

RURAL INDEBTEDNESS

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Meaning

- **Rural Finance**

Financial services are key to enhancing economic development and reducing poverty in rural areas. However, access to key financial services such as savings, credit insurance, leasing and remittance facilities is generally scarce in rural areas of most developing countries. Access is particularly limited for poor households and for micro, small, and medium enterprises.

characteristics

- General characteristics of rural areas such as poorly developed infrastructure, dispersed economic activity, and inadequate availability of skilled personnel constrain the provision of financial services in rural areas.

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- Inadequate knowledge among service providers of operating in a rural environment and insufficient products tailored to rural needs makes the availability of financial services in rural areas scarcer. Additionally, the supply of credit services is limited by the lack of collateral and lack of risk management mechanisms.

Rural indebtedness

- Causes

Ancestral Debt: The main cause of rural indebtedness is that the farmers inherit it from their ancestors. The farmers are unable to pay off even the interest. Traditionally they regard it as their duty to pay off their ancestral debts. They pay whatever they can during their life time and after death, they leave it for their posterity to do the same.

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- **Poverty and Extravagance of farmers:**

The average income of the farmer is very low every year. However they spend lavishly on the occasions of marriages, and other functions. To meet this expenditure they borrow money from money lenders and banks.

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- **Litigation :**

Usually farmers are in the habit of entering into litigation on small disputes. They are compelled to borrow money to carry on litigation which is a long-drawn out affair in our country.

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- **Backward Agriculture:** Even today Indian agriculture is a gamble in monsoon. The frequency of crop-failure due to droughts , floods etc is largely responsible for all in agricultural output. It results in endless miseries and farmers take recourse to the money lenders who exploit them in this situation.

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- Heavy burden of land revenue and rent:

Farmers are supposed to pay land revenue to the state governments even when production suffers due to flood and drought and in such situation they have take loans to make these payments, consequently the burden of debt increases.

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- Exploitative system of money lending: Money lenders and owners are exploiting farmers in many ways. Like forcing the farmers to borrow more and more money from them, increase the interest rates, fictitious entries in their books of accounts, transfer of land from the farmer to money lenders.

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- **Neglect of marketing facilities:**

In India the system of agricultural marketing is quite defective with the result that the farmer does not get a fair price for his produce.



- Adverse effects of indebtedness:

Economic effects: it leads to low standard of living and poverty and thereby inefficient agriculture.

Due to heavy burden of debt, very often the farmer is compelled to sell his produce at a predetermined price under rigid market conditions.

In the process of indebtedness the farmer often loses his property and become landless labourer.

- Social effects:

The problem of indebtedness leads to social tensions, increase inequality in rural areas, bonded labourer etc.

Political effects:

The indebted farmers have no political status, it leads to irresponsible citizens, seeking favours from government officials by bribing them etc.

Suggestions

1. Increase in the income of the farmers
2. Permanent improvement in agriculture
3. Settlement of ancestral debt
4. Check on new debts
5. Establishment of multi-purpose cooperative societies.

NABARD

- National Bank for Agriculture and Rural Development was set up in the year 1982.
- Functions:
 - i) it provides refinance facilities for agriculture, small scale industries, cottage and village industries, handicrafts and other allied economic activities so that production may be increased.
 - ii) It can borrow from RBI and the Government of India. It can arrange funds from the World Bank and other multilateral and bilateral financial agencies.

Functions

It can advance loans up to a period of 20 years to state governments so that they may participate in the share capital of co-operative credit societies. It can provide credit facilities for short term ,medium term and long terms to state co-operative Banks, Regional Rural Banks and other financial institutions.

iv) It coordinates the work of the Government of India, Planning Commission and state government for village and small scale industries.

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- v) it finances research on agriculture and rural development
- vi) it supervises the work of RRBs and cooperative banks.

Agricultural Credit

- There are three sources of providing agricultural credit to farmers in India.
- Short term loans – period of less than 15 months
- Medium term loans – period of 15 months to 5 years
- Long term loans – period of more than five years

Other sources

Non-institutional sources: money lenders, landlords etc

Institutional sources: commercial banks, co-operative banks and government sources.