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Non-institutional loans among tenants of Rajasthan and Haryana

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Abstract

Agricultural credit is vital for the growth of India's farming sector, but tenant farmers face significant challenges in access of formal credit due to limited collateral and savings, often relying on high-interest non-institutional loans. This dependence induces financial instability, debt accumulation, and vulnerability to economic shocks. The study focused on Haryana and Rajasthan, selected districts and blocks based on agro-climatic zones. Data from 320 tenant farmers were collected through structured interviews to explore debt levels and repayment patterns. Results revealed that non-institutional loans were prevalent among tenants, with 75% relying on them. Short-term loans were the most common (71.07%), and irregular repayment behaviour was widespread (64.88%). The rate of interest on loans was significantly associated with socio-economic factors such as age, education, caste, and income levels. The findings accentuates the need to expand formal credit access and improve repayment structures to alleviate tenant farmers' financial distress and reduce reliance on high-interest informal loans, fostering agricultural sustainability.

Keywords: Limited collateral, high-interest, debt, irregular repayments, agricultural sustainability

Introduction

Agricultural credit is crucial for promoting growth in India's farming sector (Pandey *et al.*, 2022) ^[8]. However, small and marginal farmers, particularly tenant farmers are facing significant challenges in accessing formal credit due to lower savings and limited collateral. These farmers often depend on external monetary support to finance their agricultural activities and household expenses. Given the fact that there is a seasonal nature of agriculture wherein cash loans are crucial for meeting financial needs and tenant farmers are more vulnerable to crop failures and price fluctuations. In such situations, farmers fall into a "debt trap," borrowing more money just to pay off previous debts. This cycle continues as loans accumulate which leads to a cascading effect where debts grow beyond repayment capacity. Consequently, farmers may be forced to sell portions of their land or lose it entirely when unable to fulfil their obligations. This is exacerbated by high-interest loans from informal moneylenders due to their restricted access to formal credit markets.

Since the 1990s, economic policies have negatively impacted small farmers, reducing their agricultural income while the cost of cultivation has surged. This has contributed to increased farmer suicides across India, especially in states facing agricultural distress (Deshpande, 2002 ^[3]; Satish, 2006 ^[10]; Singh, 2006 ^[12]; Sainath, 2013) ^[9]. India's history of semi-feudal agrarian structures has shaped the institution of tenancy, which evolved in response to

historical and socio-economic conditions. Land reforms post-independence aimed to address tenant exploitation but resulted in unintended consequences. Concealed tenancy emerged as a workaround to strict tenancy laws, limiting tenants' access to formal credit and insurance (Hanstad & Haque, 2008) ^[5]. Also restrictive tenancy laws shortened lease periods and discouraging long-term investment in agriculture. Some landowners even leave land fallow to avoid tenant rights, leading to underutilization of arable land (NITI Aayog, 2016) ^[4].

Tenant farmers are in particular vulnerable to natural calamities such as droughts and floods. Lacking access to formal credit and insurance, they often fall prey to moneylenders who exploit their weakened position. This group of tenants are usually bypassed by safety nets and institutional finance and constitutes a significant portion of reported farmer suicides in India. As the economy matures, tenancy is expected to rise even more with wealthier landowners preferring to lease land rather than cultivate it themselves. This phenomenon, where "white-collar farmers" shift from agriculture to other vocations or politics, reflects the changing dynamics in rural India. The rise of urbanization and commercial ambitions in rural areas is likely to drive an increase in tenant farming, as wealthier landowners seek tenants to maintain their land ownership while they pursue other ventures. Despite the growing prevalence of tenancy, the marginalization of tenant farmers in terms of access to financial resources remains a critical

issue, contributing to their cyclical debt and economic vulnerability.

Expanding access to formal credit remains vital for fostering agricultural growth and livelihood diversification (Alpanda & Zubairy, 2017)^[1]. Despite the RBI's mandate for banks to allocate 40% of net credit to priority sectors with 18% earmarked for agriculture. There are many small and tenant farmers who still rely on informal loans. Rising debt, declining agricultural productivity, and stagnant incomes have contributed to a sharp rise in farmer suicides. Between 2013 and 2016 there were 48,104 agriculturists died by suicide, with tenant farmers comprising only 10.4% of all farmers but accounts for 80% of suicides, particularly vulnerable to economic shocks (NSSO, 2014). Factors like increasing production costs, shrinking landholdings, and dependence on informal loans exacerbate the crisis even more.

Objectives

- To examine the patterns and determinants of non-institutional loan utilization among tenant farmers.
- To analyse the impact of socio-economic factors on the interest rates paid for non-institutional loan.

Methodology

The study was conducted in the states of Haryana and Rajasthan, chosen based on their agro-climatic zones. From Haryana, the dry zone (south-western regions) and wet zone (eastern regions) were selected, while from Rajasthan, the irrigated north-western plain and the hyper-arid partially irrigated zone were included to examine the debt problems faced by contractual farmers. One district from each agro-climatic zone was randomly selected, resulting in Bikaner and Hanumangarh from Rajasthan and Sirsa and Yamunanagar from Haryana. Subsequently, two blocks from each district were randomly chosen: Bajju Khalsa and Kolayat from Bikaner, Tibbi and Sangaria from Hanumangarh, Chopta and Rania from Sirsa, and Radaur and Jagadhari from Yamunanagar, totaling eight blocks. Within each block, villages were randomly selected, and 40 respondents were purposively chosen from each block, leading to a total sample size of 320 contractual farmers, evenly distributed across the two states. In the present paper results only depicts non-institutional loans taken by tenants across the study area. Data was collected through structured interviews using pre-tested questionnaires, supplemented by secondary sources for contextual insights. A multistage random sampling method was used for selecting districts, blocks, and villages, while respondents were purposively selected. The data was analyzed using descriptive and inferential statistical methods to explore debt levels, and socio-economic factors impacting the respondents.

Results

Type of Loan Taken by Tenants

The data in Table 1 shows that both institutional and non-institutional loans were popular among tenants, with 211 respondents (65.94%) took institutional loans and 242 respondents (75.00%) took non-institutional loans. A higher percentage of tenants in Haryana (77.50%) relied on institutional loans compared to Rajasthan (54.38%). Similarly, non-institutional loans were more prevalent

among tenants of Haryana (85.60%) than of Rajasthan (64.63%), indicating that tenants in Haryana utilized both formal and informal credit sources more than their counterparts in Rajasthan. This aligns with findings by Haque and Goyal (2016), which showed that farmers with small landholdings often turn to non-institutional sources due to limited access to institutional loan.

Table 1: Type of loan taken by tenants (N=320)

Type of loan	Rajasthan	Haryana	Total
Institutional loan	87(54.38)	124(77.50)	211(65.94)
Non-Institutional loan	105(64.63)	137(85.6)	242(75.00)

Figures in parentheses denote percentage Responses are multiple

Types of Non-Institutional Loans Taken by Tenants

The results in Table 2 revealed that regarding non-institutional loans, short-term loans were the most common since 71.07 per cent of the total tenants took it. In Rajasthan there were 74.29 per cent of the tenants took short-term loans, while in Haryana, 68.61 per cent of the tenants relied on short-term loan. This is consistent with study of Jakhar and Kait (2021)^[7], which found a significant reliance on short-term loan for immediate needs. Medium-term loans were taken by 24.38 per cent of the tenants, whereas long-term loans were the least common. This indicated that tenants in both Rajasthan and Haryana primarily relied on short-term loan to address their immediate financial needs.

Table 2: Types of non-institutional loan taken by tenants

Types of non-institutional loan	Rajasthan (N=105)	Haryana (N=137)	Total
Short term	78(74.29)	94(68.61)	172(71.07)
Medium term	23(21.90)	36(26.28)	59(24.38)
Long term	4(3.81)	7(5.11)	11(4.55)

Figures in parentheses denote percentage

Repayment Pattern of Non-Institutional Loans

Findings in Table 3 shows that a significant proportion of tenants exhibited irregular repayment behavior, accounting for 64.88% of the total tenants. In Rajasthan, 72.38% of the tenants showed irregular repayment patterns, compared to 59.12% in Haryana. Regular repayment was more amongst tenants of Haryana, with 32.85% repayed regularly, while in Rajasthan only 20.00% of the tenants did so. This shows financial instability and repayment challenges, particularly among tenants in Rajasthan.

Table 3: Repayment pattern of non-institutional loan

Repayment pattern	Rajasthan (N=105)	Haryana (N=137)	Total
Irregular	76(72.38)	81(59.12)	157(64.88)
Regular	21(20.00)	45(32.85)	66(27.27)
Defaulter	8(7.62)	11(8.03)	19(7.85)

Mode of repayment of non-institutional loans

Table 4 shows that the half-yearly mode of repayment was more common as opted by 74.38% of tenants, with Haryana (77.37%) having a slightly higher share compared to Rajasthan (70.48%). Yearly repayment was chosen by 20.66% tenants, and quarterly repayment was the least preferred at 4.96%. These findings indicate that tenants preferred flexible repayment schedules as half-yearly

intervals being the most manageable.

Table 4: Mode of repayment of non-institutional loan

Mode of payment	Rajasthan (N=105)	Haryana (N=137)	Total
Quarterly	8(7.62)	4(2.92)	12(4.96)
Half yearly	74(70.48)	106(77.37)	180(74.38)
Yearly	23(21.90)	27(19.71)	50(20.66)

Rate of interest on non-institutional loans

This table 5 presents the distribution of tenants in Rajasthan and Haryana based on the rate of interest paid on non-institutional loans. More than half of the tenants (54.14%) paid a medium interest rate (18.1-24%), with 44.76% in Rajasthan and 61.31% in Haryana. A smaller proportion of tenants (28.51%) paid a low interest rate (up to 18%), while 17.35% paid a high rate of interest (24.1% and above). Haryana had a slightly higher percentage of tenants paying medium interest rates compared to Rajasthan, indicating regional variations in borrowing terms probably because of income disparity.

Table 5. Rate of interest on non-institutional amount of loan paid by tenants

Level of rate of interest	Rajasthan (N=105)	Haryana (N=137)	Total
Low (up to 18%)	38(36.19)	31(22.63)	69(28.51)
Medium (18.1-24%)	47(44.76)	84(61.31)	131(54.14)
High (24.1% and above)	20(19.05)	22(16.06)	42(17.35)

Figures in parentheses denote percentage

interest

Results in Table 6 shows the rate of interest paid on non-institutional loans was significantly associated with various socio-economic factors. Regarding age, tenants aged 20-40 years mostly paid low interest rates (50.80%) and those aged 60-80 years showed a higher percentage in the high-interest category (31.50%). Education level also influenced the rate of interest, with illiterate tenants and those with only primary education more likely to pay high interest (23.21% and 40%, respectively). On the other hand, postgraduates predominantly paid medium rates (78.30%).

Caste-wise, Scheduled Castes mostly paid low rates (47.50%), while the majority of Backward Class tenants paid medium rates (73.90%). General caste tenants had a relatively balanced distribution across medium (66%) and high (20.80%) rates. Nuclear families predominantly paid medium rates (50.80%), whereas joint families had a higher percentage paying high rates (25.90%). Larger families (above eight members) had a higher proportion of tenants paying high interest (24.20%) compared to small and medium-sized families.

Tenants with no social participation or membership in only one organization tended to pay medium interest rates (52.80% and 58.10%, respectively). Landholding size also showed a pattern, with tenants owning no land or up to one acre paid predominantly medium rates (49.57% and 93%, respectively). However, those with larger holdings (above two acres) were more likely to pay higher rates. A similar trend was observed for leased land and crop-sharing arrangements, where smaller holdings were associated with medium rates and larger holdings with high rates.

Association of socio-economic variables with rate of

Table 6: Association of socio-economic variables with rate of interest on non-institutional loan taken by tenants

Socio-economic variables	Level of rate of interest of non-institutional loan			
Age	Low	Medium	High	Total
20-40 age group	30 (50.80)	22 (37.30)	7 (11.90)	59 (24.40)
40-60 age group	28 (21.70)	83 (64.30)	18 (14.00)	129 (53.30)
60-80 age group	11 (20.40)	26 (48.10)	17 (31.50)	54 (22.30)
$\chi^2 = 27.702^{**}$				
Level of education				
Illiterate	25 (44.64)	18 (32.14)	13 (23.21)	56 (23.14)
Primary school	4 (26.66)	5 (33.33)	6 (40.00)	15 (6.19)
Secondary school	23 (33.80)	38 (55.90)	7 (10.30)	68 (28.10)
Senior secondary school	10 (17.50)	38 (66.70)	9 (15.80)	57 (23.60)
Graduation	5 (21.70)	14 (60.90)	4 (17.40)	23 (9.50)
Post-graduation and above	2 (8.70)	18 (78.30)	3 (13.00)	23 (9.50)
$\chi^2 = 30.124^{**}$				
Caste				
Scheduled Caste	48 (47.50)	31 (30.70)	22 (21.80)	101 (41.70)
Backward Class	14 (15.90)	65 (73.90)	9 (10.20)	88 (36.40)
General Caste	7 (13.20)	35 (66.00)	11 (20.80)	53 (21.90)
$\chi^2 = 44.098^{**}$				
Family Type				
Nuclear	50 (39.70)	64 (50.80)	12 (9.50)	126 (52.10)
Joint	19 (16.40)	67 (57.80)	30 (25.90)	116 (47.90)
$\chi^2 = 21.334^{**}$				
Family Size (members)				
Small (up to 4)	45 (46.40)	41 (42.30)	11 (11.30)	97 (40.10)
Medium (5-8)	16 (19.30)	51 (61.40)	16 (19.30)	83 (34.30)
Large (above 8)	8 (12.90)	39 (62.90)	15 (24.20)	62 (25.60)
$\chi^2 = 26.749^{**}$				
Social Participation				

Not a member of any organization	69 (34.70)	105 (52.80)	25 (12.60)	199 (82.20)
Member of one organization	00 (0.00)	18 (58.10)	13 (41.90)	31 (12.80)
Member of more than one organization	00 (0.00)	8 (66.70)	4 (33.30)	12 (5.00)
$\chi^2 = 30.606^{**}$				
Size of land holding (own)				
Nil	42 (35.29)	59 (49.57)	18 (15.12)	119 (49.17)
Up to 1 acre	00 (0.00)	40 (93.00)	3 (7.00)	43 (17.80)
Between 1-2 acre	17 (39.50)	16 (37.20)	10 (23.30)	43 (17.80)
Above 2 acres	10 (27.02)	16 (43.24)	11 (29.72)	37 (15.28)
$\chi^2 = 38.733^{**}$				
Size of landholding (leased in)				
Nil	7 (16.30)	28 (65.10)	8 (18.60)	43 (17.80)
Up to 2 acres	3 (4.30)	52 (74.30)	15 (21.40)	70 (28.90)
2-4 acres	33 (42.30)	34 (43.60)	11 (14.10)	78 (32.20)
Above 4 acres	26 (51.00)	17 (33.30)	8 (15.70)	51 (21.10)
$\chi^2 = 44.835^{**}$				
Size of landholding (crop sharing)				
Nil	10 (16.40)	38 (62.29)	13 (21.31)	61 (25.20)
Up to 2 acres	5 (9.30)	45 (83.30)	4 (7.40)	54 (22.30)
2-4 acres	24 (37.50)	30 (46.87)	10 (15.63)	64 (26.44)
Above 4 acres	30 (47.61)	18 (28.57)	15 (23.80)	63 (26.06)
$\chi^2 = 42.860^{**}$				
Subsidiary occupation				
Nil	15 (19.48)	42 (54.55)	20 (25.97)	77 (31.80)
Labourer	41 (45.10)	43 (47.30)	7 (7.70)	91 (37.60)
Small scale enterprises	4 (7.80)	26 (63.41)	11 (26.80)	41 (16.90)
Any others	9 (25.70)	20 (62.90)	4 (11.40)	33 (13.60)
$\chi^2 = 28.552^{**}$				
Annual income (in Rs.)				
1,00,000-2,00,000/-	48 (50.00)	37 (38.50)	11 (11.50)	96 (39.70)
2,00,000-3,00,000/-	14 (14.10)	65 (65.70)	20 (20.20)	99 (40.90)
Above 3,00,000/-	7 (14.90)	29 (61.70)	11 (23.40)	47 (19.40)
$\chi^2 = 36.388^{**}$				
Mass media exposure				
Low (5-8)	44 (39.63)	57 (47.85)	18 (15.12)	119 (49.17)
Medium (9-12)	15 (17.20)	56 (64.40)	16 (18.40)	87 (36.00)
High (13-15)	10 (27.70)	18 (50.00)	8 (22.20)	36 (14.87)
$\chi^2 = 10.409^*$				
Socio-economic status				
Low	47 (45.60)	52 (50.50)	4 (3.90)	103 (42.60)
Moderate	12 (12.40)	60 (61.90)	25 (25.80)	97 (40.10)
High	10 (23.80)	19 (45.20)	13 (31.00)	42 (17.40)
$\chi^2 = 40.917^{**}$				

Figures in parentheses indicate percentage.

**Significant at 1 percent level of significance.

*Significant at 5 percent level of significance.

Subsidiary occupations also played a role, with labourers largely paying medium rates (47.30%), while small-scale entrepreneurs showed a higher proportion paying high rates (26.80%). Income levels showed that tenants with lower annual incomes (₹1,00,000-2,00,000) mostly paid low rates (50%), while those earning ₹2,00,000-3,00,000 were predominantly in the medium category (65.70%), and tenants with higher incomes (above ₹3,00,000) had a higher percentage paying high rates (23.40%).

Lastly, socio-economic status highlighted that tenants with low and moderate status paid medium rates (50.50% and 61.90%, respectively), while those in the high socio-economic group had a greater tendency to pay high interest (31%). Overall, the rate of interest on non-institutional loans showed significant associations with various socio-economic factors such as age, education, caste, family type and size, social participation, landholding size, occupation,

income, media exposure, and socio-economic status. The study by Chander *et al.* (2016) [2] also emphasized the multifaceted factors such as age, occupation, caste, and landholding size influencing the rate of interest on informal loans in Haryana, shedding light on the socio-economic disparities in access to loan.

Conclusion

The study highlights the prevalent reliance of tenant farmers in Haryana and Rajasthan on high-interest non-institutional loan due to limited access to formal financial systems. Short-term loans dominated borrowing patterns, with irregular repayment behaviours and high-interest rates linked to socio-economic factors such as age, education, caste, family structure, and landholding size. These findings underline the need to strengthen formal credit accessibility by introducing targeted financial inclusion policies, and

improve repayment mechanisms to reduce the financial vulnerability of tenant farmers. Expanding formal loan access is essential for fostering agricultural sustainability and alleviating tenant farmers' economic distress.

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