CHAPTER 6

SUMMARY, FINDINGS AND SUGGESTIONS FOR RURAL CREDIT REFORMS

6.1 The Issues in the Study

The recent literature in development economics has emphacised the importance of institutions and the impediments that they impose on the development process. The Marxists have a well-known endogenous theory of institutions. The central driving force behind institutions, according to the Marxists, are the forces of production. Changes in productive forces, paticularly technological change, produce over time some tension between the existing structure of property rights and the productive potential of the economy, and this tension is resolved in history with the emergence of new institutions. According to the Neo-classical school, led by Coase (1960), institutions are evolved to minimise transaction costs. Imperfect information theory, as an alternative, tries to analyse institutions as substitutes for missing markets in an environment of pervasive risk, incomplete markets, information asymmetry and moral hazard which are characteristic features of developing economies.

Enduring relationships in all economies tend to be semewhat personalised, and this is particularly so in the insecure world of peasant market systems. Among anthropologists Mintz (1959) has been most explicit on this point observing that behind the operation of supply and demand a network of person-to-person dealings persists over time which outlasts any single transaction, for which there are important parallels even in highly industralised societies. However, in the internal marketing systems of peasant societies, these small distinctions based on personal relationships are more prominent. Under a set of informational constraints and missing markets, interlocking of different agrarian markets can provide an institutional arrangement which may serve a real economic function in a closed peasant economy with face-to-face interactions. For example, a linking of credit and labour contracts may reduce transaction costs and ensure the double coincidence of wants of the borrower-labourer and creditor-employer without which imperfectly monetised economies tend to be inefficient. Interlinked transactions may also provide a way of partially circumventing incomplete or non-existent markets (particularly of credit and insurance). For a poor cultivator without access to an organised credit market, it is possible to hypothecate the standing crop for raising credit from trader-creditor.

Marxists often cite some of these production relations as institutional obstacles to development in a poor agrarian economy, overlooking the microeconomic rationale of the existence of these institutions. Marxian analysis also has a tendency to mechanically equate some of the pre-existing production relations with feudal or semi-feudal mode of production, ignoring how in the real world the same institution adapts itself to the development of the forces of production.

There are two contrasting views in the literature concerning interlinked rural markets. According to one view, interlocking increases the exploitative powers of the stronger elements in the village through interpenetration of markets and in this way increases the quantum of surplus extraction. The other view, while rejecting the thesis that interlinking is necessarily exploitative, explains the benefits of interlinked transctions which contribute to their rationale.

6.1.1 Background Characteristics

In the light of this controversy and its underlying issues, an investigation was made into the agrarian economy of Cooch Behar district. For that purpose a sample study was conducted over a stratified random sample of owner cultivators, tenants and landless agricultural labourers drawn from two noncontiguous regions of Cooch Behar district.

Agriculture is the primary occupation in the backward 'no industry' district of Cooch Behar in North Bengal. Because of this high dependence of the regional economy and the population on agriculture and the high intensity of cultivation, the agrarian features of the district are characterised by peasant economy, since both average size of operational holding as well as proportion of landless agricultural labourers are small.

Cooch Behar district has a moderate humid climate in a moderate temperature range with relatively heavy rainfall concentrated between April-September. There are three crop-seasons in the district, namely, *pre-kharif* (March-June), *Kharif*(June-September) and *Rabi* (October-January). The main *pre-kharif* crops of the district are Aus paddy and jute in the *pre-kharif* season. Aman paddy is grown during *kharif* season and tobacco, old seeds, pulses and wheat during the *Rabi* season. *Boro* paddy (February-May) is a new introduction in the cropping matrix of the district. The district is also the major tobacco growing area in the state. Unfortunately, for want of market proximity the extension of area under this crop is not possible. During recent years the district has made remarkable progress in the cultivation of winter vegetables.

The backwardness of the district is also revealed by the poor infrastructural facilities in the area. Transport and communication systems are inadequate, medical facilities are very poor, educational facilities are not sufficiently advanced. Consumption of electricity for productive purposes in also very low. The lack of infrastructural facilities is responsible for the retardation of indudstrial growth in the area. In the absence of any medium or large-scale industry, the district has been earmarked as 'no industry' district. The scope of employment outside agriculture is, therefore, very limited.

We, therefore, observe that the economy of the district of Cooch Behar is backward on all fronts, an observation further strengthened by the fact that the HDI for the district of Cooch Behar is the lowest among all the districts in West Bengal.

As there is no posibility of immediate industrialisation in near future, the tranformation of the backward economy of the district calls for a large-scale development in agriculture. Recent literature on rural development focuses a lot of attention on various types of interlinked transactions existing between land, labour, credit and output markets in the rural areas of less developed countries. Our study therefore examined the interconnections among different agrarian markets in the sample region in the context of the small farmer-oriented poor agrarian economy of the district of Cooch Behar, keeping in mind key issues emerging from the theoretical literature on the subject.

6.1.2 Analytical Hypothesis

As outlined in Chapter I, the core system for analytical evaluation of agrarian interlinkages in the sample region is the production - productive class matrix within the agrarian economy of Cooch Behar district. As earlier noted, the distribution of productive classes as exist conform to the canonical formulation

of a peasant economy. However, since the agrarian economy of the district is not oriented entirely to subsistence production, a marginal surplus exists in the form of marketable output and resultatnt cash-income. These are rendered more prominent by the existence of cash crops like tobacco and vegetables in the district's agricultural cropping - pattern.

As such, interlinkages within the peasant economy of the district have to be evaluated on the basis of whether they are targeted to the extraction of this surplus or not. This central investigative hypothesis needs to be elaborated.

In a poor agrarian economy, analysis of issues is compounded by the presence of marginal and sub-marginal cultivator classes with little or no marketable surplus to offer, and a small proportion of landless labourers for whom marketable surplus in the sense of an extractable output or cash-income surplus is non-existent. The peasant economy of Cooch Behar shows both these classes.

The class of marginal or sub-marginal owner cultivators or tenants basically produces for subsistance. Extraction of any part of their subsistence output or income through implicit or explicit means depresses their subsistence levels. Thus although the concept of 'marketable' surplus is not relevant here, the concept of 'marketed' surplus is. However, any 'surplus' that is marketed is at the expense of subsistence standards. This would imply that high rates of extraction associated with the interlinkages faced by the marginal / sub-marginal cultivator class impose drastic curtailment of their living-standards and are therefore poverty-inducing. The yardstick for assessment of whether such an exploitative character exists or not is the relative level of explicit and implicit i.e. effective rates of interest extraction against interlinked transactions made by the class.

In similar assessment of extractive character of interlinked transaction involving the relatively better -off cultivators, who produce a marketable surplus, the same yardstick of effective interest rates applies, even through it may not have impact on subsistence levels of the class. Rather the impact of high effective rates raises relative poverty in a poor peasant economy, both immediately, and also in the long-term by reducing access to technological transformation of traditional cultivation modes.

The exploitative character of labour-linked transactions involving the landless labourers can also be evaluated with the same yardstick of effective rate of interest. The landless labourers, being the poorest of the poor in a village community, maintain a miserable life at the subsistence level and any attempt to impose a relatively higher effective rates of interest would depress their subsistence standards and therfore increase absolute levels of poverty in the short-run, althogh in the long-run this might lead to out-migration of labourers to any other villages.

It should be noted that exploitative character of linked transactions made by any class is measured in the relative sense - relative to the mean effective rate of interest paid by this class on non-linked transactions. If the mean effective rate of interest paid by a particular class on linked trasactions is lower that the mean effective rate of interest paid by the same class on non-linked transactions,the interlinked transactions are said to be non-exploitative in relative terms, otherwise it would be regarded as exploitative.

We should also keep in mind that any relationship which arises from economic consideration as opposed to extra-economic coercion should not be interpreted as semi-feudal agrarian relations in a peasant economy. Unequal contracts and economic exploitation are quite common in a market relationship but this does not necessarily imply semi-feudal agrarian relations as long as extra-economic coercion is absent from the picture.

6.2 Observations of the Study

6.2.1 The Rural Credit Market

The rural credit market is of two types : organised and unorganised. Within the organised sector we have a number of lending institutions like Cooperatives, Commercial Banks, Land Development Banks, etc. which provide credit for meeting the working capital requirement of cultivating households. The unorganised or the informal credit sector includes a number of private sources like cultivators, neighbours, friends and relatives, professional money-lenders, shopkeepers, etc.

Rural credit market does not operate under competive conditions. An important feature of this market is that access to credit is far more easier for some groups than others. Within the formal credit market, for example, a number of factors operate and prevent small cultivators from securing adequate loans from the institutions. First, asset-based lending policies followed by formal credit institutions may be expected to discriminate against the small cultivators. Second, transaction costs associated with the borrowings may deter many small borrowers from approaching these institutions. Finally, the political clout of large cultivators in the credit institutuons, patronage, arbitrariness and corrupt practices pursued by the financial institutions further limit the small cultivator's access to format credit. Their dependence on the informal credit market is therefore very high which heightens the possibility of having credit-interlinkages in the informal credit market.

The informal credit market in a peasant economy is not integrated in any sence. The personalised nature of credit transactions has led to a fragmented credit market where borrowers having some access to a given sub-market may have unequal access to another sub-market. Given that the peasants themselves can be differentiated into various sub-classes with differential command over assets such as land, overall productivity and cash-income, both credit-needs as well as the production and consumption loan character of these credit-needs differ between them. The consequence is the disaggregated credit market of the peasant economy, where different classes of borowers transact with different lender-classes for different categories of loans, with creditor-motives being differentiated accordingly. Within the self-perpetuating peasant economy, the credit-needs of the borrowers are normally met from sources internal to it. Among the internal sources, the cultivator-creditor (including neighbours) are interested in securing the labour services of the borrowers whereas friends and relatives, as an alternative internal source, advance credit to all categories of cultivating households mostly out of their feeling of personal responsibilities towards friends and relatives. Since no usurious motives can be ascribed to either of these creditor - classes, the peasant community, when sourcing credit through sources intenal to it, does not display any tendency towards extortionate exploitation.

Depending on the size, purpose and urgency of loans, the peasants very often have to approach certain external sources when such loans are unsustainable within the internal fabric of the peasant economy. Among the external sources, the professional money-lenders and shopkeepers operate out of the sheer motive of earning income through usury whereas the trader-lenders aim at controlling the marketing of output and extracting agricultural surplus from the direct producers.

6.2.2 The Interlocking of Transactions

In the rural credit market of the study region the borrowers comprise the owner cultivators, tenants and landless agricultural labourers. Of the borrowers those who do not have non-labour assets which can

be used as suitable collateral, may only be in a position to negotiate loan by future commitment of labour supply and / or standing crop. Among the lenders, those comprising cultivators, neighbours and traders utilise this opportunity and advace loans by interlinking transactions in more than one markets. Credit market thus becomes interlocked with labour, input or output markets.

The types of credit-interlinkages observed in the study area comprise

1. Credit-labour-linkage, whereby the creditors (namely, cultivators, neighbours) ensurers the commitment of certain quantum of labour services by the borrowers as part of repayment terms against consumption loans advanced by them.

2. Credit- output-linkage, whereby the creditors (namely, traders) ensures the commitment of certain quantum of output by the borrowers as part of loan repayment against production loans (cash) advanced by them.

3. Credit-input-output linkage, whereby the creditors (namely, traders) advance input loans in the form of seed, fertilizers (i.e. in kind) as a means of ensuring commitment of future output of the borrowing cultivators.

The incidence of interlinked credit transactions is found to be highest among the landless labourers, followed by the tenants, followed by owner cultivators. The potential explanation of this pattern lies in the character of credit-needs in the rural communities of Cooch Behar. As stated at the outset of the present study, the agrarian economy of the district in characterised by prevalence of the peasant-subsistence mode of cultivation, which has moreover been accentuated by land reform and reduction in landholding inequalities following Operation Barga. It is a noteworthy feature of the credit market in the region that demand for consumption loans far outweighs that for production loans. This is possibly due to inefficiency of efforts/means towards agricultural advancement in the absence of a class of really "large" landholders. Consumption loans are generally of short-duration and involve a smaller quantum of money. Thus the inverted demand structure for consumption loans, where consumption - credit needs of the poor are greater than those of the relatively rich, are accorded in the incidence of interlinkages. The poor, being more needy, are more accessible to interlinked credit transactions. This structure is true not only for the poorest of the poor i.e. the landless agricultural labourers, but also for the relatively poorer sections among tenants and owner cultivators i.e. those who own or operate marginal or sub-marginal landholdings.

However, the character of interlinkage in credit-transactions varies between the poorer owner-cultivators, the poorer tenants, and the poor landless labourers. It is seen from the study that output - linkages tend to dominate among marginal and higher categories among both owner cultivators and tenants with upward taper, whereas for sub-marginal categories among them, the frequency of credit-labour linked transactions is higher, rendering them similar to the landless labourers. It may however be noted that although incidence of labour-linkage among tenants as a whole is relatively high, it is not sourced entirely from the credit market, since tenancy-related labour-linkages also counstitute a major feature of the study region. Some element of communality exists among poor borrowers although they can not be regarded as constituting a homogeneous group.

It is noteworthy that no large cultivator is found to be involved in credit-interlinkages in our study region. It is generally expected that the capacity of the large cultivators to finance productive activities in agriculture is higher compared to households belonging to lower categories of landholdings which reduces

their dependence on extenal sources who seek output-linkage. Moreover, the big cultivators are more creditworthy and are therefore more acceptable as borrowers to their friends, relatives and neighbours who do not set any pre-condition before advancing loans. The incidence of credit-interlinkages therfore gradually decline with the economic status of borrowers. Interlinked transactions would therefore appear to be one of many manifestations of rural poverty. The incidence of credit-linkages tends to aggravate among the relatively poorer section of the village community, while the relatively better-off section is largely spared from such linkages. It is the existence of a relatively impoverished rural class that leads to the emergence of interlinkages.

6.2.3 Typology of Linkages

In further elaboration of the patterns marked above, credit-labour linkage is observed among the landless agricultural labourers and sub-marginal cultivators while CO/CIO-linkages are found among the marginal, small and medium cultivators. Credit-labour linkage therefore seems to pertain to the weakest section of the village community while CO/CIO-linkage is a phenomenon observable among the relatively better-off cultivators whose crop-income constitute a significant part of their total income. The collateral-poor borrowers would generally prefer to settle the loan obligation in terms of output, and only when this is not possible they would offer their labour services. Such differentiation is of course, partially accounted for by differences in the purposive character of loans. For production loans which are of relatively larger duration and larger magnitude, CO/CIO-linkages are the preferred mode of repayment since utilisation of loans augments output-income. In the case of consumption loans, which are of smaller magnitude and shorter duration the linkage instead is with labour services. Interlinkage therefore appears to be essentially a survival strategy over the class of rural peasant -creditors and borrowers. For the collateral-poor rural households in a backward agrarian economy it offers access to credit-support on non-financial considerations, thus enabling them to sustain subsistence levels and/or enter into major crop-improvement /crop-expansion plans. For the peasant-creditors interlinkages provide some sort of guarantee against absolute labour-shortages that could bid up wage rates during peak season. An extenal entrant into the credit market is the trader who provides CO/CIO -linked credit support. For the trader the reason for extending such interlinked credit-support is the guarantee of being in command of a certian proportion of the marketable surplus crop which provides him with trading advantages in his commercial activity. The borrowers who borrow from him usually undertake loans for productive purposes. As such the sustainability of the peasant production levels and production improvements (if any) depend on the provision of CO/CIO-linked credit. For this set of reasons the informal rural credit mechanism is the means by which the backward peasant-based agrarian economy perpetuated itself and enables all parties to survive.

It would be interesting to explore whether there are also certain class differences that distinguish labour-linked borrowers from output-linked borrowers. From the pattern of linkages among different classes of households it appears that households with larger availability of family labour but lower per capita operated land tend to link their labour services with the loan-contracts. The labour-linked households in our sample possess a higher family size, higher worker-dependent-ratio but a lower per capita operated land compared to the output-linked borrowers. The borrower with higher percentage of crop-income to total income generally link their output with the loan-contracts. The two classes are therefore seem to be distinctly defined and heterogeneous.

6.2.4 Impact of Linkages

The nature of these credit-interlinkages are not necessarily exploitative in a peasant economy where credit transactions are very often personalised. Labour-linked transactions in our sample region are not exploitative compared to non-linked transactions. The employer-creditors have a more-or-less philanthropic attitude towards local loanees. Evidence for this is seen, for example, when sub-marginal cultivators and tenants receive linked loans from their employers (i.e. neighbours) and are charged no explicit interest.Their labour services are also remunerated at the market wage rate prevailing at the time of work implying no implicit interest charge. The sub-marginal cultivators and tenants therefore do not pay any effective rate of interst on labour-linked transactions. Considering credit-labour-linkage among landless agricultural labourers we also observe that most of the linked labourers do not pay any effective rate of interest. In a limited number of cases, however, the linked migrant labourers (landless) pay implicit interest in the form of wage-cut. But the threshold interest rate paid by the landless labourers on linked transaction is much lower than the same paid on non-linked transactions. The overall picture therefore indicates that credit-labour linkages are not exploitative compared to non-linked credit transactions in our study region.

While considering the variation in effective rates of interest paid by the landless linked labourers, we observed that quantitative factors like loan size and per capita income cannot explain such variation in interst rates adequately implying the necessity of introducing quantitative factors such as nature of loan contract, sources of loan, caste, religion and residentiary status of the loanees in the analysis. The results obtained from ACOV dummy regression model give us a deeper insight into the problems. The factor under consideration, except for loan size show inverse impacts on effective rates of interest on loans. All qualitative factors account for certain level of mark-down on the rate of interst. Socio-cultural factors thus have considerable importance in determining local credit-relationships and intelinkages, and the caste / religion factor has the highest combined mark-down impact upon threshold interest rate.

Analying the joint operation of these qualitative factors it is found that highest mark-downs in interest rate over the entire sample occur for local resident linked loanees borrowing from cultivators, particularly for those belonging to the Scheduled Caste segment. The benefit of lower interest extends even to non-linked SC-borrowers. After the local SC-loanees, the next community in order of mark-down in interest comprises linked muslim loanees borrowing from cultivators, comprising both locally residents and migrants. Loanees belonging neither to SC or muslim categories pay higher effective interest rates because of lowered access to mark-downs, but this category entirely comprises migrants from outside the sample regions.

An analysis of qualitative factors thus establishes that the primary determinant of lower effective interest rates is whether the loan is sourced from cultivator or from others. It is found that cultivator-creditors do not have usurious motives in their lending operations. Noting that cultivator-sourced loans offer greater interest mark-down to linked-labourer this would imply that cultivator-creditors function primarily out of the need to reserve farm-labour services to meet anticipated peak season labour-demand than with other motives.

The next in order of importance are community factors. These are namely of two types - either religious homogeneity of the sub-community (muslim) or caste homogeneity (SC). It is noteworthy that the greater amount of intra-community concessions is terms of interest mark-downs are offered to SC-loanees, followed by muslim loanees, followed by non-SC non-muslim loanees who are generally

migrants. Overall the qualifying creterion for more beneficial loan-terms in the peasant economy therefore appears to be the existence/ absence of some perceived homogenizing factor based on community. Favourable terms including allowance for linked labour services are extended by cultivators to borrowers who are members of their closed community. Entry is barred to new entrants to the village. The highest level of concessions, because of internal cohesiveness of sub-communities, are extended in order of precedence to the indigenous Scheduled Caste community, followed by the muslim community. Migrant loanees are relatively disadvantaged as a result because they share no such affinity either among themselves or with the resident population.

It may be noted in respect of this community factors, that the Cooch Behar Scheduled Castes are much more homogenized than SCs elsewhere, because of ethnic, linguistic and cultural uniformity. The Rajbanshi SC-community is dissimilar to the occupational castes that constitute the SCs throughout India, and as such possesses the shared affinities of a tribal group (the same community in Assam, for example, has been declared as Scheduled Tribe). Thus the above order of precedence is commensurate with the degree of homogenization - the Rajbanshi SC, being most homogenized, followed by muslims, followed by non-SC non-muslim.

The nature of credit transactions and linkages among the landless agricultural labourers therefore becomes a socio-economic phenomenon in a peasant economy. Traditional community relationships are more important in determining the nature of contractual arrangements in the linked labour and credit markets than economic factors themselves.

While the credit-labour-linkage is seen to be 'benevolent' in nature, credit-output linkage carried on by trader-creditors is always exploitative since the effective rate of interest paid on output-linked transactions is much higher than the rate of interest paid on non-linked credit transactions. The traders charge very high effective rates of interest from the poor indebted peasants which enhance the extraction of agricultural surplus through 'unequal exchange'. The high rates of surplus extraction associated with CO/CIO-linkages faced by the poor indebted cultivators and tenants impose drastic curtailment of their living standards and are therefore poverty-inducing. External i.e. commercial sources of credit-capital thus play a critical role in inhibiting the process of technological diffusion among the small peasants, since a large part of potential income and productivity has to be forgone in meeting interest obligation.

6.2.5 Extended Observations

A separate exploration can also be made of tenancy relations in the study region . The tenancy in the sample region is both recorded and unrecorded. The tenancy contracts with the unrecorded tenants is predominantly a short-term contract valid for a year, or else for a crop-season.

The seasonal tenancy is an important phenonemon recently observed in our study region. A number of marginal, small and medium tenants in our study region lease in additional land in the *rabi* and *boro* season to enter into the highly profitable cultivation of winter vegetables and HYV spring paddy. In a majority of the cases the seasonal tenancy contracts are at fixed rentals unlike the share -cropping arrangements of the normal tenancy. This system satisfies twin objectives of the landowners : they can get some assured rental income without having to participate in the cost of production and secondly, they can evade the provisions of Tenancy Act which empowers the tenant to record his rights to operate the tenanted land on a secured basis. Because of their own resorce limitations in financing the highly input intensive *rabi* and *boro* cultivation on seasonally leased-in land, a number of such tenants take

recourse to loans advanced by traders agrainst CO/CIO interlinkage arrangements. It stands to reason that where the seasonal tenant is already committed to a large amount of loan-backed expenditure on the seasonal crop, sharecropping type of lease-in arrangements would render seasonal tenancy unviable; on the other hand, for whom the lands occupied by seasonal-lease would otherwise remain uncultivated, is willing to forgo crop-sharing in favour of fixed rent.

In the present study we observed that the lessors to the tenants in the sample belong mostly to the small, medium and large landowing categories and as such, the possibility of distrss lease is low.All categories of tenants are free to lease in land from as many lessors as they may wish to, or can otherwise offord to, given their own access to other resources. Lease-contrcts with any particular lessor do not bar them from leasing in land from others.Hence no 'feudal tying' of tenant to particuar landlords is observed in terms of landlease.

The participation of the tenants of the sample region in the recording of landright under Operation Barga (OB) is not very high. More than three fourth of the sample tenants did not officially record their tenancy and consequently remain under non-legalised tenancy arrangement. Most of the unrecorded tenants, however, reported that they did not opt for recording 'to maintain their long-standing good realtion with the landlords', which would also subsume the local community - based personal support.The overall picture seems to indicate that it has been a voluntary dicision by a large secton of tenants not to go in for recording. We therefore find no direct evidence to substantiate that the semi-feudal authority of the landlords prevented the tenants from recording their names as is indicated in some other studies.

Sharecropping is the dominant form of tenancy arrangement in our study area. The most prevalant form or crop-sharing arrangement is the 50 : 50 division of the produce. Production of winter vegetables and HYV paddy is gaining popularity under fixed rental system.

The incidence of cost-sharing by the landlord within the sharecropping arramgement has been very low in our study area. Where cost-sharing exists, the majority of cases show output distribution in 50 :50 ratio between the landlords and the tenants. But there is hardly any case where the cost-sharing itself is made strictly on 50 :50 basis, the tenents' share in cost invariably being higher than the landlords' share however small that may be. The overall picture seems to indicate that in vast majority of cases the existing tenurial arrangements do not conform to the provisions of the Tenancy Act, whereby landlords are entitled to between 25 - 50 percent of produce depending on whether they support no costs or else all costs excepting labour.

There is virtually no interlinkage between tenancy and credit contracts. The credit market of the tenants is not dominated by their own landlords but is dominated by non-landlord loan sources such as traders, friends and relatives, neighbours, professional money-lenders, shopkeepers, etc. On the strength of our empirical observations we can therefore contradict Bhaduri's hypothesis that the existence of interlinkage between landlease and credit markets acts as a fetter on agricultural development. This is because the landlords, not being major loan-source for tenants and not charging usurious interest rates or deriving significant incomes from usuary, therefore do not find the profitable market for usury to act as a disincentive towards productive investment, as had been suggested by Bhaduri. Since no opportunity cost is therefore involved in the commitment of expenditure by the landlord towards production, there is no disincentive towards agriculural improvement.

There is, however, some evidence of interlinkage between landlease and labour contracts. Some tenants, being drawn largely from agricultural labour families, are offered landlease contract with the understanding that they would provide labour services for the cultivation of self-operated land by the landlords. All such labourers receive market wage rate prevailing at the time of work. They can enter in the free labour market when there is no pre-committed work with their landlords. Tenancy - labour linkage, however, indirectly dissuades the tenants from entering into credit-labour linkage with any other source. This does not, however, amount to adequate evidence to deduce a semi-feudal agrarian character within the tenancy labour linkage. Under the tenancy-labour linkage, the tenants depend on the landlords for their lease -contracts in lieu of which they contract to work for the landlord against due payment. This interdependence / voluntary exchange arises purely from economic consideration. The tenants' need for a lease contract and the landlords' need for readily available labour - and not feudal subordination - provide the major motivation for tying tenancy with labour contracts. There may still be some element of unequalness in this exchange between contrcting parties in the sense that the commitment of labour on the part of the tenant is an aditional extraction by the landlord over and above the crop-share he is normally to receive. However, this unequalness is a feature of the land market, and therefore not exploitative, a fact further established by the absence of any wage- reductions against tenancy-tied labour.

A similar separate exploration can be made into agricultural labourer in the sample region. Agricultural labour is provided by marginal/sub-marginal owner cultivators and tenants on the one hand and by landless labourers on the other. Whereas labour activity by the former group is more in the nature of subsidiary occupation, and is moreover restricted by the amount of time they have to devote to their own cultivation, the same does not hold true for the second group, for whom labour activity constitutes their sole livelihood. As such, landless agricultural labourers can be considered the most vulnerable section among the rural labouring community in the sample region and would be most open to interlinkage-based exploitation, if such exploitation were proved to exist. The earlier analysis of the nature of linkage does not however prove any exploitative character for such linkages.

Going into the character of the landless labour class we observe the existence of homogenizing factors between worker and cultivator-employer, such as community, religion or local residence. There is a class of newly migrated landless labourer in the study region, to whom the protection of community and religion do not extend. Since the analysis in the present study has been made on the basis of the mark-downs in effective interest rates payable that can be attributed to each qualitative/quantitative factor, the migrants as a group receive the lowest mark-downs.

The existence or absence of exploitative interest rates in interlinked credit transactions is of course relatively detemined. Although relative exploitation in the sense of usury in not seen, particularly when loans are sourced from cultivator-creditors, effective rates of interest would still be high, compared to the formal credit market with collateral-backed loans. However, disaggregatedness of credit market access to landless labourers on the basis of qualifying factors is sufficiently established.

Regarding the form of labour-linkage observed in the sample regions, two types tends to predominate. These are, namely, attached labourer and semi-attached labourer. The attached labour arrangement makes a virtual house-servant of the landless labourer who enters into a labour-linked credit arrangement with employer. This form is relatively uncommon. The more predominant form of linkage observable is that of semi-attached labourer where the labour of the landless borrower is committed for shorter periods generally verging around the agricultural season and usually, much shorter than that. It would appear that the period of labour commitment is conditional to the size of loans, and since the loans taken by landless labourers are usually in small amounts for consumption purposes against quick

repayment, the semi -attached type of linkage predominates. It is not until levels of poverty becomes materially depressed that the semi-attached linkage shall verge towards longterm attachment or virtual bonding. The effective rates of interest charged to landless labourers are not in any case an accessory to such a trend towards augmention of absolute poverty, since they are not usurious in character.

In such circumstances it seems more relevant to view the credit market access afforded to landless agricultural labourers from the community sense rather than in terms of semi-feudal deprivation since their credit-needs are still generally small and is moreover serviced without explicit or even implicit interest charges in most cases. The CL-linkage that exists for them therefore may be viewed as a work - guarantee from their respective, and labour-guarantee from the perspective of their crditors, neither of which is intrinsically exploitative. Cultivator-creditors are of course, as earlier remarked on, guaranteed a fixed labour supply at fixed wage rate, instead of having to complete in the labour market with other cultivators which would raise wage rates considerably. To this extent, the CL-linkage does represent an extraction on the part of the creditors, but the magnitude of this is nominal.

6.3 Regression Analysis

In our study we have applied the yardstick of effective rates of interest paid by the borrowers to access the relative merits and demerits of the contractual arrangements in the informal credit market. Effective rate of interest is defined as the sum of implicit (or hidden) and explicit (or stipulated) rate of interest. Implicit rate of interest has a special reference to interlinked credit transactions. When the input factors (say, labour) and /or product prices are undervalued, the difference between prevailing market price and price actually paid to the factor/product constitutes the implicit interest charge. Implicit interest may be zero where there is no undervaluation of product/factor prices (for example, when linked labourers get market wage rates prevailing at the time of work). Explicit rate of interest, on the other hand, may arise irrespective of the nature of loan-transaction. Just as institutional loans carry a rate of interst, private loans(whether linked or non-linked) may also carry an explicit rate of interst on the amount of loans advanced. Theoretically, therefore, interlinked credit-transactions may carry both implicit and explicit rates of interst. Non-linked credit transactions can however carry only explicit rate of interest unless the loan happens to be interest-free.

The type of CL-linkage evidenced in our sample survey does not carry any element of explicit interest. The effective rate of interest in connection with CL-linkage therefore corresponds to implicit rates only. CO/CIO-linkage on the other hand carries both implicit and explicit rates of interest and both rates are therefore included in the determination of the effective rate of inteest. When we therefore use the term effective rate of interest in connection with CL-linkage, this would imply implicit rates of interest and when the term is used in connection with CO/CIO-linkage it would imply the combined effect of both implicit and explicit rates.

A separate econometric analysis has been made in the study of the micro-economic factors governing the determination of effective interest rates, through recourse to a regression model based on the standard quantitative theory of determination of interest rates in a credit market, and has been applied to sorted sub-population among landless borrowers sorted by the linked/non-linked nature of credit arrangements, the residentiary status of the borrowers, and the internal or external nature of loan-sources.

In the standard quantitative theory of determination of interest rates for credit markets, loan size and per capita income play the most important determining role. An increase in loan size is expected *a*

priori to reduce the rate of interest through a reduction in transaction costs. A rise in per capita income (which reflects the economic status of the relevant borrower) is also believed to lower the interest rate through increased bargaining power of the borrower. The regression results relating to the sorted sub-poplation of landless borrower capture the intrinsic differences in rate of interst and relative importance of loan size and per capita income between the sorted-categories. The results reveal that the borrowers belonging to different sorted-categories derive differential degrees of benefits/penalty with regard to threshold i.e. entry-level interest rates. The threshold rates are defined as the average rate of interest payable by a loan-receipient at the point of entry into the credit arrangement. It has been observed that locally resident loanees pay the lowest (and negative) threshold interst rate, the implication of negative threshold interest being that even if there is possibility of loan default, this is condoned upto a point by the creditor. The creditor thus has a more-or-less philanthropic attitude towards loanees who are longtime local residents. We observe that all local loanees in the sample pay zero effective rate of interest, and thus that the transaction cost on the loan is borne entiely by the creditor with no effort to recover even this from the borrower thus accounting for the negativity of threshold rate. In contrast, migrant labourers face much higher threshold rates, which threfore created an entry-barrier to their availing such loans. Findings from the regression also reveal that linked-loanees generally pay much lower threshold rates compared to non -linked loanees and that cultivator-sourced loans carry much lower threshold rates compard to shopkeeper-sourced loans. The overall unalysis therefore indicates that the cultivator-sourced linked loans directed to local loanees are given at most preferential terms within the overall informal credit arrangements, a fact further established by the qualititive analysis the results of which have been reported earlier in this section.

The *a priori* expectation regarding the behaviour of loan size is not, however, fulfilled. Except in the case of loanees borrowing from shopkeepers, the interest elasticity of loan size for all other sorted-categories is positive indicating a direct relationship of rate of interest with loan size. Loan size is infact the most important determinant of interest mark-ups including also the case of cultivator-sourced loans. Only for loanees borrowing from shopkeepers does loans size relate to an interest mark-down. This indicates a fundamental difference in motivation of these two sources of lending. The cultivators mark-up the rate of interest with increase in loan size and discourage larger-sized loans. Commercial money-making through lending is therefore not the objective of the cultivator-lenders and they advance loans primarily to link the labour services of the loanees. In contrast, the shopkeepers are concerned solely with the objective of earning usury income, and mark-down rates of interest with increasing loans size thus fostering indebtedness.

The response of rate of interest to changes in per capita income, however, follows normal expectations that rises in per capita income lead to decline in rate of interest because of increased barganing power of the loanees, except in the one case of loanees borrowing from shopkeepers. PCI is therefore the major determinant of mark-down in interest rates. Only in case of loanees borrowing from shopkeepers, i.e. from an external creditor is the PCI responsible for interest mark-up. The mark-down factor due to PCI is however very low reflecting weak bargaining positions for loan-receipients in general. Even so, mark -down factors on account of PCI are much stronger for linked loanees compared to non-linked loanees. This implies that the linked loanees enjoy much more bargaining power, commensurate with their ability to determine labour supply in the peak season. As already noted, the motivation of lending of the shopkeeper completely differs from that of cultivator-creditors, and increase in PCI of the borrowers would increase the possibility of extracting more surplus from them. As a result the PCI of borrower determines an interest mark-up for loanees availing shopkeeper-sourced loans.

6.4 Review of Findings

In the analysis just concluded with reference to landless labourers, one again sees the presence of external (usurious) loan-sources as the village shopkeepers and internal (non-usurious) loan-sources in terms of the cultivator-creditors. It should be noted that the clientele in this case i.e. the landless labourers do not seek credit for productive purposes. Unlike owner cultivators and tenants, their needs are entirely consumption-based. As such, the informal credit market among them is purely a consumption-oriented market with the resultant characteristic of being of short-period and lower volume nature. Within this market, labourers indentified as belonging to the resident community receive preferential terms against labour-linkage and therefore do not have oppressing need to tap external sources. It is only newly migrated labourers who are perceived as being alien to the local peasant community on various qualititaive criteria who have to seek extenal credit-support on account of the internal credit market either being closed to them or else offering detrimental terms. Once again, within the local peasant community as it is qualititavely defined, the informal credit arrangements are self-perpetuating and provide mutual non-usurious benefits to both creditors and borrowers.

Assessing the rural informal credit market therefore in all its manifestations among all classes of peasantry, it is observed that marked demarcation exists betwen internal and external sources of loans. In the absence of a strong organised formal credit-structure, the members of the rural community can meet their loan-demand through minor community sources. Interlinkages that arise in such cases usually relate to labour services and are not intrinsically exploitative or usurious in nature, therefore indicating no exercise of semi-feudal prerogatives on the part of internal creditors. In fact the only motive for such linkage on the part of creditors reflect rural labour market situations and are a hedge against absolute labour shortages at critical times within the agricultural season. If at all there is a deleterious element in this arrangement, it is that wage fluctuations over the course of the agricultural season are restrained so that the highest level of agricultural wage rates do not reach their natural peaks. As shown earlier however this is not itself bad for the labouring community, since although their time rates of wages are not maximised, their time rates of labour time do increase on account of greater availability of confirmed work.

It is only when credit-needs of sections within the peasant economy outstrip the capacity of internal sources to sustain them, i.e. when the loans demanded are of relatively longer duration, or of relatively larger size, or else carry a much greater risk-possibility that the internal credit market fails to survice them. This infact is the point of entry of external loan-sources within their more exploitative and usurious character targeted at the maximisation of extraction of rural surplus.

It may however be noted that only two categories of borrowers are open to transactions with external lenders. These are namely owner cultivators or tenants seeking production loans who are therefore subjected to CO/CIO-interlinkages by trader-crditors, and newly migrated (and therefore move vulnerable, in the absence of local community support) labourers, for consumption loans that have to be taken from village shopkeepers. A certain quantum of this exteranlly sourced loans are also financed by purely usurious money-lenders, which apply for both production and consumption loans taken by sub-marginal, marginal and small peasants, who do not have much asset-collateral to offer and therefore have to accept the penalty of facing usurious rates of interest.

In substance therefore, the internal credit-sources within a backward peasant economy are capable of sustaining its credit-needs at low levels i.e. without significant rates of agricultural development. A

peasant economy, left to itself, is self-perpetuating even to the extent of keeping production and consumption levels stagnant. In order to increase these levels some recourse to external sources of borrowing becomes necessary, but in the informal market this introduces elements of pure usury and usurious interlinkage, which overtime can lead to massive rural indebtedness. It is therefore not the CL-linkage, but the CO/CIO-linkage that has to be specifically guarded against. These means for such safeguarding and for providing additional protection and support to vulnerable sections of the peasantry may now be discussed.

6.5 Suggested Interventions

From the analysis of findings it appears that interlinkage is an institutional arrangement developed in response to inadequacies generated by imperfections in land, labour, credit and product markets in a poor agrarian economy. It has thus developed through a natural evolutionary process to fulfil certain demands of a backward agricultural economy.In the context of community-based peasant agriculture such as that found in our study area this evolutionary process subsumes within it a set of socio-cultural factors which adds a new feature to the whole issue of interlinkage.

Looking at credit-labour linkages, for example, we observe that labourers enter into these arrangements with reference to certain qualifying factors. Local labourers, for instance, when sourcing loan from cultivators, are generally offered CL-type of linkages in lieu of collateral, which has been seen to be non - exploitative and non-usurious in character. It has already been shown that intra-community relationships are much more important to our study area than the basic economic factors, and cultivators belonging to particular sub-communities offer credit at concessional terms to the members of their own closed communities. These socio-cultural factors therefore determine the nature of credit-labour linkages, which in the context of the peasant economy of our study area, happen to be mutually beneficial to both creditor- employers and labourer-borrowers, in the sense that employers' needs for an assured labour supply and labourers' demand for low-priced consumption loans are both simultaneously satisfied. CO/CIO-linkages such as those seen between traders and relatively larger owner cultivators and tenants though exploitative in nature and fostering surplus extraction are also inevitable outcomes of imperfections prevailing in credit and output markets. This is so since the machanism of CO/CIO-linkages ensures that the effective rate of interest on loans is escalated through the invisible means of overpricing inputs supplied and/ or underpricing committed output, so that the cash incomes and therefore the real marketable surplus accruing to borrower-cultivators are correspondigly reduced, implying an extraction of surplus. Even so, the willingness of borrowers to contract loans on such terms stems from their lack of collateral means.In both CL and CO/CIO-linkages, some non-marketable collateral (e.g. future labour services or future output) are accepted by creditors against loans to the informal credit market, which would otherwise have been unacceptable to the formal credit market. Inerlinkage therefore ensures double coincidence of creditor-borrower wants without which the imperfectly monetised economy would tend to be inefficient in respect of allocation of financial resources.

Although interlinkages are thus seen to be natural outcomes of certain market inadequacies, their presence does not intrinsically guarantee long-term benefits to the linked households. We had noted earlier that the CL-linkage is less exploitative and non-usurious in nature and can be sustained within the internal economic structure of the peasant economy. The CO/CIO-linkage is however usurious in nature and enhance surplus extraction through the process of unequal exchange as just described. The impact of the surplus extraction is initially felt by the borrower in terms of reduced profit from cultivation, but

since this reduction also reduces the cultivators' capacity to invest on further crop-expansion or technology-induced productivity expansion, a secondary impact also falls on labourers in the peasant community in terms of the resultant non-creation of additional man-days of employment, and the sacrifice of further potential income on the part of both borrower-cultivator and labourer. This category of linkage is therefore poverty-inducing and deters technological diffusion among the poor cultivating households and hence needs to be specifically guarded against.

6.5.1 Entry & Delivery of Formal Credit

It appears therefore from the above analysis that some sort of credit intervention has to be made in a systemic manner to tackle the problem of backwardness in the agrarian economy in grneral, and the character of interlinkages in particular. Since the internal means of credit expansion in the peasan economy are necessarily limited by absoulute levels of poverty, such intervention has to be external. Two avenues for external credit intrerventions exist, namely either through external sources within the internal credit market, or through the entirely exogenous formal credit interventions.

The increased flow of formal credit into the peasant economy however *a priori* lead to an increase in agricultural production and overall agricultural productivity thus enabling the agrarian economy to move beyond its low-level equilibrium of low production and consumption. But as noted earlier in the literature and also in the sample study, the access of all sections of the rural community to formal credit is not uniform. Some sections of the rural community are more advantaged than others because of collateral -backed access to the formal credit market. It has been observed in the present study that formal credit tends to gravitate towards better-off farmers. Asset-based lending policies followed by formal credit institutions therefore tend to lower the access of the small peasants to the formal credit market and increase more inequality. Transaction costs expand for small size loans, and thus also discourage small borrowers from approaching these institutions. Given these weaknesses in delivery of formal loans, although the recommendation of the present study is for an expanded flow of formal credit into the peasant economy, direct participation of formal institution may be unworkable and counter-productive. In such circumstances an alternative means of entry for formal credit into the agrarian economy has to be formulated. Reviewing this background and the need for external credit interventions, we note the following :

(1) Formal credit has a special role to play in increasing overall production and productivity and in promoting technoloigical transformation of a backward agriculure. This role derives from its cheap and equitable character, *vis-a-vis* the traditional external lenders in the informal market. However, access to it is irregular and larger peasants in our stydy area, although placed in a relatively advantageous position in terms of access to the formal credit market, are not also adequately served with working capital, thus keeping their overall production at low level. The labourer class, which depends on them both for work and consumption loans, is thus seen to live on the verge of subsistence as scope of employment in agriculture is severely limited. One way to solve the problem of agrarian backwardness is to provide adequate production loan support to the larger cultivator which will reduce thier dependence on exploitative external sources such as traders, professional money-lenders, etc. Substitution of credit sources in the manner lead to capital accumulation within agriculture, greater investment, and higher production and incomes for the cultivating class. Demand for labour and overall employment opportunity within the agricultural sector will therefore increase bringing benefits to the labourer class. The severity of CO/CIO-linkage may also be reduced to a significant extent, by extension of formal credit.

(2) However, in the face of unequal access as posed by direct intervention of formal institutions, perhaps the most viable way to solve the problem of rural backwardness and interlinkages is to sustain and improve credit-suport to all sections of the peasant community, including the rural poor, by targetting them from within the peasant system. For this, inflows of formal credit can best be made within the structure of the community-matrix of the peasant economy that has been observed within the study. Such an approach would resolve two problems that currently limit the efficacy of formal credit. Since the credit flow envisaged would be delivered indirectly instead of directly as at preasent, accessiblilty to it could be widened to cover all sections of the rural community. This would prevent the formal credit flow from increasing rural ineqalities and thus coercive power of rural rich. Secondly, the indirect means of credit delivery envisaged, would resovle the problems associated with the extension of credit-support to collateral- poor marginal and sub-marginal cultivator and labouring class. The means for such credit extension can be created by formation of community based-credit cooperatives within each village.

6.5.2 The Cooperative Structure

It is necessary to first outline the reason for such recommendation. The cooperative experiment in India has a long and varied history which spans both rural and urban sectors, both agricultural and non-agricultural funtions, and both marketing and credit operations. Experience has been varied. Some of the strongest rural cooperative experiments have been in activities as diverse as dairing, horticulture and fisheries, all of which essentially involve marketing or distributive operations. An institutionalised structure for funding and financing cooperatives exists through organisations like the National Agricultural Cooperative Marketng Federation (NAFED). The origins of the Agricultural Cooperative Marketing Federations lie in the policy of divesting the middle-tier of district marketing agencies of those functions that can be legitimately brought into the perview of primary co-operative societies. Since the resultant two-tier structure has met with some success in rural marketing operations, with the number of primary or registered societies showing continuous increase, replication of the cooperative experiment with respect to rural credit can also be conceived.

One of the strengths of the rural peasant community observed in the study is the willingness of this community to interrelate at socio-cultural level. As remarked, the system of interlinkage within the internal informal credit market has emerged to compensate for market inadequacies such as absence of collateral means or the need for credit support to consumption, besides production. It is noteworthy that the rural community is willing to extend such support to its members within its limited means, without any exploitative or usurious motive. The CL-linkage is a case in point. The labour committed by the borrowers against the advance of loan is actually a physical substitute for collateral-means, and moreover does not invove any undervaluation of the future service. By willingness to accept such interlinkage the labourer is able to draw credit-support from the community, where none would be forthcoming.

This community-based internal credit-support mechanism is entirely informal, and therefore does not have sufficient capitalisation capacity. The experience of the present study would suggest that the informal credit system be formalised through the institution of community-credit cooperatives. Credit flow from formal credit institutions could then flow into the peasant community by interaction with these cooperatives.

The village resident's perception of his community is generally limited to his village. The present structure of the co-operative movement in terms of an institutional apex thus makes the cooperative institution appear a little remote i.e. formal to the village resident. Unless the peasant can identify with

the cooperative institution as 'his own' institution an element of parallel competiton exists betwen the cooperative credit market and the community-based infofmal internal credit - support. This can only be reversed by organising cooperative credit in the form of primary rural cooperatives for each village. Although the functions of the primary cooperative would initially be specialised towards provision of credit, they would in every other sense function in extension of participative rural institution such as the panchayats.

Such cooperative would have to cater to all minor credit-needs of the community and would therefore have to provide both production loans and consumption loans. For truly participative nature they would thus have to involve owner cultivators as well as tenant farmers and labourers, functioning as a non-government self-help institution. Certain intrinsic advantages of the rural community would extend into the cooperative institution. For example, the use of non-exploitative interlinkages in lieu of collateral from those seeking loans, which is unacceptable to formal institutions could continue. This would ensure equity of access and resolve one of the problems facing formal credit institutions.

Provided the cooperative could offer adequate credit-support, this would gradually eliminate the entry of exploitative external traders, money-lenders, etc. into the rural credit market. However, the capitalisation capacity would need to be augmented and for this the cooperative institution could transact for (concessional) loans with the formal banking institutions, over and above any seed money to be provided by the government. The capacity of the institution to generate its own resources could also be augmented by its participation in crop-insurance, and crop-loans against recovery of normal transaction costs and risk permia.

One question that may potentially attach to the formation of the rural credit co-operatives relates to the problems of recovery of loans. Experience with bad agricultural debt in the country has been marked, but it is to be noted that the irrecoverable debt has been associated with priority sector loan-inflow from formal banking institutions, where loan - issue is made directly to the client without adequate facility for pecuniary recovery. In the light of this experience, the community credit cooperative would probably prove to be a better vehicle for priority-sector lending. Firltly, being administered by the community, it would provide in-built community-based moral suasion to discourage default. Secondly, in the face of absolute inability to repay, the credit institution would find physical means of repayment such as commitment of labour or output to be acceptable since it would include cultivators among its member, which is not true in the case of banking institutions.

The need for this community credit cooperative arises from the need to import the strengths of the peasant mode of agrarian organisation into its formal credit- support structure. It is suggested that the cooperative experiment be initially carried out in terms of Pilot-Projects in certain villages where peasant mode of agrarian organisation is particularly strong. In the light of the resulting experience, refinements could be made to the organisation and, statutory bye-laws of the cooperative. Successful operation of the cooperative would enable the diversification of its activities to jointly cover both credit and marketing and also permit an eventual venture into agro- based industrialisation of the villages.

The advantages that a viable cooperative credit organisation has to offer to the peasant community observed in the study region are numerious. By depersonalising the creditor -borrower arrangements of the informal credit market it would promote equality of support and enhance cohesion between rural sub -communities which are still distinguished in terms of ethnicity and religion. This being supplimented by a reduction, rather than extension of rural inequalities, would enable agrarian tension to abate and

prevent the type of rural dichotomisation that can lead to the emergence of a rural elite with coercive powers even from the midst of a peasant economy, and would thus promote agrarian development without compromising the peasant character of the rural economy.

6.6 Developing an Agrarian Economy

It must be noted that agrarian means for agrarian development are at best a short-term measure for developing the economy of an agrarian region. They however need to be contemplated because of the lack of a potential break-through in the foreseable future in regard to non-agricultural means of development such as industrialisation, urbanisation, etc. This appears to be true for Cooch Behar where insufficient economic headway has been made outside the agricultural sector, and it is likely that this situation may persist for some time yet. However, the non-agricultural means of development are not an unqualified blessing, as the Indian experience has shown, because they lead to widening of the rural-urban divide, to problems of regional imbalances, and to usurpation of the fruits of development by the very few. This experience shows that the viability of the development intiative depends on decentralised developmental processes that take development to the grass-roots. In support of this argument, the present study has shown that the rural community possesses its own distinctive strengths, and tuning of development strategy with this strengths can promote all-round growth of the economy.