

A STUDY ON RURAL INDEBTEDNESS AMONG INDIAN FARMERS

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ABSTRACT

The paper examines the credit flows and rural indebtedness among the Indian farmers which has to be taken after the implementation of economic reforms.

Farmers in India and Telangana borrow year after year but they are not a position to clear off the loans as their incomes are not sufficient and sometimes uncertain. Non-institutional agencies charge high rates of interest. Interest and principal go on increasing. The debt of the farmers goes on increasing year after year and this situation is called Rural Indebtedness. Rural Indebtedness depends on various factors which influence and reinforce others. Consequently, farmers remain in debt trap. The famous saying “Indian farmer is born in debt lives in debt and dies in debt” is true in letter and spirit. The main reason of the indebtedness of the farmers is their poverty. Their incomes are low and asset values are low. Past savings of the households are meager. Constant crop failures force them to borrow. Sometimes they taken loan to develop and purchase cattle and agricultural implements. This research study “Credit flows and Rural indebtedness” analyses the chronic melody that has been effecting the very vitals of the rural community, especially, the farming community. The weaker sections SC, ST and BC farmers suffer more as their land holdings are marginal and small. Non-farm employment opportunities and income generation activities are meager in the rural setup. In this context the present research study attempts to explore the daunting problems of rural indebtedness from close corners in its depth by taking two adjoining districts i.e., Khammam and Warangal of the Telangana State. Both the districts are included in the 31 districts identified for the Prime Ministers package of Rs. 100 crores. The study concentrates only on the weaker sections and analyses the inter-district and intra-district facets of the problem of the indebtedness. Khamman and Warangal districts of Telangana Region have been taken for the study. 6 mandals, 3 from each district and 2 villages from each mandal comprising 300 respondents are analysed.

KEYWORDS: *Indian Agriculture, Rural Indebtedness among Indian Farmers, Findings*

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INTRODUCTION

Farmers in India and Telangana borrow year after year but they are not a position to clear off the loans as their incomes are not sufficient and sometimes uncertain. Non-institutional agencies charge high rates of interest. Interest and principal go on increasing. The debt of the farmers goes on increasing year after year and this situation is called Rural Indebtedness. It depends on various factors which influence and reinforce others. Consequently, farmers remain in debt trap. The famous saying “Indian farmer is born in debt lives in debt and dies in debt” is true in letter and spirit. The main reason of the

indebtedness of the farmers is their poverty. Their incomes are low and asset values are low. Past savings of the households are meager. Constant crop failures force them to borrow. Sometimes they taken loan to develop and purchase cattle and agricultural implements. Poverty drives the farmer to borrow and due to poverty they are not able to repay adding interest to the principal. Agricultural marketing is not remunerative and at every stage there are middle men to swallow a part of farmers income sometimes farmers may borrow to purchase additional land as land ownership is a matter prestige in rural India. They have a strong passion to possess land. Social customs, religious functions, marriages, festivals, child birth, death of family members, guest feeding and the like are all accepted in the traditional rural economy and all these items come under un-productive expenditure. Loans are taken and incomes are not generated to repay. Therefore, rural indebtedness is the cause and effect of the growing poverty of the Indian farmers. Indebtedness creates psychological problems like depression, loss of interest in agriculture and frustration resulting in low concentration on agriculture. Agricultural production is thus effected. The bargaining power of the indebted rural household becomes weak and economic transactions are always not beneficial to them.

Rural indebtedness tells upon the overall personality of the borrowers. It's cancerous effects spread over the family members of the indebted household. The customary social norm in rural India is "No borrowing for the Dal Rice". It implies traditions ordain the Indians to live within means and not to go in search of lush, green fields in dream like situations.

OBJECTIVES

- To assess the share of institutional and non-institutional sources in the flow of credit to the respondent households.
- To quantify the overall debt burden of the respondent households.
- To propose valid suggestions to the policy makers.
- The study depends on the primary and secondary sources of the data which helps to give a wider scope for draw the results.

REVIEW OF LITERATURE

Some earlier studies of significance are reviewed here under to examine the findings, to observe the methodology and the identify the gaps in analyzing the problem so as to fit in this research study into the mainstream on the subject.

Dr. R.K. Panda examined the problems of indebtedness of the farmers in 1980-81 by taking Puri District in the State of Odisha. In this study the source of borrowing, the pattern of credit distribution, utilization of borrowed funds and the chronic over dues are all analyzed. According to this study there is discrimination in credit delivery and the farmers in the irrigated areas are benefited. Diversion of credit to unproductive purposes by the small farmers is also noted. In conclusion it is pointed out in this study that over dues are more from the medium and large farmers.

Jayasheela and Vishwanatha in their article "Agricultural Credit in the Post W.T.O period" have observed that credit has a positive relationship with agricultural output. In their opinion commercial banks, RRBs and co-operatives play a leading role in credit delivery. It is also observed that financial institutions in the post W.T.O period are not positive in providing credit to agriculture. Urgent policy interventions are imperative to stem this trend in their opinion.

Dr. Y.D Pujari in his article rural indebtedness “Causes and consequences” has elaborated the causes of rural indebtedness. The author states that settlement of old debts, reduction of dependence on money lenders and control of new loans help to reduce the burden of indebtedness. It is also stated by the author that institutional finance should be arranged for social and religious functions.

Sibashankar Mohanthy has taken the Seventh Rural Labour Enquiry Report, 1999-2000 to state that there is a significant drop in the agricultural credit flow from Government and other institutional sources over the 1990's, share of commercial banks has declined from 21 to 16.6 per cent between the 6th and 7th RLES. Money lenders still continue to be the biggest source of credit in rural India. Their share has increased from 27.6 to 31.7 per cent.

Dr. C.Shivarama Krishna Rao in the paper “Credit Policy and Rural Development-A Note” states that Post 1991 Reforms have witnessed the neglect of priority sector, discrimination of public sector banks and the general slowness of the rural credit delivery system. The author states that SHGs should play an active role in rural credit and to improve recovery performance. Procedural reforms to ensure access to credit for farmers is essential in the opinion of the author. The author also suggest cooperatives and RRBs are to be revitalized to encourage thrift and fill up credit gaps.

Prf. T.Jyothi Rani and K.Manuja Devi in the paper “An Overview of the Rural Credit System in India” have examined the rural branches of the commercial banks, priority sector advances, service area approach, lead bank scheme, cooperative societies, regional rural banks and IRDP advances up to 1996-97 spread over the rural credit system in India. In their opinion a vast network has been created with adjustment from time to time by taking the experience of East-Asian countries. They state that the provision of cheap and subsidized credit is not the prime requirement of successful rural credit programs. Adequate credit on timely basis at reasonable interest rates will help the farmers. In this connection, they suggest the involvement of SHGs (Self-Help Groups) and Non-Governmental Agencies (NGOs) in the rural credit delivery system.

In this context the present research study attempts to explore the daunting problems of rural indebtedness from close corners in its depth by taking two adjoining districts i.e., Khammam and Warangal of the Telangana State. 6 mandals, 3 from each district and 2 villages from each mandal comprising 300 respondents are analysed. After analyzing the socio-economic conditions in the study area sources of the credit and credit flow are estimated. Caste category wise perception applied to identify the weaker sections for the analysis. Indebtedness is estimated in relation to land ownership, caste, asset and income levels and per household indebted quantum also been worked out. Utilization of the credit purpose wise is examined. Implications of indebtedness from social, economic and personal points of view are examined.

Methodology Objectives

- To assess the share of institutional and non-institutional sources in the flow of credit to the respondent households.
- To quantify the overall debt burden of the respondent households.
- To propose valid suggestions to the policy makers.

Data Collection

Both primary and secondary data are collected for this study. Primary data has been collected by administering a structured questionnaire (Schedule) and the responses were recorded. Secondary data sources include books, journals and reports of the special committees and commissions.

Statistical Tools Used

Data collected from field investigation has been coded and processed in simple frequency and Cross Tabulation, Simple Averages and Percentages are worked out for intra and inter data comparisons of the analysis. Quotients, indicators and ratios are also used to sum up/ simplify the analysis.

Limitations

- This research study is carried out in two adjoining districts of the Telangana the observations may/may not be generalized in view of the limited coverage.
- This study taken only the weaker sections viz., BC, SC and ST respondents. As such the conclusion may not give a complete picture of the overall debt scenario.
- Most of the respondents, in this study, are farmers and so other sections of the rural society remain out side the ambit. Hence the conclusions may not be generalized for the total rural set up.
- Data collected pertains to a point of time but not over a period time making it unable to examine the trends.
- Even then, this research study seeks to find out certain issue of rural indebtedness among the Indian farmers and highlight the important areas of concern which will be of immense use to the policy makers, researchers and agencies concerned with Agricultural Development and Rural Welfare.

Data Analysis and Interpretation

Credit flow to the 300 respondents from both institutional and non-institutional sources is examined first. Reasons for borrowing and the repayment details are also worked out. Outstanding dues payable by the respondents are estimated to arrive at the magnitude of indebtedness, caste wise. All the sample respondents are taken as a single unit for the purpose of analysis.

Table 1: Credit Particulars of the Respondents

Caste	Institutional	Non-Institutional	Both	Total
BC	28 (40.0)	36 (30.0)	37 (33.6)	101 (33.7)
SC	25 (35.7)	47 (39.1)	40 (36.3)	112 (37.3)
ST	17(24.2)	37 (30.8)	33 (30.0)	87 (29.0)
Total	70 (23.3)	120 (40.0)	110 (36.7)	300 (100.0)

Source: Field study

All the 300 respondents have taken loans and are indebted as per the above table. 70 (23.3) respondents have borrowed from institutional sources exclusively while 120 (40.0) respondents have approached the non-institutional sources. It is clear that 40 per cent of the respondents, still, depend on non-institutional sources of credit. 110 (36.7) respondent shave availed credit both from institutional and non-institutional sources. Taken together non-institutional credit, in some form or other, is to a large extent despite the expansion of the institutional sources over the period. More BC respondents in both the districts have accession to institutional credit followed by SC and ST respondents.

Borrowings by the respondents for different purposes are analyzed in the following table. For analytical purpose borrowings are divided into productive activities and un-productive activities.

Table 2: Purpose of Borrowing by the Respondents

Caste	Productive Activities		Un-Productive Activities				Total	
	Agriculture	Non-Agriculture	Children Education	Marriage	Religious & Family Functions	Purpose of Durable Goods		Ill Health
BC	39 (38.1)	15 (36.5)	25 (46.2)	5 (18.5)	2 (14.2)	4 (57.1)	11 (19.2)	101 (33.7)
SC	33 (33.0)	11 (26.8)	19 (35.1)	15 (55.5)	9 (64.2)	3 (42.8)	22 (38.5)	112 (37.3)
ST	28 (28.0)	15 (36.5)	10 (18.5)	7 (25.9)	3 (21.4)	—	24 (42.1)	87 (29.0)
Total	100 (33.3)	41 (13.6)	54 (18.0)	27 (9.0)	14 (4.6)	7 (2.3)	57 (19.0)	300 (100.0)

Source: Field study

As stated earlier all the 300 respondents have outstanding debts. Farmers take loans for different purposes. Each respondent was asked to give only one, major purpose for taking loan. However, rural households borrow for different purposes, both productive un-productive. As per the above table 100 (33.33) respondents have given agricultural investment as a major reason. 41 (13.6) respondents state that non-agricultural productive activities as purpose for borrowing. In other words 141 (46.9) respondents have borrowed for productive activities. It implies that 159 (53.0) respondents have borrowed for unproductive activities. Among the unproductive activities ill health is stated as a major reason by 57 (19.0) respondents.

Medicines and medical treatment have become costlier over the years with the entry of corporate hospitals. Problems of ill health are perennial in rural India. Then comes child education which has also become costlier in view of privatization and corporate setups 54 (18.0) respondents have given child education as the most important purpose. Performance of marriage along with dowry is a costly affair in the Indian society 27 (9.0) respondents have taken loan for this purpose. 14 (4.6) respondents have given religious and family functions as a major reason while 7 (2.3) respondents have stated purchase of durable goods as the most important purpose. More BC respondents have taken productive loans followed by SC and ST respondents. Similar trend is observed with child education and purchase of durable goods. The data in the table clearly shows that BC respondents are ahead of the SC and ST respondents and are in a better condition.

Table 3: Reasons for Non-Institutional Credit of the Respondents

Caste	Prompt Delivery	Flexible Repayment	Easy Approach	Personal Relations	Unproductive Purposes	Total
BC	14 (38.8)	13 (28.8)	14 (32.4)	22 (50.0)	38 (35.1)	101 (33.7)
SC	12 (33.3)	17 (37.7)	20 (37.8)	16 (33.3)	47 (43.2)	112 (37.3)
ST	10 (27.7)	15 (33.3)	18 (29.7)	7 (16.7)	37 (21.7)	87 (29.0)
Total	36 (12.0)	45 (15.0)	52 (17.3)	45 (15.0)	122 (40.7)	300 (100.0)

Source: Field Study

Non-institutional agencies never insist on the purpose of the loan as they just estimate the repaying potential of the borrower. It is evident from the above table that 122 (40.7) respondents give “Un productive purposes” as the major reason for borrowing from the non-institutional agencies, commercial banks and other institutions deny loans for unproductive purposes. “Easy Approach” is given as reason by 52 (17.3) respondents as the most important reason for non-institutional credit. Middlemen are not necessary, local language can be used and the leaders are easily accessible to the rural people

The dominance of non-institutional sources in rural indebtedness. BCs are more indebted when compared to the other two castes. Indebtedness is to be viewed in a relative context by taking movable and immovable assets. The levels of indebtedness among the weaker sections are variations from caste to caste.

Land-debt quotients are also worked out to examine the relationship between one acre of land and outstanding debt these quotients are ratios indicating one acre of land and outstanding debt. The following table shows the land-debt ratios.

Table 4: Average Land under the Control of the Respondents in the Study Area

Caste	No. of Respondents	Total land (In. acres)	Average land for respondent (In acres)	Average outstanding debt (in Rs.)	Land-Debt Quotient
BC	101	359	3.5	34,934	9981
SC	112	397	3.5	30,788	8796
ST	87	534	6.1	26,199	4294
Total	300	1290	4.3	30,365	7061

Source: Field Study

As per the above table there are 1290 acres of land in the study area and the average land per respondent is 4.3 acres. Average outstanding debt per respondent is Rs. 30,365. Land-debt ratio in the study area=1:7061. It implies that the outstanding debt per one acre of land is Rs. 7061. Land-debt ratio per the BC respondents is 1:9981. It implies that the outstanding debt is Rs. 9981 per one acre of land. Land debt ratio for SCs is Rs. 8796. Surprisingly ST respondents possess 41.3 per cent asset of the total land in the study area. As such land-debt ratio for STs is bound to be low. The ratio for ST respondents is 1:4294.

Land-debt ratios provide a rough measure only. Value of land depends on so many factors like fertility, location, irrigation facilities, nature of the soil, accessibility and the like. Land in the plain area has higher market values than in the hill areas. BCs with higher land-debt ratio cannot be construed as bearing heavy debt burden.

Findings of the Study

- Institutional sources provide credit to a limited extent and 76.7 per cent of the respondents borrow from non-institutional sources to bridge the gaps in credit needs. Credit delivery to the BC respondents is more since, they are upcoming among the weaker sections.
- Most of the respondents are not aware of the nature and recovery strings of MFIs.
- Around half of the respondents pay more than 20 per cent annum as rate of interest.
- More than half of the respondents take new loans to repay the old ones and thus remain in debt trap.
- Quotients of indebtedness showing the relationship between asset values and outstanding dues are worked out. The overall quotient of indebtedness in the study area is 2.5 and for the BC, SC and STs the quotients are 3.5-2.5 and 2.04 respectively. It implies that the ST respondents have more burden as their asset values are low. Outstanding debt per one acre of land is also worked out in the form of land-debt ratios which are 1:9981 for BCs, 1:8796 for SCs and 1:4294 for STs. Land-debt ratios may not give correct picture of debt burden as there are variations in the value of land within a village not to speak of village to village.
- Inadequacy of institutional credit and procedural delays in credit delivery by the institutional agencies drive the farmers to hover around non-institutional sources coughing out high rate of interests. Sometimes grain loans are also taken on the condition of selling the agricultural produce to the lenders.

- Credit diversion to unproductive activities has taken place to a large extent. Child education, medical treatment, marriages, family functions are the important areas of diversion.
- Low confidence level, less concentration on agriculture, negligence of family, tension, irritation, loss of credibility, lack of courage, affective the personal, domestic, social, lives of the respondents due to indebtedness. Sometimes private lenders may coerce the political options of the indebted rural folk during elections.

Suggestions

- Illiteracy is the root cause for all the evils in civil societies. Illiteracy can be wiped out by encouraging adult education and in this effort the help from NSS, NCC and NGOs be taken by the Government at the gross root level. Promotion of literacy is the panacea for all the problems of the rural societies.
- Dry land is more in the districts of study. Most of the farmers are of small and marginal categories. Hence, irrigation facilities be extended and crops suitable to the dry lands be identified through research as such problem cripples the country as a whole.
- Incomes from commercial crops are more than the incomes from food crops. This may lead to food crisis if farmers are inclined to allocate more land to commercial crops. Food security is very vital to a country like India. Remunerative prices to the produce and incentives to the food crop growers go a long way to stem the tide.
- Co-operative societies, SHG linkages help the farmers to get loans at low rates of interest. SC and ST farmers be encouraged to become members by creating awareness. Then only weaker sections can get the benefit of low interest rate.
- Inadequacy of institutional credit be checked. Procedures and documents be simplified. Timely credit be provided by the institutional agencies to the farmers.
- Moratorium and interest subsidies be extended to more number of weaker sections. In 1975, the then Prime Minister Smt. Indira Gandhi took a bold decision to declare moratorium even on private loans in the old 20 point economic program. Strong political will is needed to initiate such measures.
- Counseling by village panchayath, SHG group leaders, NGOs and Panchayaths from time to time be provided to the indebted farmers. Their mental balance is to be restored. Their human dealings be improved through guidance and counseling.
- **Swaminathan Commission** has given suggestions on Farmers' Distress (2004-2006) to achieve the goal of "faster and more inclusive growth" as envisaged in the Approach 11th Five Year Plan. It follows:
 - Enhancing productivity, profitability, and sustainability of the major farming systems of the country.
 - Policy reforms to substantially increase flow of rural credit to all farmers.
 - Special programs for dry land farming for farmers in the arid and semi-arid regions, as well as for farmers in hilly and costal areas.

CONCLUSIONS

Ever since, independence much has been said about agriculture and farming community. Policy measures by the Central and State Governments have been attuned to develop the cultivators and change the rural scenario. But from time to time problems change and change is the order. Until and unless the Indian farmers feel confident with all happiness, Indian economy cannot be on firm foundations. Rural Indebtedness is to be checked to in fuse such confidence in the farming community. A strong agriculture provides a strong base not only to rural India but also to the nation. Gandhiji dream of self

sufficient, Grama Swaraj can be realized on that day. Till then, let us all wait and hope.

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