CHAPTER-VII

CONCLUSIONS AND RECOMMENDATIONS
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In this chapter, an attempt is being made to put together the major conclusions and insights emerging in the preceding chapters. Admittedly, the list of findings is too long and without seeking to repeat all of them only the major findings have been taken up here, which require follow up in view of their long-term policy-relevance. An attempt is also made here to make a few suggestions and recommendations to mitigate the impact of the exploitative mechanisms underlying the interlocking of markets.

Market interlinkage, as a feature of agriculture in developing countries, has posed new challenges before researchers. It has been observed under diverse production organisations, in various forms, and has often led to different and conflicting interpretations. It has been theorized on the one hand as a mutually beneficial voluntary contract among self-interest-maximising individuals faced with a variety of market imperfections, while on the other, it has been interpreted as an exploitative mechanism serving the interests of surplus-appropriating economic functionaries. Crucial to the debate on implications of market interlinkages is the dynamics of institutional arrangements that enable these linkages and sustain them under changing conditions of production.

An analysis of the literature on interlinkages clearly testifies to the existence of two broad methodological strands – the neo-classical and the Marxian. Within the methodological framework of neo-classical economics, the new institutional economics has contributed a great deal to the understanding of the micro-economic rationale of market interlinkages as an institutional mechanism. The basic argument is that such interlinking of markets exists because it saves on transaction costs, makes contract enforcement easier by making the discovery of dishonesty or default or shrinking by an agent in any one transaction costly for him in terms of its spill-over effects threatening other transactions. Further, it helps in internalising the externalities arising out of moral hazard with respect to unobserved work efforts. Such formulations have been accused of generating tautological conclusions and the methodological limitations of such theoretical constructs to
incorporate the structures and relations of power in rural economies have also been highlighted.

In the Marxian framework, the interlinking of agrarian markets is seen in a specific socio-historical context and its implications are analysed with explicit reference to the relevant production and exchange relations. Interlinkage is basically conceptualised as a strategy for surplus extraction in pre-capitalist agriculture. It has been argued that during the transitional phase, interlocked markets are used to organise or structure absent or nearly absent markets and orient those towards incipient capitalist production.

The empirical literature on the theme has not only noted a variety of interlinked transactions but has also pointed out its relatively higher presence in areas of advanced agriculture. While the neo-classical literature has been criticised for its narrow focus on micro-economic efficiency, and its negligence of the dynamics of social control and domination in agrarian economies, the Marxian framework has drawn the flak for analysing interlinkage within the simplistic stereotype of the rich-landlords and the powerless tenants. The changing roles of interlinkage in a dynamic setting as well as the diverse implications of different types of interlinkage have not been thoroughly investigated by either of the schools. The role of social collectivities like caste in defining, restricting and differentiating access to different markets and its implication for interlocking of markets is another dimension that has not received enough attention in the literature.

The present study attempts to investigate the extent, types, and implications of interlinked transactions under two different production conditions. In the first step, two districts of Orissa were selected so as to capture the differences in the production relations between backward and advanced agriculture. Agrarian structure in Orissa is primarily characterised by the predominance of small and marginal farm operators. The relatively higher levels of tenancy, coupled with the predominance of sharecropping tenancy as also the relatively higher presence of small and marginal farmers in the land-lease market, both as lessors and lessees, all testify to the presence of depressing and exploitative features of Orissa's agrarian structure.

A detailed investigation into the agrarian structure, cropping pattern, extent of irrigation, nature of input-use in agriculture as well as levels of poverty
indicate that the two study districts, located in the North-West of Orissa, represent different levels of agricultural development. Although the agrarian economy of Orissa is generally characterised by low levels of productivity and agricultural intensification, yet within Orissa, Sambalpur district is characterised by a relatively advanced agriculture with a higher degree of occupational diversification and relatively lower level of poverty, while Kalahandi, the other district under study, is found to be one of the most backward, low-productive and poverty-stricken districts of the state. The study of the functioning of the agrarian markets in these two districts was done on the basis of a household level survey in three villages. While two villages were selected from Sambalpur district, representing different levels of infrastructural development within the developed, irrigated agricultural belt, one village was selected from Kalahandi district.

The study of agrarian structure in the three villages revealed that the landless, marginal and small landowners account for around 86 per cent of all surveyed households. The extent of landlessness was found to be higher in the irrigated belt than in the unirrigated region. It was found that the top 6 per cent of landowners control 32.35 per cent of the cultivated area. The decomposition of landowning households, according to the different caste groups, reveals a neat correspondence between land-ownership status and caste-status – the scheduled caste and scheduled tribe households have relatively higher share among the landless and marginal farmers while in the larger size-classes the OBC and general categories have a higher presence. In both the irrigated villages, the small as well as the large farmers were found to be leasing-in land, but in the unirrigated village, land-lease market was found to be dominated by small and marginal farmers. While in the developed and well-communicated irrigated village, fixed produce tenancy was found to be the most important form of tenancy, followed by fixed-cash tenancy, in the intermediate irrigated village, share tenancy, followed by fixed produce and fixed cash tenancy was found to be the predominant form of tenancy. As a whole, while in the irrigated villages, fixed produce tenancy emerged as the major form of land-lease contract, in the dry, backward village, sharecropping is the main form of leasing-in. An important aspect of the land-lease market in the unirrigated village is the relatively higher importance of usufructuary mortgage. The structure of the labour market was found to be segmented, not only in terms of gender, but also in terms of the task-specific preference for different
types of labour contracts. A variety of contract types were observed, particularly in the irrigated villages. While permanent or attached labour contracts were found to be prevalent in both irrigated and backward agriculture, the emergence of group-labour contracts based on piece-rate system, particularly with seasonal migrants, was seen to have transformed the labour relations in the irrigated belt to a considerable extent. It was further found that credit played an important role in labour contracts in these villages.

An investigation into the structure of credit market revealed that participation level in the credit market is very high in the study region. So far as sources of borrowing are concerned, it was found that an overwhelming majority of borrowing households resort to borrowing from informal sources. A great deal of difference was observed in the relative importance of formal and informal credit among different size-classes of operational holdings. The data on household participation in different segments of the credit market further substantiates the widely observed phenomenon of relatively higher participation of the poor and the marginalised sections of peasantry in the informal credit market. Two more points, however, need to be mentioned in this context. First, the broad pattern of farm size-wise participation of households in informal credit market is similar, both in the irrigated and unirrigated villages. Secondly, a sizeable percentage of large farmers also borrow from the informal sources, particularly in the irrigated villages. In terms of distribution of volume of credits, it is found that access to formal credit is typically low for the landless labourers and small farmers. So far as the purpose of credit is concerned, it is found that the landless labourers and the marginal farmers borrowed mainly for consumption purposes while large size classes of farmers borrow mainly for production purposes.

It was observed that for the landless labourers and the marginal farmers, moneylenders and shopkeepers are the two most important sources of borrowing, while for the small and semi-medium farmers, traders and moneylenders are the most important sources. For the large and medium farmers, traders are the most important source of informal credit. The structure of informal credit market in the rainfed village was found to be somewhat different than that in the irrigated villages in the sense that traders play a far less important role in the former. An important dimension of the informal credit market is that the average size of borrowing from different sources follows a particular pattern: shopkeepers have
generally advanced lower size of credit, even within the same farm-size category. On the other hand, there seems to be some flexibility in the average size of loan advanced by moneylenders. This points out towards a fragmentation of the informal credit market with different class of lenders advancing loans for particular needs and particular group of farmers.

The predominance of the landless labourers and the marginal and small farmers as borrowers and the role of employers, landlords, money lenders, and traders as lenders are strong enough reasons for interlinked transactions of various kinds to exist and sustain themselves over time. The present study reveals that interlinked transactions are relatively more widely prevalent in the developed irrigated belt. The extent of household participation in interlinked contracts is found to be highest in the relatively less developed irrigated village. Around 33 per cent of all surveyed households were found to be involved in interlinked transactions of one type or another. The extent of participation in interlinked transactions is found to be relatively higher in the case of marginal, small and semi-medium farm sizes and the landless labour households, both in the agriculturally advanced as well as in the agriculturally backward areas. So far as the caste-group-wise participation in the credit market is concerned, it was found that households belonging to scheduled castes and scheduled tribe categories have relied more heavily upon informal credit as well as on interlinked transactions, in comparison with the general and OBC categories. The scheduled caste households as a group have the highest dependence on interlinked transactions.

So far as the relative importance of different types of interlinked transactions is concerned, it is found that, on the whole, labour-credit interlinkage is the most important form of interlinkage followed by output and input-output credit interlinkages. Both in the irrigated and unirrigated villages, labour-credit interlinkage is found to be the most important form, but in the irrigated region, output-credit and output-input-credit are the next two important forms, while in the dry village, those positions are occupied by land-labour-credit and output-credit interlinkages, respectively. Thus, land-labour-credit interlinkage comes out as a feature of backward agriculture while in the developed, irrigated belt, output market has come to play an important role in the interlinked transactions. In both categories of areas, labour-credit interlinkage has a substantial presence. The farm
size-wise participation in different types of interlinkages revealed that while semi-
medium, medium and large categories of households participate mainly in the
input-output-credit and output-credit interlinkages, marginal and small farmers
enter into all types of interlinkages.

In order to find out the determinants of household participation in the
interlinked transactions, four different logit regressions were estimated. The
binary logit regression model for all farm households revealed that the size of
operational holdings, percentage of non-agricultural income in total income and
years of schooling of the head of the household, are negatively associated with the
possibility of the farm household entering into an interlinked contract, while per
capita debt at the beginning of the year, debt-asset ratio, percentage of irrigated
land in total operational holding and scheduled caste or scheduled tribe status of
the household, increases their probability of entering into interlinked contracts.

In the case of small farm households, it was found that the size of
operational holdings, per capita debt in the beginning of the year, debt-asset ratio,
SC/ST status and percentage of irrigated area in operational holdings, are all
positively associated with the probability of a small farm entering into the linked
contracts, while educational level of the household head, per capita farm output,
proportion of non-agricultural income in total income, are negatively associated
with the interlinkage process.

For labour households the possibility of entering into an interlinked
transaction increases with debt-asset ratio, SC/ST status and decreases with access
to non-agricultural wage income. When we consider all the sample households, it
is found that years of schooling of the head of the household, value of non-
agricultural income generating assets, percentage of non-farm earning in total
income, and per capita farm output are all negatively associated with the
probability of the household entering into any interlinked contract, while per capita
debt at the beginning of the year, debt-asset ratio and SC/ST status increase the
probability of interlinkage. Thus, by and large, the regression results suggest that
households having lower levels of asset and income diversification, lower levels of
schooling, higher levels of debt burden and lower socio-economic status have
higher probability of entering into such interlinked contracts.

To understand the implications of interlinked contracts, we have analysed
the differences in the mean rate of interest, the average price at which output was
sold and the mean male wage rate among the linked as contrast to the non-linked households. It was found that the mean rate of interest in interlinked transactions is higher than that in the non-linked transactions, within the informal credit market. The gap between rates of interest in the linked and the non-linked contracts is the highest in the dry, unirrigated village followed by the irrigated, intermediate village. However, the importance of local specificities in determining the implications of interlinkages becomes clear in the case of irrigated, developed village where the mean rates of interest in the linked transactions were found to be lower than that in the non-linked transactions. This might be so because of the labour-shortage and relatively easy access of labour households to non-farm employment, on the one hand, which enables them to get cheap credit from their employers and the competition among traders in the output market to advance credit to relatively larger farmers, on the other. Another important finding is that among all farm sizes, the marginal farmers have paid the highest average rate of interest within the linked transactions. An analysis of the distribution of linked and non-linked credit contracts, across different ranges of interest rates, points out that even within the non-institutional credit market, interlinked credit transactions carry higher interest rates.

Another important finding of the study is that not only the SC and ST households participate, to a relatively higher extent, in the interlinked transactions, but also that when they have done so, the scheduled caste households followed by the scheduled tribe households pay a relatively higher rate of interest, even within the interlinked transactions.

It was also found that, on an average, the linked borrowers have to sell their output at a lower price than do their non-linked counterparts. The price difference, however, is highest in the dry village and lowest in the developed, irrigated village. Even within the linked contracts, marginal, small and semi-medium categories of farmers have received lower price for their output than medium and large farmers. Similarly, it was found that in all the villages, agricultural labourers entering into interlinked transactions, on an average, receive lower wages than those who have not done so.

These findings clearly bring out an important limitation of many oft-repeated arguments on interlinkage. Whether interlinked contracts are exploitative or not is a question that has been widely discussed in general terms. However, our
study reveals that, to a great extent, the specific socio-economic position of the household, along with the functioning of markets, opportunities for alternative sources of earnings and levels of productivity determine the outcome. Interlinkage, as an institutional arrangement, far from being static and a feature of backward agriculture alone, was found to be more widely prevalent in the high-risk, high-productivity irrigated belt. With the transformation of production conditions, the forms of interlinkage have also changed. While the role of land lease in interlinked credit transactions has declined, the output market has increasingly come to play a prominent role in interlinked transactions.

The most vital factor forcing the households to enter into exploitative interlinked transactions is the non-availability or inadequate availability of institutional credit. With the increasing integration of agriculture to the global dynamics of commodity production, and the spread of new technologies to new areas, the credit need of the farm sector has grown manifold. However, with the current emphasis on the commercial viability of the banking sector and reduction in subsidies of various kinds, farm households are left with little option but to rely on the informal sources of credit. Credit from informal sources, as our data clearly show, is not only costlier, in many cases such credit transactions are accompanied by undervaluation of the collateral offered, which acts as an additional mechanism of exploitation. The most reliable measure to reduce the dependence on such exploitative interlinked transactions is to enlarge the accessibility of formal credit in rural areas. This calls for a targeted and sector-specific expansion of formal credit, mainly through strengthening the rural banking system, but also through innovative group-lending schemes. While micro-credit may solve, to some extent, the problems of the landless labour households, given the size of the loan required by farm households, even to meet the seasonal credit needs, enhancement of institutional credit allocations to rural areas in general and to the agricultural sector in particular, has to be given due emphasis.

Another dimension that needs urgent attention is the expansion of the resource base of the poor and the marginalised groups. Two distinct but interrelated strands of policy initiatives emerge from the study: firstly, the strengthening of the human resource-base at the household level, particularly through expanding access to education, will help in reducing the vulnerability of the households, in a context where access to information is increasingly becoming
costly and crucial; secondly, the expansion of rural non-farm economy will go a long way in reducing dependency on interlinked transactions, through diversification of assets and earnings of the households. The spread of formal education, apart from its well-known positive externalities, will help in reducing the exploitative forms of interlinkage, primarily because, information asymmetry as well as inadequate availability of reliable and relevant information limit the range of feasible options before the households, which in turn, forces them to opt for such linked contracts. In all likelihood, access to education will reduce the transaction costs in the formal credit market as well. A long-term impact of increasing access to education will be the expansion of alternative sources of earnings and employment for the rural households, which also will help in reducing their reliance on interlinked transactions.

So far as the expansion of the rural non-farm economy is concerned, two broad patterns of interventions can be envisaged. One set of policy measures are the employment generation programmes, which not only help in reducing vulnerability of the labour households by providing an important source of additional income, particularly during the lean season, but also raise wage in the agricultural labour market. Another way to generate alternative sources of earnings, not only among the farm households, but also among the landless labour households, is the promotion of self-employment opportunities. A range of such activities, including some in the non-farm sector, can be identified depending on local specificities. To the extent that such income diversification strategies provide a dependable and durable source of earning, it will help the rural households in reducing their dependency on exploitative credit transactions, but an equally important outcome will be their better bargaining strength in the informal credit market, primarily because of their enhanced credit worthiness.

The importance of raising farm income through increasing the levels of productivity in agriculture can hardly be overstressed. Agricultural growth, through its various linkage effects plays a leading role in transforming the rural economy. However, given the higher credit requirements in agriculturally advanced regions, there is a need to provide a range of complementary financial services to make agricultural growth more diversified and participatory. Finally, the role of rural infrastructure in ensuring fair product prices needs to be emphasized. It is the
availability of irrigation, which is the key to the transformation of agriculture in developed irrigated area, but the differences between the two study villages within the irrigated belt are almost entirely because of differences in levels of connectivity. Any policy-intervention that increases the portfolio of income and assets of the rural households, particularly of those belonging to the poor and the marginalized sections, and expands the range of feasible choices in input and output markets, will act as a deterrent to interlinked transactions.