MAGNITUDE OF AGRICULTURAL INDEBTEDNESS IN INDIA: A SYNOPTIC VIEW

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Abstract

Since credit is the kingpin of agriculture sector in an economy, it has a significant role in supporting agricultural production and the wellbeing of the farming community in rural scenario. As the farming becomes uneconomic, farmers are compelled to use more inputs and fertilizers in order to increase their agriculture production and productivity. It increases the demand for agricultural credit. But, the inadequate and untimely credit along with procedural hassles from formal institutions compels the rural farmers to take loans from informal source at exorbitant rates of interest (Satyasai, K.J.E 1988, Jeromy PD 2005, GOI 2010, AIDIS 2013). In Kerala, people living in rural areas characterised by landless labourers, rural artisans, small and marginal farmers, small entrepreneurs etc live on subsistence level and therefore they are caught in the vicious circle of poverty primarily due to their scarce budgets. Together with the structural changes and the shifts in cropping pattern from food crops to cash crops without a corresponding spurt in output prices, agricultural farmers in Kerala are faced in a situation of economic distress. It compelled the farmers to take more and more loans from different agencies even at higher rates of interest. It again questioned the survival and livelihood of the farmers leading to indebtedness of the peasantry. Given this background, it is worthwhile to examine the extent and magnitude of agricultural indebtedness in India.

Introduction

The significance of agriculture and allied activities in the economic development is well accepted and documented since time immemorial. Agriculture can be a source of growth for the national economy, prime provider of investment opportunities for the private sector and a driver of agriculture-related industries and the rural non-farm economy. Even though the share of agriculture in the GDP (Gross Domestic Product) in India has declined from half at the times of independence to less than one-fifth, even today agriculture remains to be the predominant sector in terms of employment and livelihood with more than half of India's workforce engaged in it as the principal occupation. The scope for using the merits of agriculture for poverty reduction and as an engine of economic growth for the agriculture based countries is still very much alive (Mani KP 2012). The share of agriculture in employment was 48.9 percent of the workforce [National Sample Survey Organization (NSSO) 2011-12] while its share in the Gross Domestic Product (GDP) was 17.4 percent in 2014-15 (Economic Survey 2015-16). During the last three years, the growth rates in Indian agriculture have been fluctuating at 1.5 percent in 2012-13, 4.2 percent in 2013-14 and (-) 2 percent in 2014-15. According to the CSO (Central Statistics Organization) estimates the growth in the agriculture 'agriculture, forestry and fishing' sector is estimated at 1.1 percent in 2015-16. The shortfall in growth in agriculture is explained by the fact that 60 percent of agriculture in India is rain fed and there have been two consecutive draught years in 2013-14 and 2014-15. Moreover, there are issues in irrigation and the efficiency, fall in growth rate of capital formation in the sector and there is volatility in the markets, especially of prices altering and distorting cropping patterns of some crops (Economic Survey 2015-16). In

India administered prices have been influencing market prices of many commodities (Acharya 1997). During the last two decades, the Indian agriculture has experienced a number of severer challenges such as slowdown of growth, shifts in cropping pattern, volatility in agricultural commodity prices etc (Mani K P). Among this, indebtedness of the peasantry is a serious and unrelenting issue among the farming community in India.

Agriculture and indebtedness

The agriculture scenario of India has changed in the 1990s when the economic reforms have brought in a shift in terms of trade in favour of agriculture. Though the shift in terms of trade in favour of agriculture has not translated in to agricultural growth, some argue that changes are taking place, slowly but steadily, in the sector in terms of cropping pattern shifts towards high value crops like vegetables and horticultural crops (Gulati and Muller 2003). Even though, the micro aspects or the ground realities in the context of liberalization has not received due attention of the farmers (Deshpande and Naika 2002), some improvements have been reported over the seventies and eighties (Acharya 1992, Reddy 1997). While the decline in the input subsidies have pushed the cost of cultivation upward, deregulation and trade liberalization have not only increased the output prices but also opened up new vistas to the farming community in terms of new crops and cultivation. However the net impact of these policies is not clear as reflected in the micro level happenings such as farmer suicides (Deshpande 2002). Rao (1994) argues that "farmer" (typically, small, poor and unorganised) has new opportunities opened to him to increase his output as also to widen his contacts with the markets and the world outside his village. However it would not be easy for him to make the transition from the survival- oriented traditional attitudes and modes of behaviour which still prevail among a larger number of farmers to the ruthlessly competitive environment of the modern markets dominated by powerful organised groups. Obviously, the farmer would remain vulnerable in the new environment until he acquires the capacity to withstand its pressures (Rao, 1994, pp. 393-394). In fact, it is observed that trade liberalization is not sufficient to stimulate agriculture exports (Weeks 1997).

The amount and extend of indebtedness was first calculated by All India Credit Survey Report in 1951-52 in very concrete and comprehensive manner. The survey revealed that 69.2 percent of the cultivator was in debt and the average debt per cultivating family was Rs363.70 during 1951-52. It rose to Rs473 in 1961-62 and 66.7 percent of the cultivator was found to be indebted as per the All India Rural Debt and Investment Survey 1961-62. After a decade, while the share of indebted cultivator falls to 46.1 percent, the average debt per cultivator household was increased to Rs605. The 70th (2013) round survey report of AIDIS (All India Debt and Investment Survey) further confirms India's worsening agrarian crisis that, the percentage of indebted households was 31.4 percent among rural households and 22.4 percent among the urban households during 2013-14. In 2002, these were 26.5 percent and 17.8 percent respectively (AIDIS reports).

The Average Amount of Debt per household (AOD) is seen to be less in the rural sector than in the urban, the values being Rs32522 and Rs84625 respectively. Compared to this, the AOD per indebted household was Rs103457 and Rs378238 in the rural and urban sectors respectively (AIDIS January-December 2013, NSSO 70th round). The report states nearly 40 percent of households take loans from non-institutional sources like money lenders. Nearly 60 percent of the total outstanding loan is taken from institutional sources. The bank's share is (43 percent) followed by co-operative society (15 percent).

Though agriculture plays an important position; Indian agriculture has entered a phase where it is facing multiple and complex challenges in growth, sustainability, efficiency etc. The biggest challenge seems to be the sharp decline in the growth rate experienced after the mid 1990s. This slowdown in output growth is largely responsible for stagnation in farm income and is causing heavy indebtedness and rural distress. The role of the institutional agencies, as judged from their share in the outstanding cash dues, varied from state to state. A snapshot of this variation in 2002 shows that in the rural areas, institutional credit agencies accounted for 85 per cent in Maharashtra, followed by Kerala (81 per cent), Himachal Pradesh and Orissa (74 per cent each) and Jammu & Kashmir (73 per cent). In contrast, not even 50 per cent of the debt was contracted through the institutional credit agencies in the rural areas of Andhra Pradesh (27 per cent), Rajasthan (34 per cent), Bihar (37 per cent) and Tamil Nadu (47 per cent). Following table (1.1) reveals a state wise outstanding of institutional and non-institutional loans from 1971 to 2013 (see table 1.1).

Table 1.1: **Share of institutional and non-institutional agencies in outstanding cash debt of major states in India**

Major states	Institutional					Non-institutional				
	1971 (26th)	1981 (37th)	1991 (48th)	2002 (59th)	2013 (70th)	1971 (26th)	1981 (37th)	1991 (48th)	2002 (59th)	2013 (70th)
Andhra Pradesh	14	41	34	27	25	86	59	66	73	72
Assam	35	31	66	58	60	65	69	34	42	32
Bihar	11	47	73	37	35	89	53	27	63	69
Gujarat	47	70	75	67	72	53	30	25	33	30
Haryana	26	76	73	50	55	74	24	27	50	48
Himachal Pradesh	24	75	62	74	78	76	25	38	26	23
Jammu and Kashmir	20	44	76	73	75	80	56	24	27	19
Karnataka	30	78	78	67	65	70	22	22	33	33
Kerala	44	79	92	81	79	56	21	8	19	25
Madhya Pradesh	32	66	73	59	52	68	34	27	41	49
Maharashtra	67	86	82	85	90	33	14	18	15	19
Orissa	30	81	80	74	78	70	19	20	26	28
Punjab	36	74	79	56	59	64	26	21	44	40
Rajasthan	9	41	40	34	40	91	59	60	66	68
Tamil Nadu	22	44	58	47	43	78	56	42	53	48
Uttar Pradesh	23	55	69	56	49	77	45	31	44	32
West Bengal	31	66	82	68	64	69	34	18	32	30
All India	29	61	64	57	60	71	39	36	43	39

Source: NSSO, Ministry of Statistics and Programme implementation (various years)

From table (1.1), it explains that, during the periods 1971 to 2013, the states do not reveal any uniform pattern in the share of institutional agencies in total debt. Compared to 1991, the picture has changed in some of the major states. Of the 20 major states in the rural, as many as 15 have shown a fall in the share of institutional agencies, notable among them are Bihar, Punjab, Haryana and West Bengal, where the fall in percentage share from 1991 had been to the tune of 36, 23, 23 and 14 percentage points, respectively. On the other hand, 13 major states out of 21 had registered a rise in the share, which, barring a few with medium to moderate rise, can be described as sharp to spectacular.

Table 1.2: Percent share of indebtedness and average amount of debt in India

Year/NSSO Rounds	Percent share of Debt	Average Amount of Debt (Rs)
1951-52	69.2	363.70
1961-62	66.7	473
1971-72 (26th)	72.4	605
1981-82 (37th)	76.3	3757
1991-92 (48th)	66.1	10636
2002-2003 (59th)	59.7	39294
2013-14 (70th)	53	48169

Source: NSSO, Ministry of Statistics and Programme implementation (various years)

The latest NSSO (70th round) has made the observation that, at all India level, 49 percent of the farmer households are indebted and an Indian farmer's household has an average debt of Rs.12585. The average loan per indebted household is Rs.25891. However, the median loan per indebted household is Rs. 10,000. At the state level, the average outstanding loan per farmer household is the highest in Punjab (Rs 41,576), followed by Kerala (Rs 33,907), Haryana (Rs 26,007), Andhra Pradesh (Rs 23,965) and Tamil Nadu (Rs 23,963). Andhra Pradesh, Tamil Nadu, Punjab, Kerala are the States which have higher incidence of indebtedness. Haryana takes the top position with median loan outstanding being Rs. 24,357 followed by Kerala (Rs. 22,150) and Punjab (Rs. 20,000). Average debt per household is Rs 47,000, while average income is Rs 36,973 per annum. In 2002-03, India had 148 million rural households, which increased to 156 million by 2012-13, 5.4 per cent increase in a decade, approximating to 0.5 per cent per annum, an alarming state of affairs. The following tables elucidate the trend of debt of cultivators from institutional and non-institutional based on the rural credit surveys.

Table 1.3: Incidence of indebtedness (IOI) to institutional and non-institutional credit agencies by household asset holding class: all-India 2013

Deciles class of hh asset holding	Incidence of indebtedness (in percent)					
	Rural			Urban		
	Institutional	Non-institutional	All	Institutional	Non-institutional	All
1	7.9	14.0	19.6	3.4	6.5	9.3
2	7.4	17.1	22.3	6.2	10.1	14.6
3	10.8	19.1	27.1	10.2	11.9	20.2
4	12.4	18.2	27.5	12.5	14.4	24.2

5	13.0	21.9	30.9	12.1	12.6	21.7
6	16.9	21.6	33.0	14.0	12.7	23.4
7	19.1	19.3	32.7	15.7	11.6	23.8
8	22.2	21.6	37.3	18.9	10.1	25.4
9	29.2	22.1	42.6	25.6	7.1	29.4
10	32.6	15.3	41.3	29.1	5.7	31.7
All	17.2	19.0	31.4	14.8	10.3	22.4

Source: NSSO, Ministry of Statistics and Programme Implementation, 2013.

The results of the survey show that non-institutional agencies played a major role in advancing credit to the households, particularly in rural India. The non-institutional agencies had advanced credit to 19 percent of rural households, while the institutional agencies had advanced credit to 17 percent households. In urban India, the picture is different; the institutional agencies appear to have played a greater role, advancing credit to 15 percent of households against 10 percent by non-institutional agencies, which shows that, households of the bottom deciles class incurred a relatively small part of their debt for productive purposes. In the rural area, the percentage share of debt for productive purposes is seen to vary from 11 percent to 56 percent among the deciles classes. The corresponding increase in urban area was from 1.2 percent in the lowest class to 24 percent in the top class. Further, the percentage share of debt against 'non-business expenditure' is seen to decrease from about 85 percent in the bottom class to about 44.5 percent in the top class in the rural and from 99 percent in bottom class to 76 percent in the top class.

Table 1.4: Incidence of indebtedness (IOI) and average debt per household (AOD) in India 2013

Indebted level	Rural	Urban
IOI (in percent)	31.44	22.37
AOD per hh (Rs)	32522	84625
AOD per indebted hh (Rs)	103457	378238

Source: NSSO, Ministry of Statistics and Programme Implementation 2013

Size of debt

Size Distribution of outstanding cash dues reveals that 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 indicate the general level of indebtedness in the household sector. But the percentage distribution of indebted households and of amounts of cash dues outstanding by the size group of such dues reflects the debt borne by different groups of households. This indicates that the households reporting debt of small size (up to Rs.10000) accounted for about 1.1 percent and 0.2 percent of the total cash dues in the rural and urban areas respectively. It may be commented in addition that, the numerically small percentage of households, mainly in rural India, incurred large-sized debts which accounted for a substantial share of the total cash dues.

Table 1.5: Percentage distribution of cash dues outstanding by duration of debt

Duration of debt (in yrs)	Rural				Urban			
	1981	1991	2002	2013	1981	1991	2002	2013
Below 1	36	37	26	45	36	38	36	26
1-2	20	23	23	20	20	22	24	26
2-3	12	14	15	14	11	10	13	15
3-4	7	8	8	6	6	7	8	10
4-5	4	5	6	5	3	5	5	7
5-10	18	9	9	8	21	11	11	14
10 and above	2	3	4	2	2	3	3	2
All	100	100	100	100	100	100	100	100

Source: NSSO, Ministry of Statistics and Programme Implementation (various years)

An analysis of the cash dues reported as outstanding for varying periods of time for the previous rounds and the present one is attempted here. It exhibits changes in the percentage distribution of cash dues by the duration of debt, which took place during the last four decades. About 65 percent of total amount of cash debt outstanding as on 30.06.2012 among rural households and 52 percent of the same among urban households had been contracted for a relatively shorter duration of less than 2 years and meager 2 percent for a period of 10 years or more for both the sectors. The distribution reveals similarity between earlier three rounds as regards the duration-specific percentage shares of cash dues. Between 1981 and 1991, the share of the cash dues outstanding for a long period of 5 years and above had declined from 20 percent to 12 percent in rural and from 23 percent to 14 percent in urban. Thereafter the pattern is somewhat similar.

It is slowly being recognized that short term credit needs of a farmer differs from the long term one (Economic Survey 2007-08). These requirements include maintenance of tractor or farm implements, allied activities like dairy, poultry, cost of feed, annual repairs etc. very often these two lines of credit; short term and long term are needed simultaneously. Since money lenders give credit to the farmers directly and it is informal in nature; farmers easily approach them even at high rates of interest. The long term nature of agriculture production makes farmers to extent these loans without any terms and conditions. Another side, instead of clearing the loan, farmers are renewing their loans before the maturity period. This way they are trapped in vicious circle of debt. It is clearly obvious from the primary survey analysis in chapter 4. In 1950-52 the National Sample Survey Organization conducted a survey on rural indebtedness, which revealed that 63 to 78 per cent farmers were indebted (NSSO, 1956). In 2013, about 52 percent of the agricultural households in the country were estimated to be indebted. The institutional loans gave a good fillip during 1970s and 1980s, but the decade of 1990s showed a slowdown, not only in institutional credit but also in the growth rate of agriculture (Singh, 2009). The agrarian distress reached a climax by early 2000, when the Government of India sponsored an all-India independent NSSO study (2003), which reported that 40 per cent of the Indian farmers and 37 per cent of the Punjab farmers have expressed their desire to leave farming, being not a profitable occupation (NSSO, 2005).

Table 1.7: Indebtedness of households in India and average amount of borrowings

Year		Households reporting borrowing (percent share)		Average amount of borrowing per household (Rs)	
		Rural	Urban	Rural	Urban
1971-72	**India**	27.7	NA	174	NA
	Kerala	23.8	NA	136	NA
1981-82	**India**	19.7	19	446	674
	Kerala	33.7	32.7	919	2598
1991-92	**India**	19.9	18.5	1160	1892
	Kerala	25.8	19.6	2171	2175
2002-03	**India**	20.8	15.3	3726	6162
	Kerala	35.9	33.4	11066	17620
2013-14	**India**	31.4	22.4	NA	NA

Source: computed from NSSO, Ministry of Statistics and Programme Implementation (various years)

It was observed that the share of indebted households in the total population has been decreasing over the years (AIDIS-70th round). The share of rural indebted households came down to 20.8 per cent in 2002-03 from 27.7 per cent in 1971-72 (GOI, 2003). This trend was found true in the case of urban households also. Lower share in spite of increase in absolute number of indebted households can be explained as a consequence of increase in population. In spite of wide expansion and calibration of the institutional financial setup to fine tune with the objective of financial inclusion, it is established that there is a wide majority who are out of coverage. However in the case of Kerala, it can be observed that share of rural population reporting borrowing has increased from 27.7 per cent in 1971-72 to 35.9 per cent in 2002-03, though an intermittent decline was noted in 1991-92. In urban areas, share of population reporting borrowings declined in 1991-92, but picked up later to attain 33.4 per cent in 2002-03. The average amount of borrowings increased 21 times for rural and 9 times for urban households. However, the borrowings of the urban counterpart was higher (average by 1.5 times) than that of the rural households. Average amount of borrowing per household in Kerala stood at more than double in the case of rural areas and almost thrice in the case of urban areas compared to national figures.

Conclusion

The performance of the agricultural sector and the extend of indebtedness are closely related. Hence, policy decisions on strengthening agricultural sector directly and indirectly improves the burden of debt. This is possible by intensive farming, value addition and processing, professionalizing agriculture etc. From the above discussions it is clear that, the share of institutional agencies to total credit has increased. Among them, co-operatives supplied about 35 percent of the total agricultural credit needs. At the same time, money lenders continued dominance in the rural credit scenario in India. Kerala placed 4th position among the states where the incidence of indebtedness is very high and higher than the national average of 47.30 percent. The indebtedness of the peasantry had been a serious issue since long. The NSSO, one of the most reliable and exhausted survey in the country surveyed the extent of indebtedness among farmers in its 59th round. The survey indicated that nearly half of (48.6 percent) farmer households were indebted and 61 percent of them were small farmer holding less than one hectare. It is noteworthy to remember that cropping pattern is a matter of concern of indebtedness of the peasantry in the Indian context. Cropping pattern in India is highly skewed in favour of cash crops in recent years which necessitate more investment in agriculture. For cash crops, there is a need for long term loans. But at the same time, the short term credit dominates the farm credit in India. It is more than 75 percent of the total credit. The committee on Expert Group on agriculture indebtedness in 2007 observes that public sector investment in agriculture which accounts for about one third of the total investment has been declining in recent years and it is the private investment which is playing a major role. It observes that co-operatives are a major source of capital formation and it has large amount of unutilized resources. These can be used more effectively, given better policy environment in the context of decentralized planning and Panchayati Raj or Local Government.

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