

## Effective Management of Rural Indebtedness: A Framework for Sustainable Credit Practices in Rural India

**\*Dr. Om Prakash Sharma**

### Abstract

This study covers all important aspects of rural indebtedness in India and highlights factual position of credit policies and practices in rural areas of the country. Significant common causes that increase the indebtedness in villages of India have been discussed in detail. Consequences of Rural Indebtedness on farmers, laborers have also been described in proper manner. 'Massive Farm Loan Waiver Scheme' and its important provisions have been incorporated at right place. This study also describes significant remedial measures to minimize the rural indebtedness in India.]

### OBJECTIVES OF THE STUDY:

- To examine the role of debt facilities including institutional infrastructure in the development of rural areas of India.
- To make a critical study of various recommendations as outlined by various commissions and committees in India from time to time in respect of debt policies in India.
- To build – up a common model for sustainable credit practices in rural areas of India.

### Research Methodology:

To collect various data & information, primary as well as secondary sources have been used. Pre-tested canvassing schedules and questionnaires have been used with a view to find out the understandings & opinions of the concerned persons. Additionally, to make an in-depth intensive study of the credit/debt policies for rural areas, the non-participative direct personal observation method has been also adopted. Opinion polls about certain matters have been also organized.

### INTRODUCTION:

Although every loan is debt, but when the borrower does not repay the loan promptly and goes on accumulating it, he becomes indebted. Rural indebtedness in India is one of the most serious problems of the rural economy. This problem is the sign of weak financial infrastructural facilities available to the farmers, poor & landless people and agricultural labor force for their survival and

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development.

Notably, the important aspect of increasing indebtedness in rural areas is concerned with its use. The farmer borrows for agricultural operations or to support his family or to buy additional land and so on. Incurring debt for agricultural activities is not bad and there is nothing wrong in borrowing provided it is done for productive use. But indebtedness arises when the income of the farmer is not sufficient to repay, the debt incurred or when he spends his income wastefully and does not save for the purpose of paying off his debt. As a result, such debts go on increasing from generation to generation. The *'Royal Commission on Agriculture'* examined this condition in India and expressed this in these words, "The Indian peasant is born in debt, lives in debt and bequeaths the indebtedness to his successors." This nature of indebtedness is still quite applicable to the rural sector of our economy.

According to the first report of the National Income Committee, 83% portion of total debt was used for unproductive purposes. The All-India Rural Credit Survey estimates unproductive use of debt at 56 %. Despite difference in the estimates made from time to time, we can say that most rural households are under debt and there has been an increase in rural indebtedness.

Report on Conditions of Work and Promotion of Livelihoods in the Unorganized Sector, 2008, indicates that the significance of loans for consumption and unproductive purposes is higher among the marginal and small farmers. Schedule Casts have the highest share of consumption and unproductive loans, followed by the OBCs and the STs. Among the higher castes, unproductive loans account for less than 30 percent of the total outstanding loans.

Social and economic reformers says that at present, the incidence of rural indebtedness among farmers is the highest in Andhra Pradesh (82%), followed by Tamilnadu (75%), Punjab (65%), Kerala (64%), Karnataka (62%), Marashtra (55%) , Haryana (53%), Rajasthan (52%) and Gujarat (51%).

Increased indebtedness is noted as a major reason for the erupt in farmer suicides during recent times across a few states. Many states including Punjab, Andhra Pradesh, Karnataka, Maharastra and Kerala have recorded a spurt in distress driven suicides among farmers. Thus, it appears that, in most cases, the deceased had greater dependence on informal sources of credit and the loans were taken to meet more of consumption needs than for productive purposes.

#### **Causes of Rural Indebtedness:**

The main causes which are responsible for the heavy rural indebtedness in India are as follows -

- **Low Income and Poverty:** The low-income level of farmers and landless labourers is the biggest cause of rural indebtedness. Due to lack of sufficient resources of income, they cannot get out of poverty. They cannot make their both ends meet not to speak of saving anything for repayment of a loan. In the event of a calamity farmers are compelled to get a fresh loan from the village Seth but its repayment becomes difficult. Neither does their need for credit go down, nor are they able

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to return the loans already contracted. As a result, the burden of indebtedness continues to increase.

- **Inherited Indebtedness:** Rural people continue to carry almost the entire burden of the debt of their forefathers. It is notable that in India, repayment of inherited debts is taken as a regard-duty.
- **Litigation:** Indian agriculturists most often engaged in litigations. Such litigations involve heavy expenditure of time and money. To meet these expenses agriculturists, take loan which further raise the burden of indebtedness.
- **Defective Marketing System:** Due to lack of advantageous agricultural marketing amenities, the poor farmers of our country cannot get a realistic income from their products. There is a long chain of middle men which robs them of his hard earned turn out. Their income falls year to year and thus they depend on new loan for inputs.
- **Defective Money lending System:** Because of illiteracy of the poor farmers, the village money lending system in our country is very defective and it can be seen as a cobweb. The rural Seth / Mahajans are the least interested in whether poor farmer's loans are used in productive activities. Their aim is simply to keep their money lending business going. They make fictitious entries and charge very heavy interest in advance. In the event of debts increasing, money lenders are not so much interested in being repaid as in seizing farmers' lands/ ornaments or other valuable material goods.
- **Uncertainty of Rainfall:** General research studies say that a large part of the present indebtedness in rural areas has been caused by uncertainty of rainfall. Being dependent on unreliable rains for the supply of water, the Indian agriculture is close to a speculate and it is treated as an uncertain source of income. As a result, there is no assurance even about the repayment of productive loans. In the event of no rains, the entire crop is lost and the amount, time and labour invested in risky agriculture go waste. In this way even the loans for productive purposes also become a saddle.
- **Social Customs:** Rural natives including farmers are much influenced by so many social traditions and functions. On occasion of social customs like marriages, deaths, religious festivals etc. they spend money more than their capacity. To fulfill these activities, they depend on the rural Seth / Mahajans. Experts say that 25 percent part of total rural loans is spent on these unproductive social customs.

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- Lack of other credit facilities; excessive burden of land revenue and rent; lack of supplementary occupation etc. are some other reasons which also responsible for the heavy rural indebtedness.

**Consequences of Rural Indebtedness:** Harmful consequences of heavy rural indebtedness may be enumerated as follows –

- Economic Consequences -

In the process of contracting loans, the small and marginal farmers mortgage their landed property to the money lenders. In the event of non-payment of loans, the farmers are forced to sell their mortgage land. And ultimately money lenders succeed in seizing their land. In this way, farmers join the group of the landless labourers. The landless farmer, when he works in the capacity of labourers, loses much of his capacity and relish of work. Rural indebtedness is, therefore, the cause as well as the effect of the growing poverty.

- Social Consequences -

Rural indebtedness divides the rural society into two sections i.e. – powerless/weaker section and powerful section. Landless and bonded labourers who take loans & pay heavy interests and lose their lands represent the powerless section. On the other hand, money lenders and large landlords who give loans & charge very high interest and grab lands of farmers represent the powerful section. These both rural classes give birth to inequalities of income and wealth, social unrest, disturbances, lawlessness, discontent and class- conflicts. Thus, it can be stated that rural indebtedness creates so many hurdles in the way of economic and social reforms and developmental activities.

- Political Consequences -

Due to indebtedness, small & marginal farmers and landless & bonded labourers are forced to vote for the disagreeable candidates. This situation pollutes the political environment of rural area as well as overall country.

#### **Remedial Measures :**

In our country, various measures have been adopted to solve and remove the problem of rural indebtedness; some of them are as under –

# Cancellation of old debts - Most State Governments have enacted appropriate legislation which have either abolished the old debts completely or have, reduced them greatly.

# Operation of loan waiver schemes - The first loan waiver scheme entitled, "Agricultural and Rural Debt Relief Scheme" was announced in 1990-91 by the then Union Finance Minister. Under this scheme debt relief was provided to the borrowers of public sector banks, RRBs, and co-operative banks. The borrowers include those engaged in agricultural and allied activities & artisans engaged in any activity of rural development relating to cottage and village industries, handicrafts, weaving etc.

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In the Union Budget for **2008-09**, a scheme on similar pattern is also announced and put into operation by the Central government throughout the country.

# Expansion of institutional credit facilities - In order to trim down the dependence of the rural people on local and limited money-lenders and to provide timely & adequate credit support on easy terms to the small farmers and rural artisans, the network of institutional credit structure comprising co-operative societies, commercial banks, RRBs is being hastily expanded all over the country.

# Control on unproductive loans - To avoid borrowings for unproductive purposes (marriages, deaths, religious & social festivals or functions etc.) through proper schemes, the rural artisans, small and marginal farmers, landless labourers are being educated.

# Operation of 20-point programme - It is notable that to provide debt relief in rural areas, two dynamic aspects - (i) liquidation of rural indebtedness and (ii) abolition of bonded labourers were included in the 20-point programme-1975. Under these programmes, the Government of India had declared a moratorium on the recovery of debt by money-lenders from landless labourers, rural artisans and small farmers.

# Micro Finance - A novel approach to "Banking with the poor". Under this scheme, bank credit is extended to the poor through Self Help Groups (SHGs), Credit Unions and Non- Government Organizations (NGOs).

# Massive Farm Loan Waiver Scheme - In presenting his fifth successive budget for the year 2008-09, P. Chidambaram, the Union Finance Minister has announced the 'Debt Waiver and Debt Relief Scheme' of Rs. 71,680 crores benefiting about 4.29 crore indebted and distressed farmers especially small & marginal farmers. This is the Indian history's biggest-ever loan waiver and debt relief package that comes at a time when agricultural growth is estimated to drop to 2.6% in 2007-08 from 3.8 % in the previous year. All 'Direct Agricultural Loans' disbursed to farmers by the scheduled commercial banks, regional rural banks and co-operative credit institutions between March 31,1997 to March 31, 2007; and overdue as on December 31,2007, but not repaid till February 29, 2008, has been covered under this debt waiver-cum-relief scheme.

The main significant provisions of the scheme are as under:

- Under this scheme Crop loans, investment credit for direct agricultural activities and investment credit for allied activities are included in the 'Direct Agricultural Loans'.
- The tillers of up to 1 hectare of land would be considered Marginal farmers and those having between 1 and 2 hectares of land would be deemed Small farmers.
- The farmers would become entitled for fresh agricultural loans from the banks after the debt waiver or signing of agreement for repayment of 75% amount under the one-time settlement arrangement.

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- It is estimated that 10 % of the package has been disbursed to borrowers from RRBs; 35% to borrowers from commercial banks and 55% to borrowers from co-operative credit institutions. It is also important that Rs. 46,000 crore of waiver or relief would be routed through RRBs and co-operative banks.
- Near about 4 crore small and marginal farmers owning less than 2 hectares of land now have their loan overdue on December 31, 2007 waived off under this scheme. 60 lakhs farmers with a land of over two hectares with a land holding of over 2 hectares can avail of a One-Time-Settlement (OTS) rebate of 25 % of their outstanding loans, subject to the condition that the balance 75 % is paid in three instalments by June 30, 2009.
- The agricultural loans which were restricted or rescheduled in 2004 and 2006 as part of the special packages for alleviating the farmers' distress are also eligible for loan waiver and concessional repayment through one-time settlement arrangement.
- Under this scheme 3.69 crore small and marginal farmers will be benefited with a package of Rs. 60,416 crores and 59.75 lakhs other farmers will be benefited with a package of Rs. 31,839 crores.

**Other significant measures implemented by the Government:**

- # Comprehensive Crop Insurance Scheme, 1985
- # Kisan Credit Cards (KCC), 1999
- # National Agricultural Insurance Scheme (NAIS), 2000
- # Farm Income Insurance Scheme (FIIS), 2004
- # National Farmers commission, 2007
- # Small Farmers Development Agency (SEDA)
- # State Level Farmers' Debt Relief Commissions etc.

**CONCLUSION:**

In nutshell, we can say that the increasing rural indebtedness gives rise to so many wicked effects. Rising cost of cultivation, low returns, high risks with frequent crop failures, declining agricultural growth and mounting debts have all led the rural people to a distress like situation. Signs of agrarian distress were visible in some years. The wave of farmers' suicides in many states is the most alarming manifestation of this distress and agony. Although Government of India is trying to solve the problem of rural indebtedness, but efforts related to removing this problem have not been fully successful in protecting the interest of the rural people in general and marginal and small farmers in particular. The loan waiver schemes are only functioning as a disaster process. These schemes have penalized every honest and sincere repayer. So that the Government should take effectual and long-term steps

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to minimize the shocking results of increasing rural indebtedness.

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