

Rural Indebtedness: An Obstacle for Rural Development

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Abstract:

One of the major problems of rural areas is rural indebtedness which is quite widespread. One of the features of rural debt is that there is a conspicuous absence of institutional credit. Private agencies-like moneylenders, landlords, and indigenous bankers-are still active. The provision of institutional credit on a priority basis would go a long way towards liquidating rural indebtedness. The present paper indicates some suggestions to overcome the existing status of rural indebtedness and suggest measures for improvements. The findings of the study suggest that commercial banks, co-operative banks and regional rural banks are expected to provide financial assistance rigorously and frequently to improve the people in rural areas.

Key words: Rural, Agriculture, Debt, Development.

Introduction:

The Royal commission on Agriculture in India was created by British rule in 1928, to examine and report on the status and conditions of the farmers. In this connection, the Royal Agricultural Commission has rightly pointed out: "No one, we trust desires to witness a continuation of a system under which people are born in debt, live in debt and die in debt and thus passing on their burden to those who follow." i.e "the Indian peasant is born in debt, lives in debt and bequeaths the indebtedness to his successors."

Rural indebtedness is one of the biggest and most serious problems of India's rural as well as economic development. According to the 2011 Census, nearly 69% of Indian population is still rural. In absolute terms, more than 83 crore of India's population resides in its six lakh villages. A majority of this rural population is dependent on agriculture to sustain themselves. According to the All-India Debt and Investment Survey done by the National Sample Survey Office (NSSO) in the 70th round, about 31.40% rural households were in debt (indebted). Southern area of the country is the most indebted according to the studies

Rural Indebtedness:-

Indebtedness means an obligation to pay money to another person. In rural area of our country the poor farmers and labourers when face an inability to repay a loan and accumulate it, results in the rise of the problem of rural indebtedness.

Causes of Rural Indebtedness:-

Rural indebtedness is a continuous process. It is a cause as well as effect of underdevelopment. Within this vicious circle a large segment of weaknesses penetrate, and push the debtor down. The important causes of rural indebtedness are as follows.

- Ancestral debt:-
 - Uneconomic Holdings:-
 - Natural Calamities:-
 - Ignorance:-
 - Unproductive Expenses:-
 - Unemployment:-
 - Low Income:-
 - Exploitation:-
 - Litigation:-
 - Instability:-
 - Large Families:-
 - Ill health:-
 - Vices:-
- } Rural Indebtedness

Ancestral debt:-

The most important cause of the existing indebtedness is the ancestral debt, which is handed down from father to son. Many agriculturists start their life with a heavy burden of ancestral debt and drag on the loan for the whole of their life-time. To their past debt burden, they may add fresh loans to meet mostly religious and social obligations. The Royal Commission on Agriculture remarked that "The Indian peasant is born in debt, lives in debt, dies in debt and bequeaths debt". This is really true in many cases of agricultural families in rural areas. In fact, rural people are so accustomed to the practice of taking over debt from their fathers and to pass it on to their sons, that they accept indebtedness as a state of life.

Subdivision and Fragmentation of Holdings:-

Land is divided and subdivided from time to time. When the holdings and small cultivation becomes uneconomical. Even in the best of years, the yield from land becomes insufficient for the maintenance of the farmer and his family. The holdings are so small and the margin of safety so narrow that any misfortune may throw the peasant into the debt trap from which he can never extricate him. A series of bad years, the death of cattle or mere carelessness may lead to additional debt. In the best of years, the surplus produce may be too small to provide the required amount to repay the loan amount.

Vagaries of the Climatic Conditions and Other Calamities:-

Agricultural production suffers from frequent failure of rains and resultant famines. Indian agriculture is described as a "gamble in monsoons". This makes agricultural production quite uncertain. The failure of crops either due to drought, floods or any other unforeseen events lands the farmer in a miserable condition. He is forced to borrow money from the money lenders miserable

condition. He is forced to borrow money from the moneylenders.

Ignorance and Illiteracy of Cultivators:-

Ignorance, illiteracy and superstition of the rural folk act as a hindrance to progressive agriculture. Finally, it results in debt burden. Illiteracy forms one of the principal obstacles to a farmer's progress and thus he is easily lured into the clutches of the shrewd and unscrupulous moneylenders. It has been said that "The moneylender tempts him to borrow, the lawyer to quarrel and the trader to waste".

Failure to Provide for Deficiency:-

Agriculture is subject to the law of diminishing returns and in the absence of application of modern inputs, the yields remain low. As most of the cultivators are in poverty and as they get low income from their tiny plots, which is hardly sufficient to meet their necessities, they are not in a position to keep aside funds for depreciation of agricultural tools and equipment, cattle etc. uncertain weather conditions, loss of cattle due to diseases, fluctuations in farm prices, etc., force the farm producers to borrow, and the loss is not so easily recouped.

Low Income of Cultivator:-

Poverty and lack of capital is the twin evils from which the entire rural economy suffers. It is a well-known fact that the average income of the rural community is very low and insufficient to cover even domestic minimum consumption expenditure. Because of low and insufficient income, in many cases rural people are underfed and suffer from malnutrition. Physical deficiency, resulting from such conditions, makes them an easy prey to diseases and this situation also forces them to borrow.

High Rates of Interest:-

The interest rates charged by the village moneylenders are often very high and the compounding of interest tends to perpetuate the indebtedness of the farmer. The interest rates vary from about 15 to 50 percent

in different states and in different situations. High rate of interest would land the borrower in heavy indebtedness.

Distress Sales:-

Sometimes, out of pressing cash requirements, agriculturists sell away their produce even at a lower price without keeping

for domestic requirements like food, seeds etc. the same persons once again buy, often by borrowing, the food grains, seeds, etc. paying higher prices. This type of distress sales also accounts for indebtedness.

Evils of Indebtedness:-

Statement 14: Average amount of outstanding loan (Rs '00) per agricultural household by size class of land possessed for major States

State	average amount of outstanding loan (Rs '00) per agri. hhs belonging to the size class of land possessed (ha)								esd. no. agri. households having outstanding loan (00)	proportion of indebted agricultural households (0.0%)
	<0.01	0.01-0.40	0.41-1.00	1.01-2.00	2.01-4.00	4.01-10.00	10.00+	all classes		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Andhra Pr.	2409	739	893	1049	1623	3500	2494	1234	33421	92.9
Assam	4	8	24	67	71	173	0	34	5995	17.5
Bihar	73	138	132	341	279	424	1494	163	30156	42.5
Chhattisgarh	0	48	93	79	202	239	0	102	9538	37.2
Gujarat	69	120	247	311	826	1624	1148	381	16743	42.6
Haryana	95	192	737	900	1573	1162	4681	790	6645	42.3
Jharkhand	0	56	46	85	92	200	0	57	6464	28.9
Karnataka	355	778	633	987	1248	2321	3673	972	32775	77.3
Kerala	1690	1592	1944	3467	6070	7505	15726	2136	10908	77.7
Madhya Pr.	91	119	152	270	629	1168	1952	321	27414	45.7
Maharashtra	102	453	232	455	582	2071	3869	547	40672	57.3
Odisha	88	167	337	181	326	1302	22281	282	25830	57.5
Punjab	131	246	516	1641	2292	3266	9274	1195	7499	53.2
Rajasthan	1694	334	431	678	1031	1548	1528	705	40055	61.8
Tamil Nadu	377	674	1192	1200	2147	3224	4512	1159	26780	82.5
Telangana	563	578	794	1033	1097	1369	2690	935	22628	89.1
Uttar Pradesh	219	160	218	457	1075	1248	2178	273	79081	43.8
West Bengal	57	146	197	330	329	435	2760	178	32787	51.5
all India*	311	239	354	548	949	1827	2903	470	468481	51.9

Source: Situation Assessment Survey of Rural Households in India (NSSO)

The evils resulting from indebtedness may be enumerated as follows:

1. The chronic state of indebtedness affects the cultivators in many

undesirable ways. The low standard of living of rural people is the outcome of indebtedness.

2. Debts also prevent the orderly and profitable marketing of agricultural produce.
3. A large part of the income of the peasant is spent on repayment of debts and he is left with a very meager income even for his subsistence. This leads to unproductive cultivation and is detrimental to the growth of national wealth.
4. Indebtedness causes loss of property and transfer of land from cultivators to non-cultivators. This leads to grave economic and social consequences in the rural areas.
5. The worst social and moral effect of indebtedness is that it results in the servitude of the debtor, sometimes resulting in bonded labor.
6. The rural households who have lost their lands to money lenders due to heavy indebtedness feel alienated from society and feel frustrated. The political consequences of this situation are also serious.

The National Crime Records Bureau (NCRB) in a report states there had been 5,650 cases of farmer suicides in India in 2014. The report states 20.6% of the suicides can be attributed to bankruptcy and prolonged indebtedness. The report also highlights that the states with a higher level of indebtedness record a higher number of suicides. Three of the highly indebted states, namely, Andhra Pradesh, Telangana, and Tamil Nadu account for about 20% of the nation's farmer suicides. Additionally, Maharashtra, where cotton farmers are exposed to acute crisis has recorded 2568 cases of farmer suicides.

Remedies to the problem of Rural Indebtedness:

a) Settlement of old debt - Most State Govt. and Union Territories has enacted appropriate legislation to scale down the debts of small farmers and to discharge non/institutional debt of weaker sections like

landless labourers and rural artisans.

In most States, legislation exists for compulsory reduction of ancestral debt and in few cases, even for the liquidation. The difficulty with such legislation is that the farmers and the landless labourers may not take-advantage, either because they are ignorant of such legislation or because they are afraid of the money-lender.

b) Reduce dependence on money-lender- In order to reduce the dependence of the rural people on local money-lenders, the network of institutional credit structure, comprising cooperatives, commercial banks and RRBs, is being rapidly expanded throughout the country to provide timely and adequate credit support to the small farmers and artisans.

c) Control of new loans-It is not sufficient to help in the settlement of old debts. It is necessary to see that the farmers resort to borrowing only for the most essential and productive purposes. Non- productive loans should be avoided. Social and religious functions from an important part of the life of our villages. The expenditure in connection with them cannot be eliminated so easily by advising farmers. Actually some institutional finance should be arranged for this purpose.

Conclusion:

Rural indebtedness is one of the vital problems of rural economy in general and of Indian agriculture in particular and has been recognized as an important factor that accounts for the low agricultural productivity in India. It has been said that agricultural indebtedness is incurred because of unproductive expenditure on religious and social ceremonies, such as community dinners, marriage, birth and death ceremonies, which are so essential to a group and which, in a village community, strengthen social unit and co-operation. What is wanted is the promotion of facilities for saving, the encouragement of banking deposits, the inculcation of the true object, uses and limits of credit, in other words, the development of the essential

national virtues of thrift, foresight and self-help, through institutions organized for these ends. The first step that needs to be taken is to significantly increase the scope of institutional credit in rural India. The state must also effectively deal with money lenders, who are often centres of political and economic influence in rural India. More meaningful steps for better irrigation and other agricultural facilities, which will increase productivity of agriculture, need to be taken. This can contribute positively to the increase

of income of small and marginal farmers. The government has in many of the states legislations, scaled down ancestral debt. However, many of the farmers are ignorant of such schemes and take no advantage of the same. Making the small and marginal agriculturists aware of their rights needs more focus from governmental agencies. Co-operative societies and Self Help Groups (SHGs) can be successfully used to control and facilitate micro borrowings.

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