Rural Finance and Farmers' Indebtedness: A Study of Two Punjabs

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1. Introduction:

It is a widely accepted fact in economic development theory that access to finance is the fundamental factor that affects economic growth across households and over time. Timely availability of finance has a capacity to generate necessary incentive to economic agents of production to be a front-runner in new economic activities and to be innovative to take risks in gainful activities. Access to finance has a capacity to transform production and employment activities, which provide opportunity to economic agents of production to move up the economic ladder. Therefore better access to finance has generally been regarded as a critical factor, which enables economic agents to exploit growth opportunities. Lack of access to finance does inhibit economic growth (Kirkpatric, 2005). Above all, it has been generally noticed that a high transaction costs discourage investment in promising economic activities and also push economic agents of production towards informal financial arrangements. High transaction costs result from imperfection of markets, scarcity of finance, cumbersome procedures for granting of finance and illiteracy of the borrowers. Timely availability of finance at reasonable cost generally enhances financial stability with substantive positive implications for economic growth. Thus, the above-mentioned arguments have often provided theoretical justification for state intervention in the financial institutions.

Rural credit markets during the postcolonial period remained at the center of policy intervention in India and Pakistan. The governments through the formal (institutional) lenders have devoted substantial financial resources for providing subsidized credit to farmers to increase rural production. The major problem of the formal lenders is that they do not have personal knowledge about the borrowers' characteristics and base their practices of lending on the basis of collateral possessed by the clientele (Ray, 1999). The procedure followed by the formal lenders are often very cumbersome entails substantial paper work and documentary evidence of the collateral which adds to the delays in issuing advances as well as increases transactions costs. Information imperfections regarding the needs of the rural production not only leads to delays in loan advancement to the rural clientele but also leads to rationing and non-delivery of timely credit. This has created a hiatus, despite the best efforts of the governments, in the rural credit markets (Hoff and Stiglitz, 1990) and this space has been filled by the informal (non-institutional) lenders to deliver credit at the doorsteps of the borrowers'. The informal lenders, even in the presence of formal lenders in the rural credit markets, continue to expand business and charge very high rates of interest. Informal lenders are usually influential money lenders (mostly commission agents in both the Punjabs) and have business in the grain market, input market and consumer goods market. They essentially tie up one transaction with the other and cater to the needs of the rural production and consumption, which is popularly called as interlocking of markets. The informal lenders have used this mechanism of interlinked agrarian markets to squeeze the borrowers to the maximum possible extent and leaves little surplus with the rural producers and hence the capacity to repay back. It is widely known that agriculture is highly dependent on nature and is operating under high degree of uncertainty. In the case of crop failure, unemployment, disease and death, the borrowers may not have simply enough money at the time of payments. This kind of default is quite common and leads to indebtedness of the lenders. On the top of it, the modern capitalist development process generally allows the terms of trade runs against the primary producers. When the terms of trade are allowed to extract surpluses from the primary producer sectors, then the capacity to repay back the borrowed money keeps declining continuously. This process of double squeeze of the primary producers increases further dependence of the primary producers, in the absence of the capacity to meet running costs, on borrowings for day-to-day transactions. When income decreases continuously and population pressure on primary activities increases, the primary producers have no other option but to borrow for productive as well as non-productive activities to continue in the process of social realm. This process usually leads the primary producers to the stage of chronic indebtedness.

Rural economy of Punjab (both Pakistan and Indian), historically, has suffered from the exploitation of the moneylenders who charged high enough interest rates to squeeze the rural producers. After Independence governments of the respective countries have taken several steps in establishing a network of rural financial institutions to reduce the influence of the moneylenders. After nearly six decades of independence and development experience of two Punjabs, the moneylender as a provider of finance still persists and thrives through employing crude methods to exploit primary producers. Peasantry in Indian Punjab, after tasting prosperity for a brief period of time, is under great strains and the chief culprit is again the moneylender. The poverty in Pakistani Punjab, like the Bihar state of India, is still prevalent in the rural areas. Even there the moneylenders are thriving through charging high rates of interest. Therefore, an attempt has been made here to examine the growth, structure and deficiencies in the financial systems of two Punjabs. Some suggestions related to public policy for providing timely and adequate credit have also been made.

2. **Growth and Structure of Institutional Finance**:

Banking structure in Punjab province of Pakistan is almost similar to Punjab state of India. Central banks (State Bank of Pakistan and Reserve Bank of India) are the custodians of monetary policy and guiding force behind the functioning of the banking institutions in the two Punjabs. Therefore, respective national policies continue to dominate the state (province) level financial policies. The only glaring difference in banking operations in Pakistan is that it has shifted from rate of interest charged on acceptance of deposits and issuance of credit to mark-up on domestic operations of banks, both nationalized and foreign since July 1985 (Naqvi, 1993). Both the Punjabs share a common heritage and have also adopted similar banking and credit delivery system. Punjab province of Pakistan delivers credit to the economic agents of production and services and collects savings through 4,083 branches of the scheduled banks. However, Indian Punjab has been delivering credit through 2,686 scheduled bank branches (Table 1). When we compare the area serviced by the bank branches, Punjab province of Pakistan serves 50.29 square kilometers of area per branch, which is 2.7 times more area but only one and a half times more number of scheduled bank branches than in Indian Punjab. The number of persons being serviced per branch comes out to be 9,052 in the Indian Punjab, but the number of persons being serviced in Pakistani Punjab is 20, 345 (Table 1). This fact brings out very clearly the higher penetration rate of banking services in Indian Punjab compared with the Pakistani Punjab. It needs to be noted here that urban centers usually depend on the formal institutional arrangements for finance, but rural sector depends more on the informal finance. Therefore, greater rural penetration of banking services reduces dependence on informal finance, which is desirable. However non-availability of comparable statistics of bank branches in rural areas of Punjab province of Pakistan inhibits us to do any kind of useful comparable analysis of the two Punjabs.

Table 1: Population and area served per branch by scheduled banks

Indicators	Punjab Pakistan 2003	Punjab Indian 2003
Scheduled bank branches	4083	2683
Population in thousands	83067	24289
Area in square kms.	205345	50362
Population served per bank branch	20345	9052
Area in sq. kms. served per bank branch	50.29	18.77

Source: 1. Government of Punjab India (2006) Statistical Abstract of Punjab 2005, Economic and Statistical Organisation, Government of Punjab.
2. Government of Pakistan (2005) Money and Credit, State Bank of Pakistan.

Institutional finance to the rural sector can be ascertained from the structure and composition of finance to the agrarian economy of both the Punjabs. There are glaring differentials in providing finance to the agricultural sector between Indian Punjab and the Punjab province of Pakistan which can be ascertained from the composition of the sources of advances made by different institutions (Table 2 and Table 3). In the year 1975-76, 9.24 per cent of the total loan advances made by the scheduled banks were provided by cooperatives to the agricultural sector in Punjab province of Pakistan. Their share of agricultural credit increased to 30.27 in the year 1980-81 and dwindled thereafter. The share of cooperative credit was 27.50 per cent in 1990-91 and declined to 15.16 per cent and 13.71 per cent in 2000-01 and 2003-04 respectively. This shows that cooperatives as an institution for providing finance to agriculture has gained momentum in terms of its relative share in the eighties and early nineties. However, its share in total credit from institutional credit decreased sharply in the late nineties in the twentieth century and beginning of the twenty first century. The causes of the dismal performance of the cooperative system can be found from the way it has been formulated and operating in Pakistani Punjab from the study conducted by the Punjab Economic Research Institute (PERI, 1986). The main findings of the PERI study are as follows:

(i) One man cooperative societies were found to be 35 percent;

(ii) One family owned cooperative societies were 39 per cent;

(iii) Totally bogus cooperative societies were 22 per cent; and

(iv) The genuine cooperative societies were only 4 per cent.

Another study conducted by PERI in 1997 has examined the functioning of the cooperative societies, that is, the mechanism through which the cooperative societies have been misappropriating the finances. The working of the system can clearly be ascertained from the following statement (PERI, 1997):

"*The main factor resulting in apparently efficient performance of the Cooperative Societies is the peculiar repayment strategy developed in both the study regions, i.e. Punjab as well as AJK. The cooperative societies' loanees pay the interest and 2% to 3% of the principal amount depending upon the repayment duration and the interest amount to so-called input dealers who would pay the principal amount of the loan. Simultaneously, a new pay-order of loan is issued in the name of the agreed input dealer. This strategy is executed with the assistance of the front line worker of the Cooperative Department, and apparently helps in presenting a better picture about the performance of the Cooperative Department, but in reality none or very few of the target group farmers may have been beneficiary of the input supplies on credit for enhancement of agricultural production.*"

In sharp contrast to this, Indian Punjab's cooperatives provided nearly 54 per cent of the total credit to the agriculture sector in the year 1975-76. The source of credit to agriculture has substantially decreased to 35 per cent in the year 2003-04 (Table 3). The agricultural sector's superior performance in Indian Punjab can essentially be attributed to predominantly finance provided by the cooperatives. However, this does not mean that the cooperative system in Indian Punjab is free from problems. The state led cooperative system in Indian Punjab is also bearing the brunt of the bureaucratic way of its functioning and has been the den of corruption. Cooperative movement in Punjab province of Pakistan has not been so strong. But a note worthy feature here is that it is

Table 2: Structure of Institutional Credit to Agriculture in Pakistan Punjab

(Figures in million Rs.)

Year	Cooperatives	Commercial banks	ADBP	Tacavi	Total Million Rs.
1975-76	79.90 (09.24)	419.4 (48.52)	354 (40.92)	11.03 (01.28)	864.33 (100.00)
1980-81	979.99 (30.27)	794.7 (41.57)	741 (28.07)	1.62 (00.09)	2515.31 (100.00)
1990-91	2831.96 (27.50)	1798.90 (17.53)	5624.49 (54.81)	7.00 (00.07)	10262.35 (100.00)
2000-01	4829.53 (15.16)	7423.03 (23.31)	19589.74 (61.51)	6.33 (00.02)	31848.63 (100.00)
2003-04	7563.54 (13.71)	24278.78 (44.01)	23320.31 (42.27)	7.30 (00.01)	55169.93 (100.00)

Note: Taccavi is the loan granted by the government to the farmers.

Source: Agricultural Development Bank of Pakistan (ADBP) 2005.

only Punjab province of Pakistan, which has registered some progress in cooperative movement, and other provinces are completely devoid of it.

The share of credit provided by the Agriculture Development Bank of Punjab (ADBP) Pakistan was nearly 41 per cent in the total credit advanced to agriculture sector by the Scheduled banks in 1975-76. However, it improved marginally in its relative share to 42.3 per cent of the total credit provided by the institutional sources in the year 2003-04. This indicates that the ADBP is at the center stage in terms of financing agriculture sector's activities during the past three decades. Contrary to this, Agriculture Development Bank in Indian Punjab remained relatively a weak source so far as

Financing of agricultural activities are concerned. Its share in total agricultural credit decreased from 12.21 per cent in 1975-76 to 6.21 percent in 2003-04.

Commercial banks remained the predominant source of finance to agriculture sector of Punjab province of Pakistan from the beginning of the period of 1975-76 to 2003-04. Its share in total agriculture finances provided by the scheduled banks was 48.52 per cent in 1975-76, which declined to 44.01 per cent in 2003-04. It is interesting to note that commercial banks as a source of credit for agriculture sector of Indian Punjab was not an important in 1975-76 which is indicative from its relative share (33.92 per cent). However, its capacity to extend credit expanded at a faster rate and was nearly 59 per cent in 2003-04. An important conclusion that emerges from the comparative analysis of structure of agricultural credit provided by the institution is the supremacy of commercial banks in providing credit to agriculture sector of both the economies.

Table 3: Growth of Institutional Credit to Agriculture in Indian Punjab

(Figures in million Rs.)

Year	PADS	SADB	Commercial Banks	Total Million Rs.
197576	749.8 (53.93)	169.7 (12.21)	471.6 (33.92)	1390.3 (100.00)
1980-81	1992.1 (38.46)	433.7 (08.37)	2754.1 (53.17)	5179.9 (100.000
1990-91	3463.1 (22.63)	739.7 (04.83)	11097.1 (72.53)	15299.9 (100.000
2000-01	21389.9 (37.50)	3947.5 (06.92)	31695.3 (55.57)	57032.7 (100.00)
2003-04	33281.8 (34.99)	5907.4 (06.21)	55925.0 (58.80)	95114.2 (100.00)

Note: PADS stands for Primary Agricultural Development Societies and SADBs stands for State Agricultural Development Bank.

Source: 1. Government of Punjab, Statistical Abstract, Various Issues, Economic and Statistical Organisation, Chandigarh.
2. CMIE (2005), Money and Banking, Economic Intelligence, Mumbai.

Comparative analysis of compound growth rates of total agricultural credit provided by scheduled banks in both the Punjabs reveals that both achieved almost similar trends (Table 4). The growth rate of agricultural credit during the period 1975-76 to 2003-04 was 7.25 per cent per annum of the Pakistani Punjab and was 7.64 per cent per annum during the same period for the Indian Punjab. This is just 0.39 per cent per annum higher compared with Pakistani Punjab. In absolute terms, the scheduled banks of

Indian Punjab provided much higher credit (Rs. 1390 million in 1975-76) compared with the Pakistan Punjab (Rs. 864.33 million in 1975-76). The gap widened over the period of comparison, that is, between the period 1975-76 and 2003-04. This clearly brings out wide differentials that prevail in two Punjabs with respect to the penetration of the financial institutions in terms of providing finance to agriculture sector.

Table 4: Growth of Institutional Credit in the Two Punjabs

(at constant prices)

Year	Pakistani Punjab	Indian Punjab
1975-76 to 2003-04	7.25	7.64
1975-76 to 1980-81	10.75	16.65
1980-81 to 1990-91	6.66	2.49
1990-91 to 2000-01	1.69	4.95
2000-01 to 2003-04	19.06	14.65

Source: Same as in Table 3.

The analysis of the sub-period growth rates reveals that credit flowed to agriculture sector in both the Punjabs at a fast rate (10.75 per cent for Pakistani Punjab and 16.65 per cent for Indian Punjab) during the late seventies of the twentieth century. The flow of agricultural credit dramatically declined in the eighties in both the Punjabs and the growth rates were 6.66 per cent in Pakistani Punjab and 2.49 per cent in Indian Punjab. This trend further perpetuated in the decade of nineties for Pakistani Punjab (1.69 per cent per annum), but there was turn around of the growth rate in Indian Punjab (4.95 per cent). It is important to note here that the low growth rates of credit clearly point out the impact of the liberal economic policies, which reduced the access to formal credit. Farming sector has shown signs of fatigue. However, lobbying of the farmers was successful in pressing the national governments for providing adequate institutional credit. This has resulted in the turn around in the thinking of policy makers and governments have stepped up efforts to increase the flow of institutional credit to the farming sector in the beginning of the twenty first century. The flow of institutional credit increased at a rate of 19.06 per cent and 14.65 per cent during the period 2000-01 and 2003-04 in Pakistani Punjab and Indian Punjab respectively.

Decomposition of commercial banking credit extended to agriculture into direct agriculture and indirect credit to agriculture shows that more than 85 per cent of the loan advances made by Indian Punjab's commercial banks were directly to agriculture and agriculture related activities. However, the share of direct (farm) agricultural credit in total scheduled commercial banking credit extended by Pakistani Punjab commercial banks was 78 per cent. This once again points towards the higher degree of penetration of the commercial banks in agriculture in Indian Punjab compared with the Pakistani Punjab.

3. Cost of Agricultural Credit and Credit Gap:

It is not difficult to ascertain the direct cost of agricultural credit advanced by the formal financial institutions. The borrowers know rate of interest charged by the financial institutions. The rate of interest charged by the formal financial institutions has been generally regarded to be on the higher side. This is mainly because of the fact that the borrowers are living in far off rural locations and the cost of reaching the financial institutions is quite high. However, these rates have been substantially slashed recently. The rate of interest charged by the financial institutions directly varies with the loan size. In Indian Punjab, the commercial banks charge rate of interest on agricultural credit varying from 9 per cent to 11.5 per cent with respect to short-term loan amount that ranges from Rs. 50,000 to Rs.25, 00,000. However, the rate of interest charged on long-term loans ranges between 9.5 to 12 per cent for the mentioned loan amount size. Somewhat similar trends can be noticed from the range of loan and interest rate charged by the financial institutions of Pakistani Punjab, which provide credit to agriculture. Mark-up (mark-up is nothing but the rate of interest charged on loan amount) charged by financial institutions ranges between 9 to 11 per cent on the term loans.

The formal financial institutions in both the Punjabs extend credit facilities only to those who are able to complete the documentary requirements such as collateral and personal surety for ascertaining the ability to repay back. Thus, completing the process for acquiring the loan requires the borrower to visit a number of offices and collect documentary evidence, which generally involves transactions other than the officially prescribed fee. Such additional expenditure gives rise to an additional cost which borrower has to incur. This is popularly known as transactions cost. This cost is substantial for the borrowing process followed by the formal institutions in India (Sidhu and Gill, 2006) and also in Pakistan (Aleem, 1990 as quoted in World Bank, 2006). The A cumbersome procedure of loan issue, which also involves time and transactions cost, discourages the borrowers from approaching the formal financial institutions for credit.

It is important to note here that the gap between the credit requirements and availability of credit has been increasing continuously in both the Punjabs. The credit gap in the case of Pakistani Punjab has reached a very high proportion, that is, 70 per cent in 2000-01 (Muktadir, 1999). The credit gap estimate for Indian Punjab is 54 per cent (Gill and Kaur, 2004). Thus, the non-fulfillment of the credit demand for agricultural sector by the financial institutions has generated space for the informal lenders to thrive in rural economy of both the Punjabs. It is important to note here that the informal lenders provide credit to borrowers easily, but charge exorbitant rates of interest. The rate of interest charged by the informal lenders in Pakistani Punjab ranges between 50 to 100 per cent (SBP, 2005). This rate ranges between 38 to 81 per cent in the case of Indian Punjab (Gill, 2004).

4. **Indebtedness Across Farm Households in Two Punjabs:**

Indebtedness among the farm households is a times immemorial issue. Historically farmer households have been remained heavily indebted across the board and the root cause of the indebtedness was also the informal lenders. The observation of M.L. Darling (1926) still seems to be holding true, that is, "Indian peasant is born in debt, lives in debt and dies in debt". Indebtedness among the farm households continues to be a serious problem, however, its nature and extent keeps on changing. An interesting comparison between the indebted farm households is possible because of the availability of almost comparable statistics for the two Punjab. The analysis of the Table 5 clearly brings out the fact that the incidence of indebtedness is very high among the Indian Punjab's farmers (65.44 per cent) compared with the Pakistani Punjab farmers (16.38 per cent). An important relationship, which emerges from the analysis of indebtedness across farm size classes, is that as the size of farm increases, the indebtedness also increases. Small and marginal farmers in Pakistani Punjab accounted for one third of the total farm households. Among these farm households, only 8.75 per cent of the small and marginal farm households are indebted (Table 5). This clearly brings out the fact that the incidence of indebtedness is very low (among small and marginal farm households) in the Pakistani Punjab. Whereas, small and marginal farm households constitutes 62 per cent of the total farm households of the Indian Punjab, and out of the total 1143500 small and marginal farm households, 56.25 per cent are indebted. Comparison across land size classes of farm households in two Punjabs clearly brings out the fact that farm households in Indian Punjab are highly indebted whereas incidence of indebtedness is very low in Pakistani Punjab. A recent study (Narayanamoorthy, 2006) based on NSSO's situation assessment survey of farm households clearly stated that the net income of farm households after deducting costs/expenditures from their earnings has dramatically declined in Indian Punjab. Therefore, farm households in Indian Punjab have hardly any surpluses left to carry out essential transactions both for agriculture related expenses and other personal needs. Thus, they are left with no choice other than resorting to borrowing heavily from wherever finances are available. The declining income of the farm households also reduces the capacity to service the outstanding loan. This is probably the situation of small, marginal and medium size farm households. It is pertinent to note here that the highly positive correlation between farm size and indebtedness casts doubt about the definition employed to arrive at the extent of indebtedness. Borrowings of the farm households for the medium and long-term purposes should be treated as capital investment. In this case, borrowing is a sign of strength rather than weakness because investment generates capacity for higher future incomes. However, this borrowing is obviously indebtedness according to the present definition, which records outstanding loan as debt. This definition of indebtedness seems to have been based on conception that borrowing is a weakness.

Controversies with regard to the definition of indebtedness apart, the sources of indebtedness reveals that more than 58 per cent of the debt among the Pakistani Punjab farm households was towards the informal (non-institutional) sources (Table 6). Indebtedness from informal (non-institutional) sources among the Indian Punjab farm household in 2003 was 52.10 per cent, which is six-percentage point lower than the Pakistani Punjab farm households. This clearly shows that on both the regions of Pakistan and India institutional indebtedness was lower than the non-institutional indebtedness. But Indian Punjab is having quite high institutional indebtedness, if continued, may jeopardize efficiency of the functioning of the institutional system to provide credit to the farm sector. The farmers possessing land less than one acre are highly dependent on the informal sources of finance and hence indebtedness is of very high order that is 93 per cent in the case of Pakistani Punjab and 73 per cent in the case of Indian Punjab. The analysis of the table 6 across farm categories reveals an interest fact that as the size of farm increases the indebtedness of Pakistani Punjab farm households from institutional sources rises consistently and large sized farm households own indebtedness nearly 60 per cent to the institutional sources. However, the Indian Punjab farm household indebtedness from the institutional sources increases as the farm size increases, then decreases and again increases. It is surprising that large sized Indian Punjab farm household's, contrary to the Pakistani Punjab farm households, indebtedness belong to the non-institutional sources. These farm households are having just 30 per cent share of indebtedness from the institutional sources. Since the farm sector of Indian Punjab is highly mechanized, therefore, the needs of the farming household could not be meet from the institutional sources due to the inertia of the institutions to provide timely finance as and when needed. The informal finance available from the commission agents to whom the farmers are constantly in touch with provide finance as and when required and that is without any paper work. The average size of farm in Indian Punjab is small compared with Pakistani Punjab. The farm household average indebtedness in Indian Punjab is lower, that is, Rs. 41, 576 whereas average indebtedness per farm household of Pakistani Punjab is Rs. 1,00,852. One common feature, which emerges from the analysis, is that the informal (non-institution) sources of finance are still thriving in both the regions of India and Pakistan. High rate of interest and cumbersome procedure for issuing the loan leads to high transactions cost of the institutional finance, which pushes the farm household to borrow from the informal sources. Informal sources of finance are easy to access without following lengthy procedure to issues loans but charge very high rate of interest. Thus, both the sources of finance (institutional and non-institutional) squeeze the farm households in terms of high cost of finance leave little value addition from economic activities for which borrowings have been done. This reduces farmers capacity repay back the loans taken by the farmers and consequently increases the indebtedness among the households.

5. Concluding Remarks

Notwithstanding the limited information available regarding the credit and banking infrastructure in the two Punjabs, it can be safely concluded that formal credit institutions in both the states have a long way to go. Although a myriad of institutions have been set up to provide finance, yet farm households do not have an easy access to these sources. The banking institutions in Indian Punjab have higher penetration in the rural sector as compared to their Pakistani counterparts, but indebtedness is also for greater this side. Cooperatives had been visualized as the prime institutions for providing rural credit, but these are afflicted with malfunctioning and corruption, particularly in the Pakistani Punjab. None of the formal institutions on both sides have devised an easy way of providing credit. The cumbersome process of fulfilling documentary requirements for obtaining a loan acts as a deterrent to the largely illiterate farmers who are approaching these sources. The lengthy procedures involved also raise the total cost of a loan, though rates of interest have been kept comparatively low by these institutions. No wonder then that farmers on both sides of the border prefer to avail informal loans, where the rates of interest are exorbitant, but credit is timely and adequately available. However, an interesting but important difference regarding the credit situation in the two states is that Pakistani Punjab reports a much lower incidence of indebtedness than its Indian counterpart. A possible explanation for this can be the smaller needs of farmers that side of the border keeping in view the low development of agriculture, and hence smaller borrowings, whereas the inflating costs of production. Since the advent of green revolution and ensuing in agriculture mechanization in Indian Punjab has forced farmers to borrow more and more and become indebted. Some important policy implications, which emerge from the analysis, are as follows:

It has to be admitted that only a low rate of interest is no indication of better performance of institutions. Not only should the rate of interest lie low, but also formal credit should be timely, adequate and available easily without lengthy paper work, so as to compete out informal credit.

Cooperative institutions should be strengthened and freed from political interference.

Another issue that needs handling is the very definition of indebtedness – a borrower should be classified as indebted not as soon as he avails a loan, but only after he fails to pay the installments at the due dates and his loan states becoming non-performing. It should be recognized that borrowing is not a sign of weakness, but an important need of the cultivator to meet his expense– it is only if his repaying capacity is exhausted that he should rightfully be called indebted, or in a debt trap. This way the swelling number of indebtor's is bound to go down, and instead a clearer and truer picture of indebtedness will emerge.

There has emerged a wide credit gap in the rural areas of two Punjabs. There is need to jointly handle this issue and remove this constraint on agricultural development. The experience of micro credit of Bangladesh can be suitably modified to increase the credit flow in agriculture and eliminate costly source of moneylenders operating in the informal market.

Due to operation of tendency of diversion of credit to non-productive use, the greater flow of credit to agriculture leads to high level of indebtedness among the farmers. This requires joint studies on this problem in both the Punjabs to find out workable solution and suggest institutional arrangement for making it a success.

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