

CHAPTER I

INTRODUCTION

The last two decades have witnessed an explosion of rural banking in India, supported by supply leading strategy for increased flow of credit to the rural areas. Along side the growth of these formal credit institutions, the continued existence of a large and active informal credit market (though reduced to some extent), looks paradoxical. Further there are increasing evidences regarding the segmentation of formal credit in favour of developed regions and well endowed sections of rural society, leaving the rural poor continuously depend on informal agencies. Understanding the reasons for the persistence of informal sector and of segmentation in general, despite the enormous expansion of institutional infrastructure and consequent credit flow to the rural areas, is important both for the theory of agrarian credit markets and for development policy.

Besides the above broad segmentation of formal and informal credit, the informal credit market itself gets segmented into several sub-markets due to its personalised nature of transactions. Quite often in a village, two different parties enter into several transactions such as tenancy, short and long term labour contracts, input supply, output marketing, credit for production and consumption etc. In view of the above situation, a type of "interlinking" of these transactions may arise so as to satisfy the wants/requirements of both the parties involved. The credit plays an important role and often forms central to these transactions encompassing land, labour, input and output markets. Therefore, "interlinkages" can form the very basis

of segmentation of informal credit. It is also felt that many key issues in agrarian development can not be analysed without an understanding of nature of interlinkages (Bardhan 1980). Thus the subject of interlinkage received a great deal of theoretical and empirical attention in recent years.

Now the questions that arise are what are these interlinkages?, whether there are interregional differences in the incidence and extent of linkages? Whether these interlinkages are confined to a particular sections of rural society? and what are the implications of these interlinkages?

Under an interlinked transaction, two parties transact the business in more than one market simultaneously, so that the transactions in one market influence the terms of the transaction in another market. Though many researchers explained or defined "interlinkage" in different ways, the broad comprehension is same as the above.

Some of the evidences in literature suggest that the extent of interlinkages is higher in commercialised areas (Bell and Srinivasan, 1989) and irrigated regions (Sarap, 1991), while there are evidences to the contrary showing that the interlinkages are mainly concentrated in backward agriculture (Bardhan and Rudra, 1978). Regarding the incidence of interlinkages among the size groups, Sarap (1991) observed that interlinked credit transactions are essentially a phenomenon confined to landless labourers, marginal and small farmers. On the other hand, Bell and Srinivasan (1989) found higher extent of interlinked transactions among owner cultivators than that of other types

of households in Punjab and Andhra Pradesh, while they observed more interlinked transactions in labour market in Bihar. Therefore, the evidences are inconclusive regarding the correlation between level of development and extent of interlinkages.

Further, it is to be examined why these interlinkages prevail at all? Under what circumstances, the farm households resort to interlinkages? What are the effects of these interlinkages to the concerned parties? Whether mutually beneficial or advantageous to only one of the parties involved in it?

There are two important views on the above issues. One view, popularly known as "exploitation" view, argues that the interlinkages have been utilised as an exploitative device by the stronger sections to extract surplus out of the weaker sections (Bhaduri, 1977). Further, it is argued that since there are conventional limits to exploitation in any one market, interlinked relationship enhances the exploitative power of the stronger sections and extends exploitation to many markets (Bharadwaj, 1985). On the other hand, according to the efficiency view, the interlinked transaction is an efficient market response to information asymmetry and uncertainty (Braverman and Stiglitz, 1982, Mitra, 1983). It acts as a screening device in the selection of customers (Braverman and Guasch, 1984) and also utilised as enhanced enforcement device for execution of contracts and reduce transaction costs in the recruitment of wage labourers (Bardhan, 1980). Further it is pointed out that interlinking is a flexible market response to the growing

commercialisation (Bell and Srinivasan, 1989). Therefore, a major part of literature in this area highlighted only the conceptual issues, while the empirical studies are a few and the important debate on the effects/consequences of these interlinkages at the field level is still inconclusive.

With these broad issues in mind, the following objectives are framed for the study.

OBJECTIVES OF THE STUDY;

Firstly it is envisaged to examine the flow of credit from formal and informal agencies in the study area and ascertain the accessibility of formal credit to various farm size groups. we wish to estimate the transaction costs incurred by different size groups and study the factors for the inequitable distribution of formal credit if any.

Secondly, to assess the extent and types of interlinkages of informal credit with various factor and product markets among the size groups. We also attempt to answer the question of what are the characteristics of interlinked households that make them to opt for interlinkages.

Thirdly, to examine the segmentation if any in the informal credit market in terms of type of linkages, type of lenders and borrowers involved and purpose of loan.

Finally, we wish to seek answer the question - whether these interlinkages are mutually beneficial or advantageous to a single party? The effective interest rates for linked and non-linked transactions are proposed to be estimated and compared among different types of linkages, occupation

groups, types of lenders and purpose of loan and seek explanations for the differences if any.

FIELD DESIGN;

The study is confined to three villages in Mahabubnagar district in Andhra Pradesh. Mahabubnagar district is considered to be one of the most backward districts in Andhra Pradesh in terms of various parameters like irrigation and infrastructure facilities. The literacy level also is the lowest in Andhra Pradesh.

Three villages have been purposively selected so that we would have an agriculturally developed village with reasonably good irrigation facilities within the limitations of the irrigation resources in the district, a village with reasonable degree of commercialisation in terms of cropping pattern, nearness and accessibility to the market centre and finally a backward village with very poor irrigation facilities, poor infrastructure with traditional cropping pattern etc.

Ajjakollu, one of the three selected villages, is located in Kothakota Randal of the district and endowed with 50.24V of its net sown area under canal irrigation . Kharif Paddy is the major crop in the village. Hence, for the purpose of our study Ajjakollu is considered as "Developed village".

Kakulavaram, the other village, is located in Gadwal Mandal of the district and only 11 km. away from Gadwal town which is a good commercial centre in the district. Though there are no canal irrigation facilities for the village,

there are about 300 wells irrigating about 30% of the net sown area. As the well irrigated land is available to most of the medium and large cultivators, they grow commercial crops like groundnut and sunflower which are marketed in the regulated market yard at Gadwal. Hence Kakulavaram is considered as a commercialised village for the purpose of the study.

Penchikalapadu, the third village is situated in Ghattu Plandal, which is one of the most backward Mandals in the district. 95% of the net sown area is dry. Jowar is the major crop, though groundnut is also grown under a few wells. This village is considered as "backward village" for our study. The credit market structure prevailing in selected villages is given in Table-1.1.

Though three villages are categorised as developed, commercialised and backward for the purpose of our study on the basis of broad parameters¹, especially the developed and commercialised villages can not represent the developed and commercialised regions respectively in its true sense since they form part of one of the most backward districts in the state. Only to make the discussion easy, we have categorised the three villages as above.

Selection of Sample Households:

The total farm households in the three villages were listed out, based on a census schedule consisting household

1. The details of the selected villages including the credit market structure are given in Appendix 1

Table 1.1
Credit Market Structure in Selected Villages

CREDIT AGENCIES		Ajjakollu	Kakula- varam	Pencht- kalapadu
FORMAL CREDIT AGENCIES				
1.	Commercial banks	SBH, Madana puram	SBI (ADB) Gadwal	SBI, Ghattu
2.	Cooperatives	PACS, Ajjakollu	FSCS, Parimalla	-
3.	Regional Rural Banks	At Kothakota	-	-
INFORMAL CREDIT AGENCIES				
4.	Farmer lenders			
i)	Landlords	*	*	*
ii)	Employer farmers	*	*	*
iii)	Agri money lenders	*	*	*
5.	Trader lenders			
i)	Input traders	*	-	-
ii)	Commission agents	*	*	*
6.	Other lenders			
i)	Friends/Relatives	*	*	*
ii)	Professional, money lenders	*	*	*
iii)	Informal mutual funds Others	*	-	-
iv)		*	-	-

Note: * denotes the prevalence of the particular type of lender.

Source: Field data.

characteristics such as i) caste ii) education iii) area owned iv) area leased in/out v) major occupation of the household vi) borrowings of the households during the reference year 1991-92 from formal and informal sources.

The listed households were at first categorised into two occupation groups based on their major occupation i.e., agricultural labourers and cultivators. Agricultural labourers were categorised into two groups, while the cultivators were categorised into 4 size groups based on the farm size operated by them which are given below:

I. Agricultural labourers

- i) Landless agricultural labourers: Having no operated area of land and entirely dependent on income deriving from labour services provided for agricultural- purposes.
- ii) Landed agricultural labourers: those major income comes from agricultural labour services but engaged in cultivation with small operating area.

II. Cultivators

- i) Marginal farmers: Operating upto 2.5 acres of land.
- ii) Small farmers: Having an operated area between 2.5 to 5.0 acres of land.
- iii) Medium farmers: Operating an area between 5.0 to 10.00 acres of land.
- iv) Large farmers: Uthose operated area was more than 10.00 acres of land.

A proportionate random sample of 101 households from

developed village, 73 households from commercialised village and finally 80 households from the backward village was drawn among the 6 size groups thus making a total sample of 111 households of agricultural labourers and 143 households of cultivators. Therefore a total sample of 254 households was considered for the study (Table 1.2).

Field Survey; Field survey was conducted during 1992-93, with the help of a suitable pretested questionnaire to collect the primary data pertaining to the reference year 1991-92 from the sample households. The questionnaire covered the personal characteristics such as education, family size, owned area, area under tenancy arrangements, farm assets etc. The information regarding the credit transactions both short term and long term from formal and informal agencies during the reference year 1991-92 collected from households. The crop production, farm investment and consumption loans are also covered under the study. The details of cash and kind borrowings and repayments with item wise prices Charged/paid for the inputs supplied and output purchased by the trader lenders vis-a-vis the market prices. The information regarding groundnut output marketed by the household, differences in weighments if any are recorded based on the memory recall of the respondent. The details of wages / contract wages received by the casual labour/migrant labour / annual farm servants for the labour provided to the lender, the wage rate actually received by the borrower/labourers as against the market wage rate/opportunity wage prevailing in the village also was collected to estimate the implicit (hidden) costs involved in the linked credit transactions. The details regarding the quantity of grain/kind loan

Table 1.2
Distribution of Sample Households in Three Villages

OCCUPATION GROUP/SIZE GROUP	DEVELOPED VILLAGE		COMMERCIALISED VILLAGE		BACKWARD VILLAGE	
	Total Farm House holds	Sample House holds	Total Farm House holds	Sample House holds	Total Farm* House holds	Sample House holds
I. AGRICULTURAL LABOURERS	158	40	96	36	113	35
i) Landless agrl labourers	71	18	34	13	29	9
ii) Landed agricultural labourers	87	22	62	23	84	26
II CULTIVATORS	241	61	99	37	145	45
i) Marginal farmers	40	10	8	3	6	2
ii) Small farmers	91	23	37	14	68	21
iii) Medium farmers	79	20	28	10	45	14
iv) Large farmers	31	8	26	10	26	8
All FARM HOUSEHOLDS	399	101	195	73	258	80

Note: Sample is self weighted.

borrowed and the quantity at the time of repayment along with market rates of the commodity both at the time of borrowing and repaying are ascertained to estimate effective interest rate. The costs involved for negotiating, availing and repaying of formal loans were also collected to estimate the transaction costs incurred by the borrowers in availing the formal credit.

Though it is difficult to collect information from the formal lenders especially from input traders and commission agents, the two input traders operating in developed village and about 10 commission agents operating at Gadwal market yard and whose business was concentrated in the two selected villages i.e., commercialised and backward villages were interviewed to elicit information about modus operandi, terms and conditions, nature of practices followed in the market, possibilities of under weighing of produce etc. Discussions were also made with officials in the regulated market yard about the practices of under weighing and underpricing of the produce marketed by the commission agents. Information collected about the quantum of credit lent by formal agencies in selected villages. Discussions were also made with the concerned personnel of formal credit agencies operating in the study area about the procedures and formalities being followed by them to sanction and disbursement of various types of credit facilities and their experience regarding the problems of credit flow and repayment in the selected villages.

Discussions were also made with knowledgeable sources in the village such as people who worked as village munsif or

village karanam previously, enlightened people of older age to get the background information of the market wage rates for various agricultural operations, wage rates of annual farm servants, wages generally received by migrant labour based on their previous experience, the market prices of various agricultural inputs and output, oral history regarding changes in relative roles of formal and informal agencies, mode of operation, interest rates, changes in types of linkages of credit with other markets etc.

Limitations of the Study:

Borrowings from informal agencies is a sensitive information and hence farm households generally hesitate to divulge the same. Further estimation of cost of informal credit, especially quantifying the concealed costs poses problems since it is heavily dependent on perceptions and memory recall of sample households. It is also difficult to account for the various minute expenses incurred for borrowing the formal credit, again based on memory recall. Quantification *of* opportunity income of a borrower, had he been outside the linked credit contract with labour, output marketing, input supply etc. is a difficult task. Further it has kept in mind that broad generalisation can not be made on the basis of small number observations in three specific, purposively selected villages.

Plan of the Study:

The study is organised in eighth chapters including the present introductory one. In chapter two, we start with a review of the relative roles of formal and informal credit agencies in rural India with particular reference to the

theoretical issues and empirical evidences relating to interlinkages of informal credit with factor and product markets.

Chapter three focusses on both supply side and demand side aspects of rural credit markets in selected villages. At the supply side, it deals with the contribution of each agency to the supply of credit, segmentation of credit by an agency by purpose of loan, and size groups. At the demand side, the extent by which the credit needs of various size groups are being met by the formal and informal credit agencies, factors influencing the accessibility of formal credit etc. are studied.

Chapter four deals with the extent of interlinkages in the study area. Characteristics of linked household which differentiates them with that of non-linked households, different types of informal credit linkages with various factor and product markets prevailing in the study area etc.

The segmentation of informal credit in terms of the choice of a particular type of linkages among the two occupation groups i.e., agricultural labourers and cultivators, the association of different types of lenders with the occupation groups, the preferences of these occupation groups in availing credit for various purposes are discussed in Chapter Five. Further, the repayment performance of sample households availing formal, linked and nonlinked informal credit lent by various lenders is presented in Chapter Six.

In the Seventh Chapter, the methodology adopted in estimating the explicit and implicit interest rates and the rates of effective interest is explained. The analysis of interest rates is also furnished based on the type of linkage, type of lenders, and the type of purpose with which the occupation groups are associated with. Finally, the major findings and conclusions emerged in the study are furnished in Chapter Eight.