CHAPTER VI
SUMMARY AND CONCLUSION

Money is the life blood of production as well as consumption activities. In a country like India, having more than three-fourth of its farming community owning small and a marginal holdings and majority of them living in poverty, the ruralites have a limited capacity of self-financing their productive investments and consumption needs. Consequently, borrowing is a usual process in such a scenario. Borrowing becomes indispensable in adverse situations such as floods, droughts, crop failure, and other natural calamities when even the well-off borrow not only to smooth their consumption needs but also to invest in the next crops and/or to make up the losses of productive assets suffered during such calamities. But accumulated borrowing beyond repaying capacity is like a hangman’s noose around borrowers’ neck. Absence of safety networks and virtual non-existence of insurance markets in rural India further aggravate the problem. This thesis is an attempt to explore various dimensions of the problem of indebtedness in rural India. More specifically, the main objectives of our study have been:-

1. To study the extent, nature and severity of indebtedness among the rural households.
2. To analyse the borrowing and repayment behaviour of the rural households.
3. To discern socio-economic characteristics of the indebted households.
4. To identify the factors responsible for the problem of indebtedness.

In the context of these objectives, we proposed and empirically tested the following hypotheses:

1. In absolute terms, debt and prosperity are expected to go hand in hand.
2. In absolute terms, the debt is likely to be more among the farmers borrowing from institutional agencies.

3. Relatively, the problem of indebtedness is expected to be more serious among the small and marginal farmers and those who borrow from the moneylenders and commission agents and are located in ecologically fragile regions (facing high risk and uncertainty resulting from occasional problems of drought, floods, etc.).

4. Both household locational idiosyncrasies like infrastructure and environment conditions, and household specific factors like the life cycle of head, dependency burden, physical assets, human capital, socio-economic background, and access to institutional credit has a significant impact upon the problem under study.

To test these hypotheses, the present study has utilized the household-level information collected during the sixth decennial 'All India Debt and Investment Survey' (AIDIS) carried out by the National Sample Survey Organization (NSSO) during the 59th NSS round (2003). The NSSO authorities, New Delhi, have been kind enough to provide us the Compact Disc (CD) containing the unit level data. The data set contains the assets and liabilities of rural households for both urban and rural households in India. For our present purpose, we used information from 91,192 rural households only. Information from the sampled households was collected for the year 2003 by visiting them in two half yearly rounds. The first visit spanned from January to August 2003. During this visit, information was collected on demographic characteristics of the households, ownership of physical assets like, 'land', 'building', 'livestock and poultry', 'agricultural machinery', 'non-farm business equipment', 'transport equipment', 'durable assets', 'shares and debentures', 'financial assets other than shares and debentures' and 'cash dues outstanding' as on 30.6.2002. During the same visit, information was also collected on the borrowings and repayments made and sale, purchase and loss of assets of visited households during 1.7.2002 to 31.12.2002. During the
second survey visit, information was collected on the borrowings, repayments, sale and loss of assets, capital and current expenditure, the amount written off for the same households during the next six months that is, from January 1, 2003 to June 30, 2003.

Besides the use of unit level data for 2002 in our present study, we also extracted and used data on various aspects of rural indebtedness collected from such earlier NSSO rounds undertaken during 1971, 1981 and 1992. This was supplemented with additional information available from various published as well as unpublished sources. Also, we substantiated the household level data with additional information on the environment and infrastructural factors. These include level of development, market density, road density, extent of electrification, risk and uncertainty, and access to institutional credit in the district where households are located. Information on these indicators has been compiled from a recent study by Singh (2008). Besides the tabular analysis, the present study employed the Logistic and Tobit models to study borrowing and repayment behaviour and also to identify the determinants of risk and extent of indebtedness among the households in rural India.

The chapter wise findings of the study have been detailed in the succeeding paragraphs.

Chapter II

In Chapter II, a review of the studies has been undertaken to examine the problem of indebtedness in rural India. The existing literature helps to understand and gain insight into the major issues on rural indebtedness in India that has attracted the attention of various researchers. Researchers have, no doubt, examined various dimensions like incidence, pattern, extent and causes of the problem. However, like any other problem, many gaps are yet to be filled on various aspects of the problem of indebtedness. First and the foremost is that most of the studies on rural indebtedness pertain to a few selected households in a limited number of districts. Information on temporal and spatial pattern, incidence and nature of indebtedness and its growth over
the time is not available at one place. Second, temporal and spatial information on issues raised in previous studies is also not available separately for cultivators and other segments of the rural society. Third, there are a few studies examining the borrowing and repayment behaviour of the rural households. In fact, most of the studies in this context examined the problem for a few villages or at most for households in a district. Hardly any comprehensive micro household level analysis of the borrowing and repayment behaviour exists for the country as a whole. Fourth, there is a dearth of studies examining the causes and correlates of the problem of indebtedness for all rural households in the country. Most of the available studies have limited spatial coverage. Given wide inter-regional disparities in the country in the availability of rural infrastructure facilities including coverage by rural financial institutions, level of agricultural development, variations in agro-climatic conditions and variations in the levels of living, poverty and employment; finding from such studies having limited coverage may lack a wider generalization. Last but not the least, like the lack of generalization of ground realities on various aspects of indebtedness and its various dimensions, policy implications to tackle the problem recommended by the studies pertaining to various parts may also lack generalization for the country as a whole. Therefore, these critical gaps in literature motivated us to make an attempt to fill the gaps by undertaking an in-depth analysis of various issues raised above by utilization comprehensive information pertaining to 91,192 rural households collected by National Sample Survey Organisation during the All India Debt and Investment Survey in the agricultural year 2002-03.

Chapter III

Chapter III examines the temporal and spatial pattern of incidence, extent and severity of the problem of indebtedness in rural India. The incidence of indebtedness is found to be comparatively higher among agriculturally advanced states, that is, Andhra Pradesh, Punjab, Tamil Nadu, Karnataka and Haryana and lower among the agriculturally underdeveloped states like
Jammu and Kashmir, Assam, and Bihar. This spatial pattern of indebtedness found consistent over three decades, 1971–2002. There are wide inter-regional variations in the incidence of indebtedness among the rural households. It varies from 3.60 per cent to 42.30 per cent during 2002. The burden of rural debt (at constant 1999-2000 prices) accumulated rapidly from Rs. 39,924 crore in 1971 to Rs.1,04,254 crore by 2002. The problem is more serious in Southern region followed by Central and North-Western regions whereas it is least in Eastern region. Like incidence, the burden is also comparatively more severe in the agriculturally advanced states than in the agriculturally less developed states. The problem of indebtedness is more severe in high indebted states of Southern and Central regions. Expansion of rural financial institutions played a key role not only in modernization of agriculture and rural development but also in containing the usurious exploitative practices of the moneylenders in rural India. The processes of modernization exposed rural households to indebtedness by weakening the traditional reciprocity system of helping relative and friends in meeting their credit needs.

Chapter IV

Based on the Logistic and Tobit function of the borrowing and repayment behaviour of the rural households estimated on unit household level data, we found that the borrowing and repayment capacities are intimately related with demographic, economic, infrastructural and environmental correlates of the rural households. In comparison with the wealthier households, the poor in rural India have higher propensity to borrow loans to meet their money requirements for various productive and consumptive purposes. However, because of poor asset base, they have limited borrowing capacity. This is also confirmed by the low probability but high extent of borrowings by the comparatively well off segments of the rural households – self-employed in agriculture and non-agriculture professions. On the other hand, the female headed households that tend to be in disadvantageous economic situations have higher propensity but limited capacity to borrow loans. Like wealth,
higher level of human capital significantly reduces dependency but enhances the borrowing capacity of such households. The higher rate of interest seriously depresses their borrowing propensity and capacity. With one per cent rise in rate of interest, the amount borrowed declined by 3 per cent. Low income level, social and property disputes compel people to borrow more money. Agricultural development, other things being same, augments their short and long term borrowing capacities. However, exposure to high risk and uncertainty prone environments seriously impedes their borrowing capacity. Formal and informal rural credit institutions shy away from such households due to higher recovery risk of loans. However, increased access to infrastructure in general and institutional credit in particular significantly enhances the borrowing capacity of the rural households.

Like the borrowing behaviour, higher level of human and physical assets also augments the repaying capacities of the rural households. Like borrowings, the repaying capacity is also significantly higher in households self-employed in agriculture and non-agricultural occupations. Contrary to its adverse impact, the rising rate of interest compels the borrowers to make speedier repayment of their loans. Borrowings for consumption purposes seriously impede their repaying capacity. Like borrowings, repayment of loan also goes with rural prosperity resulting from higher level of agricultural development. Like development, better access to rural infrastructure also augments the repaying capacity. Like borrowings, exposure to high risk and uncertain environmental situations adversely affect the repayment capacity of the rural households. The impact of such adverse uncertainties is comparatively more on repaying capacity than on the borrowings suggesting more serious problem of indebtedness among the households living in ecological fragile regions.

Chapter V

Chapter V dealt with the problem of indebtedness at all-India level. Both micro household level (social and economic characteristics) and macro level (environmental) factors play a significant role in aggravating the problem of
indebtedness. The risk of indebtedness is comparatively higher among the households having low level of human and physical assets (land, machinery etc.) and human resources (workers and education). This higher risk and low extent of indebtedness and vice versa among the resource poor households is further corroborated by the low risk and high extent of indebtedness among the households self-employed in agricultural and non-agricultural occupation groups in the country. These two occupation groups are on top of the asset and income distribution ladders in rural India.

Besides the physical and human resources, cost, source and purpose of borrowing also play a crucial role in aggravating the problem of indebtedness. Availability of credit at higher cost (rate of interest) increases the probability of household indebtedness and pushes them deeper into the debt. Since the rate of interest charged by the rural financial institutions is regulated and fixed by the Central Bank under priority sector lending scheme, findings seems to validate the general impression of usurious lending practices of the moneylenders aggravating the problem of indebtedness in rural India. Contrary to general belief, both the risk and extent of indebtedness is more in the regions having better presence of rural financial institutions – co-operative, commercial and regional rural banks. Though both the probability and extent of borrowing and repayments are higher in the households living in better financial institution endowed regions, a higher indebtedness in such regions may be due to the fact that financial institutions extend both short and long term loans whereas moneylenders and other informal sources supply loans only on a short term basis. As expected, borrowing for non-productive purposes (consumption and litigation) aggravates the problem of indebtedness among the rural households.

Exposure of rural households to higher risk and uncertain situations like droughts, floods, crop failure due to pest attack pushes rural households deeper into debt. Such adverse conditions augment the problem by seriously undermining the repaying capacities due to loss of earnings on such adverse situations.

Besides economic factors, the demographic characteristics of the households are also significantly associated with the problem of rural
indebtedness. The problem of indebtedness is more serious in earlier and later life cycle stages of the rural households. However, caste and religious background of the rural households do not follow any consistent relationship with the risk and extent of indebtedness among the rural households. However, like economic variables, risk of indebtedness is higher among the female headed households whereas the extent of indebtedness is low among them. An empirical analysis in this chapter also confirms our earlier findings that prosperity and indebtedness go together. However, relationship is valid only for the cultivating households whose borrowing and repayment capacities are directly linked with the productivity of land resources owned by them.

Some policy suggestions

Our foregoing analysis suggests the multidimensional nature of the problem of rural indebtedness in India. Infact, a country like India, indebtedness is a necessary evil. As suggested by the higher incidence and extent of indebtedness in agriculturally developed states, large capacity to below and hence debt, is crucial for modernisation and development of agriculture and hence in improving income and living conditions, human resource endowment and eradication of rural poverty in the country. On the other hand, a significant proportion of Indian peasantry is unable to cope with the excessive burden of indebtedness leading to many adverse outcomes like low investment and hence earnings, underdevelopment of agriculture, perpetuation of poverty and hence, in many times, suicidal tendencies among the farmers. In this sense, the debt is an evil. Consequently, it leads to problems like social tension, unrest, poor health which no country can afford to ignore. Based on the findings from the studies included a review of literature as well as from our own analysis, it seems that viable solution of the problem lies in three set of policies. These are: (1) Building borrowing capacity (2) Enhancing repaying capacity of the loans (3) Other relief measures
(1) Building borrowing capacity
There is an urgent need of the policies facilitating adequate, timely and affordable supply of credit in the rural areas. To ensure this, existing regional imbalances and coverage of the financial institutions need to be corrected. There is an urgent need for expansion of financial institutions in the Central and Eastern region states. Extent and coverage of rural financial institution achieved in the Southern region states need to be extended for the country as a whole in general and for Eastern region states in particular. Because of declining importance of agriculture in the future process of development and growth these financial institutions must concentrate on the diversification of the process in agriculture and also for diversification of occupation and population away from agriculture towards more rewarding non-farm occupation activities. Such structural transformation through credit and other allied policies must be helpful in relieving excessive population pressure on land resources as well as for improving the borrowing capacities and living conditions of the rural population.

(2) Building repaying capacities
Borrowing and repayment are the two sides of the same coin. Therefore, besides building borrowing capacities of the people in the system, equally important are for the policies that enhance the repaying capacity of the borrowers. This requires the need for the policies and programmes aimed at enhancing productivity and returns of the people employed in various professions. First and foremost in this context, is the development of agriculture sector which provides employment and earnings to about three-fourth of the rural population. Policies and programmes need to be initiated to rejuvenate the agriculture not only in the districts and states lagging in the Eastern and Central regions but also in the developed districts and states in the Northern and Southern region which suffered serious deceleration of agricultural growth in the recent past. Expansion of irrigation facilities, investment in agricultural research and development in general and generation of biotechnology in particular, along with investment in rural infrastructure and strengthening of rural institutions in general and education
and health in particular are urgently required. Serious attention needs to be paid to the people employed in traditional cottage and small scale industries which suffered adversely during the reform period. Besides augmenting the productive capacity of the people, there is a need for augmenting the access of rural population to the social safety nets to mitigate the adverse impact of natural calamities, crop failure and price fluctuations due to adverse market conditions. There is an urgent need for greater coverage of crop insurance in the Indian agriculture. As our study suggested the higher extent of indebtedness in more risky environment, priority must be given to crop insurance in those districts which are exposed to a higher risk and uncertainty due to droughts and flood situations. Besides crop insurance, measures must be taken, simultaneously, to contain the rivers causing devastations in the Eastern states of Assam, Bihar and West Bengal and some other districts in the Eastern Uttar Pradesh. Similarly, priority must be given to expansion of irrigation facilities in drought prone districts and regions in the country.

(3) Other relief measures
Besides expansion and deepening the role and operation of rural financial institutions, there is a need to monitor the problem of rural indebtedness continuously. Policymakers must identify yardsticks for measuring over indebtedness so as to take timely remedial measures to avoid the aggravation of the problem of indebtedness as occurred in the recent past. The role of private sector in agriculture needs special monitoring in this context. There should be some strict enforcement regulatory mechanism on chargeable rate of interest and forceable recovery practices adopted by the private moneylenders and inter linkages of credit and market in the rural areas. Last but not the least, like poverty line peoples, the weaker segment of the rural population including small and marginal peasantry must be provided with health, education and income securities so as to escape the problem of indebtedness and lead to a dignified life and enjoy the share of rapid growth, enjoyed by their urban counterparts in the country.