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COASTAL RURAL INDEBTEDNESS — A CASE STUDY*

The fisherman of our coastal villages borrows year after year and is heavily indebted. But he is not in a position to clear off the debts either because the loans are larger or his income is not enough to pay off his debts. Sometimes his income may not be sufficient to cover up even the interest he has to pay. Therefore the debt of the fisherman goes on increasing. This may be termed as coastal rural indebtedness. The specific objective of the present study is to find out the extent of indebtedness of fishermen in Vizhinjam (south of Trivandrum) and also to examine the credit system prevailing in this area.

Four hundred and four households have been surveyed from the fishermen families of the Vizhinjam sea shore surrounding the landing centre. Data have been collected in June, 1979 by visiting the houses and interviewing the heads of the families. Of these 404 families, 336 (83 percent) are in debt. Total debt incurred by these families amount to Rs. 7.26 lakhs. The average outstanding debt per indebted household worked out to Rs. 2,160.

Sources of credit

The fishermen in this area are not in general benefited by institutional credit agencies. The commercial banks generally do not provide credit to fishermen on the plea that they don't have any valuable assets to show as security. The banks may have difficulties to advance loan on the security of catamaran or canoes which are the only valuable things some of these fishermen can hypothecate. Co-operative organisations are not functioning in this area. Naturally they are at the mercy of the local money lenders. Table 1 gives an indication of the extent to which different agencies contribute to the total borrowing of the selected 404 households. The contribution of money lenders is comparatively very high as they account for 87 percent of the total credit.

Money Lenders

There are two types of money lenders in coastal areas; the money lenders who combine fish trading with

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money lending, their primary interest being fish trading but engaged in money lending as a side business and the professional money lenders whose only or main occupation is money lending.

Table 1. Borrowing of fishermen from different agencies.

Credit agency	Loan advanced (Rs)	Percentage to total
Money lenders	6,31,400	87.0
Boat owners	50,100	6.9
Banks	37,700	5.2
Relatives & others	6,500	0.9
Total	7,25,700	100.0

The importance of money lenders as suppliers of cash to the farmers in rural areas is rapidly declining, for instance, according to All India Rural Credit Survey undertaken in 1951 the money lenders accounted for nearly 70 percent of all rural credit. According to Reserve Bank's Survey for 1961-62 they accounted for 49 percent of the rural credit. By 1969-70 the co-operatives emerged as the main institutional agency for agricultural credit in India. In that year they accounted for 33 percent of the total credit. However, in the Vizhinjam coastal areas there is not much change. The money lenders are still the major source of credit in these areas. There are many reasons for the preponderance of the money lenders in our coastal areas. a) Availability of institutional credit is not easy or adequate. b) Money lender is ready to supply credit both for productive and non-productive purposes. c) He is not much bothered about the period of loan. d) He is easily accessible and his methods of business are simple and elastic. e) Being a local man he has the local knowledge and experience so that he can lend money without even any security and knows how to protect himself against default.

Since the institutional credit is not easily available the services of money lenders are indispensable and to a certain extent much useful to the fishermen in those areas. However, there are complaints that they charge high rates of interests, often 30 percent and more and they don't keep proper accounts of repayment. Generally no receipts are issued for repayments.

In the Vizhinjam village as per enquiry 33.4 percent of the loan advanced by money lenders is on contract basis and the rest on interest basis. Credit will be

advanced on contract basis only to those fishermen who own some fishing equipments. The size of the loan depends on the value of these equipments. No time will be fixed for repayment of loan. For getting a loan the boat owner has to enter into a contract with the money lender. Generally, the terms of contract are that the borrower should give the money lender daily (or whenever there is fishing) a certain percentage of his catch (often ranges from 10 to 25 percent) till the repayment of the loan. This system is found to be more profitable to the money lender than system of charging particular interest rate. In case he is charging some interest for his loan he can get that interest either once in a month (often it is monthly) or once in 6 months or a year. But in the former case it is a daily payment.

The interest rate charged by money lenders in Vizhinjam area is in the range of Rs. 2 to 6 for Rs. 100 per month. For more than 50 percent of the total loan, interest charged is Rs. 3 to 4 for Rs. 100 per month.

Boat Owners as Money Lenders

Out of 404 families covered under the survey, 67 families come under the category of contract labourers and these households are indebted to the tune of Rs. 50,100 which is 6.9 percent of the total indebtedness. In this system, for getting a loan the fisherman as a wage earner has to enter into a contract with the boat owner that he should work only in the boat from the owner of which he has received the loan till the loan is repaid. This type of loan is advanced only by boat owners. There is no interest in cash or kind. The amount of loan will generally not exceed Rs. 1,500. Even if these labourers get an opportunity to have their own boat and net they cannot utilise it because of their contract with the present employer. Among the families surveyed only very few families are reported to have come out of this contract during the last two years. On the other hand their number is increasing year after year.

Most of the workers who don't have any fishing equipment, in their desperate need of money either to tide over a lean season or to meet some unforeseen domestic expenditure borrow by pledging their manpower to some boat owner and these boat owners, in turn hypothecate their fishing equipments to money lenders and get loan and thus a considerable portion of the disposable income created in fishery goes to the money lenders.

Institutional Credit

As mentioned earlier, because of the absence of Co-operative Societies in this area bank loan is the only institutional credit available to the fishermen. The bank loans advanced to the households covered under the survey amounted to Rs. 37,000/- which constitutes only 5.2% of the total debt.

Purpose of loan

Only 24.8 percent of the total debt is utilised for productive purposes (Table 2). Maximum amount is spent for construction or repairing of the house buildings followed by household expenditure during lean season (21.8 percent) and social functions such as marriage, birth, death etc. (19.3 percent).

Table 2. *The percentage of total debt incurred for different purposes.*

Purpose	Utilisation of loans (%)
Purchase of crafts and gears	14.2
Repairing crafts and gears	10.6
Construction and maintenance of house buildings	28.3
Household expenditure during lean season	21.8
Expenditure on religious and social functions	19.3
Other purposes	5.8
Total	100.0

Since about 75 percent of the debt is utilised for non-productive purposes and the rate of interest is very high, for most of the families it is practically impossible to clear off the debts in the near future. It has been observed that despite their poverty many families spend much beyond their capacity towards social ceremonies. Addiction to alcohol is a social evil that ruins the economic position of many of the fishermen families. Another source of unnecessary expenditure is litigation which is highly expensive in our country.

Some of the debts are inherited and the ancestral debt is honoured by the fishermen community.

The existence of middle men between fishermen and money lenders is a peculiar phenomenon observed during the survey. These middle men are a sort of brokers. They help the fishermen to get loan from the money lenders without any security. Money lenders advance loan to fishermen on personal security of these middle men who will see that the debtor is paying the interest regularly. In turn these middle men get a commission for their service from the fishermen.

Income and indebtedness

From a study of the relationship between income and indebtedness given in Table 3 and figure 1 it is found that, broadly speaking, the extent of indebtedness is higher among higher income groups and lower among the lower income groups. But the number of households in the former group is comparatively too small.

The burden of debt is more on the lower income groups than higher income groups. Even though the amount of debt is lower among lower income groups as

Table 3. *Distribution of households by income level and indebtedness.*

Income groups (Rs)	Number of households	Number of households in debt	Percentage households in debt	Average indebtedness per household (Rs)
500 & below	26	17	65.4	615
501-1000	204	177	86.7	1,277
1001-2000	150	123	82.0	3,049
2001-3000	18	14	77.8	4,806
3001-4000	2	2	100.0	5,000
4001-5000	1	1	100.0	10,000
5001-7000	2	1	50.0	7,500
7001-10000	1	1	100.0	12,000
Total	404	336	83.0	2,160

compared to higher income groups, the repayment capacity of the former is much lower than that of the latter. Families in higher income group take loan generally for investment and they may not find it difficult to repay the loan whereas lower income groups borrow mainly for unproductive purposes. Out of 68 households who are not indebted 63 families come under the income groups of less than Rs. 2,000 per year. Some of these families are not having any earning member and are supported by their close relatives and some are surviving on the old age pension received from the State Government. Such family can not get a loan from a money lender.

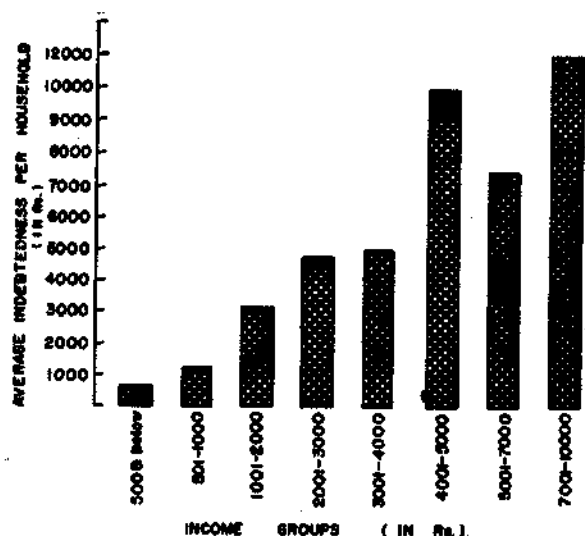


Fig. 1. Relationship of average household indebtedness to income.

The average annual income of the indebted household during 1978-79 worked out at Rs. 1,241 whereas the average outstanding debt per household during the same period worked out at Rs. 2,160. Calculating the annual interest for this amount at an average rate of 40 percent, a family with the aforesaid average annual income has to pay interest to the tune of Rs. 864. This would explain why a fisherman who once gets indebted can never escape from it. Artisanal fishery is not so productive as to enable the fishermen to meet the high interest rates. The fishermen are in a vicious circle of poverty. As they are poor they borrow and because they borrow they remain poor.

Summary and discussion

Out of 404 households surveyed for the study in Vizhinjam area, 336 families are in debt. Total debt incurred by these families amounted to Rs. 7.26 lakhs.

The average outstanding debt per indebted household worked out to Rs. 2,160. Money lenders are the major source of borrowings. They are accounted for 87 percent of the total credit. Institutional credit is only 5.2 percent. Only 24.8 percent of the total debt is used for productive purposes. Households in higher income groups are more in debt than in lower income groups, as the money lenders are more interested to advance loans to people in higher income brackets. Average annual income of an indebted family of Rs. 1,241 is not sufficient to clear off its debts. Poverty is a cause and also an effect of indebtedness.

Measures should be devised for cancelling the old debts, fixing instalments for repayment of outstanding loans at a reduced interest rate and to control fresh borrowings. The following suggestions may be useful in solving the problem of indebtedness.

1. Legislation may be enacted for the compulsory reduction of ancestral debts and in specific circumstances for the liquidation of such debts.
2. Village Panchayats can be empowered for the settlement of outstanding debts by scaling down the debts and fixing the repayment in easy instalments.
3. Interest rate must be limited to a reasonable level.
4. Activities of money lenders have to be regulated. They must register themselves and get necessary licence. They should keep proper accounts and records.
5. Rural banks and co-operative societies have to be established in fishing villages. Banks may advance credit to fishermen through co-operative societies at concessional rates on mutual securities of the members of the co-operative societies. This is the only way by which the importance of the money lenders in the credit system of our fishing villages can be reduced. As pointed out in the report of the All India Rural Credit Survey Vol. II "in the village itself no form of credit organisation will be suitable except the co-operative society-co-operation has failed, but co-operation must succeed."
6. It is also necessary to see that the fishermen resort to borrowing only for most essential and productive purposes. Non-productive loans should be avoided. Education and propaganda can do something to prevent the fishermen from excessive expenditure in connection with religious and social functions.

7. It is highly essential to take some steps to induce the fishermen to save a certain portion of their income. Generally they are not in the habit of saving. It may be due to their acute poverty or even due to their ignorance. The rural banks and co-operative societies can formulate some schemes with this intention, for instance, a provident fund scheme can be formulated for all those

active fishermen. This can be implemented through co-operative societies. At least all the members of the societies can be brought under the scheme.

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