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## **An Economic Analysis of Rural Indebtedness in Northern Telangana Zone of Andhra Pradesh**

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### INTRODUCTION

Since Independence India has developed from the stage of net importing to exporting of food grains. Foodgrains production has quadrupled from 50 million tonnes (mt) in 1950s to 209 mt in 2000, while the population tripled during the same period. But, even after nationalisation of banks in 1969 and introduction of several banking sector reforms, still majority of the farmers are suffering from a major economic disease called 'Indebtedness' and lack timely and adequate agricultural credit. The small size of land holdings, poor resource base and varying monsoon behaviour are exposing majority of the farmers', particularly the small and marginal, lives leading some of them finally to commit suicide because of mounting debts to moneylenders.

In the Indian context rural indebtedness is resonant with the overtones of unproductive usage, usurious rates of interest and deplorable conditions of the poor farmers and agricultural labourers. To help the rural people get out of indebtedness we require to carry out empirical investigations for understanding the process in which indebtedness becomes self-perpetuating. The analysis of the productive and distributive effects of indebtedness in four tribal villages of North Lakhimpur subdivision, Assam indicated that it leads to decline in agricultural productivity, captivation of productive resources and aggravation of inequalities in the rural community (Mitra *et al.*, 1986).

Northern Telangana is the largest agro-climatic zone of Andhra Pradesh that comprises nearly 25 per cent of the cultivated area in the state and endowed with one major, Sri Ram Sagar Project, and many medium and minor irrigation sources with wide range of crops under different farming situations. However, the farmers in this zone severely suffer from the above economic disease, i.e., indebtedness and in fact, the maximum number of farmers' suicide attempts was recorded in this zone in recent years mainly caused by continuous failure of crops due to drought and mounting debts. An attempt has been made in this paper to assess the actual extent and structure of farmers' indebtedness in Northern Telangana Zone and to study the socio-economic factors causing indebtedness with the following specific objectives: (1) To

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study the extent and structure of rural indebtedness in different size groups of farmers. (2) To identify the socio-economic factors causing rural indebtedness, and (3) To suggest suitable ameliorative remedial measures to overcome rural indebtedness.

#### METHODOLOGY

Using random sampling technique, a total of 165 sample farmers in Adilabad, Karimnagar, Nizamabad and Warangal districts of Northern Telangana Zone (NTZ) were purposively selected for the present study. Similarly, using a pre-tested questionnaire, the required data was obtained from the selected sample farmers. The selected sample farmers were post-categorised into different size groups, i.e., small (<1 ha), medium (1-2 ha) and large (>2 ha) based on their size of landholdings (Table 1).

TABLE 1. SAMPLE FARMERS

District (1)	Small (2)	Medium (3)	Large (4)	Total (5)
Adilabad	8 (20.0)	20 (31.7)	30 (48.4)	58 (35.2)
Karimnagar	12 (30.0)	18 (28.6)	18 (29.0)	48 (29.1)
Nizamabad	8 (20.0)	15 (23.8)	5 (8.1)	28 (17.0)
Warangal	12 (30.0)	10 (15.9)	9 (14.5)	31 (18.8)
Total	40 (100.0)	63 (100.0)	62 (100.0)	165 (100.0)

Figures in parentheses indicate the percentage to the respective total.

The data collected from the sample farmers include their socio-economic background, details of credit acquisition (different sources, types and purposes of credit) and loan repayment, etc. The data was processed through simple conventional tabular analysis and percentages were worked out. The data pertains to the agricultural year 2002-03.

#### RESULTS AND DISCUSSION

##### *Extent of Indebtedness*

Of the total 165 sample farmers, 142 (81 per cent) were indebted in the four selected districts of the zone. On an average the sample farmer in NTZ was in debt for an amount of Rs. 16,904 per hectare and Rs. 43,444 per average size of holding of 2.57 hectares. Among the districts, the sample farmers in Nizamabad district were found to be more heavily indebted (Rs. 30,564 / ha) than those in the other three districts (Table 2).

Further, of the total credit taken by the sample farmers, the maximum share (58 per cent) was attributable to non-institutional sources like, moneylenders, input dealers and friends and relatives. The same trend was observed in all the districts except Adilabad where the maximum 57 per cent of total credit was from institutional sources indicating the better accessibility of institutional credit to the sample farmers in the district as compared to other districts. However, among the districts, the sample farmers in Nizamabad district were found to have least accessibility to institutional credit which accounted for 17 per cent of the total credit.

TABLE 2. DISTRICT AND FARM SIZE WISE EXTENT OF INDEBTEDNESS

(1) District	No. of sample farmers (2)	No. of farmers indebted (3)	Productive credit (Rs.)					
			Institutional credit		Non-institutional credit		Total credit	
			Per holding (4)	Per hectare (5)	Per holding (6)	Per hectare (7)	Per holding (8)	Per hectare (9)
Adilabad	58	54 (93.1)*	31,389	8768 (57.1)**	23,593	6590 (42.9)**	54,982	15,358
Karimnagar	48	40 (83.3)	9,915	4097 (30.6)	22,475	9287 (69.4)	32,390	13,384
Nizamabad	28	23 (82.1)	7,978	5283 (17.3)	38,174	25281 (82.7)	46,152	30,564
Warangal	31	25 (80.6)	12,920	6909 (38.3)	20,800	11123 (61.7)	33,720	18,032
Farm size								
Small	40	30 (75.00)	4,237	6420 (18.1)	19,167	29041 (81.9)	23,404	35,461
Medium	63	62 (98.4)	9,895	6034 (29.3)	23,919	14585 (70.7)	33,814	20,618
Large	62	50 (80.6)	37,150	7838 (55.1)	30,260	6384 (44.9)	67,410	14,222
Pooled / NTZ	165	142 (80.6)	18,296	7119 (42.1)	25,148	9785 (57.9)	43,444	16,904

Note : \* Percent to total number of sample farmers; \*\* Percent to total credit.

On the other hand, the inverse relationship of per hectare indebtedness with the farm size in Table 2 clearly indicates the higher need of farm credit by small category farmers as compared to the other two size groups. Further, the analysis also indicates increasing accessibility to institutional credit with increase in farm size. That means, the small farmer had very least accessibility (18 per cent) to institutional credit, while the other two farm size groups, i.e., medium and large sample farmers accounted for 29 and 55 per cent of the total credit from institutional sources. In other words, the non-institutional share in the total credit has decreased with increasing farm size. The

dependence of marginal and small farmers on informal sources for credit is still high (Dandekar, 1993). Samal (2002) analysed a similar condition in West Bengal and found dependence of the small and marginal farmers on informal sources for about 74 per cent of their working capital needs.

On the whole, 142 out of the 165 sample farmers (80.6 per cent) are indebted for an amount of Rs. 61.69 lakhs, out of which a major share of Rs. 56.26 lakhs (91.2 per cent) was obtained towards crop loan (Table 3). Likewise, more than 90 per cent of productive credit was taken as crop loan in all districts except Karimnagar, where it accounts for only 60 per cent (Rs. 7.78 lakhs), while about Rs. 4.35 lakhs (34 per cent) was taken towards land development activities mainly by small (Rs. 1.05 lakhs) and medium (Rs. 2.30 lakhs) sample farmers.

TABLE 3. PURPOSE WISE PRODUCTIVE CREDIT

	(Rs. '000)				
	Crop loan	Livestock	Machinery and equipment	Land development	Total productive credit
(1)	(2)	(3)	(4)	(5)	(6)
District					
Adilabad	2944.0 (99.2)	-	25.0 (0.8)	-	2969.0
Karimnagar	777.6 (60.0)	12.0 (0.9)	71.0 (5.5)	435.0 (33.6)	1295.6
Nizamabad	1061.5 (100.0)	-	-	-	1061.5
Warangal	843.0 (100.0)	-	-	-	843.0
Farm size					
Small	597.1 (85.0)	-	-	105 (15.0)	702.1
Medium	1854.5 (89.0)	-	-	230 (11.0)	2084.5
Large	3174.5 (93.9)	12 (0.4)	96 (2.8)	100 (2.9)	3382.5
Pooled / NTZ	5626.1 (91.2)	12 (0.2)	96 (1.6)	435 (7.0)	6169.1

Figures in parentheses are percentage to total productive credit.

### Structure of Indebtedness

The analysis of structure of indebtedness revealed maximum indebtedness to co-operative societies (34 per cent) followed by friends and relatives (31 per cent) and moneylenders (27 per cent). Among the districts, similar trend was observed in Warangal district (Table 4). However, in Adilabad, Karimnagar and Nizamabad districts, the maximum share of indebtedness was to co-operatives (48 per cent), moneylenders (42 per cent) and friends and relatives (74 per cent) respectively.

TABLE 4. STRUCTURE OF INDEBTEDNESS

(Rs. '000)

(1)	Co-operatives		Commercial banks		Moneylenders		Input dealers		Friends and relatives		Total	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
District												
Adilabad	42 (43.3)	1431 (48.2)	8 (8.2)	264 (8.9)	29 (29.9)	741 (25.0)	-	-	18 (18.6)	533 (17.9)	97	2969
Karimnagar	17 (25.8)	193.1 (14.9)	13 (19.7)	203.5 (15.7)	16 (24.2)	541 (41.8)	6 (9.1)	19 (1.5)	14 (21.2)	339 (26.2)	66	1295.6
Nizamabad	14 (38.9)	183.5 (17.3)	-	-	5 (13.9)	94 (8.9)	-	-	17 (47.2)	784 (73.9)	36	1061.5
Warangal	20 (48.8)	288 (34.2)	2 (4.9)	35 (4.2)	10 (24.4)	260 (30.8)	-	-	9 (21.9)	260 (30.8)	41	843
Farm size												
Small	13 (29.5)	124.1 (17.7)	1 (2.3)	3 (0.4)	15 (34.1)	294 (41.9)	-	-	15 (34.1)	281 (40.0)	44	702.1
Medium	43 (41.7)	551.5 (26.3)	6 (5.8)	62 (3.0)	22 (21.4)	510 (24.3)	1 (1.0)	3 (0.1)	31 (30.1)	970 (46.3)	103	2096.5
Large	37 (39.8)	2095.6 (62.2)	16 (17.2)	437.5 (13.0)	23 (24.7)	832 (24.7)	5 (5.4)	16 (0.5)	12 (12.9)	665 (19.7)	93	3370.5
Pooled / NTZ	93 (38.7)	2095.6 (34.0)	23 (9.6)	502.5 (8.1)	60 (25.0)	163.6 (26.5)	6 (2.5)	19 (0.3)	58 (24.2)	191.6 (31.1)	240	6169.1

Figures in parentheses are percentage to their respective total.

Interestingly, the total loans of 240 taken by the 142 (80.6 per cent of the total) sample farmers indicates the opportunity that had been taken by the sample farmers to obtain the required credit from more than one source in order to meet their financial needs during the study period.

The analysis of structure of indebtedness according to farm size group also reveals that the large group of sample farmers had taken more than 75 per cent of total credit from institutional sources, i.e., co-operatives (62 per cent) and commercial banks (13 per cent) when compared with the other two size groups of farmers. In other words, nearly 82 and 71 per cent of the total credit taken by small and medium sample farmers respectively are from non-institutional sources, i.e., friends and relatives and money lenders respectively, while the same was found by large group of farmers accounting for less than 25 per cent.

### Loan Repayment

With regard to loan repayment, only 63 per cent of the sample farmers were found to be regularly repaying the loan amounts, while 22.4 per cent failed to repay due to many reasons (Table 5). Among the districts, more percentage of non-rePAYERS were observed in Warangal (36 per cent) followed by Nizamabad (32 per cent) and Adilabad (21 per cent).

TABLE 5. LOAN REPAYMENT BY SAMPLE FARMERS

District (1)	(per cent)		
	Regular repayment (2)	Not paid (3)	No response (4)
Adilabad	77.6	20.7	1.7
Karimnagar	60.4	10.4	29.2
Nizamabad	60.7	32.1	7.1
Warangal	41.9	35.5	22.6
NTZ	63.0	22.4	14.5

However, nearly 31, 29, 20 and 11 per cent of the sample farmers had revealed that crop failure, low yields, lack of irrigation facilities and low market prices respectively as the major reasons for non-repayment of loans (Table 6).

TABLE 6. REASONS FOR NON-REPAYMENT OF LOANS BY SAMPLE FARMERS

Reason (1)	Percent sample farmers responded (2)
Crop failure	31.0
Low yields	29.4
Low prices	11.1
High cost of inputs	4.0
High rate of interest	2.4
Adverse seasonal conditions	2.4
Lack of irrigation facilities	19.8

On the whole, the following were found to be the major factors causing indebtedness in rural areas of Northern Telangana Zone.

1. *Lack of technical know-how* - without which farmers could not adopt new improved/advanced practices and reap maximum returns.

2. *Declining irrigation facilities* - vagaries of monsoon and indiscriminate use of irrigation water in command areas and over-exploitation of ground water in non-command areas led to great shortage of water in many major and minor irrigation sources and deep fall in ground water table.

3. *Increasing biotic and abiotic constraints* - like pests and diseases, soil health problems, higher input costs, lower market prices, unfavourable seasonal conditions, etc., are causing detrimental effect on agriculture production.

4. *Lower crop yields and farm income* - resulting due to lack of technical know-how, declining irrigation facilities and increasing biotic and abiotic constraints are finally throwing the small and marginal farmers into the condition of inability to repay the loan amount and force to look up for another form of credit for investment in the next season.

5. Burden of *higher family expenditure* - because of the large family size and less number of family members available for farm work, and due to other compulsory traditional social expenses the farmers are unable to repay the loan amount regularly and sometimes prepare to diversify the production credit towards family needs and opt for another agricultural loan from an easy source even at higher rate of interest.

6. *Insufficient institutional credit availability and easy credit from non-institutional sources* - like moneylenders, commission agents and input dealers were found to be the major reasons for continuous indebtedness of mainly small and medium farmers to non-institutional sources.

In order to ameliorate the condition of indebtedness of farmers in rural areas of Northern Telangana Zone the following few remedial measures are suggested:

1. Improvement of irrigation facilities and/or development and popularisation of advanced irrigation methods like micro irrigation.

2. Arrangement of sufficient credit from institutional sources.

3. Provision of remunerative prices, storage facilities, quality inputs, elimination of malpractices in market yards and creation of a strong Agriculture Technical Advisory System.

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