

Perception of Farmers Regarding Non Institutional Sources of Finance: A study of Patiala District (Punjab)

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Abstract

Farmers borrow funds from non institutional sources for both productive and unproductive purposes as acquiring credit from these sources is easier as compared to institutional sources. Data was collected from a sample comprising of total 120 farmers regarding reasons for preference of non-institutional sources, Problems faced from non-institutional sources and Remedial measures to improve situation of indebtedness.

Introduction

Non institutional sources of finance dominated the rural credit in India till independence. Farmers borrowed for both productive and unproductive purposes from them. In recent years, the importance of moneylenders has declined in the sphere of rural finance. In 1951-52, moneylenders supplied 70 per cent of the total amount borrowed by farmers which declined to about 61 per cent in 1961-62 (Son! 2000). There was further decrease in these figures but despite this even today large number of farmers avail the credit from money lenders who never help them in real terms but brings only a burden of debt to their families (Karmakar 1997, Naidu 1987, Shergill 1997). The present research paper analyses reasons for preference of non-institutional sources, Problems faced from non-institutional sources and Remedial measures to improve situation of indebtedness.

Research Methodology:

A sample comprising of total 120 farmers was selected for intensive investigation from Samana Block (Mavikalan, Kakrala, Kularan and Chupki) and Patran Block of Patiala District (Hemcheri, Duggal, Ghagga and Kangarh). Data was collected with the help of structured questionnaire pertaining very simple questions in respect of credit utilization from four categories of farmers i.e. Marginal farmers (Upto 2.5 acres), Small farmers (2.5-5.0 acres), Medium farmers (5.0-10.0 acres) and large farmers (10.0 acres and above).

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Table 1: Distribution of the respondents according on the sources of credit

Source	Marginal	Small	Medium	Large	Grand Total
Nationalized Bank	1(5.88)	4(12.5)	3(9.09)	2(9.09)	10(9.61)
Co-operative Society	2(11.76)	8(25.00)	5(15.15)	3(13.64)	18(17.31)
Land Mortgaged Bank	1(5.88)	5(15.63)	4(12.13)	2(9.09)	12(11.54)
Private Money lenders (Arhtiyas)	3(17.65)	9(28.13)	10(30.30)	7(31.82)	29(27.88)
Relatives/ Friends	2(11.76)	2(6.25)	1(3.03)	-	5(4.81)
Nationalized Bank + Land Mortgaged Bank	-	1(3.12)	3(9.09)	2(9.09)	6(5.77)
Land Mortgaged Bank + Private Moneylenders	3(17.65)	3(9.37)	-	1(4.54)	7(6.73)
Co-operative + Private Money lenders	5(29.42)	-	7(21.21)	5(22.73)	17(16.35)
Total	17(100.00)	32(100.00)	33(100.00)	22(100.00)	104(100.00)

Figures in parentheses indicate percentages

In case of non-institutional sources 57.88 per cent of the respondents took loan from private money lenders (arhtiyas) whereas a small proportion of respondents i.e. 4.81 per cent took loan from relatives and friends. It was further found that 16.35 per cent of the respondents took the credit from both co-operative societies and private money lenders while 6.73 per cent of the respondents acquire credit from both Land Mortgaged Bank and private moneylenders (Arhtiyas) at the same time Categorywise distribution of the respondents shows that 31.82 per cent of the large farmers acquired credit from the private money lenders followed by 30.30, 28.13 and 17.65 per cent in case of medium, small and marginal farmers, respectively. Among the marginal farmers an equal number of respondents i.e. 5.88 per cent took credit from Nationalized Bank and Land Mortgaged Bank whereas 29.42 per cent were financed by co-operative societies and private money lenders at the same time. In case of small farmers 25.00 per cent acquired the loan from co-operative societies followed by 15.63 and 12.50 per cent from the Land Mortgaged Bank and Nationalized Bank, respectively. A few respondents i.e. 3.12 per cent availed the loan from both Nationalized Bank and Land Mortgaged Bank at the same time. Among the medium farmers 21.21 per cent took credit

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from co-operative societies and private moneylenders at the same time whereas only a small percentage i.e. 3.03 per cent borrowed the money from relatives and friends. In category of large farmers an equal number of respondents i.e. 9.09 per cent availed the credit from Nationalized Bank and Land Mortgaged Bank while 22.73 per cent of the respondents availed credit from Co-operative Societies and private moneylenders (Arhtiyas) at the same time. It was further observed that the farmers were not restricted to one source of borrowing only. They approached the other source when all their credit needs were not catered by the previous source or when their limit to avail the credit from one source was over or they became defaulter from one source. Shergill (1997) has also supported this investigation in his study i.e. more than half of the credit is availed from non-institutional agencies.

Reasons for preference of non-institutional sources

Data in the Table 2 reveals the reasons for preference of non-institutional sources as told by the respondents. About 53 per cent of the respondents told that the credit from non-institutional sources like private moneylenders, relatives and friends was easily available to them whenever the need arose and at the time of emergency they had to borrow from this source only. An equal number of respondents i.e. 51.27 per cent preferred this source because there was no particular time limit for the repayment of the loan taken and the loans were available for all the purposes which helped them to meet their unproductive needs and social obligations. About 38 per cent of the respondents preferred this source because no paper work was needed while procuring credit while few respondents (13.79%) preferred the non-institutional sources because there are no legal implications and there is no fear of Court. The reason for preference of 8.62 per cent respondents was faith on family or friends whereas only negligible per cent of respondents i.e. 1.72 per cent told the low rate of interest as their reason for preference.

Table2: Distribution of the respondents according on the basis of reasons for preference of non-institutional sources.

Reasons*	Marginal (12)	Small (21)	Medium (22)	Large (15)	Grand Total (70)
Easy availability	4(3.077)	8(57.14)	10(55.55)	9(38.46)	31(51.72)
No particular time for repayment	6(46.15)	6(42.85)	13(72.22)	5(38.46)	30(51.72)
Loans available for all purposes	8(61.54)	8(57.14)	8(44.44)	6(46.15)	30(51.72)

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Low rate of interest	-	1(7.14)	-	-	1(1.72)
Faith on family/friends	1(7.70)	1(7.14)	2(11.11)	1(7.69)	5(8.62)
No paper work needed	6(46.15)	7(50.00)	5(57.78)	4(30.77)	22(37.93)
No fear of Court/legal implications	1(7.70)	1(7.14)	3(16.67)	3(23.08)	8(13.79)

*Multiple response, Figures in parentheses indicate percentages

The Table highlights that higher percentage of respondents among the marginal and small farmers (61.54 and 57.14%, respectively) preferred the non-institutional sources because of the reason that loans were available for all the purposes as due to the small size of their land holding incomes were low and they were economically weak which forced them to avail the credit for the consumption purposes and to meet their day to day needs from the non-institutional sources. In the category of large farmers 69.23 per cent preferred this source because of easy availability of loan by 46.15 per cent who preferred this source because loans were available for all purposes. In case of medium farmers 72.22 per cent preferred this source because there was no particular time for repayment of the credit taken followed by 55.55 per cent who preferred this source because of the easy availability of the loans.

Problems faced from non-institutional sources

Table 3 highlights the problems faced by the respondents while securing credit from non-institutional sources i.e. private moneylenders (arhtiyas), relatives and friends. Table reveals that 31.03 per cent of the respondents faced the problem regarding high rate of interest charged by the informal credit agencies especially money lenders. About 24 per cent of the respondents had to sell their output at low prices while 20.69 per cent of the respondents faced the problem related to the security in the form of land and gold whereas 27.58 per cent of the respondents had not faced any problem. Category wise analysis indicates that marginal farmers faced comparatively more problems. This may be attributed to the fact that moneylenders think that small and marginal farmers will not be in a position to repay the loan while the large farmers will not face any difficulty to return the borrowed money.

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Table 3: Distribution of the respondents according on the basis of problems faced from non-institutional sources

Problems*	Marginal	Small	Medium	Large	Grand Total
No Problem	3(23.08)	4(28.57)	6(33.33)	3(23.08)	16(27.58)
Security like land, gold etc.	4(30.77)	3(21.43)	2(11.11)	3(23.08)	12(20.69)
High rate of interest	7(58.85)	5(35.71)	4(22.22)	2(15.38)	18(31.03)
Output sell at low prices	5(38.46)	3(21.43)	3(16.67)	3(23.08)	14(24.14)

*Multiple responses

Figures in parentheses indicate percentages

Remedial measures to improve situation of indebtedness

Table 4 highlights the suggestions given by the farmers to improve the situation of indebtedness. The Table shows that 60.83 per cent of the respondents gave the suggestion to extend the repayment time of loans. About 47 per cent of the respondents gave the suggestion to start educational programmes for the farmers while 40.00 per cent of the respondents gave remedial measure that adequate loans must be made available at time. About 39 of the respondents suggested that strict action should be taken against willful defaulters. About one third (34.17%) of the respondents suggested that misutilization of loans should be, avoided while 28.33 per cent of the respondents suggested that procedure of sanctioning loan by banks should be simplified. About 11 per cent of the respondents gave the suggestions other than mentioned above like loans should be given only to needy persons largely for the productive purposes.

Table 4: Suggestions given by farmers to improve the situation of indebtedness

Suggestions*	Marginal	Small	Medium	Large	Grand Total
Extend repayment time	16(80.00)	22(59.46)	19(50.00)	16(64.00)	73(60.83)
Waive-off loans	18(90.00)	13(35.14)	13(34.21)	4(16.00)	48(40.00)
Making adequate loans available in time	8(40.00)	14(37.84)	16(42.11)	10(40.00)	48(40.00)
Educational programmes	13(65.00)	16(43.24)	18(47.37)	9(36.00)	56(46.67)
Misutilization should be avoided	9(45.00)	11(29.73)	13(34.21)	8(32.00)	41(34.17)
Procedure of sanctioning loans by banks should be simplified	7(35.00)	9(24.32)	11(28.95)	7(28.00)	34(28.33)

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Strict action against willful defaulters	13(15.00)	12(32.43)	14(36.84)	7(28.00)	46(38.33)
Any other	1(5.00)	4(10.81)	5(13.16)	3(8.00)	13(10.83)

*Multiple responses, Figures in parentheses indicate percentages

Conclusion

It is suggested that marginal and small farmers require special attention with regard to credit supply from financial institutions with a view to check the exploitation by non-institutional agencies. There should be structural changes in the organization of co-operatives, so that these can be freed from too much bureaucratic control. It is also necessary to set up a regulatory body to oversee the business of commission agents and to formulate the rules and regulations in this regard. In case of non-institutional sources about one-third of the respondents faced the problems regarding high rate of interest charged by the moneylenders while about one-fifth of the respondents had to sell their output at lower prices and faced the problem related to the security in the form of land or gold etc. Large farmers faced less problems while availing credit from arhtiyas as compared to marginal and small farmers because arhtiyas were surer of repayment of loans from large farmers as compared to the other categories.

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