

Interlinked Agrarian Credit Markets in Patiala District of Punjab

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ABSTRACT

Credit markets are an essential economic institution. In developing countries, particularly in countries undergoing rapid social and economic transition, it is important to identify emerging credit demand and institute credit supply in a timely manner to facilitate economic transformation. This research focuses on the evolving rural credit market in Punjab, where borrowing from the social network has been common. And this informal borrowing is interlinked with other markets like output, input and labour in agriculture. This research is aimed at identifying the extent of interlinkage in the Patiala district of Punjab.

I. INTRODUCTION

Agricultural sector, in most developing countries, including India, is primarily small farm agriculture characterized by low incomes, low levels of operating capital and low investment. Further, the credit starvation of the agriculture sector forms a vicious circle of low productivity, low income and low investment. Hence, finance is a major element of agricultural policy. Cultivation being a time bound activity there is need to incur costs before a saleable output is generated (Anant, 2002). There are two sources of agricultural credit: formal or institutional credit and informal or non-institutional credit. Although the distribution of institutional credit for agriculture has increased to great extent in India since the nationalization of banks, a substantial number of farmers still rely on non-institutional sources where the rate of interest is not only exorbitant but the terms and conditions of the loan are also exploitative (Ramachandran and Swaminathan, 2001; Athreya et al., 1990).

The non-institutional sources are mainly approached by the farmers due to lack of collateral security, frequent production and consumption needs, inadequate supply of institutional credit, undue delays and cumbersome procedure adopted by institutional lending agencies (Singh, 1971; Singh, 1973; Nahatkar et al., 2002; Rao, 2003; Kumar et al., 2017). There is empirical evidence of delay in disbursing formal credit. Sarap (1991) observed that the small and marginal farmers face substantial delay in getting formal (short term) credit. There may be several factors responsible for the delayed disbursement of formal credit to the small and marginal farmers. Among those factors, Sarap (1991) has emphasized factors such as the lower bargaining strength of the small farmers vis-a-vis large farmers, the bureaucratic and procedural formalities required and many times the corrupt practices pursued by the officials of the formal credit agencies.

Non-institutional sources mainly include moneylenders, traders, commission agents, relatives and friends and landlords. There are often more than one informal sector lenders in the rural credit market. Their mutual interactions play an important role in determination of the interest rates in the informal credit market. These rates take on a wide range of values, often within the same area (Basu, 1998). In the rural credit market, on the one hand, there are the professional moneylenders who charge exorbitantly high interest rates and on the other, there are the traders and landlords who offer interlinked contracts along with charging very high interest rates. In fact, these interlinked credit contracts are more exploitative than simple money lending.

Interlinked credit contracts in the informal credit market are not a new concept. The first report of interlinked rural credit appeared in 1925 (Darling, 1925). The concept of interlinkage has been borrowed from anthropology, where multi-staged nature of relationships in small communities has often been emphasised. Such societies are called multiplex, and multiplex relationships between the same economic agents in a poor agrarian community are often described as interlinked contracts encompassing several markets, particularly those of land, labour and credit. Interlinked transactions have been defined as contracts made between the same pair of individuals relating exchange in more than one commodity or service, the contracts being linked in an essential way. In other words, "contracts between two individuals in two or more commodities that are linked by coincidence, i.e. contracts that could as well have taken

place without change at different points in time and not necessarily between the same individuals, are not interlinked in this sense” (Braverman and Srinivasan, 1980, p. 2).

At the empirical level, some attempts have been made to examine the prevalence and types of interlinked contracts involving different parties. Depending upon the different activities of the moneylenders, various types of interlinked contracts have been identified. Because credit contemporary activity is the primary economic activity of money lender and the main source of income, the risk and uncertainty associated with a regular supply of inputs for their primary activity is an important motive for interlinking credit. For example, a landlord may be uncertain about the level of effort that his tenant puts in, or he may be unsure of obtaining sufficient labour during peak agricultural season. A trader/commission agent is not certain regarding his share of the cultivators’ crop, input dealers are not sure of the demand for their inputs. Also, a rich landlord who wishes to have an additional land may be faced with an underdeveloped land market. Under such situations, there is an added incentive for these agents to link one market transaction with another, particularly with credit. Interlinking improves the agents’ forecast of the anticipated input supply, and their ability to plan ahead (Gill, 2000).

The usual types of interlinked credit contracts that have been identified are:

(a) Credit - Output: Under this system the borrower obtains credit from the lender (commission agent) to fulfil production, consumption as well as other requirements. The repayment is done by selling the produce through them in the regulated markets.

(b) Input- Cash: In this type of interlinkage, the farmer is supplied with inputs (like seeds, fertilisers, insecticides, pesticides, etc.) by the lending agency. The lending agency may be a co-operative society (formal sector) or input dealers and commission agents (informal sector). The borrower is liable to repay the loan amount in terms of cash only after the harvesting season. Thus, credit is provided in the form of inputs and repayment is done in cash terms.

(c) Input - Output: Under this system of linkage, the lender is either input dealer-cum-trader or commission agent. The lending agency supplies loan in terms of inputs like seeds, fertilisers, pesticides, etc., to the borrower. The loan is realised from the sale proceeds upon the disposal of produce in the regulated market. No interest is explicitly charged from the borrower but it contains an element of implicit interest or hidden cost such as over charging for inputs. The commission agent also supplies inputs on the condition that the farmer will sell his produce through him.

(d) Credit- Labour: Under this arrangement, the lender mainly offers cash loans to borrowers constituted mainly by the labour class. The repayment of the loan amount is done in terms of labour services only. This type of linkage acts as a labour tying device. Landlords who mainly supply the credit to the labourers thus ensure labour availability during peak harvesting seasons. The landless class or agricultural labourers possess nothing else but labour services which they can pledge to get a loan.

The whole arrangement of interlinked contracts would have been beneficial but for the fact that such contracts are also highly exploitative. The lenders in the informal market enjoy a sort of monopoly position, and are thus able to charge exorbitant rates of interest. The exploitative aspects of an interlinked credit contract sometimes far exceed the beneficial aspects. But as institutional credit has limited access and does not meet the full demand of borrowers, the informal credit sector, and with it the interlinked credit contracts, continue to flourish. Hence, study of interlinked agrarian credit markets is important to formulate suitable policy recommendation regarding the agrarian credit policies and practices.

II. SCOPE OF THE STUDY

The scope of the study is the Malwa region of the State of Punjab. This region has been reeling more under agrarian crisis as compared to the other two regions of Doaba and Majha. From Malwa region Patiala district was selected as one of the advanced district of Malwa region. Next, one block that is Nabha was selected randomly. Then in next stage two villages from Nabha block were selected on the criteria of on the road and off the road villages. Around 50 households from each village including landless, marginal, small, medium, large and extra-large farmers were interviewed with the help of a detailed questionnaire.

The data was collected for the crop season of 2015-16 and data collection was carried out from March 2017 to May 2017. Results and observations of 100 households of Patiala District, 50 from each village selected, have been discussed in this study.

III. GENERAL PROFILE OF SELECTED VILLAGES

In this chapter we are studying the nature and extent of interlinkage in agrarian credit market in the two sample villages of Patiala District, Nabha Block. First is Galwatti village, which is situated on the major district road (MDR 32) from Nabha to Malerkotla. It is 18km away from sub-district headquarter Nabha and 37km away from district headquarter Patiala. According to Census 2011, the total geographical area of village is 450 hectares. Galwatti has a total population of 1,650 peoples. There are about 329 houses in Galwatti village. Nabha is nearest town to Galwatti (VillageInfo.in, 2018). This village has total of 9 bank branches, 8 commercial banks namely State Bank of India, Union Bank of India,

Bank of Baroda, UCO Bank, Oriental Bank of Commerce, Punjab and Sind Bank, Allahabad Bank and Andhra Bank. Village has one District Central Co-operative Bank (GOI, 2018). So the village has good banking facilities available. Literacy ratio in Galwatti village is 67%, 1113 out of total 1650 population is literate here. Among males the literacy ratio is 74% as 617 males out of total 832 are educated while female literacy rate is 60% as 496 out of total 818 females are educated in this village. There is also a government high school in the village. The number of occupied people of Galwatti village is 547 whereas 1103 are un-employed. And out of 547 employed individuals 133 persons are entirely dependent on farming (wikivillage, 2018).

Second village selected was Sangatpura village, which is situated away from the major district road. The village has 169 families. The total geographical area of village is 755 hectares. It is situated 8km away from sub-district headquarter Nabha and 20km away from district headquarter Patiala (VillageInfo.in, 2018). This village has only one commercial bank, that is Oriental Bank of Commerce. According to Census 2011, Sangatpura 's population is 911. Literacy ratio in Sangatpura village is 60%. 548 out of a total of 911 population are educated here. Among males the literacy rate is 64% as 303 males out of total 471 are educated. However female literacy ratio is 55% as 245 out of total 440 females are educated in this village. The number of occupied people of Sangatpura village is 285, 626 are un-employed. And out of 285 employed people 105 people are totally reliant on cultivation (wikivillage, 2018). There was no high school in Sangatpur village, children of Sangatpur go to nearby villages to study.

IV. NATURE AND EXTENT OF INTERLINKAGE OF HOUSEHOLDS SELECTED FOR SURVEY

The analysis is entirely based on the data collected in our study region of two villages of Patiala District of Punjab. Table 1 shows the income of the households in the survey. The result shows that Sangatpur village has more number of households having income of Rs. 10 lakh and above, this may be attributed to greater number of households with large holdings. But on the other side, Galwatti village had more number of households having Rs. 5-10 lakh annual income. This village had more number of medium income people. Because this village has more number of households involved in service sector and had small holdings. Most of the households of this village had members living abroad. There were also a number of empty houses in the village. They gave their land on lease to their relatives or to known persons in the village. So the income of the village goes out in this kind. And because the village is situated on the road, so the rate of leasing is also high.

Table. 1: Annual Income of the selected households

Income (Rs.)	Galwatti (on the road) No. of Households	Sangatpur (off the road) No. of Households
Below 2 lakh	07	03
2 -5 lakh	18	17
5 -10 lakh	14	12
10 lakh & above	11	18
Total	50	50

Source: Field survey

Number of households borrowing from different sources is given in Table 2 which shows the credit situation in these two villages. It shows that only formal borrowing is not sufficient for the farmers, they also borrow from informal sources for their needs. In total there were only four farmers who were not borrowing. Table shows that 100 percent of landless households took informal credit because of absence of collateral security with them. In case of formal lending nearly every household had taken formal loan except landless household. Percentage of households taking informal credit was also considerable (73%). Informal lenders consider their credit complementary activity to be their principal source of income. The risk and uncertainty associated with the regular supply of inputs for their primary activity is an important motive for these lenders to engage in money lending. And once they enter the credit circuit, interlinking of contracts become an easy way for farmers to take credit but in the long run it ruins them. The income of landless labourers, or small farmers is not enough to satisfy their consumption requirement, leave aside the need to finance agricultural activities. Borrowing is the only way they can meet their financial needs. However, they have limited access to the regulated credit markets because they have little or no collateral security to offer. But they can offer some other collateral like a promise of labour service or the promise to sell their crop to the lender. These non-marketable securities are usually acceptable in the unregulated credit market. It ensures the cheap supply of labour at peak times and small farmers find it easy to sell their output in the market. And in case of large farmers, the increasing use of

advanced methods of cultivation has increased their cost of production, which makes it necessary to borrow. In the case of insufficient formal credit, they turn to informal credit market.

Table. 2: Distribution of borrowings from different sources in the survey area of Patiala District.

Size of Holdings (Acres)	No. of Households in the group	No. of Households borrowing from formal source	No. of Households borrowing from informal source	No. of Households borrowing from both sources	No. of Non borrowers
(1)	(2)	(3)	(4)	(5)	(6)
Landless	3	1 (33.3)	3 (100)	1 (33.3)	0 (0.00)
Upto 2.5	23	19 (82.6)	17 (73.9)	15 (65.2)	0 (0.00)
2.5 – 5	37	31 (83.7)	30 (81)	28 (75.6)	3 (8.1)
5 – 10	22	21 (95.4)	17 (77.2)	16 (72.7)	1 (4.5)
10 – 25	10	10 (100)	3 (30)	3 (30)	0 (0.00)
Above 25	5	5 (100)	3 (60)	3 (60)	0 (0.00)
Total	100	87	73	66	4

Source: Field survey

Note: Figures in parenthesis are percentages of column 2

In Galwatti village, there were less number of households who was borrowing from informal sources (66 percent) as compared to Sangatpura village, (82 percent) as shown in tables 2 (a) and 2 (b) respectively. Farmers who were borrowing loan from informal sources had land holding less than 10 acres in Galwatti village. Large farmers were not borrowing from this source. And in case of Sangatpura village, almost every category of farmers was borrowing from informal sources. On the other side, in case of formal borrowing, the situation is somewhat similar in both the villages. Each and every household was borrowing from formal sources. Sangatpura village has only one bank available in the village and Galwatti has 9 banks available (GOI, 2018). Galwatti village has this advantage because it is situated on a major district road. This can be the reason for farmers of Sangatpura village to turn more to informal sources.

Table no. 2 (a): Distribution of borrowings from different sources in village Galwatti

Size of Holdings (Acres)	No. of Households in the group	No. of Households borrowing from formal source	No. of Households borrowing from informal source	No. of Households borrowing from both sources	No. of Non borrowers
1	2	3	4	5	6
Landless	0	0	0	0	0
Upto 2.5	16	12 (75)	13 (81.2)	10 (62.5)	0 (0.00)
2.5 – 5	15	13 (86.6)	11 (73.3)	11 (73.3)	2 (13.3)
5 – 10	14	13 (92.8)	9 (64.3)	8 (57.1)	1 (7.14)
10 – 25	4	4 (100)	0 (0.00)	0 (0.00)	0 (0.00)
Above 25	1	1 (100)	0 (0.00)	0 (0.00)	0 (0.00)
Total	50	43 (86)	33 (66)	29 (58)	3 (6.00)

Source: Field survey

Note: Figures in parenthesis are percentages of column 2

Table no. 2 (b): Distribution of borrowings from different sources in village Sangatpura

Size of Holdings (Acres)	No. of Households in the group	No. of Households borrowing from formal source	No. of Households borrowing from informal source	No. of Households borrowing from both sources	No. of Non borrowers
1	2	3	4	5	6
Landless	3	1 (33.3)	3 (100)	1 (33.3)	0 (0.00)
Upto 2.5	10	7 (70)	5 (50)	5 (50)	0 (0.00)
2.5 – 5	22	18 (81.8)	19 (86.3)	17 (77.2)	1 (4.54)
5 – 10	8	8 (100)	8 (100)	8 (100)	0 (0.00)
10 – 25	6	6 (100)	3 (50)	3 (50)	0 (0.00)
Above 25	4	4 (100)	3 (75)	3 (75)	0 (0.00)
Total	50	44 (88)	41 (82)	37 (74)	1 (2.00)

Source: Field survey

Note: Figures in parenthesis are percentages of column 2

To examine the extent of interlinkage, we took different categories of households borrowing with linked and non-linked credit transactions (Table 3). We can see from column 3 that majority of borrowers were engaged in interlinked transactions, and the percentage of linked transactions increased with size of holdings till 10 acres. After that there were large landlords who can take more credit from bank as they want so they don't need commission agents. In fact, some of the large landlords were itself giving credit to small farmers as a commission agent. Some of them borrow from banks at low interest rates and lend it to the landless or small farmers at high interest rates. Large farmers borrow from formal credit sources at low interest rates and give that money as loan in informal credit market. And from column 5, it can be seen that almost every interlinked borrower took formal loan also. Linked transactions in our sample were highest in '2.5-5 acres' and '5-10 acres' group. Number of households with land holding above 10 acres were less in linked transactions as compared with other categories. but still there was presence of interlinkage in large farmer's category. Thus, according to our survey, interlinkage can be seen in every category of farmers. And once they enter in this circle they have to go with it every season.

Table. 3: Extent of interlinked transactions in the informal credit market (Patiala)

Size of holding (acres)	No. of Household in the group	No. of Borrowers with Interlinked Transactions	No. of Borrowers with Non-linked transactions	No. of Interlinked Borrowers Getting Formal Loan also	No. of Non-linked Borrowers Getting Formal Loan also	No. of Borrowers Borrowing only from Formal Sources
(1)	(2)	(3)	(4)	(5)*	(6)**	(7)
Landless	3	0 (0.00)	3 (100)	0 (0.00)	0 (0.00)	0 (0.00)
Upto 2.5	23	12 (52.2)	8 (34.7)	10 (83.3)	6 (75)	4 (17.4)
2.5 – 5	37	26 (70.2)	3 (8.1)	24 (92.3)	3 (100)	6 (16.2)
5 – 10	22	17 (77.2)	0 (0.00)	16 (94.1)	0 (0.00)	4 (18.2)
10 – 25	10	3 (30)	0 (0.00)	3 (100)	0 (0.00)	7 (70)
Above 25	5	3 (60)	0 (0.00)	3 (100)	0 (0.00)	2 (40)
Total	100	61	14	56	9	23

Source: Field survey

Note: 1. Figures in parenthesis are percentages of column 2.

2. * Figures in parenthesis are percentages of column 3.
3. ** Figures in parenthesis are percentages of column 4.

The prevalence of interlinked transactions can be seen in separately for the two villages. Table 3a shows the situation of interlinkage in Galwatti village, which is situated on the major district road. As this village is on the road, it has some more opportunities and sources of finance as compared to the other village. Situation of interlinkage is also different in this village. As column 3 shows that only 54 percent of sampled households were engaged in linked transactions. Out of 50 households 14 were borrowing from formal sources alone which is comparatively more than Sangatpur village (9 households, table 3b). This difference can be due to the sources of formal borrowing availability in Galwatti village. As we have earlier said that in this village more number of households were in service sector, so it may be easy for them to take loan from formal sources. More number of small farmers were borrowing with interlinked transactions, in category of 2.5 -5 acres 66 percent of households were in linked transaction of Galwatti village and all of them were borrowing from formal sources also. Interlinkage was absent in case of large farmers of this village. And on the other side in Sangatpura village, every category of farmer was in circle of interlinked transactions in informal credit market (column 2, table 3b).

Table no. 3 (a): Extent of interlinked transactions in the informal credit market (Galwatti Village)

Size of holding (acres)	No. Of Household in the group	No. of Borrowers with Interlinked Transactions	No. of Borrowers with Non-linked transactions	No. of Interlinked Borrowers Getting Formal Loan also	No. of Non-linked Borrowers Getting Formal Loan also	No. of Borrowers Borrowing only from Formal Sources
(1)	(2)	(3)	(4)	(5)*	(6)**	(7)
Landless	0	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)
Upto 2.5	16	8 (50)	5 (31.2)	6 (75)	3 (60)	2 (12.5)
2.5 – 5	15	10 (66.6)	1 (6.6)	10 (100)	1 (100)	3 (20)
5 – 10	14	9 (64.3)	0 (0.00)	8 (88.8)	0 (0.00)	4 (28.5)
10 – 25	4	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	4 (100)
Above 25	1	0 (0.00)	0 (0.00)	0 (0.00)	0 (0.00)	1 (100)
Total	50	27 (54)	6 (12)	24 (88.8)	4 (66.6)	14 (28)

Source: Field survey

Note: 1. Figures in parenthesis are percentages of column 2.

2. * Figures in parenthesis are percentages of column 3.

3. ** Figures in parenthesis are percentages of column 4.

Table no. 3 (b): Extent of interlinked transactions in the informal credit market (Sangatpur Village)

Size of holding (acres)	No. Of Household in the group	No. of Borrowers with Interlinked Transactions	No. of Borrowers with Non-linked transactions	No. of Interlinked Borrowers Getting Formal Loan also	No. of Non-linked Borrowers Getting Formal Loan also	No. of Borrowers Borrowing only from Formal Sources
(1)	(2)	(3)	(4)	(5)*	(6)**	(7)
Landless	3	0	3 (100)	0	0 (0.00)	0 (0.00)
Upto 2.5	7	4 (57.1)	3 (42.8)	4 (100)	3 (100)	2 (28.5)
2.5 – 5	22	16 (72.2)	2 (9.1)	14 (87.5)	2 (100)	3 (13.6)

5 – 10	8	8 (100)	0	8 (100)	0 (0.00)	0 (0.00)
10 – 25	6	3 (50)	0	3 (100)	0 (0.00)	3 (50)
Above 25	4	3 (75)	0	3 (100)	0 (0.00)	1 (25)
Total	50	34 (68)	8 (16)	32 (94.1)	5 (62.5)	9 (18)

Source: Field survey

Note: 1. Figures in parenthesis are percentages of column 2.

2. * Figures in parenthesis are percentages of column 3.

3. ** Figures in parenthesis are percentages of column 4

In Sangatpur village 68 percent of sampled households were linked with credit-output market. All categories of households were engaged in linked transaction in this village and all of them were borrowing from formal sources also. Non linkage was absent in case of large farmers, even 16 percent of small or marginal farmers were non linked with credit-output transactions. This village has more number of large landlords in our sample as compared to Galwatti village, so large farmers provide easy credit to the small and marginal farmers. Farmers have no other choice for borrowing, so they get in the circle of interlinkage.

Table no. 4: Type of linkages

Size of holding (acres)	No. Of household	Source of borrowing	Land	Labour	Input	Output	None	Mode of lending	Mode of repayment
1	2	3	4	5	6	7	8	9	10
Landless	3	Relative Known	-	-	-	-	3 (100)	Cash	Cash
Upto 2.5	23	C.A., Landlords	-	-	-	11 (47.8)	8 (34.7)	Cash	Crop
2.5 – 5	37	C.A., Relatives	-	-	-	27 (72.9)	3 (8.10)	Cash	Crop, cash
5 – 10	22	C.A.	-	-	-	16 (72.7)	0	Cash	Crop, cash
10 – 25	10	C. A.	-	-	-	3 (30)	0	Cash	Crop, cash
Above 25	5	C. A.	-	-	-	3 (60)	0	Cash	Crop, cash
Total	100	-	-	-	-	60	14	-	-

Source: Field survey

Note: 1.C.A. implies Commission Agent.

2. Figures in parenthesis are percentages of column 2.

Before discussing the type of interlinked contracts in the survey area we will discuss the various credit arrangements can be observed in the rural sector. Market interlinkage of credit can be observed with land, labour, input and output market. For example, there is a landlord who finances his tenants' working capital or his workers' consumption and in returns takes promise to supply of labour for himself. Another type of linkage can be observed between the input and/or output market and the credit market. The lenders engage primarily in the buying and selling of goods. Traders compete with each other for farmers' output in an attempt to maximise profits through earning commission on further sale of output. On the other hand, if the trader is engaged in selling of farm inputs, they can assure a steady demand for their merchandise by linking their primary activity with money lending. The interlinked contracts improve his forecast of the anticipated input demand and his ability to plan ahead. Sometimes, a trader may be dealing in both input and output

markets. A borrower cultivator is thus made to buy inputs from the trader-lender alone and is also forced to sell his output to the lender alone. These are the various types of interlinkages found in rural informal credit market.

The focus of the study is on informal lending and the interlinkage involved in their credit deals. Table 4 shows the interlinkages of the sample households according to the size of holdings. Table shows that there is only credit output interlinkage found in the surveyed villages of Patiala District. And in almost every case commission agent ('arthiya') was the most dominant source of borrowing. From total 100 sampled households, 60 households were interlinked in the credit output market. They have to sell their output through commission agents only.

Table 4 (a) shows the type of interlinkage in village Galwatti, 52 percent of farmers were linked with credit output market and in case of Sangatpura village (table 4 (b)), there were 68 percent of households who were in the circle of interlinkage markets. Commission agents were the sole provider of cash to them. All categories of farmers borrowed from commission agent, they give credit on the basis of the cultivable area of borrower or the percentage of trust, on the condition that they will sell their output through the agent only. They have the dominance in the regular grain markets, so the farmers have to sell their crop through them. Another reason for survival of commission agents is the insufficient formal credit. Situation in Sangatpura village is worse than in Galwatti village. But we can say that there is interlinkage in both the villages and in every category of farmers. Only the large farmers of the Galwatti village were not in credit output interlinkage markets.

Table no. 4 (a): Type of linkages in Galwatti village

Size of holding (acres)	No. Of household	Source of borrowing	Land	Labour	Input	Output	None	Mode of lending	Mode of repayment
1	2	3	4	5	6	7	8	9	10
Landless	0	-	-	-	-	-	-	-	-
Upto 2.5	16	C.A., relatives	-	-	-	8 (50)	5 (31.2)	Cash	Crop, cash
2.5 – 5	15	C.A., known	-	-	-	10 (66.6)	1 (31.2)	Cash	Crop, cash
5 – 10	14	C.A.	-	-	-	8 (57.1)	0	Cash	Crop
10 – 25	4	-	-	-	-	-	-	-	-
Above 25	1	-	-	-	-	-	-	-	-
Total	50	-	-	-	-	26 (52)	6 (12)	-	-

Source: Field survey

Note: 1.C.A. implies Commission Agent.

1. Figures in parenthesis are percentages of column 2.

So far as collateral security is concerned, 61 households out of 100 borrowed on the basis of crop as the collateral security. Some even borrowed inputs apart from cash from the commission agent, signifying linkage of credit with input as well as output. However, the number of such borrowers was zero in this survey, as most borrowers preferred cash loans instead of buying inputs at a higher price from commission agents. The rate of interest charged varied between 18 percent to 24

Table no. 4 (b): Type of linkages in Sangatpura village

Size of holding (acres)	No. Of household	Source of borrowing	Land	Labour	Input	Output	None	Mode of lending	Mode of repayment
1	2	3	4	5	6	7	8	9	10

Landless	3	Relative, known	-	-	-	-	3 (100)	Cash	Cash
Upto 2.5	7	C.A., Landlord	-	-	-	3 (42.8)	3 (42.8)	Crop, cash	Cash
2.5 – 5	22	C.A., Relative	-	-	-	17 (77.3)	2 (9.09)	Crop, cash	Cash
5 – 10	8	C.A.	-	-	-	8 (100)	0	Crop	Cash
10 – 25	6	C.A.	-	-	-	3 (50)	0	Crop	Cash
Above 25	4	C.A.	-	-	-	3 (75)	0	Crop	Cash
Total	50	-	-	-	-	34 (68)	8 (16)	-	-

Source: Field survey

Note: 1.C.A. implies Commission Agent.

2. Figures in parenthesis are percentages of column 2.

Formal credit markets rely heavily on land as collateral. In contrast, lenders in the informal sector are more flexible and accept a wide range of assets, ranging from household goods to land, and even crop. Borrowers who cannot offer land as security, or those whose need exceeds the amount that can be obtained by offering land as collateral, often turn to informal lenders by offering other, less marketable assets as security. This is the one reason why credit market continues to be segmented between the formal and informal sectors. Crop is the main collateral security in the study area. Personal security is the second most important collateral in informal credit market and jewellery/gold is on the third position.

CONCLUSION

Agriculture, like any other economic activity, needs external assistance or credit for its survival'. Capital has been always required to finance agriculture, though at subsistence level, it was mainly for consumption purposes or repayment of old debts and source of finance was mainly non-institutional. In the process of modernization, agriculture has become more capital intensive requiring higher use of purchased inputs. Many steps have been taken by the government from time to time to provide financial assistance to the farmers in the form of strengthening of cooperative institutions, nationalization of commercial banks, creating new credit institutions, initiating special credit linked programmes for the target group. Despite all these efforts, there is still strong presence of non-institutional sources of agricultural credit at India as well as Punjab state levels. The finance is required not only for current inputs due to introduction of high yielding varieties, but also for lumpy investments in the light of multiple cropping, increased cropping intensity, timeliness and precision required in agricultural operations in the new strategy and increased irrigation requirements. This has led to higher private capital formation, which comprised mainly of irrigation machinery, tractors and other farm implements. The presence of non-institutional sources in the field of agricultural credit despite all the efforts of the government, points to some flaws in the institutional agricultural credit scenario. The transaction cost in formal source is assumed to be higher due to lengthy procedures, documentation required, limited size of credit and delays in processing etc. So people are more attracted to the informal sources.

The results of the study show that formal and informal credit markets both are important. But informal market is the dominant market in rural areas because informal loans are easily available and convenient for both the parties. In interlinked credit market, commission agents are the leading source for informal credit. The situation of extent of interlinkage is quite different in the two villages under study. Sangatpur village is comparatively more involved in interlinkage than Galwatti. Galwatti village is on the major district road, has 8 commercial banks and 1 co-operative bank in the village and apparently due to this reason, less number of households were engaged in interlinked transactions. Our results provide evidence of full access to formal credit by every type of landowners. Even then they go for informal credit also. Reason behind this can be insufficiency of formal credit. Commission agents charge a rate of interest between 18 percent to 24 percent, even then farmers take credit from them because they are always available. In informal sector various types of collateral can be offered (marketable or non-marketable), so it can be easy for small and marginal farmers to borrow from commission agent, and in this study crop was the main collateral security. Cash – output interlinkage is the dominant interlinkage in our sampled villages. Labour cash interlinkage is very less because people prefer to repay in cash. This is in contrast to earlier studies (Sarap, 1991 and Gill, 2000)

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