

**DYNAMICS OF RURAL INDEBTEDNESS IN INDIA**

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**Abstract** — *This paper explores the dynamics of indebtedness amongst the farm household living in rural India. The study is based on the state level data obtained from the 70th round survey of National Sample Survey Organisation (NSSO) conducted in agricultural year 2012 to 2013. The study aims to analyze the dimensions and patterns of indebtedness and causal factors behind it. In terms of access to credit, seen through the extent of indebtedness, most of the indebted farmers belong to the small and marginal categories, poor farmers with lower land holdings are much more deprived of formal sources of credit than the comparatively richer ones. Nevertheless, it is heartening to note that loans are taken mostly for income generating purposes; but it also indirectly implies that the poor are not getting access to formal sources of credit even for the income generating purposes. The research concludes that the major factors that lead to indebtedness. This situation demands urgent attention of the government, policy makers and planners to save the farmers from committing suicide and to re-boost the agricultural economy of the country.*

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**Keywords-** Farm Households, Access to Credit, Formal Sources, Interest Rate, Indebtedness

**1. BACKDROP OF THE STUDY:**

In the discussion on the issue of rural indebtedness, the farming class, no doubt, assumes considerable importance. This is mainly because a large portion of the 60 per cent of the population that depends on cultivation in India fall under the marginal and small farmers categories. These farming households need credit on a continuous basis to meet their working capital needs. The food security of the country, to a large extent also depends on the output generated by these farmers. Therefore, it is necessary to ensure timely and affordable credit to the farming households.

A number of studies examine the trends in the lending of the formal sector for different economic activities or different sectors of the India economy by using the bank level data from the Reserve Bank of India (see Shetty, 2005; Patnaik, 2005; Chavan, 2005, Basu, 2006). Studies on the rural credit market observe an increase in supply of credit to rural areas after nationalisation of commercial banks (in 1969). However, after liberalisation (1991) there has been a decrease in rural banking net work as reflected through indicators such as the number of rural branch offices of commercial banks (Rajeev and Vani, 2011).

The problems that the poor face when they cannot access credit from the formal sector have been highlighted in various studies. Even though the State made endeavours to address these problems by stipulating norms for compulsory lending to the agricultural sector, the formal lending agencies have not been successful in reaching out to the poor. The data of the National Sample Survey Organisation (NSSO, 20012-13) reveals that while about 30 per cent of the poor borrowers get credit from the formal sector banks, this percentage increases to 60 for the richer farmers (see also Siamwalla et al., 1990, Bell, 1990). The denial of access may be due to the lack of collateral, inability to comply with bureaucratic procedures; illiteracy, etc. (see also Gupta and Choudhuri, 1997, Lele, 1981, Benjamin, 1981).

**II. OBJECTIVES OF THE STUDY**

1. To examine the relationship between landholding with indebtedness
2. To access the different sources of credit used by the indebted farmers
3. To analyse the utilisation pattern of loan by farm households
4. To find out the status of indebtedness of farm households.

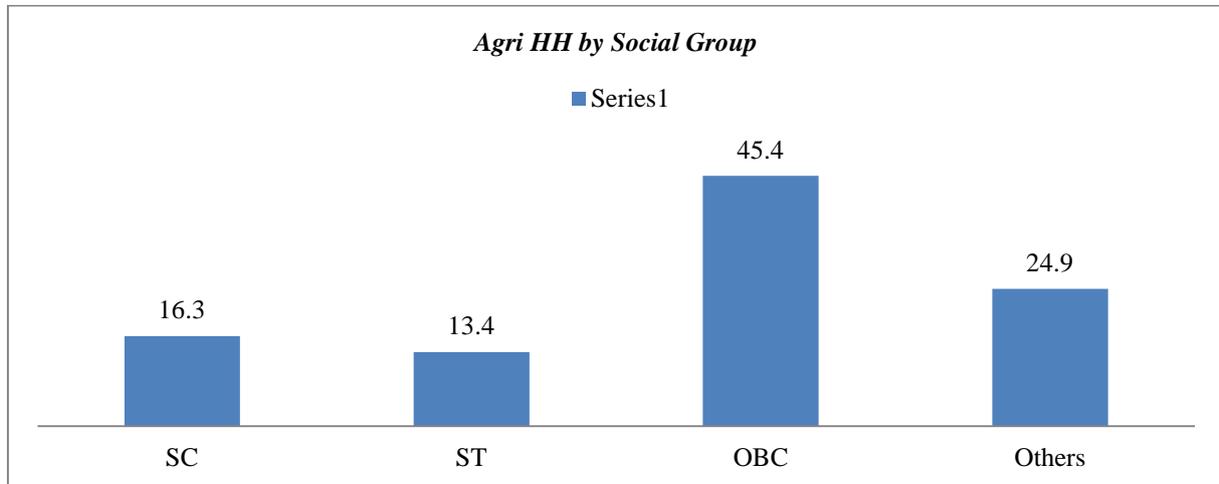
**III. METHODOLOGY OF THE STUDY:**

The nature of research is exploratory. The study was based on secondary data, which were collected from the unit level data of Debt and Investment Survey carried out by National Sample Survey Organization (NSSO) during 2013 (70th round). The Debt and Investment survey, generally carried out once in 10 years, provides information on different dimensions of rural finance. The survey also provides information on several household characteristics such as ownership of assets, social and demographic variables, households' association with networks such as self-help groups, cooperatives, etc.

The NSSO data provides information regarding households that have outstanding loan based on which one can arrive at the percentage of households within a category of households that have outstanding credit. This indicator termed as the incidence of indebtedness (IOI) essentially represents the percentage of households having outstanding loan amongst the households of that category.

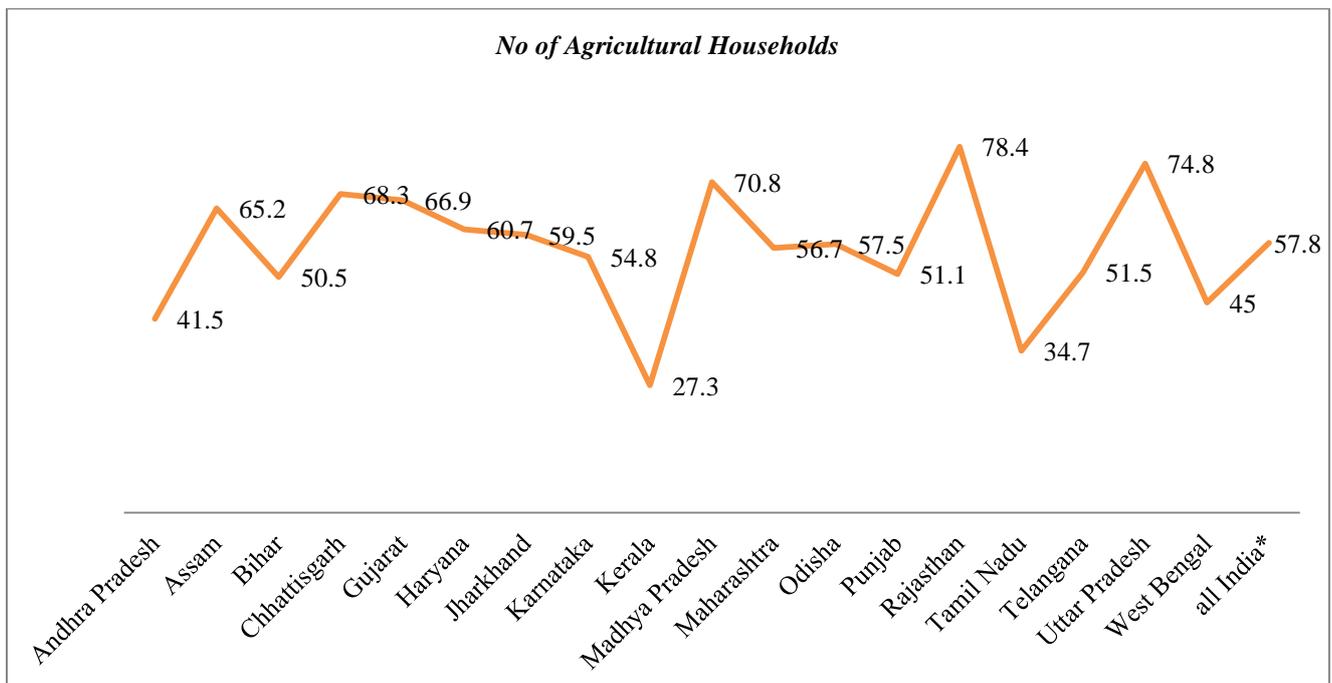
**IV. MAJOR FINDING OF THE STUDY:**

**4.1) Agricultural HHs by Social Group:**



1. About 45 percent out of the total agricultural households in the country belonged to Other Backward Classes (OBC).
2. About 16 percent of agricultural households were from Scheduled Castes (SC) and 13 percent were from Scheduled Tribes (ST).
3. About 45 percent of the rural households of the country belonged to OBC. SC and ST, respectively, had a share of about 20 percent and 12 percent among the rural households

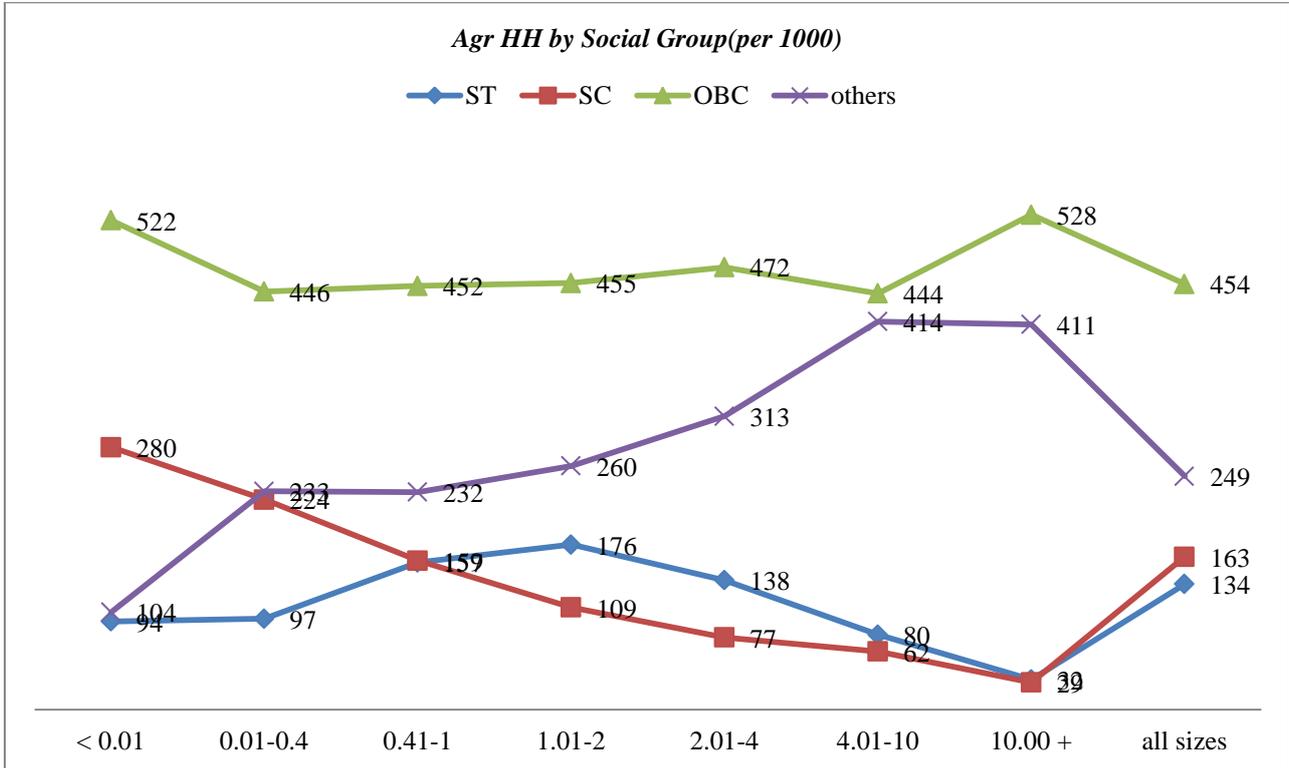
**4.2) No of Agricultural Households:**



1. These agricultural households were about 57.8 percent of the total estimated rural households of the country.
2. Uttar Pradesh, with an estimate of 18.05 million agricultural households, accounted for about 20 percent of all agricultural households in the country.

- Among the major States, Rajasthan had highest percentage of agricultural households (78.4 percent) among its rural households followed by Uttar Pradesh (74.8 percent) and Madhya Pradesh (70.8 percent).
- Kerala had the least percentage share of agricultural households (27.3 percent) in its rural households preceded by other southern States like Tamil Nadu (34.7 percent) and Andhra Pradesh (41.5 percent).

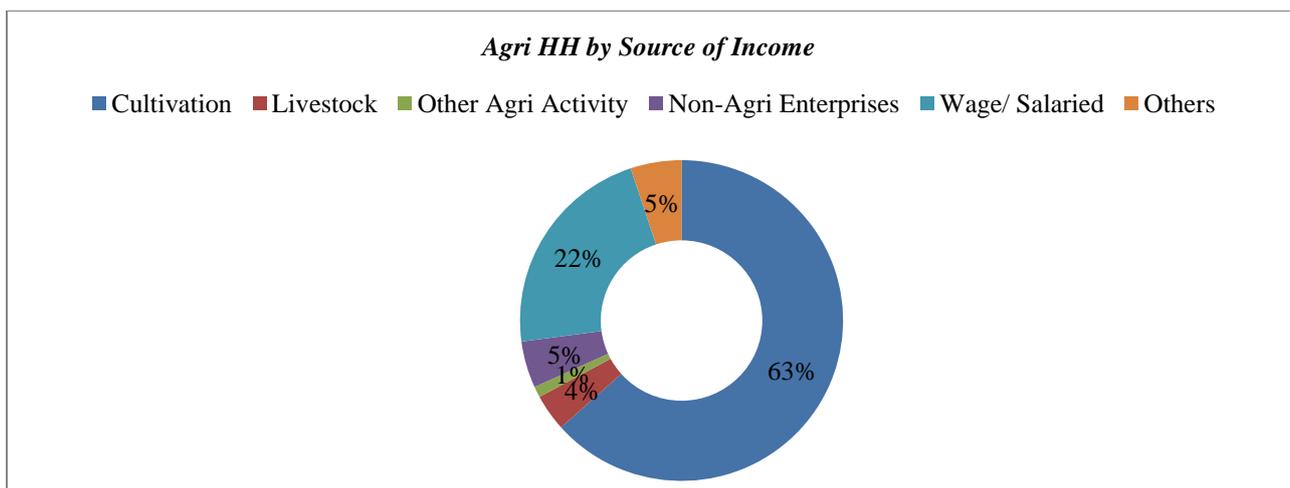
#### 4.3) Agricultural HHs by Social Groups



Note: Per 1000 agricultural households by social group for each size class of land possessed

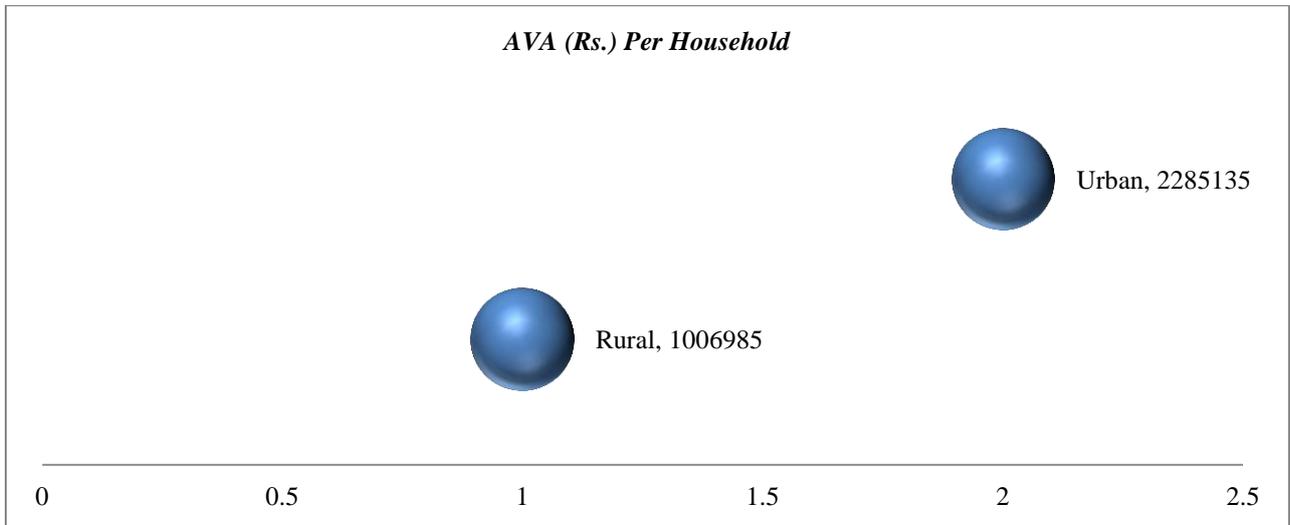
- It was found that the percentage share of ST agricultural households increased from the lowest size class of land possessed and reached its maximum in the 4th size class (1.01-2.00 hectare) and then gradually decreased to its lowest level at the highest size class.
- The percentage share of SC agricultural households decreased gradually from 28 percent in the lowest size class to about 3 percent in the highest size class of land possessed.
- OBC agricultural households had an almost uniform distribution over different size classes of land possessed except for the lowest and highest size classes where they had slightly higher share than the share of 'all sizes' class.

#### 4.4) Principal Source of Income



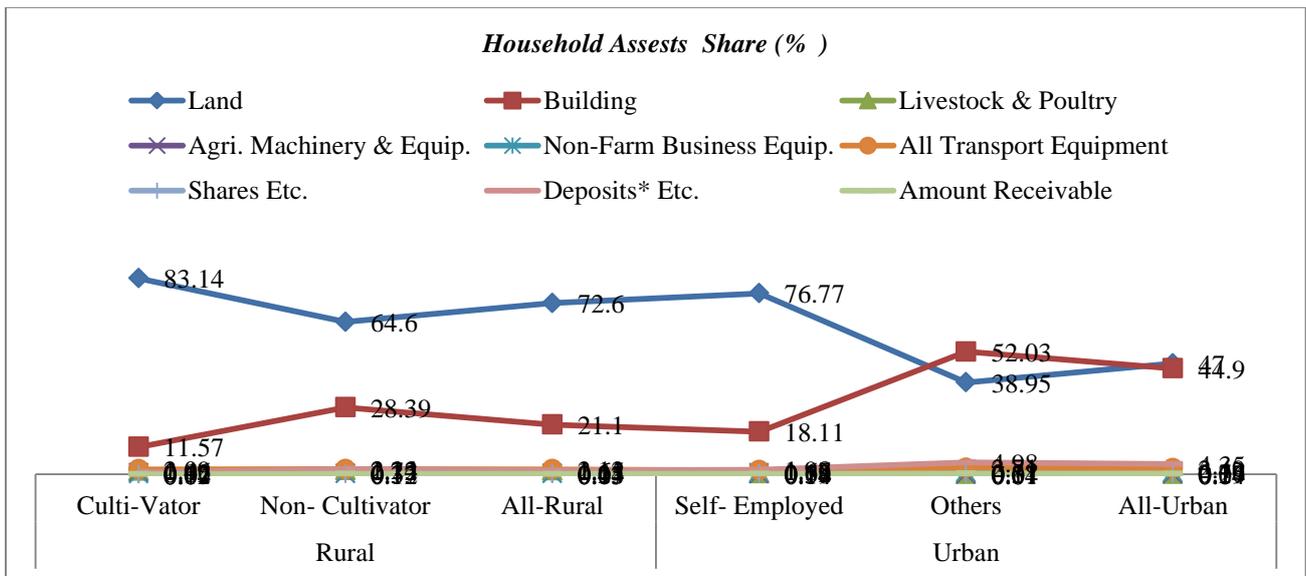
1. It can be seen from the above figure that agricultural households were dependent mainly on cultivation followed by wage/ salaried employment for their livelihood.
2. About 63.5 percent of the agricultural households reported cultivation as their principal source of income and about 22 percent reported wage/ salaried employment as their principal source of income.

**4.5) Average Asset Holdings**



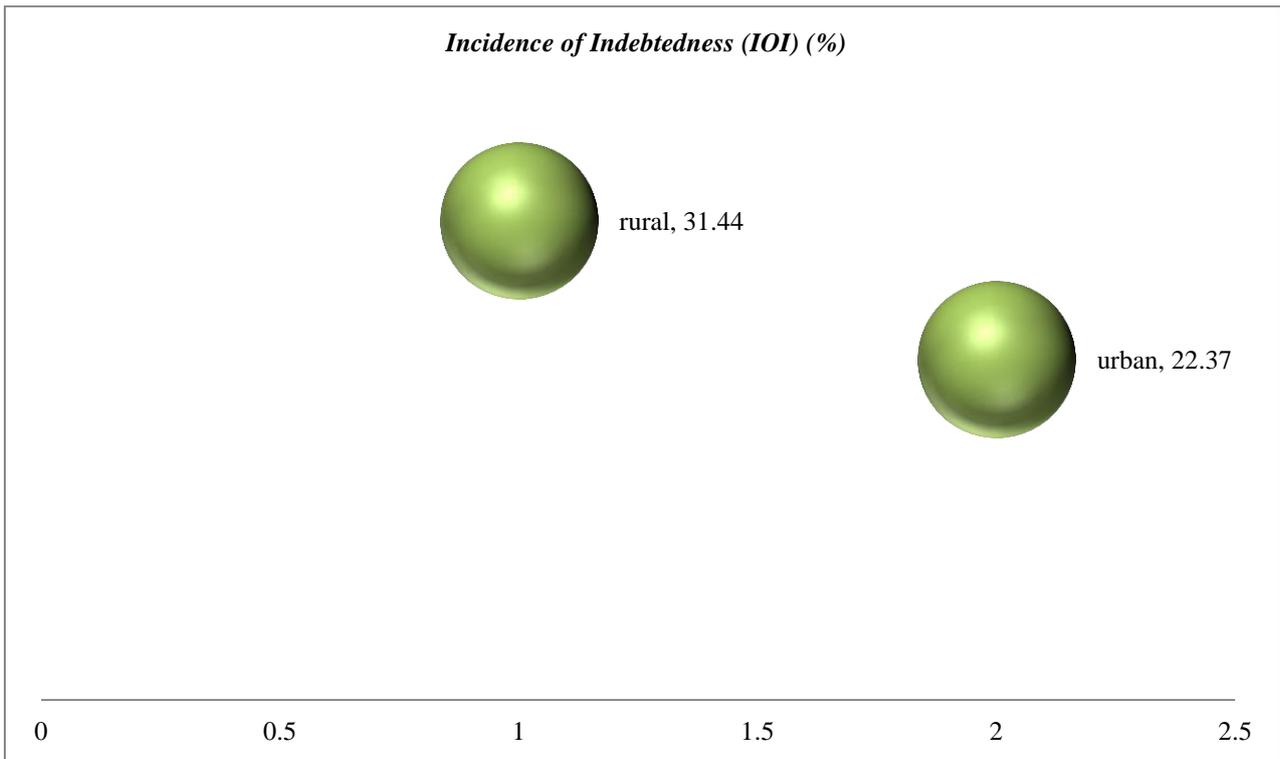
1. It is seen that 98.3% of rural households and 93.5% of urban households reported owning some kind of physical or financial assets.
2. A rural cultivator household, on an average, owned assets of Rs. 28.73 lakhs, which was more than four times than the value of assets owned by the average non-cultivator household (Rs. 6.75 lakhs).
3. The variation in the urban areas in this respect was also wide, with the AVA of self-employed household at Rs. 50.79 lakhs, being two and a half times the AVA of other urban households, which was Rs. 19.92 lakhs.

**4.6) Household Asset Composition**



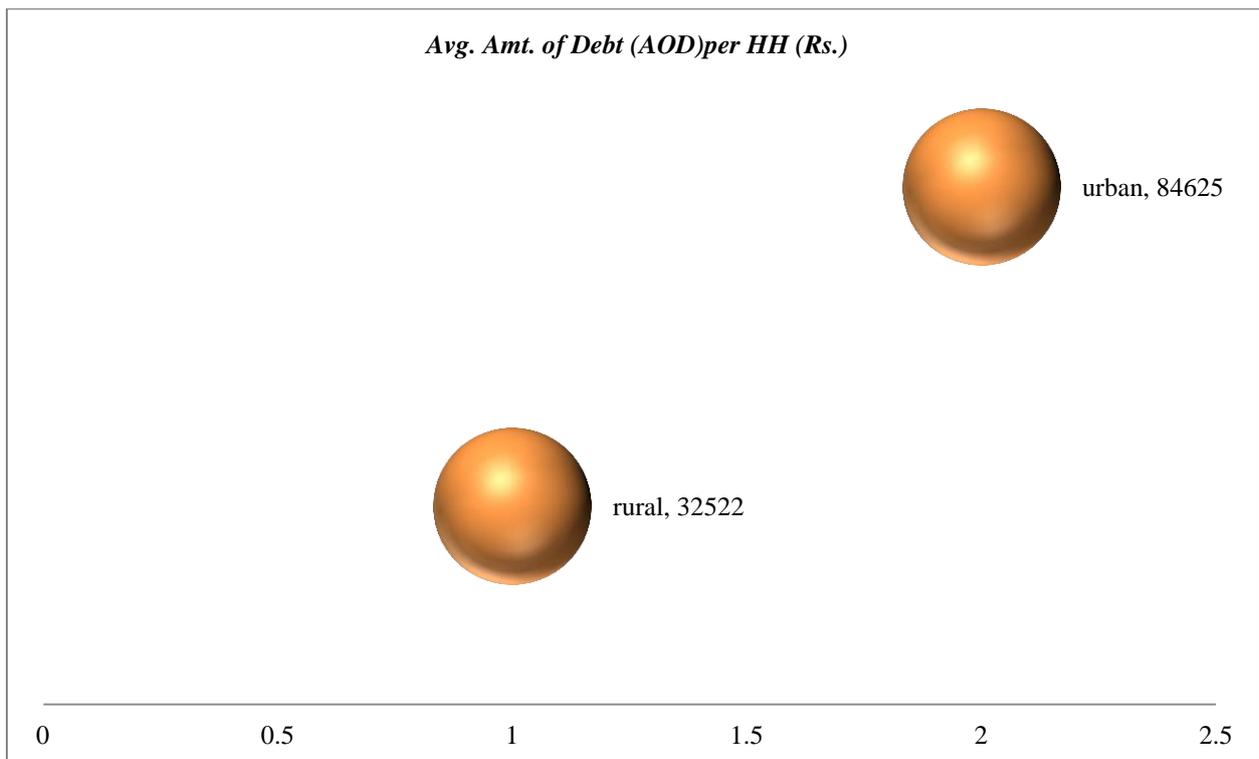
1. Land and building together, in the rural areas, clearly form the predominant component of assets – jointly holding 94% share in the total value of assets at the national level – with land having 73% share and buildings 21% share.
2. In the urban areas, about 92% share in the total value of assets is held in the form of land and building together for the self-employed households, the share of land is 77% and that of buildings, 18%.
3. For other households, the share of land is only 39% and that of buildings is 52%. For all households, shares and deposits contribute about 4.5%.
4. The share of all transport equipment is about 2.5% compared to about 2% in the rural areas. The shares of other items are less than 1% each (mostly, less than 0.5%).

**4.7) Incidence of Indebtedness (IOI) (%)**



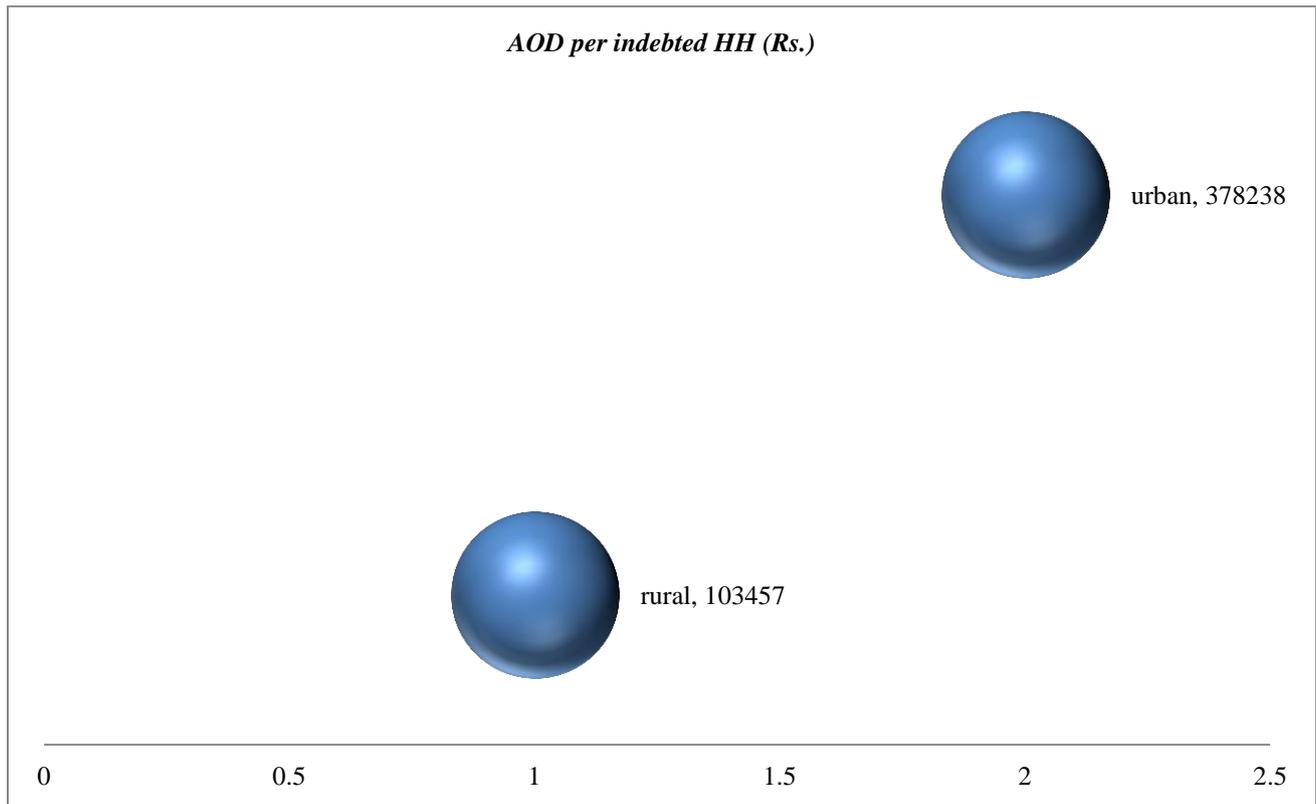
The results show that the IOI was about 31.4 % among the rural households and 22.4% among the urban households.

**4.8) Avg. Amt. of Debt (AOD) per HH**



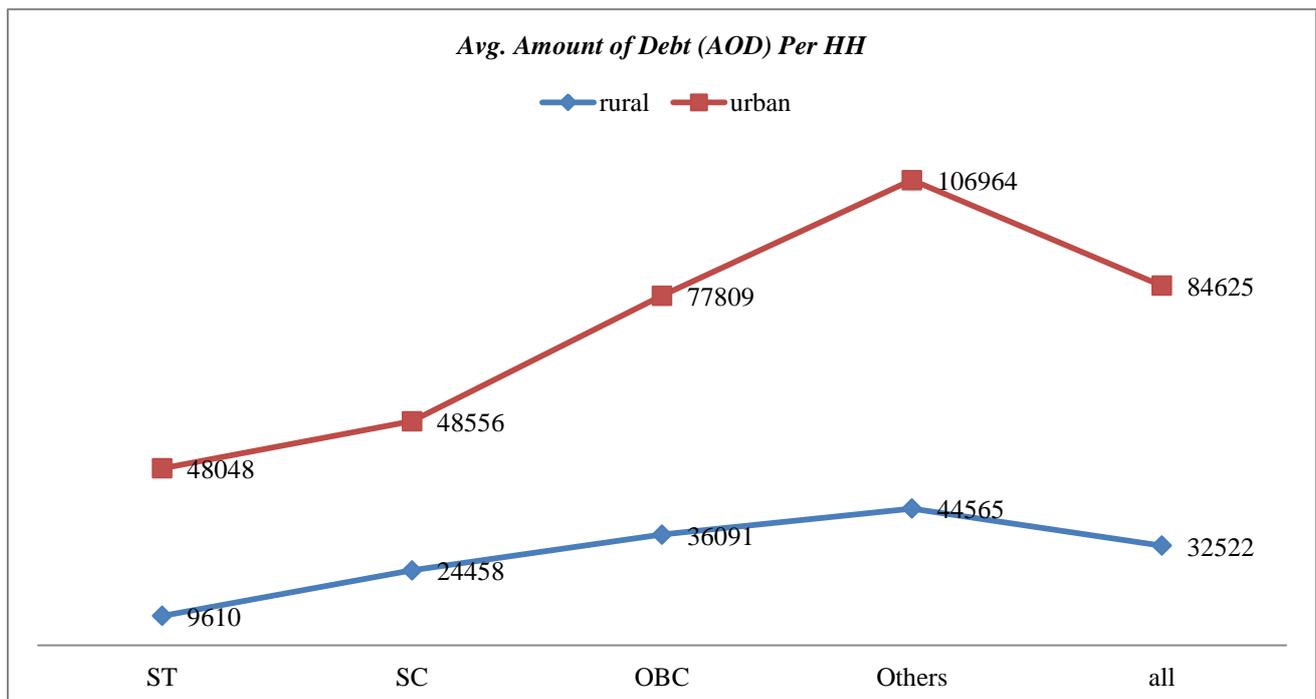
The AOD per household is seen to be less in the rural sector than in the urban, the values being Rs. 32522 and Rs. 84625, respectively.

**4.9) AOD per indebted HH**



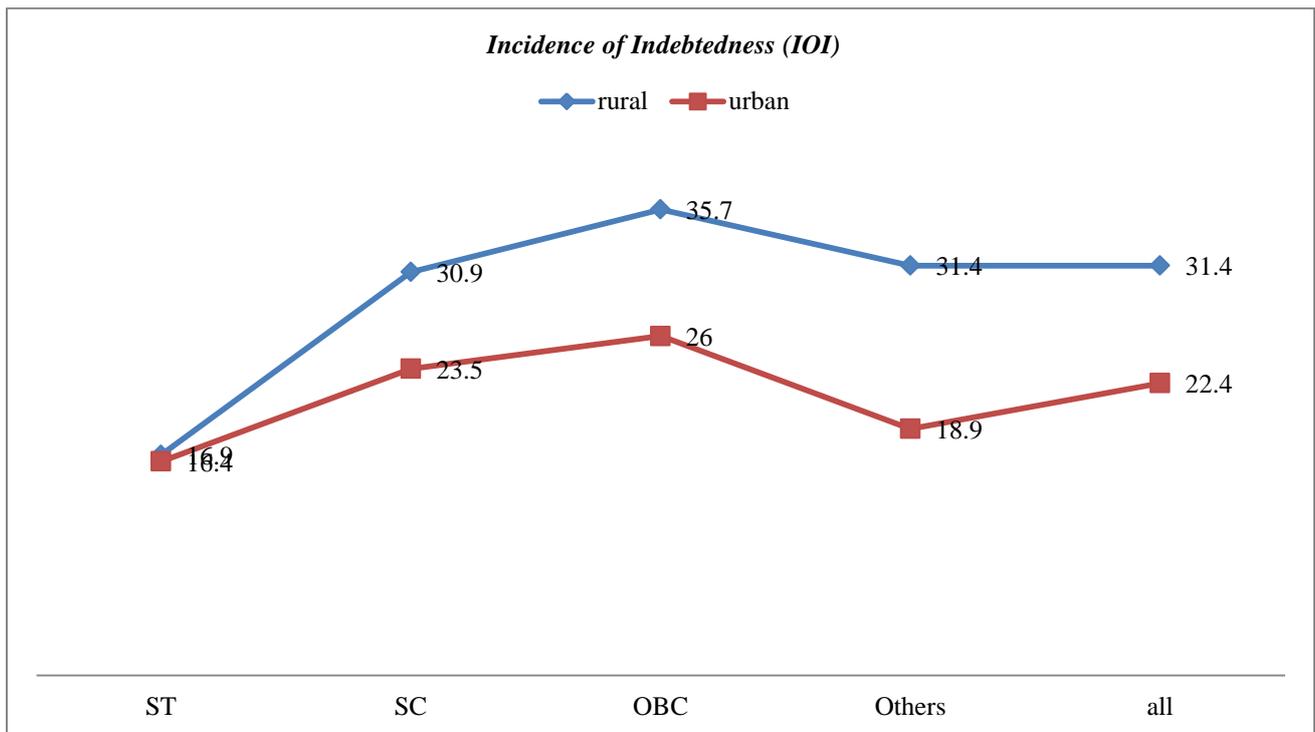
Compared to this, the AOD per indebted household was Rs. 103457 and Rs. 378238 in the rural and urban sectors, respectively.

**4.10) Avg. Amount of Debt by Social Groups:**



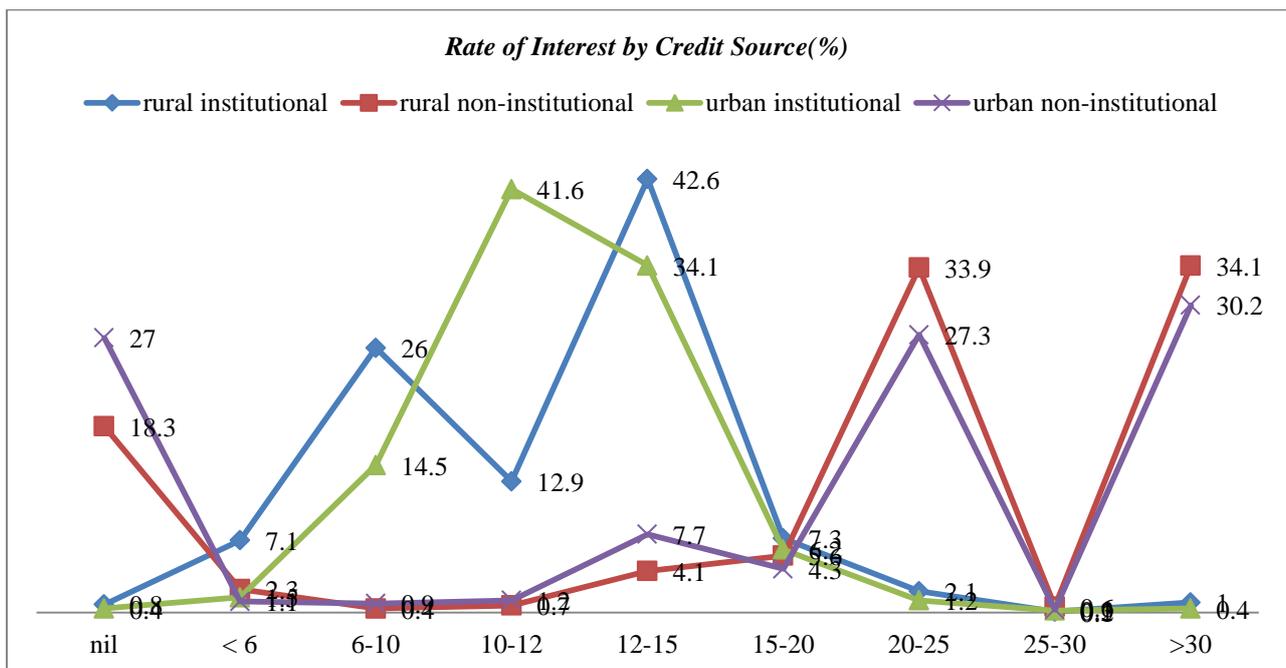
1. In rural India, among the social groups, AOD was lowest for ST households (Rs. 9610) and highest for 'Others' households (Rs. 44565).
2. The relative position of the four social groups, in terms of AOD, was found to be the same as in the rural areas.

**4.11) Incidence of Indebtedness by Social Groups:**



1. In rural India, among the social groups, IOI (16.9%) was lowest for ST households and highest (35.7%) for OBC households.
2. In urban India, the lowest IOI was again that of the ST households (16.4%) and the highest that of OBC (26.0%). But the IOI for 'others' was only 19% – lower than SC.

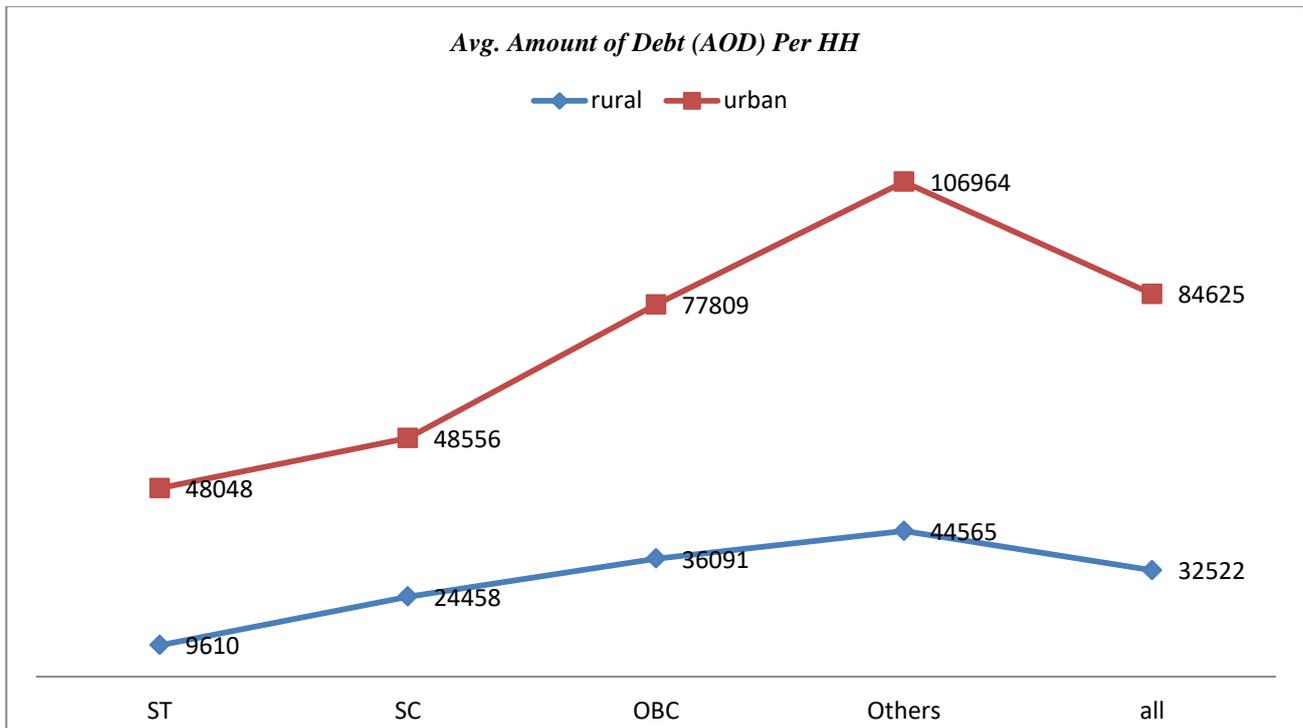
**4.12) Interest Rates by Credit Agency:**



1. The institutional agencies played a significant role in providing credit to the households with a moderate rate of interest (6% to 15%) for both rural and urban area.
2. It is observed that a fairly high amount of credit funded by the institutional agencies, about 89% in the rural and 92% in the urban, were provided at less than 15% interest rates.

- On the other hand, the non-institutional agencies provided a significant amount of its total loans to households at an interest as high as 20% or above, the share of such loans to total was 69% in the rural and 58% in the urban.

#### 4.13) Avg. Amount of Debt (AOD) Per HH



- The average cash dues outstanding per household which was estimated as Rs. 32522 and Rs. 84625 respectively for the rural and urban areas at the all-India level indicates the general level of indebtedness in the household sector.
- This indicates that the households reporting debt of small size (up to Rs.10000) accounted for about 1.1% and 0.2% of the total cash dues in the rural and urban areas respectively.

#### V. KEY HIGHLIGHTS OF THE STUDY:

- The report, Situation Assessment Survey of Agricultural Households in India, is based on a countrywide survey of nearly 35,000 households by NSSO (70th round) for which data was collected on the agricultural year spanning July 2012 to June 2013.
- The survey shows that rural India had an estimated 90.2 million agricultural households— about 57.8% of the total estimated rural households in the country. About 45% of farm households belonged to OBC (other backward classes) while 13% belonged to scheduled tribes.
- An agricultural household was defined in the survey as a household receiving value of produce of more than Rs.3,000 from agriculture with at least one member self-employed in farming.
- Interestingly, the survey shows that for 56% of the marginal land owning families (with land less than 0.01 hectare) wage and salary employment, not agriculture, was their principal source of income. Another 23% reported livestock as their principal source of income.
- Average monthly income per agricultural household during the agricultural year July 2012- June 2013 was estimated at Rs.6,426. Net receipt from farm business (cultivation and farming of animals) accounted for 60% of the average monthly income per agricultural household, the survey noted. Income from wages and salary accounted for nearly 32% of the average monthly income.
- The survey reported that 52% of households in the country were indebted, with levels of indebtedness varying from 93% in Andhra Pradesh and 82.5% in Tamil Nadu to 37% in Chhattisgarh and 17.5% in Assam. The average amount of outstanding loan was highest for Kerala (Rs.2,13,600) followed by Andhra Pradesh (Rs.1,23,400) and Punjab (Rs.1,19,500).
- On sources of credit, the survey revealed high levels of dependence on non-institutional channels. Nearly 40% of all loans came from informal sources with 26% advanced by moneylenders.
- Marginal land holding households suffer the most with only 15% of their credit from institutional sources such as the government, cooperatives and banks—for households in the highest land class (with land more than 10 hectares) the ratio is 79%.

## **VI. CONCLUDING REMARKS OF THE STUDY:**

At All India level the share from the formal source is quite low for the SC category of farmer households and a wide variation is seen across the States. In Maharashtra, Kerala, Orissa and West Bengal, SC households had more than 70 per cent of their credit from formal source. Thus to conclude, in many States in India the dependence of the deprived classes such as SC/ST on informal loans is much higher than that of the 'others' category. The weaker sections such as households headed by women also depend to a large extent on informal sources of credit. Thus, there is an urgent need to improve access to formal credit for the backward classes and poorer and weaker sections of the farmer community.

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