

# Contractual Arrangements and Rural Credit Market in Assam.

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## ABSTRACT

*The paper addresses the question of existence of land mortgage under usufructuary system in agriculture of Assam. It is well known that when a small farmer needs loan they can easily receive it by mortgage their land to the landlords. This system, however has been on the increase during the current decades. A number of explanatory factors have been considered to explain this phenomenon. There is a considerable scope here for them to catch up with the empirical findings. Our findings, primarily based on the field survey data, suggest that among the factors considered intensity of informal credit transactions are the most important ones to explain the forms, nature and extent of informal credit transactions in agriculture of Barak valley during the current decades.*

*Key words: Hunger Leasing; Pyakas; Kat Banddhak; Transaction cost; Banddhak.*

## INTRODUCTION

Besides, land is a basic factor of production, the subject of land closely related to that of rural credit market. It is well known that a bulk of the institutional or formal credit goes to the larger farmer. This comes out very clearly from our earlier study of villages in Barak valley of Assam. We find, for instance, the bureaucratic delay that a borrower has to face in getting a formal loan comparatively to big farmers. The transaction cost for a small is greater than that for a larger loan. When small farmers have need of credit, they can easily receive it from their landlord, relatives, shopkeepers or village traders. However, when quantum of loan is required, they have only choice to mortgage their inheritance small piece of landed property to the landlord. When debt is assemble by a huge amount and exceeds the paying capacity of the farmer, the land is lost by the small farmer. Moreover, attention was also drawn to the fact of interest rates which are high in backward areas but vary a lot.

## EXISTING LITERATURE ON INTERLINKING CREDIT TRANSACTIONS

In a backward agricultural economy, on the question of inter linkage between tenancy and rural credit system, there is a philosophy which opines informal credit transactions allow the landlords to extort outmost surplus which leads to the tenant indebtedness [Badhuri, 1974 and 1977; Gathak, 1977; Scandizo, 1979; Prasad, 1973; Chandra, 1994]. In reality, liability of tenants to the landlord think about to be the mark of backwardness (Bhaduri, 1984; Prasad 1979). There is first hand relation between informal credit in underdeveloped agriculture and landownership model. "The sizeable landowners have, to the greater extent capable of take over the institutional credit, sadness and small peasant carried with turn on non formal sources show there's below far involvement in the process of agricultural growth (Kuri, 2004)". Loans for consumption and production needs of the farmer necessities to credit contract between landlord and tenants.

Production loan so called project financing loans as rule limit to purchase fertilizer, seeds ploughing tools and other mode of capital. Tenants in non identical pay different borrowing rates on their mortgage [ Singh,2003;Braverman and Stiglitz,1985: Bardhan and Rudra,1978].

Under consideration of whether the consequence of interlinked credit is stimulant in take up agricultural development, Bhaduri (1973) initiated his work in this regard. According to him, the situation of interlinking credit and tenancy arrangement, should be an impediment to the technological innovations. In his model, the land owners obtain rental income from the leased out land and be of interest to loans that the amounts provided to tenants. Land owner did not prefer technological innovations. If the landlords encourage the tenants to adopt technology, production will increase and therefore the tenants will be disincentives to borrow cash from landlord. Technological innovation, therefore makes tenants better off, bring down their order for consumption loan and here landlords worse off.

A number of studies have challenged the Bhaduri's theory. Using Bhaduri.s model Srinivsan (1979) has putted argument in favour of innovations lead to lower demand or credit. Barverman and Stiglitz (1986),have exhibited on the point that innovation effect at a time reduction and growing in tenant's need for informal credit sources. The studies of Gosh and Smith, (1976); Mitra, (1983); Pant (1980); Gangopadhya and Sengupta,(1987); Griffen,(1974);and Newbery (1975) accepted credit arrangements between landlord and tenants are essentially interlinked and renter behave as a face to face and incidental cause or effect of credit truncations. Rudra (1978), on the basis of his empirical study on agrarian relations in several districts of west Bengal, challenged the Semi feudal models of Bhaduri. Rudra has received support from a series undertaken by different writers [Braverman and Srinivasan,(1981); Guasch,(1984); Chakraborty,(1981)].Moreover, through the work of agricultural credit multitudinous informational effort has been built in the empirical field, particularly, the micro -emperical studies, for instance, the study of Nagraj (1985), Sarp (1991), Swaminathan (1991).

In Assam ,many academician mentioned their studies on the subject of tenancy spell their study on the agrarian reforms in the state. Though the study was not purely economic analysis, but they have shown tenancy situation and the problem related with it. Considerable studies have been made by Goswami, (1985); Guha, (1991); Chakravarty, (1995); Choudhury ,(2000);Gautam, (1995); Pukan, (1991); Khatun,(1984) ; Roy and Bezbaruah 2002). Though there have been theoretical attempts to model of interlinking credit arrangement under sharecropping, but no such work carries yet in the Barak vally of Assam to match up experiential among prevailing hypothetical propositions. What we need to do is to model the relationship between rural seasonality and credit market institutions.

## OBJECTIVES OF THE STUDY

In Assam, tenancy is characterised by a high incidence of sharecropping, in which the tenant yields to the landlord on agreed upon share crop. Despite of the existence of share cropping over the years, their unusual terms and conditions and verbal or non-formal credit linkages to usufruct ray mortgage or bond land are remain still further untouched or understudied. The present paper strives to survey the typical terms and condition of informal credit market in rural areas of Brak valley in Assam.

## DATA AND METHODOLOGY

The study is taken up in the Barak valley of Assam. The study is based on collection of primary data. Data of only 24 major villages of six Agricultural sub-division of three districts in Barak valley are used. The villages have been chosen purposively considering the dominant practice of the institution of tenancy. Household is the basic unit of our sample and is chosen from those whose agriculture is the primary source of livelihood. The listing farming household have been done consultation with the official of the agricultural department in each Agricultural sub-division. Two considerations have kept in the mind while selection process has done. First, the chosen sample villages have indicative of the entire sub division. Second, the sample village have to not either developed or backward village. The certain banking infrastructure and new agricultural practices have to be accessible in some villages of the adopted circle. A total of 206 sample households have been collected for the purpose of the study.

## RESULTS AND DISCUSSION

Small tenants need credit for various purposes. They can easily get small amounts of loan required for consumption purposes from their landlord, relatives, shopkeepers or village traders. However, when require amount is needed for multi- purposes, the only way to receive cash through mortgaging their land. In non appearance of advanced and unambiguous credit market, land and credit connected with land mortgage is general practices in the sample villages. Simple mortgage and usufructuary mortgage that are two forms of mortgages found in our study villages. In the former type, the ownership of land remains to the debtor. In case of default to repay the borrowed amount the ownership will be transferred to the creditor. While, in case of usufructuary mortgage, the ownership of land be passed to the creditors and he will be the owner of that mortgaged land and will cultivate it instead of interest on loan so long borrower repays the borrowed money.

Divergent type of usufructuary mortgages observed in our sample area. Commonly, three categories of usufructuary mortgages that are plasticised; (i) Partial mortgage or *Banddhak* , (ii) Total mortgage or *Pykas* and (iii) *Kat Banddhak* or mortgage on limited sale. In all instances, some kind of written agreement made between the contracting parties taken one or two as witness. However, the written agreement is done in form of hand note on ten rupees India non Judicial stamp. The system is popularly in locally called *Smaranlipi*. In case of the *Kat Banddhak* where deed writer, so called *Morir* mediated in arranging the agreement in forefront the concerned Govt official. Although land mortgaged for certain sum of money, no interest charge levied for this loan. The money lender either cultivate the land itself or lease out to the mortgageter or part of others. The *pykas* system or total mortgage is alike to that of partial *banddhak* or mortgage, but in case of former agreement is done for time bound and production of land to be pertain until clearance of the debts. The system of total mortgage is considered to be equivalent to fixed rent tenancy where the lease in on the condition that tenants will pay a fixed rent per acre either in advance or after the harvest in kind or in cash. In *kat banddhak* or mortgage on limited sale, mode of repayment is much rigid from the other two types of contract. In case of default of repayment by the borrower on that place a warning come from the lender with regard to detachment from land. The contract is made on condition that borrower after make full payment of borrowed

money on specified time the lender will return the land. Failure of which piece of land will be forfeited by lender. Thus, in case of *kat banddhak* lender will be the owner of land provided that the failure of borrower in repayment of loan in time. In Table-1 has presented different types credit contract under usufructuary mortgage mostly plasticised in our sample farm households

**TABLE - 1**  
**CREDIT CONTRACTS UNDER USUFRUCTUARY MORTGAGE**

CIRCLES	PARTIAL BAND-HAK	PIKAS	KHAT-BANDHAK	TOTAL	AMOUN OF LAND UNDER MORTGAGE (IN HA)	AVERAG E LOAN PER BIGHA (RS.)
1	2	3	4	5	6	7
Fakira Bazar	4	0	0	4	2.88	6295.00
R.K. Nagar	9	0	0	9	5.31	7200.00
Narshingpur	2	4	0	6	3.12	8100.00
Salch- apra	3	1	0	4	2.65	5500.00
Bans- kandi	2	5	1	8	4.30	4550.00
Haila- kandi	1	6	0	7	4.18	5660.00
<b>Total</b>	<b>21</b>	<b>16</b>	<b>1</b>	<b>38</b>	<b>22.44</b>	<b>5250.00</b>

Source: Field Survey, 20015.

The partial usufructuary mortgage is common practiced in our sample villages (refer Table-1). Here, the land owner can anticipate ambiguous rate for bond his land. The variation has found in circle to circle and pact to pact. The highest amount of loan depends on the nature of the land to be bond. Also, maximum possible amount may fixed by the negotiating between debtor and creditor. We have also observed a uncommon character of tenancy under usufructuary mortgage in our sample villages, where owner becomes tenant in their own land. This condition comes when pity farmers mortgage their land to the lenders who then again lease it out to owner under share cropping. It is very winsome to the salaried and business men who have not any farmable land but can receive land by means of credit to the lender and can draw out lease income in forms of sharecropping. Table-2 illustrate the non identical partners of mortgage land.

Table-2

## Usufructuary Mortgage and Operators of Mortgaged of land

Circle	No. of victims of usufructuary Mortgage	Lender operator	Sharecropper	
			Owner of land	Other sharecropper
Fakira Bazar	13	8	4	4
R.K.Nagar	18	12	9	2
Narshingpur	3	3	1	1
Salchapra	16	8	5	3
Banskandi	14	9	8	1
Hailakandi	20	7	8	2
Total	84	47	35	13

Source: Field Survey,2015.

It is evident from the Table-2 that in some cases owners of land becomes lease in their own land. In some cases, we have also noticed that the professional money lenders have entered into the land lease market. They come up with interlinked land and credit market giving credit against the mortgage of land and later lease it out to the owner under sharecropping. This type of leasing in the Marxist literature is as 'hunger leasing.' In many cases, we have found that pity landowners are unable to repay the debt amount in long duration; they go on as tenant in their own land or put on sale it with low price to the creditor.

## CONCLUSION

The sharecropping is a familiar practice in agriculture of Barak valley in Assam. Lease agreements go along with non-formal credit arrangement with the tenant. The sharecrop farmer accepts certain troubles either in getting institutional credit or non availability of sufficient institution credit. The farmer's need of loan arises mainly for consumption ,production and other multi purposes. The nature of informal credit agreements are of different. Land interlinked to bond or mortgage under three different types that is the common picture of the sample village. All in forms, small farmers when they have need sum of big amount of loan either for aforesaid purpose, they have only option to mortgage their inheritance property to the money lender or village *mahajan* to get loan. The money lender or mahajan encourage the poor farmers to borrow more and mortgage their land as security. As the debt is accumulated by a huge amount and exceeds the paying capacity of the farmer, the land is lost to the money lender.

Thus, the measures are necessary to control the exploitation by the money lenders. Though the state has brought under statutory regulation the function of lending in the form of licensing obligation of the money lenders and the chargeable rates of interest, the poor borrowers have not been much benefited because the greedy lenders know the lacuna of legislative provision and many ways of escaping due to helplessness of the debtor. The loss of land to the village mahajans and money lenders has to be stopped by ending their land mortgage type of exploitation. However, this is only possible by making institutional credit facilities available to the needy farmers. This will bring down inability to act independently on informal credit market.

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