

## COMMENT

## Village Political Economy

A SMALL FARMER'S CULTIVATION OF his plot of land is not business proper. He puts in seeds, fertilizer, water, his own labor, etc, then keeps watch on the field of growing crop, casts out weeds, pumps out excess water, chases away sparrows and other birds and predators like rodents, keeps night vigil against thieves and after months of wait, watch and work reaps the harvest and carries it home. This small farmer's produce is mostly for self consumption.

He consumes what he produces. But there are abnormal times when the sky falls on his head, for example, in times of drought or floods or tornadoes. In order to save his standing crop from destruction, he needs some money from outside. He wants to borrow money. He has three options before him, viz. local government like the panchayat or the government agency in the locality such as the Block Development Office or the local rural bank, scheduled commercial or cooperative. Here another factor comes in and that factor is very important. It is time. From none of the options before him enumerated above will he obtain loan in time. All these organizations are mere ornamental; he comes to know of it in the course of his dire need. These organizations do not believe him. He approaches them; but finding the labyrinth of paper work, of bureaucratic delay on mortgage deeds, file movements involving bribes and incentives to the performers, cut money to agents of the performers, etc. too cumbersome, nerve racking and, above all, time consuming, he inevitably falls into the trap of the village money lender, the usurer who is as much eager to lend as he is to borrow. Now he falls into greater burden of debt. Once he falls into the village money lender's trap, he is fleeced and he cannot get rid of the clutches.

The village money lender enjoys political clout. Nowadays the money lender does not take away the entrapped debtor's land. This is unusual. For this act of 'kindness' on the part of these new breed of usurers, the debtor-farmer is bonded to not only the village-lender but also to the latter's political party. The small farmer now becomes a cadre of the money lender's political party. On the other side, the village-lender secures loan in the name of the cadre-turned debtor-farmer from any of the three official options above mentioned, takes to augment his investible fund, which he lends at less exorbitant rate than formerly. Thus he becomes truly a Mahajan, a great soul, to the debtor-farmer. For example, the village lender's father previously used to lend at 10%pm, that is, 120% per annum. The new-breed village-lender now secures from official sources loan in various names and accounts at, say 20% per annum, and then lends at 60% per annum, that is at 5%pm. This phenomenon on the one hand reduces the interest burden on the small farmer and increases the volume of business of the lender on the other.

Rural economic activities are not confined to agriculture only, there are various handicrafts going on for centuries in village crafts guilds. These are short of funds and laggards in technologies. In order to update their technologies, marketing techniques in the new competitive environment and modernization in management methods, and also in order to overcome their perennial shortage of fund in the form of circulating, capital, huge amount on investment is required. So scores of micro finance companies have cropped up recently to arrange loans from banks and to recover EMIs (Equal Monthly Instalments) from the debtor crafts guild on behalf of the lender banks. Rural banks, commercial or cooperative, are not enthusiastic to venture or expand into this field. Initially, the micro finance spawned as voluntary self-help no-profit no-loss organizations. The banks also promoted the new organizations as their activities have expanded banking in rural areas. Recently there has been observed a trend of micro finance organizations to get themselves registered as companies and to work independently of the banks. Actually some of these micro finance companies are operating as financial intermediaries. But this micro financing business is different and more complicated than village money lending. Moreover these micro finance companies are borrowing from commercial banks at variable market rates. All these eat into their profits. Also, since these companies are dealing as commercial operators with public money in the debt market openly, they cannot hide their operations and transactions as they used to do in the case of small farmers. These companies come under the purview of rules and regulations set by the Company Laws as well as by the monetary authorities, especially the Reserve Bank of India. The Ministry of Finance, Government of India, gives all kinds of encouragement to the emergence of this micro finance into a robust business. Yet these micro finance companies want more, namely the RBI's permission to accept deposits from the public. These micro finance companies, especially their counterparts in urban areas, are clamoring lately for banking licence. □