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Inter-District Analysis of Indebtedness among Non-Farm Households in Rural Punjab

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Abstract

The present paper examines the extent of indebtedness among non-farm workers in rural Punjab. The study reveals that 34.14 per cent of total sampled households are indebted. The incidence of indebtedness is the highest in district Bathinda and the lowest in district Gurdaspur. 33.51 per cent of total loans is raised for productive purposes while 66.49 per cent is raised for non-productive purposes. Among non-productive purposes, the highest amount is raised for domestic needs, followed by house construction, the addition of rooms and major repairs, marriages and social ceremonies and then by healthcare. The share of institutional sources in total loans is 55.64 per cent. Among the institutional sources, the share of the commercial banks is the highest in the total loans while under the non-institutional sources, the highest proportion is contributed by the relatives and friends. About 90 per cent of the total loan taken by the sampled households is raised at an interest rate below 14 per cent.

Keywords

Non-farm households, Debt, Purpose, Sources, Rate of interest.

JEL Codes: C81, D14, E43, G21, G23

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1. Introduction

The rural non-farm sector plays an important role in the development of rural areas in Asia and Pacific region. But rural non-farm activities are not a substitute for employment in agriculture but a supplementary measure (Mukhopadhyay *et al*., 2008). A diversified portfolio income-generating activities is a sure way to minimize income variability and to ensure a minimum level of income (Osarfo *et al*. 2016). The non-farm activities in India got a major boost in the post reforms period both in terms of employment generation and overall growth of the sector (Das *et al*. 2020). The development of non-farm activities is an important adaptive strategy in rural areas to increase family income, spread risk, stable salaries, reduce income inequalities to cope the income differentials and give them security of control over productive resources (Subramanian, 2017). The development of rural non-farm activities is generally viewed as an alternative less costly policy option for providing gainful employment to rural labour (Sidhu and Singh, 2015).

The labour absorption capacity of the farming sector is declining and the problem of unemployment is rising in rural areas of Punjab (Anonymous, 2013). In order to remove the problems of rural unemployment and poverty, the growth of the non-farm sector is the need of the time. The policymakers also focus on is the sector to remove poverty and inequality through the growth of rural income. But all the non-farm activities do not lead to similar economic outcomes. A good number of them are related to low-paid and irregular jobs while on the other hand, non-farm employment in services is inaccessible low-skilled, less-educated rural masses. This sector occupies a special position for generating alternative employment opportunities outside the farm sector. Whereas its contribution to employment is non-debatable but its performance in terms of income generation is considered to be far from impressive (Bhalla, 2006). The rising non-agricultural incomes can also increase inequality as a consequence of differential access between the less and better-endowed (Coppard, 2001).

The labour force is shifting from agriculture to the non-farm sector in search of new and better work opportunities in rural Punjab (Kaur, 2013). The diversification to the non-farm sector leads to higher income, but the resultant increase is very small. Thus, the transition of rural households from farm to non-farm-sector activities is a very weak strategy in agriculturally developed state of Punjab (Kapoor and Kapoor, 2021). The living conditions of non-farm households are very vulnerable in rural Punjab. The presence of indebtedness in rural areas is a general phenomenon. It is generally due to irregular or low level of income which is equally true for the farm as well as non-farm workers. The agrarian crisis that rampaged through rural India for the past few years has clearly been related to the rising burden of indebtedness among rural households (Sandhu and Toor, 2020). Since most of the rural non-farm workers belong to the informal sector, therefore their access to formal credit system is also inadequate to meet their needs. Low bargaining strength and hence low income of majority of the rural non-farm workers further aggravates their condition. So, this paper is an attempt to examine the extent, sources and purposes of debt among non-farm workers in rural Punjab.

2. Methodology

For the purpose this study, the whole state has been divided into three agro-climatic regions on the basis of climate, type of soil, cropping pattern, culture of land tenure and farming communities etc. These regions are South-West Region, Central Plains Region and Shivalik Foothills Region. The South-West Region comprises of Bathinda, Mansa, Ferozepur, Fazilka, Faridkot, Muktsar and Moga districts. The Central Plains Region constitutes Patiala, Fatehgarh Sahib, Sangrur, Amritsar, Kapurthala, Jalandhar, Nawanshahr, Tarn Taran and Ludhiana districts. The Shivalik Foothills Region comprises of Hoshiarpur, Pathankot, Gurdaspur, Mohali and Ropar districts. At the first stage, one district from each region has been chosen randomly. Bathinda district from the South-West Region; Jalandhar district from the Central Plains Region; and Gurdaspur district from the Shivalik Foothills Region have been selected for the purpose of present study. One village has been chosen randomly from each development block of the selected district. There are thirty development blocks in the selected three districts. Thus, in all, thirty villages have been selected from the three districts. Eight villages from the Bathinda district, eleven villages from the Jalandhar district and eleven villages from the Gurdaspur district have been selected. Taking into consideration the number of variables, the number of households with positive responses and degrees of freedom in the form of time and resources, 659 households were selected from the three districts for the purpose of survey. Out of the total selected 659 households, 238 households have been selected from Bathinda district, 238 households from the Jalandhar district and 183 households from the Gurdaspur district.

3. Results and Discussion

3·1 Incidence of Indebtedness

An overview of the incidence of indebtedness among the sampled rural non-farm workers along with their average amount of debt is presented in Table-1. The table shows that out of total sampled households, 34.14 per cent are indebted. The incidence of indebtedness is the highest in district Bathinda and the lowest in district Gurdaspur as we can see from the table that 43.28 per cent of the sampled rural non-farm households in district Bathinda are indebted while this ratio is only 19.67 per cent in district Gurdaspur and 36.13 per cent in district Jalandhar. The another study by Sahu (2018) also found that 52 per cent of households in the country were indebted in rural areas.

Table-1: Incidence of Indebtedness and the Average Amount of Debt among Rural Non-Farm Households

District	No. of Households		Indebted Households as Percentage of Sampled Households	Average Amount of Debt (in ₹) (Per Indebted Household)
	Sampled	Indebted		
Gurdaspur	183	36	19.67	179722
Jalandhar	238	86	36.13	118880
Bathinda	238	103	43.28	160453
All Sampled Households	659	225	34.14	147646

Source: Field Survey, 2016-17.

Further, it can be observed that the average amount of debt among the sampled non-farm households is ₹1,47,646 per indebted household. Though district Gurdaspur has the lowest incidence of indebtedness but it has the highest amount of debt per indebted household. An indebted non-farm household in this district has an average debt burden of ₹ 1,79,722 as compared to ₹1,60,453 in district Bathinda and ₹1,18,880 in district Jalandhar.

3·2 Indebtedness according to the Purpose of Loans

Looking at the indebtedness by the purpose of the loan gives a fair idea about how the loan is being used and whether the borrower would be able to pay it back. A higher ratio of productive loans to that of non-productive loan indicates that the nature of the debt may not be very critical while a lower ratio shows a miserable position of the borrowers (Deshpande *et al.*, 2001). In the case of current survey, it can be observed from Table-2 that for the sampled non-farm households, the amount of productive loans is just half of the non-productive loans. An average household in the rural non-farm sector of Punjab has been found to have taken a loan of ₹49,486. for productive purposes and ₹98,160 for the non-productive purposes. Out of the productive purposes the major amount is taken for non-farm business which has been found to be ₹41,728 while ₹7,334 are taken for agriculture and only ₹424 for purchase of livestock. On the other hand, in the category of non-productive purposes, the major amount has been raised for meeting the domestic needs, followed by house construction and major repairs, marriages and other social ceremonies and health care. Another ₹7,938 and ₹6,364 has been borrowed for purchase of durables and education, respectively.

Table-2: Per Household Debt according to Purpose

(Mean Values, In ₹)

Sl. No.	Purpose	Gurdaspur	Jalandhar	Bathinda	All Sampled Households
1.	Agriculture	41667 (23.18)	–	1456 (0.91)	7334 (4.97)
2.	For non-farm business	17125 (9.53)	27852 (23.42)	61913 (38.59)	41728 (28.26)
3.	To purchase of livestock	–	–	927 (0.58)	424 (0.29)
Total Productive Purposes (1-3)		**58792 (32.71)**	**27852 (23.42)**	**64296 (40.07)**	**49486 (33.51)**
4.	Marriages and other socio-religious ceremonies	15278 (8.50)	6628 (5.58)	18087 (11.27)	13258 (8.98)
5.	House construction, addition of rooms and major repairs	21667 (12.06)	25907 (21.79)	16223 (10.11)	20796 (14.08)
6.	Domestic needs	50097 (27.87)	26481 (22.28)	32934 (20.53)	33214 (22.50)
7.	Healthcare	25000 (13.91)	5302 (4.46)	14107 (8.79)	12484 (8.46)
8.	To purchase durables	6111 (3.40)	3221 (2.71)	12515 (7.80)	7938 (5.38)
9.	Education	2777 (1.55)	15488 (13.03)	–	6364 (4.31)
10.	To purchase land	–	5233 (4.40)	–	2000 (1.35)
11.	Repayment of loan	–	1512 (1.27)	2291 (1.43)	1626 (1.10)

12.	For sending Children Abroad	–	1256 (1.06)	–	480 (0.33)
Total Non-productive Purposes (4-12)		**120930 (67.29)**	**91028 (76.58)**	**96157 (59.93)**	**98160 (66.49)**
Total		**179722**	**118880**	**160453**	**147646**
Ratio of Productive to non-productive loan		**0.49**	**0.31**	**0.67**	**0.50**

Source: Field Survey, 2016-17

Note: Figures in brackets are column-wise percentages.

In the district-wise analysis the highest amount of debt per indebted household has been recorded in district Gurdaspur, followed by district Bathinda while the sampled households in district Jalandhar have registered the lowest amount of debt per indebted household. In each of the district, the amount of loan for productive purposes is lower than that of the non-productive purposes. The table shows that ₹58,729, ₹27,852 and ₹64,296 were taken for productive purposes and ₹1,20,930, ₹91,028 and ₹96,158 were taken for non-productive purposes in district Gurdaspur, Jalandhar and Bathinda, respectively. As a result, the ratio of productive to non-productive loans in these districts has been found to be 0.49, 0.31 and 0.67. Although the amount of productive as well as non-productive loan is the lowest in district Jalandhar but this district also has the lowest ratio of productive to non-productive loan. Actually, the sampled households in this district have taken loan for non-farm business only. On the other hand, in district Gurdaspur, a greater amount of loan has been taken for agriculture than for the non-farm business. In Bathinda district, the debt for non-farm business is the highest among all the sampled districts. It amounts to ₹61,913 as compared to ₹27,852 in district Jalandhar and ₹17,125 in district Gurdaspur.

Under the category of non-productive loans, it has been found that the highest amount of debt for domestic needs and healthcare is taken by the sampled households in district Gurdaspur while that of house construction, major repairs etc. is the highest in district Jalandhar and that of marriages and socio-religious ceremonies and purchase of durables is the highest in district Bathinda.

The table further shows that out of total loans taken by the sampled rural non-farm households, 33.51 per cent is raised for productive purposes while 66.49 per cent is raised for non-productive purposes. The findings are different from the study conducted by Kaur (2016) which found that the usage of loan for income generating activities is as high as 81.96 per cent. Out of total loans, it has been found that under the category of productive purposes, 28.26 per cent are taken for non-farm business and 4.97 per cent for agriculture while only 0.29 per cent is taken for purchase of livestock.

On the other hand, under the category of non-productive loans, it has been found that 22.50 per cent, 14.08 per cent, 8.98 per cent and 8.46 per cent of total loans are taken for domestic needs, house construction/major repairs, marriages and social ceremonies and health care, respectively.

District-wise analysis shows that the proportion of loans taken for productive purposes is the highest in district Bathinda and the lowest in district Jalandhar while the sampled households in district Gurdaspur take 32.71 per cent of the total loans for productive purposes. On the other hand, 67.29, 76.58 and 59.93 per cent of total loans are taken for non-productive purposes in district Gurdaspur, Jalandhar and Bathinda, respectively. We can further notice that the highest proportion of loan for agriculture is taken by the households in district Gurdaspur which is 23.18 per cent while only 9.53 per cent of total debt by these households is taken for non-farm business. As compared to it, 23.43 per cent and 38.59 per cent of total debt in district Jalandhar and Bathinda, respectively is taken for non-farm business. Under the category of non-productive purposes, we can find that the highest proportion of debt on domestic needs is taken by the non-farm households in district Gurdaspur which turns out to be 27.87 per cent as compared to 22.28 per cent in district Jalandhar and 20.53 per cent in district Bathinda. Similarly, 12.06 per cent, 21.79 per cent and 10.11 per cent of total debt in districts Gurdaspur, Jalandhar and Bathinda, respectively is incurred on house construction, additions of rooms and major repairs, Reddy *et al.*, (2020) found that 32 percent of total loans were used for domestic needs and 21 per cent for house construction.

While in case of marriages and other socio-religious ceremonies, these proportions are 8.50 per cent, 5.58 per cent and 11.27 per cent, respectively. The highest proportion of debt for healthcare has been recorded in case of district Gurdaspur, followed by district Bathinda and district Jalandhar.

3·3 Indebtedness according to Sources of Loans

The purpose of debt largely determines the source of debt as most of the formal agencies traditionally give loan mainly for productive purposes. But the liberalization wave has led many commercial banks to diversify their loan portfolio by providing loans for non-productive purposes as well e.g. for purchase of automobiles, house construction, education etc. As a result, the average amount as well as proportion of loan from the institutional sources can be higher than the productive loans. Similar trends can be observed in our survey. For this purpose, we can observe table-3 which shows the source-wise average amount of debt taken by the sampled rural non-farm households. Table-3 shows that the sampled non-farm households take a greater amount of loan from the institutional agencies than from the non-institutional ones. The average amount of debt from institutional agencies is ₹82,152.89 per indebted household as compared to ₹65,493.33 from the non-institutional agencies. Thus for the sampled households, the ratio of institutional to non-institutional debt is 1.25. Out of the institutional loans, the largest amount is sourced from commercial banks. Another ₹5,608.89, ₹5,478.44 and ₹1,644.44 are raised from Primary agricultural co-operative societies/co-operative banks, Micro-finance companies and community development banks, respectively. In case of the non-institutional debt, the biggest contributors are relatives and friends, followed by money lenders) and large farmers.

Table-3: Per Household Debt from Different Credit Agencies

(Mean Values, in ₹)

Sl. No.	Source of Debt	Gurdaspur	Jalandhar	Bathinda	All Sampled Households
A. Institutional					
1.	Primary agricultural cooperative societies co- operative banks	1389 (0.77)	8860 (7.45)	4369 (2.72)	5609 (3.80)
2.	Commercial banks	115972 (64.53)	42387 (35.66)	75723 (47.19)	69421 (47.02)
3.	Community development banks	–	4012 (3.37)	243 (0.15)	1645 (1.11)
4.	Micro Finance Companies	–	9377 (7.89)	4138 (2.58)	5478 (3.71)
Sub-total		117361 (65.30)	64636 (54.37)	84473 (52.65)	82153 (55.64)
B. Non-institutional Sources					
5.	Money-lenders	11000 (6.12)	7977 (6.71)	20514 (12.79)	14200 (9.62)
6.	Traders/shopkeepers	2972 (1.65)	–	971 (0.61)	920 (0.62)
7.	Large farmers	20556 (11.44)	3023 (2.54)	20456 (12.75)	13809 (9.35)
8.	Relatives and friends	27833 (15.49)	43244 (36.38)	34039 (21.21)	36564 (24.76)
Sub-total		**62361 (34.70)**	**54244 (45.63)**	**75980 (47.35)**	**65493 (44.36)**
Total		**179722 (100.00)**	**118880 (100.00)**	**160453 (100.00)**	**147646 (100.00)**
Ratio of Institutional Loans to Non-Institutional Loans		**1.88**	**1.19**	**1.11**	**1.25**

Source: Field survey, 2016-17

Note: Figures in brackets are column-wise percentages.

The district-wise scenario shows that among all the districts, the sampled households in district Gurdaspur have raised the largest amount from the institutional sources, mainly from the commercial banks. The average amount of debt raised from institutional sources by the sampled households is ₹1,17,361, ₹64,636 and ₹84,473, respectively in district Gurdaspur, Jalandhar and Bathinda. Out of this ₹1,15,972, ₹42,387 and ₹ 75,723 are raised from commercial banks while the contribution of primary agricultural co-operative societies/co-operative banks is ₹1389, ₹8860 and ₹4369, respectively. The district-wise analysis of source of non-institutional debt shows that the highest amount under this category is taken by the sampled households in district Bathinda followed by district Gurdaspur and the least amount is taken by the sampled households in district Jalandhar. The distribution of total debt from non-institutional sources in different districts paints a distinct picture for each district.

The sampled households in district Gurdaspur has a greater reliance upon the large farmer than the money lenders while in district Jalandhar, it is the other way round as more of the debt has been raised from the money lenders than the large farmers. However, in Bathinda, the sampled non-farm households rely equally upon both of the sources. In all the districts, maximum amount of non-institutional debt has been taken from relatives and friends. ₹27,833, ₹43,244 and ₹34,039 has been taken from this source in district Gurdaspur, Jalandhar and Bathinda, respectively e. Thus, we have seen that for the sampled rural non-farm households the amount of debt from institutional sources is higher than that of the non-institutional sources. This has given a ratio of institutional to non-institutional debt at greater than one. This ratio is the highest in district Gurdaspur but the lowest in district Bathinda.

The table further shows that out of the total debt reported by the sampled non-farm households, 55.64 per cent is taken from the institutional sources. These figures are somewhat different from the findings of Sandhu and Toor (2020) in which 25 per cent of total debt of non-farm households have been taken from institutional sources. The share of the institutional sources is the highest in district Gurdaspur where 65.30 per cent of total debt of the rural non-farm households is taken from the institutional sources while this proportion is 54.37 per cent and 52.65 per cent in district Jalandhar and district Bathinda. Thus, the major proportion of loans taken from the non-institutional sources has been recorded in case of Bathinda district followed by district Jalandhar and then by district Gurdaspur. Further, we can see that 47.02 per cent of the debt is raised from the commercial banks and this proportion is different in different districts. It has been found that out of the total debt of the sampled non-farm households 64.53, 35.66 and 47.19 per cent has been taken from the commercial banks in districts Gurdaspur, Jalandhar and Bathinda, respectively. These figures are in line with the findings of another study by Kaur (2020) which shows that commercial banks provided 46.53 per cent of the outstanding debt of rural Punjab. The primary agricultural societies/ co-operative societies/co-operative banks and micro-finance companies have a greater presence in district Jalandhar than other two districts as we can see from the table that 7.45 per cent and 7.89 per cent, respectively of total debt of the sampled households in Jalandhar district is taken from these two sources. But these proportions are only 2.72 per cent and 2.58 per cent in district Bathinda while in district Gurdaspur, none of the sampled household has taken any loan from the micro-finance companies and only 0.77 per cent of their total debt has been taken from primary agricultural/ co-operative societies/co-operative banks.

The sampled non-farm households had taken 44.36 per cent of the total loans from the non-institutional sources Under the broader category of non-institutional sources, we can see that 24.76 per cent of the total debt of the sampled non-farm households has been taken from the relatives and friends and just 9.62 per cent and 9.35 per cent has been taken from the money lenders and the large farmers, respectively. The results of present study are in line with the findings of another study by Sahu (2018) which reveals that nearly 40 per cent of all loans came from informal sources with 26 per cent advanced by moneylenders. But these proportions of debt from different sources vary according to the district. In district Gurdaspur 15.49 per cent, 11.44 per cent, 6.12 per cent and 1.65 per cent of total debt of the sampled households has been taken from relatives and friends, large farmers, money lenders and the traders/shopkeepers, respectively. In district Jalandhar, 36.38 per cent of total debt has been taken from the relatives and friends, 6.71 per cent from the money lenders and 2.54 per cent from the large farmers while none of the sampled household was found to have borrowed from the traders/shopkeepers. On the other hand, in district Bathinda apart from the relatives and friends, the money lenders and the large farmers also have a noticeable share in total household debt. The table shows that in this district 21.21 per cent, 12.79 per cent and 12.75 per cent of total debt has been taken from the relatives and friends, money lenders and large farmers, respectively.

3·4 Indebtedness and Rate of Interest

The source and purpose of debt together determine the distribution of debt according to rate of interest. If the loan is raised for non-productive purposes and from the non-institutional source, there will be a greater probability of its having a higher rate of interest than the ones taken for productive purposes and from the institutional agencies. As we have observed in earlier tables on source of the loan availed by the sampled non-farm households is higher from the institutional agencies than from the non-institutional one, therefore, we can easily expect that higher amount of debt would have been raised at the stipulated rates charged by the banks, co-operative societies and other institutional agencies. Table-4 justifies the pattern observed in earlier tables on source and purpose of debt taken by the sampled households. The table shows that an average household takes the highest amount of loan at a rate of interest between 1-7 per cent and this amount has been found to be ₹70,169. The next important interest rate category is 8-14 per cent, ₹43,931 have been taken by the sampled non-farm households at this rate of interest. Since, the sampled households also take a considerable amount of loan from the friends and relatives, therefore, here too we can see that per household debt at 0 per cent rate of interest is ₹ 20,090. Besides, ₹7,448, ₹5,653 and ₹355 were taken at the interest rates 15-21 per cent, 22-28 per cent and above 28 per cent, respectively. Thus, we have seen that after crossing the priority sector lending rates (1-7 per cent), as the rate of interest increases, the average amount of loan per household falls and this is true for every district with an exception of district Gurdaspur. Earlier we noticed that the households in district Gurdaspur have the highest amount of debt among all the sampled districts. But here, we can notice that actually the per household amount of loan is the highest for the sampled households in Bathinda district in all the interest rate categories above 1 per cent (with an exception of the rate of interest above 28 per cent). In the interest category 0 per cent, the sampled households in this district have recorded the lowest amount of debt. Under this category, the highest amount of loan has been registered by the sampled households in district Jalandhar, followed by district Gurdaspur. The table shows that per household debt for district Bathinda is ₹94,087, ₹26,225, ₹13,891, ₹10,000 and ₹291 on the rate of interest 1-7 per cent, 8-14 per cent, 15-21 per cent, 22-28 per cent and above 28 per cent, respectively. Interestingly, in district Gurdaspur, a greater amount of loan has been taken at a rate of interest ranging between 8-14 per cent.

Table-4: Per Household Debt according to Rate of Interest

(Mean Values, in ₹)

Sl. No	Rate of Interest (in %)	Gurdaspur	Jalandhar	Bathinda	All Sampled Households
1.	0	16444 (9.15)	26563 (22.34)	15959 (9.95)	20090 (13.61)
2.	1 - 7	51750 (28.79)	49233 (41.41)	94087 (58.64)	70169 (47.52)

3.	8 - 14	108750 (60.51)	38003 (31.97)	26225 (16.34)	43931 (29.75)
4.	15 - 21	1389 (0.77)	2267 (1.91)	13891 (8.66)	7448 (5.04)
5.	22 - 28	–	2814 (2.37)	10000 (6.23)	5653 (3.83)
6.	Above 28	1389 (0.77)	–	291 (0.18)	355 (0.24)
Total		**179722 (100.00)**	**118880 (100.00)**	**160453 (100.00)**	**147646 (100.00)**

Source: Field Survey, 2016-17

Note: Figures in brackets are column-wise percentages.

Further, we can see the percentage share of each interest category in total household loans in table-4. The table shows that the highest proportion of total household debt is taken at the interest rates ranging between 1-7 per cent, 47.52 per cent of total household debt is raised on this range. The next important categories are 8-14 per cent and 0 per cent; 29.75 per cent and 13.61 per cent of total household debt has been found to be raised on these two interest categories, respectively. Thus, we have seen that leaving the zero-interest rate category aside, the proportion of loan under each category falls as the rate of interest increases and this trend can be noticed in two of the districts sampled districts i.e. district Jalandhar and Bathinda. In district Gurdaspur, the highest proportion of loan has been taken at a rate between 8 and 14 per cent, followed by the interest category 1-7 per cent. We can notice from the table that in this district 60.51 per cent and 28.79 per cent of total household debt lies under these two categories, respectively. On the other hand, the highest proportion of loan taken at rate of interest ranging between 1-7 per cent has been registered in case of the sampled households belonging to district Bathinda, 58.64 per cent of total household loan in this district has been taken at this interest rate while these proportions are 28.79 per cent and 41.41 per cent in district Gurdaspur and Jalandhar, respectively. Thus, we have seen that about 90 per cent of the total loan taken by the sampled households is raised at an interest rate below 14 per cent. This is mainly due to the reason that these household take a greater proportion of their loans from the institutional sources. These findings are somewhat different from the findings of another study by Sandhu and Toor (2020) which found that about 69 per cent of the total loans of non-farm households obtained at the rate of interest above 20 per cent.

4. Conclusions and Policy Implications

An analysis of the indebtedness among the sampled non-farm households shows that 34.14 per cent of the sampled households are indebted. In each of the sampled district, the amount of loan for productive purposes is lower than that of the unproductive purposes but the share of the institutional agencies is higher than that of the non-institutional agencies. The average amount of debt across all the districts for productive purposes and from the institutional agencies shows that the institutional agencies has been meeting more loans for the productive purposes. Among the institutional sources, the share of the commercial banks is the highest in the total debt while under the non-institutional sources, the highest proportion is contributed by the relatives and friends, followed by the money lenders and the large farmers. Further, it has been found that a major share of debt is raised at an interest rate lower than 14 per cent.

Therefore, they need a special attention in any policy aimed at improving the well-being of the rural masses. Their credit needs should be adequately addressed through institutional finance. Since most of the rural non-farm enterprises are unregistered, therefore they do not have adequate access to institutional finance. As majority of the non-farm workers are also landless, hence due to lack of collateral, their reliance on non-institutional sources increases which charges heavy rate of interest from them. This points towards the need of greater penetration of institutional financial agencies in the rural areas with a wider coverage of rural enterprises which should be providing credit to the non-farm enterprises at lower rate of interest. But the matter of fact is that currently the formal financial system is not well suited to meeting the credit needs of the informal sector. It is therefore essential to ensure that the credit needs of the informal sector are adequately addressed through public sector banks, rural branches of the commercial banks or other Non-bank finance companies (NBFCs). Micro-finance through self-help groups is generally considered to be another potentially useful channel but its recent experience in the state is highlighting its exploitative character which leads the asset poor rural masses in to an endless chain of loans. Hence, the working of these institutions and the rates charged by them must be controlled properly.

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