large farmers were relatively the most important outlets borrowing about 75 and 81 percent of total of total finance. Further, it is evident that out of total borrowings crop loan constituted 68 percent as against 32 percent by term loan. The per hectare borrowings of marginal, small and large farmers of crop loan were Rs. 2251, Rs. 2066 and Rs. 1788 respectively and long term credit it was Rs. 859, Rs. 952 and Rs. 986 respectively. Large farmers borrowed less short term and more long term credit per hectare as compared to marginal farmers who borrowed more short term credit. It was observed that 20.38 percent of
short-term credit and 20.55 percent of long term credit were diverted for unproductive purposes. The study further revealed that the increase in yield of borrowing farms was due to use of credit financed inputs.

Vishwanathan (2005) in his paper presented a critical review of the credit flow to agriculture from institutional source during 1991-2005. It was noted that the share of co-operatives in credit flow to agriculture declined from 49 percent in 1991 to 27 percent in 2004-05. The growth in credit flow had decelerated for commercial banks in respect of production credit, investment credit and total credit during the 1990s compared to the previous two decades. The share of production credit in value of inputs used in agriculture had gone up from 41.1 percent in 1993-94 to 58.9 percent during 1999-00 due to the faster growth in production credit on account of several reasons, there seems to be some reluctance as reflected when only 8 out of 26 major commercial banks in the country achieved the target at 18 percent of net bank credit to agriculture while some of them achieved only by 12 percent, as against widely held perception that agricultural lending lead to non-performing assets, only 13.87 percent of NPAs of public sector banks was in agriculture sector while more than 50 percent was in priority sector.

Sehgal (2005) in his study showed that 1000 acres of land in Bhutal Kualn village in Sangrur district of Punjab are up for sale. In neighbouring Bhutal Khor, 1200 acres are going a begging. With crops failing and mounting debt, farmers in Punjab have no option but to sell their land dirt-cheap. This is the first of a special series on Punjab’s agricultural crisis.

Sharma (2005) the study notes that both formal and informal sources of credit are important in the Indian context, the significance of formal credit institutions in terms of credit delivery for the agricultural sector has increased over time. The study further states that the policy announcement by the finance minister regarding doubling of agricultural credit by March 2007 is timely but
that alone may not serve the purpose of augmenting capital formation in Indian agriculture. The data available for March 2005 show that the targets have been achieved by all banks except co-ops credit institutions. There is a need for public investment in rural infrastructure and strengthening of alternative credit delivery mechanism for correcting the situation pertaining to low investment credit dispensation in agriculture sector.

Kareemulla (2005) revealed that the Uttar Pradesh states contributes over 20 percent of Indians agricultural production. The 59th round of N.S.S.O. found that about 40.3 percent of the farmers in Uttar Pradesh were indebted. The study analyses the credit flow to agriculture in Uttar Pradesh and identify the reasons for farmers indebtedness in Jhanshi District in Uttar Pradesh. The study further reveals that the flow of credit to agriculture was Rs. 2741 Per hec. in Uttar Pradesh compared to Rs. 3650 on an all India basis during 2001-02. Capital expenditure and crop loans accounted for 60.9 percent of the indebted amount by the farmers. The study concludes that the major reasons for indebtedness and default are vagaries of weather and diversion of funds for non productive uses.

Rao and Charyula (2005) the study relating to micro level data collected from 495 farm households from six villages of Andhra Pradesh attempts to assess the level of income and indebtedness, nutrition status and living standards of the sample households and estimates the level of poverty and employment during the agricultural year 2001-2002. The six study villages from the rained areas of Andhra Pradesh present a dismal picture. The paper brings out that about 42 percent of the sample households live below the poverty line and that both the income as well as the consumption standards are very low. None of these six villages have the benefit of surface irrigation. Successive droughts and growing population have accentuated water scarcity and poverty. The quantity and quantity of resources are 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 investment and incentives for agricultural and rural development.

Borbora and Mahanta (2005) the paper tries to assess the extent of rural indebtedness and flow of institutional credit among rural household 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 purposes was found to be as low at 7.8 percent. As a result, there is not much improvement in form productivity Again, the institutional credit to agriculture in the state is not satisfactory and has been declining over the year, which needs further analyses and calls for remedial measures. The paper also shows the importance of SHGs to improvement in rural areas.

Atteri, Kar and Singh (2005) the study analyses the indebtedness of Indian farmers in various regions in the country by income sources, farm holdings size and purpose wise distribution of outstanding loan. The data used for the study were obtained from C.S.O, Ministry of Statistics and Programme Implementation. Regression analysis was carried out to study the relationship between amount of loan and size of holding in various regions. The study revealed that the principal source of income of above 50 percent farmers in most of the regions in the country is from the cultivation of field crop. Above 45 percent of the farmers pursuing cultivation activity are indebted only a relatively lower number of farmers avail loan for the purpose of animal husbandry related activities and plantation. Above 80 percent of the farmers in most of the regions in the country having land less than 2 hac, are indebted. The average amount of loan per farm in India was Rs. 12588 while it was the highest at Rs. 17000 and 25000 in the southern and western region and respectively. The average amount of loan taken by the farmers increased by Rs.
7100 with the increase in farm size by one hectare. Today, farmers take more loans from banks compared to any other agency unlike earlier period. However moneylenders and traders, still remain the important sources of borrowing among the farmers.

Joshi, Kingra and Sharma (2005) the study reveals that the major compound of the total loan comprised crop loan covering about three forth of the total loans taken in Punjab Agriculture. C.Bs played a major role in financing loan, which was followed by co-ops and moneylenders. So far as the gap between requirement and availability is concerned, about 29 percent of the amount falls short of loan requirement. There is a direct relationship between loan required and the farm size. The farmers were unable to repay loan increasing the farmer indebtedness over time. The study concludes that there is a need to redirect the commercial banks to extend loan facilities liberally to the small farmers. Thus would pave the way for lessening the role of non-institutional agencies and thus help the farmers to escape from the clutches of money lenders.

¥ Pandey, Minocha Kumar and Sharma (2005). The study revealed that a great majority of borrowers/defaulters were non- chronic defaulter of general category, literate with earning adults in the family, irrigated land and small farmers of 183 percent of cropping intensity. These defaulters had greater proportion of institution loans from Kshetriya Gramin Bank. The study concludes that real cost of credit relatively declined as size of operational land holdings increased. Loan overdue was highest in Kshetriya Gramin Bank due to larger sizes of medium and long-term loans followed by co-ops. Both small and large farmers diverted the production loans for non-productive purpose. Lastly non- institutional sources of loan are still prevalent is the region inspite of the fact that institutional sources are cheaper.
Singh, Singh and Singh (2005) in their study focused on the extent of indebtedness along with access to credit among farmers of different resource endowed regions in Uttar Pradesh. The data for the study have been obtained from a survey of 380 households and with farmer's panel of 20 villages conducted during the year 2004-05. Out of the selected households nearly 75 percent were marginal and small holders and 25 percent households have large size of land holdings. It is evident from the study that the households had outstanding loans to the extent of 48 percent. The prevalence of indebtedness among financial households calls for drastic steps to be taken to recast the whole farmers system for its success.

Tribune (2007) one latest study on the recommendation of the Punjab Farmer’s Commission, Punjab Govt., the economic experts from the Punjab Agriculture University Dr. Sukhpal Singh, Manjeet Kaur and H.S. Kingra. A survey displaying the plights of farmers, says that 89 percent of the farmer households in the state are under-debt.

The total indebtedness of farm sector is estimated at Rs. 21,064 crore. The institutional sources contributed 62 percent of the total debt of Rs. 21,000 crore. The rest of the debt comes from the non-institutional sources.

The total debt per sample farm household from both institutional and non-institutional sources is Rs.1,78,934. The debt per indebted farm in the state is over is Rs. 2,00,000. The one interesting thing is that those who are with the tractors have an average debt of Rs. 2,64,320 as compared to just 99,589 for those without tractors. The case of marginal and small farmers with tractor are even worse.

Per hectare agricultural indebtedness gauged as amount outstanding increased from Rs. 6,20,6 crores in 2000-01 to 12,411 crores in 2005-06.
2.2 Indebtedness and Farmers' Suicide

Suicide deaths may occur on account of economic, social, cultural and psychological factors and have been occurring across space, time and cultures. But suicides among the farmers in India have been of recent origin. Farmers' suicides are reported in the country regularly for the period of a decade and half. The states of Andhra Pradesh and Karnataka have experienced a large number of farmers' suicides. The farmers' suicide deaths are also reported from Kerala, Maharashtra and Punjab. The emergence of this phenomenon has become a subject of debate among the scholars, social organizations and policymakers. As a result, some studies have been sponsored by the state governments while some scholars have studied this phenomenon at their own. In Karnataka an expert committee was appointed by Government of Karnataka in 2001 under the chairmanship of G.K. Veerah. Similarly, Jayati Ghosh Committee was appointed by Government of Andhra Pradesh in 2005 to investigate distress in agriculture of the state.

Many studies from Andhra Pradesh (Parthasarathy and Shameen, 1998; Rao, 2004, Sridhar, 2005; Reddy, 2005; Sarma, 2004), Karnataka (Assadi, 2000, Krishnaprasad and George, 2005), Maharashtra (Mohanty and Shroff, 2004) and Punjab (Gill and Singh, 2005; Iyer and Manick, 2000; AFDR, 2000; Gill, 2005) have studied this phenomenon. Most of the studies have brought out multiple reasons for farmers' suicides. In Kerala and Maharashtra, along with economic factors, non-economic factors remain important for distressed farmers committing suicide. But in states of Andhra Pradesh, Karnataka and Punjab, economic factors are reported as the main causes of farmers' suicides. Among the economic factors, the failure of crop (mainly cotton) and failure of investment in bore wells are responsible for involvement of farmers in debt trap. In Punjab indebtedness of farmers is due to stagnant agricultural yields along with crop failure, which have put heavy pressure on the farmers. In the
wake of limited access to institutional credit, the small farmers are forced to borrow from non-institutional sources. At times, they rotate credit from non-institutional to institutional sources and vice-versa leading to their exploitation by multiple agencies. There are a large number of factors which operate simultaneously and cause unbreakable distress of the farmers. The resources poor farmers in all the major states reporting suicides constitute the largest proportion of suicide victim farmers.

From the evidence available, it can be concluded with reasonable certainty that farmers suicide are reported from those states of India, which are relatively more advanced and are front runners in commercial agriculture. Those are the states which show high proportion of the farmers under outstanding debt. The exception of Kerala and Maharashatra, these are states where farmers’ dependence on informal sources of credit is quite high (Andhra Pradesh and Punjab). In case of Karnataka also, the dependence on informal sources is to the extent of 31.10 percent. In majority of the cases, the suicide victims farmers have used loans for investment in agriculture and they belong to the category of small and marginal farmers. The resource poor farmer's suicides indicates that there is a breakdown of the community scene and social support mechanism in areas of highly commercialized and competitive agriculture.

The review of literature presented above deals with indebtedness, in agriculture sector; the flow of agricultural credit, size of holdings; impact of credit on income, employment and poverty; loan repayment overdue and causes of default, cost of credit; credit diversion; microfinance, the impact of Kisan Credit Card programmes, structure on indebtedness, etc. Issues that have received very little or no attention at all include analysis of terms and conditions of credit namely collateral, repayment period etc.; impact of legal provisions supporting coercive recovery of institutional and non-institutional
loans; diversification of agriculture and dry-land farming and their impact on stability of farm income and agricultural indebtedness.

Though different aspects have been covered in the studies mentioned above, still, there remain many aspects, which have not been covered by these studies. Some studies were based on secondary data and lacks primary data, while others covered one or two credit lending institutions and covered only a few aspects.

The present study was designed not only to cover those aspects not covered in earlier studies but also to carry out research on various other aspects viz. composition of indebtedness – purpose-wise and source-wise in various categories of landholdings, impact of indebtedness on economic conditions of farmers and agriculture labour, diversion of credit in agriculture sector, etc. Further some aspects previously studied are not being studied in the light of change of circumstances. Thus, the present study was designed to fill this gap and to cover many other important aspects related to indebtedness in agriculture sector.