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Weaker Sections and Rural Indebtedness in Muktsar District of Punjab State

Economics

KEYWORDS:

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ABSTRACT

The objective of the present paper is to analyse the extent and magnitude of indebtedness among the weaker sections, namely agricultural labourers, marginal farmers and small farmers in Muktsar district of the Punjab state. The concentration of debt within various categories has also been studied. Source-wise debt has been classified according to the lending agencies. The various purposes for which the different categories of weaker section owed debt have also been studied. The present study is based on 159 sampled households and relates to the year 2008-09.

Introduction

India is essentially rural India where 70 per cent of all Indians live, still depends heavily on agriculture (Thorat, 2006). Agriculture sector is most crucial sector of the Indian economy because the main objectives of the economic policy of output growth, price stability and poverty alleviation are best sub-served in this sector. There is thus a need to increase the credit flow to agriculture (Sidhu and Gill, 2006). Introduction of modern technology in the field of agriculture has necessitated increased use of credit both in terms of building infrastructure and meeting operational cost. Institutional credit plays very important role in the development of agriculture. It has been noted that institutional credit has increased on over all basis but its growth is not equally in the all regions of the country (Dadibhavi, 1988). Institutional credit agencies benefited only the creditworthy and big cultivators. The main source of borrowing for small farmers was the money lenders (Vijaygopalan, 1976). Thus, the green revolution technology tends to be monopolised by large commercial farmers who have new information technology and better financial capacity. Similarly, dependency of small and marginal farmers is still very high on non-institutional sources (Meheshwari, 1998). Thus, the advent of modern technology has contributed to widening disparities in income between different regions and different categories of farmers (Giri and Dasgupta, 1988) Despite substantial improvement in agricultural output as well as distribution of credit through institutional sources since the introduction of new agricultural technology, indebtedness among the farmer households is found to be widespread even today. The problem of indebtedness not only remains true today but it has been aggravated further in recent years. (Narayanmoorthy and Kalamkar, 2005). Indebtedness cause economic hardship to the farmers which lead in some cases to their suicides (Mohanty and Shroff, 2004), particularly the small and marginal farmers because of mounting debt of money lenders (Kumari, 2005). Since the introduction of new agricultural technology, indebtedness among the farm households is found to be widespread. Even today a large majority of small and marginal farmers is in debt-trap as a result of many factors, particularly unfavourable terms of trade since long.

Research Methodology

The present study attempts to analyse the extent and magnitude of indebtedness among the weaker sections, namely agricultural labourers, marginal farmers and small farmers in Muktsar district of the Punjab state. The study relates to the year 2008-09. There are four development block in Muktsar district, one village has been selected from each development block. From these villages 159 households (64 agricultural labourers, 51 small farmers and 44 marginal farmers) were selected and investigated by taking 20 per cent households from the total number of households of agricultural labourers, small farmers and marginal farmers. The total outstanding amount of loans is taken as debt.

Results and Discussion

Extent of Debt

The extent of indebtedness across the different categories of weaker sections in the study area is shown in Table 1. The table shows that 92.45 per cent of the weaker sections in the rural areas of Muktsar district of the Punjab state are under debt. The percentage of indebted households of agricultural labourers is 92.18 while the percentage is 95.45 and 90.19 in the case of marginal and small farmers respectively. The average amount of debt per indebted household is Rs. 81990.41, while the same is Rs. 75802.45 for an average sample household in the district. The average amount of debt per indebted household for agricultural

Table 1: Extent of Household Debt

Particulars	Agricultural labourers	Marginal farmers	Small farmers	All categories
Sampled households (No.)	64	44	51	159
Indebted households (No.)	59	42	46	147
Indebted households as percentage of sampled households	92.18	95.45	90.19	92.45
Amount of debt (Rs.) per sampled household	18569.53	70503.18	152196.08	75802.45
Amount of debt (Rs.) per indebted household	20143.22	73860.47	168739.13	81990.41

Source: Field Survey, 2008-09

labourers is Rs. 67437.83, corresponding figures for marginal and small farmers are Rs. 73860.47 and Rs. 168739.13 respectively. While the amount of debt per sampled household is Rs. 18569.53, Rs. 70503.18 and Rs. 152196.08 for agricultural labourers, marginal and small farmers respectively. It is interesting to note that the amount of debt per household increases from agricultural labourers to marginal farmers and further to small farmers.

Indebtedness According to Source of Credit

The amount of debt according to its source is shown in Table 2. The table brings out that an average weaker sections household in the district has Rs. 44754.03 of debt from non-intuitional agencies, while it is Rs. 31048.43 from institutional agencies The overall debt of average weaker sections household is Rs. 75802.45. However, there are variations across the different categories of weaker sections. The agricultural labourers are under a debt of Rs. 18569.53 which is from non-institutional agencies. The marginal farmers are indebted to the extent of Rs. 43091.82 to the non-institutional agencies and Rs. 27411.36 to the institutional agencies, whereas the corresponding figures are Rs. 79047.06 and Rs. 73149.02 for the small

Table 2: Debt according to Source of Credit

(In Rs.)

Source of debt	Agricultural labourers	Marginal farmers	Small farmers	All sampled households
Institutional				
Co-operative credit societies/banks	0.00	16720.45	18305.88	10498.74
Commercial banks	0.00	3986.36	19666.67	7411.32
Land development banks	0.00	6704.55	25372.55	9993.71
Regional rural banks	0.00	0.00	9803.92	3144.65
Sub-total	0.00	27411.36	73149.02	31048.43
Non-Institutional				
Commission agents	0.00	33705.45	58870.59	28210.31
Money lenders	285.94	1000.00	274.51	479.87
Traders	2091.41	1727.27	5000.00	2923.58
Large farmers	15785.94	340.91	196.08	6511.32
Relatives and friends	406.25	6136.36	8686.27	4647.80
Others	0.00	181.82	6019.61	1981.13
Sub-total	18569.53	43091.82	79047.06	44754.03
Total	18569.53	70503.18	152196.08	75802.45

farmers. In majority cases the weaker sections households take loan from the non-institutional agencies. This fact clearly brings out that people are still ignorant about the formalities and procedures to take loan from institutional agencies. The main source of borrowing money by agricultural labourers is non-institutional agencies. The agricultural labourers are not in a position to take loan from institutional agencies because they do not possess any belongings which they can mortgage to institutional agencies in order to obtain loan.

Indebtedness according to Purpose of Loan

The various purposes for which the different categories of weaker sections are taking loans are presented in Table 3. The analysis is based on indebted households. The table points out that an average weaker sections household in the district takes loan Rs. 24475.86 and Rs. 51344.59 on productive and unproductive purposes respectively. The highest use of the loan has been reported for unproductive purposes like house construction, addition of rooms and major repairs and marriages and other socio-religious ceremonies, i.e., Rs. 21635.85 and 20698.05 respectively. The same trend can be seen for different categories of weaker sections. The agricultural labourers have to incur the highest amount on marriages and other

Table 3: Per Household Debt according to Purpose of Loan

(Rs.)

Purpose of loan	Agricultural labourers	Marginal farmers	Small farmers	All sampled households
Productive purposes				
Machinery and implements	0.00	8938.64	22450.98	9674.84
Farm inputs and repairs	0.00	10700.00	17466.67	8563.52
Livestock	779.69	2045.45	11901.96	4697.49
Payment of rent on land	0.00	3113.64	2058.82	1522.01
Sub-total	779.69	24797.73	53878.43	24457.86
Unproductive Purposes				
House construction, addition of rooms and major repairs	5923.44	20409.09	42411.76	21635.85
Marriages and other socio-religious ceremonies	6689.84	16478.18	41917.65	20698.05
Family maintenance expenditure	3302.34	6272.73	9576.47	6136.79
Health care	1874.22	2545.45	2450.98	2244.97
Education	0.00	0.00	1960.78	628.93
Sub-total	17789.84	45705.45	98317.65	51344.59
Total	18569.53	70503.18	152196.08	75802.45

Source: Field Survey, 2008-09

socio religious ceremonies, i.e., Rs 6689.84. The small and marginal farmers have spent more on house construction, addition of rooms and major repairs and marriages and other socio- religious ceremonies. The agricultural labourers spend Rs. 779.69 on purchase and maintenance of live-stock. The highest expenditure on unproductive purposes such as house construction, addition of rooms and major repairs and marriages and other socio- religions ceremonies is due to conservative approach towards maintaining fake social status which is far from reality.

Conclusion and Policy Implications

The foregoing analysis shows that non-institutional agencies are important in advancing loans to the weaker sections in the rural areas of Muktsar district of the Punjab state. Commission agents, moneylenders and large farmers are the main sources of non-institutional agencies. The field survey revealed that these sources charge 20 per cent to 60 per cent rate of interest and on the other hand, co-operative credit societies/banks and commercial banks are the main sources of institutional agencies that charge 7 per cent to 20 per cent rate of interest. Even though interest charges by non-institutional agencies are high but even then the weaker sections prefer taking loans from them. It is because of the fact that in the case of non-institutional agencies formalities and processing of loans consume less time in comparison to institutional agencies. The

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analysis also leads to the conclusion that the only source of borrowing money by agricultural labourers is non-institutional agencies because they do not possess any belongings which they can mortgage to institutional agencies in order to obtain loans. To improve the economic conditions and to overcome the problems of indebtedness, effective measures should be taken by government and social organizations. The government should exercise a strong check on the activities of non- institutional credit agencies and provide institutional credit facilities to the rural weaker section at low rate of interest with easy repayment facilities. To reduce the increasing cost of production and for the proper use of agricultural loan, the co-operative sector must be developed in the state. Implementation of land reforms in the favour of agricultural labourers, marginal and small farmers will result in increasing their farm size and farm business Income. For agricultural labourers, minimum wage legislation should act for a progressive increase in the minimum level. This should be done through positive programmers and gradual strengthening of the enforcement machinery.

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