



RURAL INDEBTEDNESS: A STUDY IN MAHABUBABAD DISTRICT OF TELANGANA STATE

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Abstract: Indebtedness is one of the major problems concerning to the rural society. Taking debt for the purpose of agricultural activities is indeed necessary. However, the rural people take mostly debts for non-productive purposes i.e. to meet the family needs, perform social functions like marriages, birth, death, and litigation, etc. Since money taken does not contribute to production but instead to consumption, it drags the rural people into indebtedness web. For many small farmers, the agricultural production is so less that they are unable to provide for such unproductive expenditure which drives them to take loans. The main objectives of the present study are: To study the socio economic conditions of rural indebted people, to study the causes of indebtedness among the rural households with special reference to their needs and to analyse the borrowing and repayment behaviour among the rural households. Indebtedness is found to be high among farmers when compared to that of non-farmers. The main causes of indebtedness are poverty, ancestral debt, illiteracy and ignorance, defective agricultural structure, low savings, unproductive expenditure, uncertain monsoons, moneylenders, fragmentation, litigation, defective marketing system, natural calamities. The consequences of indebtedness are low standard of living, health problem, low productivity, suicides etc. It is known that rural indebtedness is an indicator of the weak financial infrastructure of our country. The measures can tackle the problem of rural indebtedness in India in an effective manner are reducing dependence on moneylenders and control over them, control of new loans for non-productive purpose, encouraging the saving habit among the rural etc. The heartfelt measurements only needed in this hour to make the rural people to get rid of indebtedness.

(Key words: Indebtedness, Rural, Farmers, Credit, Institutional, Non-institutional)

1. INTRODUCTION: Indebtedness is one of the major problems concerning to the rural society. Taking debt for the purpose of agricultural activities is indeed necessary. However, the rural people take mostly debts for non-productive purposes i.e. to meet the family needs, perform social functions like marriages, birth, death, and litigation, etc. Since money taken does not contribute to production but instead to consumption, it drags the rural people into indebtedness vicious circle and it becomes impossible to repay these loans. To clear these loans, the rural people bring debts again and again. In this way, they are stuck in the clutches of indebtedness vicious circle, which passes on from one generation to another. For many small farmers, the agricultural production is so less that they are unable to provide for such unproductive expenditure which drives them to take loans.

a. Meaning of Indebtedness: The term 'indebtedness' may be understood as, 'the state of being under obligation,' which is financial in nature. Indebtedness may be extended to an individual, to a household and to an organization. Indebtedness of an Indian rural household often caused to take the borrowing for certain needs like accident or illness of a family member or for certain social occasions like marriage, birthday, death, etc. Because of hardly enough savings and no provision for institutional credit for above needs, the rural people are approaching local money lenders though the rate of interest highly charged. Now the borrower does not have enough resources or income to repay the debt which sets off a series of miseries for the household propelling it in the vicious cycle of indebtedness.

b. Credit Sources: The sources for rural credit in India can be classified in to two types. One is institutional credit sources which comprise commercial banks, RRBs, SHGs, Cooperative Societies, Finance companies etc. Another one is non-institutional sources which comprise friends, relatives, landlords, money lenders, input suppliers, traders etc. Earlier in 1950s, the non-institutional credit sources played a crucial role in providing rural credit especially by money lenders which forced the rural poor in to poverty vicious circle. Later, the government encouraged various institutional sources to provide loans to agricultural sector as priority sector by nationalising the commercial banks in 1969 and 1980. Nowadays the institutional sources have major share

in extending the credit to the rural poor. The following table gives the details of loans taken by agricultural and non-agricultural households from different sources of credit.

Table 1. Source wise Distribution of Loans for households
(loan taken between July 2015 to June 2016)

(In Percentage)			
Agency	Agricultural Households	Non-agricultural households	All households
A. Institutional Sources			
1. Commercial Banks/RRB	46.2	26.4	36.6
2. SHG Bank Linked	10.6	14.4	12.4
3. SHG-NBFC/MFI	9.2	13.5	11.3
4. Coop Society/Bank	6.0	5.3	5.7
5. Financial Company	1.0	1.7	1.3
6. Finance Corporation	0.7	2.1	1.3
7. Provident Fund	0.5	0.2	0.3
8. Insurance	0.3	0.2	0.2
B. Non-institutional Sources			
1. Relatives & Friends	22.7	26.8	24.7
2. Money lenders	10.8	12.3	11.5
3. Landlord	6.1	4.3	5.2
4. Doctors, Lawyers etc.	0.1	0.1	0.1
5. Input supplier	0.1	0.1	0.1

Source: NABARD All India Rural Financial Inclusion Survey 2016-17, pp.68

Note: Totals exceed 100% as a household may have taken loan from more than one source.

The most available source for all households is Commercial Banks/RRBs with 37% loans. Agricultural households depend more on this source with 46% whereas it is 26% in case of non-agricultural households. The second most source for loans is Relatives & Friends with 24.7% share of total households. The non-agricultural households are depending more (26.8%) on this source whereas agricultural households with 22.7%. The Self Help movement shows a fruitful result in India. The SHG sources (SHG Bank Linked and SHG-NBFC/MFI) evidences with a 33.7% loans to all households. The Non-agricultural households are more depending on SHGs with 27.9% (SHG Bank Linked and SHG-NBFC/MFI) whereas agricultural households with 19.8%. The moneylenders are still playing a significant role a source of rural credit with 11.5% to all households. Non-agricultural households more depending on Moneylenders with 12.3% as the institutional credit is not available for non-productive needs such as socio-religious-cultural needs which forced them to approach money lenders. The agricultural households are also taking significant loans from money lenders with 10.8%.

In the Institutional sources, Commercial Banks/RRB is the major source with 36.6% whereas SHG Bank Linked and SHG-NBFC/MFI are occupied second and third places with 12.4% and 11.3% respectively. Coop Society/Bank has share of 5.7% in all households whereas other 3.1% distributed among Financial Company, Finance Corporation, Provident Fund and Insurance etc. The Relatives & Friends occupy first place with 24.7% in all households in Non-institutional sources. Moneylenders and landlords play significant role in acting as credit source for all households with 11.5% and 5.2% respectively. Doctors, Lawyers and Input Suppliers are also sources of credit for households but meager.

c. Incidence of Indebtedness: As per the NSSO Report, the Incidence of Indebtedness (IOI) was about 31.4% among the rural households and 22.4% among the urban households. The NSSO report is prepared on the information collected through NSS - Debt and Investment during the period of January-December, 2013 from 110,800 households in 4,529 villages and 3,507 urban areas throughout the country. According to the report, the average Amount of Debt (AOD) per indebted household was Rs. 1,03,457 in rural areas and Rs 3,78,238 in urban areas.

Land and building together accounted for around 90% of total value of assets at the national level for indebted households and as well as for all households. Non-institutional agencies are source of credit to 19% of rural households, while institutional agencies are 17% households. In urban areas, institutional agencies played a greater role, providing credit to 15% of households against 10% by non-institutional agencies.

In rural areas, the institutional credit agencies were providing 56% share of debt against 44% from non-institutional credit agencies. In Urban areas, the share of debt from non-institutional credit agencies was 15% only compared to 85% from institutional credit agencies. Cooperative societies and commercial banks, together accounted for half of the outstanding cash debt in rural areas, whereas cooperative societies (24.8%) accounting for a little lower share than the Banks (25.1%). Moneylenders were found to be the key source of finance (28.2%) among non-institutional credit agencies in rural areas. However, about 75% of the total cash debt was from cooperative societies and commercial banks, their respective shares being 18% and 57% in urban areas.

d. Consequences of Indebtedness: A number of economic and non-economic consequences are caused by rural indebtedness. The farmer has to use major part of production to pay for clearing debts, interest and principal amount which may lead to loses interest on agriculture consequentially low production and low income level. The farmers are forced to sell their produce to moneylenders lower than the rate obtaining in open market. This makes benefit to moneylender and loss of a substantial income of farmers. In turn, farmer was trapped in poverty web and loses or sell his land and become landless labour.

2. REVIEW LITERATURE: The people of rural India are suffering from many problems; rural indebtedness is serious among them. Even though there is a large network of formal financial institutions in our country but still farmers in rural area are dependent on informal sources of finance for their credit needs. They find it easier to get loans from local money lenders and commission agents as compare to formal institutions because the latter requires a collateral and proper documentation which is a lengthy process. The over dependence of farmers on informal sources of finance is a major cause of rural indebtedness. A high rate of interest is charged by informal sources as compare to formal institutions. The banks should devise a system that can monitor the requirement of the loan before sanctioning the loan and the loans for unproductive purposes should be curtailed as they does not yield any production. There is a dire need of government policies and programmes that aimed to enhance the borrowing and repaying capacity of the rural poor so they can live with dignity (Dharminder Singh,2018).

Sometimes, indebtedness originates in the loan incurred for productive activities also. The farmer who has taken loan for cultivation is forced to dispose the produce to the lender. If prices of the agricultural produce increases by a growth rate (r_1) and the principal of debt multiplies itself by a growth rate (r_2) such that r_1 is less than r_2 . The current value of the output X as a means to optimize the debtor's gain is optimal only if X is sold at the current prices. Hence the farmer sells his produce at the harvest prices and pays his debt off (Mithra MK *et al*, 1986).

3. STATEMENT OF THE PROBLEM: Agricultural returns are always fluctuating due to diverse natural causes and market causes but interest payments continue as fixed charges on land income. Agriculture in India has been rightly described as a deficit economy. The small land holdings, over-strained soil, untimed monsoons and insecurity of harvests have made the majority of farmers to be below the subsistence line. For the characteristic trait of the Indian farmer is his unappeasable land hunger, a considerable amount of savings has flowed into the field of land purchase. The marketing deficiencies, lack of support prices, duplicate seeds etc caused the famers to fell in to the indebtedness vicious circle. In this backdrop, it is opt to study the causes and severity of the rural indebtedness with the following objectives.

4. OBJECTIVES: The main objectives of the present study are:-

- To study the socio economic conditions of rural indebted people.
- To study the causes of indebtedness among the rural households with special reference to their needs.
- To analyse the borrowing and repayment behaviour among the rural households.

5. METHODOLOGY: The present study based on both primary data and secondary data. The Primary data is collected using structured questionnaire. For this, 50 sample respondents have been randomly selected from Five villages namely Dantlalapally, Ammapuram, Gurthur, Chinthalapally and Matedu (10 respondents from each village) which purposefully selected from Thorur Division of Mahabubabad District of Telangana State. The secondary data is collected from various reports of NSSO, Journals, Books and Magazines etc.

6. DATA ANALYSIS: Indebtedness is found to be high among cultivators group when compared to that of non-cultivators. So that, the Indebtedness became a serious problem of Indian farmers. The saying given by the then Royal commission, 1927, "The Indian Farmer is born in debt, lives in debt and dies in debt" is applicable even now. The rural people suffer a lot for the credit needs, especially for non-productive, and trapped in indebtedness web.

- a. Socio-economic conditions:** The socio-economic conditions respondents reveal the information and helpful to understand the nature and causes for indebtedness.

Table 2: Socio-economic conditions of sample respondents

Item	Description	No. of Respondents (Percentage)
Sex	Male	44 (88)
	Female	06 (12)
Age	<35	04 (08)
	36-59	38 (76)
	60>	08 (16)
Caste	BC	33 (66)
	SC	08 (16)
	ST	06 (12)
	Others	03 (06)

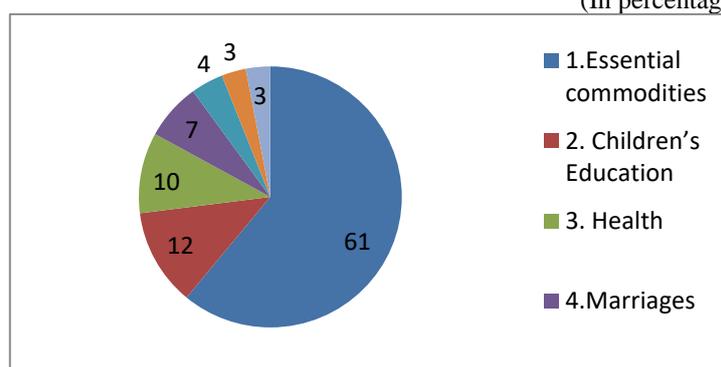
Education Status	Illiterate	14 (28)
	Primary	18 (36)
	Secondary	16 (32)
	Higher	02 (04)
Family size	<3	08 (16)
	4-5	41 (82)
	6>	01 (02)
Housing	Pucca	37 (74)
	Kacha	11 (22)
	No own house	02 (04)
Occupation	Agriculture	37 (74)
	Non-Agriculture	13 (26)
Agricultural Land	No Land	09 (18)
	<2.5 acres	21 (42)
	2.5 – 5 acres	18 (36)
	5 acres>	02 (04)
Income Source	1. Agriculture	37 (74)
	2. Agriculture Labour	10 (20)
	3. Business	2 (04)
	4. Other source	01 (02)

Source: Field Data collected.

The table 2 reveals the socio-economic conditions of sample respondents. The total respondents are rural people. Most of the respondents are male (88 percent). 76 percentage of respondents are middle aged i.e. between 36-59 years while 16 percent are above 60 years and 8 percent are below 35 years. All the respondents are Hindu religion people. There are 66 percent, 16 percent, 12 percent and 6 percent respondents belong to BC, SC, ST and others respectively. Most of the respondents are BCs. The Educational status reveals that 28 percent of respondents are still illiterate despite various literacy programmes taken up by the government. 36 percent respondents are with primary education while 32 percent are with secondary education. Only 4 percent respondents are with higher education status. All the respondent family are nuclear families. The family size is 4-5 persons for most of respondent families with 82 percent. 16 percent families are having below 3 persons and only 2 percent with more than 6 persons as family size. Most of the respondents (74 percent) are residing in pucca houses while 22 percent in kacha houses. Still 4 percent of respondents are not having own house. Majority (74 percent) respondents are engaging with agriculture activities while other 26 percent in non-agricultural activities. Most of the respondents (42 percent) are marginal farmers having below 2.5 acres of land. 36 percent respondents are small farmers having land between 2.5 to 5.0 acres of land. Only 4 percent respondents are having more than 5 acres of land. And, 18 percent respondents are having no land. The main income source is agriculture for 74 percent respondents. 20 percent respondents earns as agricultural labour. Four percent are getting money from business while two percent are other source which is reported as private sector job. The average income of respondent family is Rs.1, 14,960 per annum.

b. Expenditure details: All the income is for the expenditure. The expenditure pattern shows the nature and priority of needs of the respondents. The pie chart shows the main expenditure items incurred by respondents. Most of the expenditure (61 percent) goes to essential commodities. Next to it, the most expenditure one is children's education (12 percent). The healthcare occupies third position with 10 percent expenditure. Performing marriages also occupied share with 7 percent. Festivals, Deaths and others occupy 4 percent, 3 percent and 3 percent respectively in total expenditure incurred by respondents. The average expenditure of respondent family is Rs. 1, 32,640. The total income of respondents incurred on various expenditure items so that there is hardly scope of savings. And also the income of respondent family is lower than the expenditure. As there is low level of savings and still having the needs to fulfil, the respondents incurring debts and unable to repay and become prey in to the indebtedness web.

Chart 1: Pie chart showing the expenditure details of respondents
(In percentage)



Source: Field Data

c. Debt particulars: As the income is lower than the expenditure, the respondents are forced to take debts. The details regarding the reasons for debts, sources of debts, rate of interest, repay sources have been collected and analysed below. Table 3 reveals the debt particulars of sample respondents. The details reasons for taking loan have been collected. It is found that most of respondents (72 percent) taking loan to meet the expenditure towards quality education for their children. It is due to the attitude of parents that quality education may be available at corporate/private educational institutions only so that they are no hesitating to pay huge amounts in the name of fees even bringing the amount from various loans. Another need for which respondents take loan next to education is healthcare. 66 percent respondents said that they are in debt trap due to high cost healthcare in corporate/private hospitals. The same attitude of people that they can find good health services at corporate/private hospitals is the main reason for their indebtedness. On the other hand the public sector education and health is given less priority by the government by allocating meagre funds hence these sectors lost the people's confidence. The third net for respondents become indebtedness is marriages. Marriage is a social obligation and involved dowry and other expensive activities. So that the people are even ready to take huge amount of loans to perform children's marriages especially girl child's by giving dowry. 56 percent of respondents send their loans on purchasing consumer goods which shows the consumerism to buy the goods on Loan/EMI due to advertisements and easy availability of loans. It is also worthy to note that 46 percent respondents are taking new loans to repay the old ones which shows the debt trap. The social obligations like festivals, customs etc also are caused for bringing loan as reported by 42 respondents. 22 respondents are in clutch of debts due to performing family members' death and post death ceremonies. 16 percent respondents conveyed other reasons of purchasing assets like house, land etc. These borrowings are mostly used for non-productive activities only as reported by 82 percent respondents but only 28 percent respondents are using the loans for productive purpose.

Table 3: Debt particulars of sample respondents

Item	Description	No. of Respondents (Percentage)
Reasons for Debts	1. Education	36 (72)
	2. Health care	33 (66)
	3. Marriage	32 (64)
	4. Consumer goods	28 (56)
	5. To repay old debts	23 (46)
	6. Festivals etc.	21 (42)
	7. Death	11 (22)
	8. Others	08 (16)
Debt used for	1. Productive	14 (28)
	2. Non-productive	41 (82)
Source of Debts	1. Friends & Relatives	34 (68)
	2. Money Lenders	28 (56)
	3. Landlords & Traders	11 (22)
	4. Commercial Banks	20 (40)
	5. Cooperatives	12 (24)
	6. SHGs	31 (62)
	7. Finance companies	26 (52)
	8. Other	08 (16)
Rate of Interest	Below 12 % p.a.	14 (28)
	12 – 24 % p.a.	16 (32)
	24-36 % p.a.	18 (36)
	36 % above	04 (08)

Source: Field Data collected.

Note: Totals exceed 100% as respondents may have taken loan for more than one reason/from multiple sources. The relatives and friends are still main source for credit as 68 percent of respondents depending on it. It is due to the non-productive credit nature and institutional sources will not give loans for that purpose. The Self Help Groups are playing crucial role in providing micro credit as 62 percent respondents depend on them for their needs. Money lenders in villages still have their grip by easily access providing loans to 56 percent respondents particularly for non-productive needs. Finance companies also are easily accessible for loans as reported by 52 respondents. Commercial banks are providing loans to 40 percent respondents only as they only give loans to productive activities. 22 percent and 16 percent respondents are taking loans from landlords & traders and other sources respectively. Most of the respondents (36 percent) are taking loans for high rate of interest i.e. 24-36 % per annum. It shows the burden of loans up on them and leads to debt trap. They are unable to pay accumulated loan with high rate of interest and further taking loans to repay the old loans. 32 respondents are taking loans for rate of interest 12-24% per annum which is also burdensome. Only 28 respondents are getting loans on low rate of interest i.e. below 12 percent. The 8 percent respondents are going for loans even for high rate of interest (above 36%) for emergency needs.

7. FINDINGS: Some of major findings of the study are as follows.

1. Most of the respondents are male and middle aged.
2. All the respondents are Hindu religion people and most of the respondents are BCs.
3. Most respondents are with primary education.
4. All the respondent family are nuclear families and the average family size is 4-5 persons per family.
5. Majority respondents are engaging with agriculture activities.
6. Most of the respondents are marginal and small farmers.
7. The main income source is agriculture for most respondents.
8. Most of the expenditure spent on essential commodities. children's education and healthcare are stood next.
9. The expenditure of respondent family is more than the income which forced them to take debts.

10. Most of respondents taking loan to meet the expenditure towards quality education for their children. It is due to the attitude of parents that quality education may be available at corporate/private educational institutions only so that they are no hesitating to pay huge amounts in the name of fees even bringing the amount from various loans.
11. The item for which respondents bringing loan next to education is healthcare. The attitude of people that they can find good health services at corporate/private hospitals is the main reason for their indebtedness.
12. Marriage is became social obligation and involved dowry and other expensive activities. So that the people are even ready to take huge amount of loans to perform children's marriages especially girl child's by giving dowry.
13. Loans for purchasing consumer goods show the consumerism to buy the goods on Loan/EMI due to advertisements and easy availability of loans.
14. It is also worthy to note that new loans are being taken to repay the old ones which shows the debt trap.
15. The social obligations like festivals, customs, deaths etc also are caused for bringing loan.
16. Only few are taking loans for purchasing assets.
17. The borrowings are mostly used for non-productive activities.
18. The relatives and friends are still main source for credit. It is due to the non-productive credit nature and institutional sources will not give loans for that purpose.
19. The Self Help Groups are playing crucial role in providing micro credit.
20. Money lenders in villages still have their grip by easily access providing loans particularly for non-productive needs.
21. Commercial banks are providing loans to 40 percent respondents only as they only give loans to productive activities.
22. Most of the respondents are taking loans for high rate of interest i.e.24-36 % per annum. It shows the burden of loans up on them and leads to debt trap. They are unable to pay accumulated loan with high rate of interest and further taking loans to repay the old loans.

The main causes of indebtedness are poverty, ancestral debt, illiteracy and ignorance, defective agricultural structure, low savings, unproductive expenditure, uncertain monsoons, moneylenders, fragmentation, litigation, defective marketing system, natural calamities. The harmful consequences of indebtedness are low standard of living, health problem, low productivity, suicides etc.

8. SUGGESTIONS: There are different suggestions given by respondents to come out of indebtedness. It is shown in the following Table 4 that the suggestions given.

Table 4: The remedies suggested by respondents to curb the indebtedness

Description	No. of Respondents (Percentage)
1. Economic support by Government	37 (74)
2. Strict implementation of anti dowry act	38 (76)
3. Support prices	34 (68)
4. Encourage the small, cottage industries	28 (56)
5. Employment schemes	23 (46)
6. Crop Insurance	41 (82)
7. Distribution of surplus land	14 (28)
8. Settlement of old loan	15 (30)
9. Others	09 (18)

Source: Field Data collected.

Crop failure is the main reason for not getting money so that 82 percent respondents suggested for a scheme of crop insurance. 76 percent respondents strongly opined to strictly implement the anti dowry act as the dowry became a main cause for indebtedness. But it is socio-economic issue and unofficially dowry is key part of marriage and only government cannot curb it without the cooperation of public. 74 percent respondents said that they required financial support. It is the time to think of Direct Cash Transfer to public instead of numerous social security schemes which functionally not reached the last poor.

Reasonable Support prices for agricultural products is better way to come out of debt trap as reported by 68 percent respondents. 56 respondents supported the idea of encouraging more the small scale and cottage industries and 46 percent respondents opined to review the employment schemes in order to beneficiaries get more income. One time settlement of old loans of rural people especially ancestral also helpful to get rid of debts as put forwarded by 30 percent respondents. Distribution of surplus land is desired by 28 percent respondents which enabled them to get more money. 18 percent respondents are suggested other solutions like more institutional credit facilities.

9. CONCLUSION: In India nearly 72 percent of population lives in rural areas and is mostly dependent for their livelihood on agriculture and allied activities. Many policy changes have taken place since 1960, when the agricultural credit scenario was largely dominated by private informal sources of credit, to increase the flow of institutional credit to the agricultural sector. It is known that rural indebtedness is an indicator of the weak financial infrastructure of our country. The some other measures can tackle the problem of rural indebtedness in India in an effective manner are reducing dependence on moneylenders and control over them, control of new loans for non-productive purpose, encouraging the saving habit among the rural etc. The heartfelt measurements only needed in this hour to make the rural people to get rid of indebtedness.

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