

RESEARCH PROJECT

INTRLINKED INFORMAL AGRARIAN CREDIT MARKETS

Background:

In view of the vital importance of credit for accelerating agricultural development, rural credit markets have always occupied a prominent place in policy intervention in India. Yet, providing institutional credit that is adequate, affordable, and timely, to farmers that continue to be a major challenge before the policy makers. The rural informal credit markets continue to enjoy a thriving business despite being outrightly exploitative. Albeit, the guise of the traditional rural moneylender has changed to a lender who is also engaged in some other line of business, trade, or cultivation – he may be a landlord who finances his tenants and workers engaged on his land; he may be a trader who finances the cultivator only to obtain exclusive rights to purchase (and sell to procuring agencies) his crop; or he may be an input dealer who engages in money lending for those cultivators who purchase inputs only from him. The transactions involving credit/money lending carried out in the above manner are called interlinked credit transactions.

Interlinked credit markets and contracts have been the object of much theoretical work. These contracts are sometimes justified on the grounds that these may provide means to alleviate screening, incentive and enforcement problems. Further, these uncomplicated and procedurally quick contracts are also sometimes argued to be beneficial for the borrowers. But the fact is that these contracts are also highly exploitative, mainly because the rates of interest charged are exorbitant, trapping the borrowers in never-ending vicious rounds of indebtedness.

Analysis of interlinked agrarian credit market is thus important to understand the rationale behind their formation and pervasiveness. Such an analysis will also be useful in providing a policy perspective to assess the successes and failures of specific interventions in the credit market. What is needed is a region-specific empirical investigation, especially in an agrarian economy like Punjab, which was the fore runner in green revolution, is the grain bowl of the country, but still is facing an agrarian crisis unprecedented to the extent that farmers, unable to bear the debt burden, are committing suicides.

Objectives of the present study:

The specific objectives of the present study will be:

1. To study the nature and extent of interlinkage in the informal agrarian credit markets in the study region.
2. To identify and analyze the determinants of interlinked contracts.
3. To examine the nature of credit transactions in terms of :
 - a. collateral requirements
 - b. rate of interest charged, and
 - c. purpose of loan
4. To make an appraisal of public policy in the context of our observations and analysis, and make suitable policy recommendations.

Scope:

The scope will be restricted to Patiala district in Punjab. Six villages – two from each of the three agro-climatic zones of the district – will be selected. Around 40 households from each village will be contacted, and will include cultivators as well as landless labourers.

Methodology:

The field study will be carried out with the help of detailed questionnaire, through personal interview. Suitable statistical and econometric techniques will be made use of to analyze the information gathered. Secondary data will also be made use of to supplement the field study.

(ANITA GILL)
Professor (Economics)
Department of Distance
Education,
Punjabi University, Patiala
email: anitagill@pbi.ac.in