

RURAL CREDIT MARKET IN NOAKHALI
DISTRICT, BANGLADESH

by

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ABSTRACT

Credit is an important component of the current rural development programmes that are being pursued in many under-developed countries. Such programmes can be effective only if objective considerations are made of the non-institutional market for credit. This market reflects the underlying social and economic structure. The present study attempts to understand rural society in Bangladesh from observations made of the credit market.

The study is based on a survey of three villages in Noakhali district, conducted during the months of April to August in 1981. The results of the study show that in most cases the net creditors in the market have their surplus originating from non-agricultural sectors of the economy and the direction and nature of credit flow indicate that few changes may be expected from the forces within the rural society. Institutional lending is observed to be sustainable only if changes in the modes of agricultural production are brought in from outside. Otherwise, its initial impact tends to lose momentum. Finally, the high interest rates, prevailing in the non-institutional credit market, seem to strengthen the vicious circle of poverty.

The study also focuses on issues such as the influences of kinship on lending, factors influencing the determination of interest rates, and the nature of institutional lending through the cooperative societies. These are discussed to facilitate an understanding of the social dynamics.

INTRODUCTION

In spite of a decade of numerous experiments in rural development that produced frustrating results, reliance on it is still very dominant in most underdeveloped countries in Asia and Africa. The 'community development' approach of the 1950's was replaced by an all-out effort to introduce the new technology (i.e., seed -fertilizer-irrigation), and then came the 'integrated' programmes which now have the theoretical guise of the 'Basic Needs' approach. Nevertheless, the key focus remains still on increasing agricultural (especially, food) production through widespread dissemination of the new technology, and credit is identified as an important element in the factor-package. At one time, the case for institutional credit was argued on the ground that it would replace the moneylenders and thereby eradicate their exploitation of the rural masses. With the introduction of the new technology, the proponents found a better argument in terms of achieving increased production. However, most small farmer credit programmes have failed in achieving either of these two objectives. This has led to an increasing realization that even though such programmes do have a role to play within a comprehensive development strategy, their success depends much on the initial distribution of resources (and other related issues) within the recipient society.

Experiments in rural development in Bangladesh have primarily centered around the search for an appropriate institution to make cheap credit available to small farmers and the rural poor. The process has, however, been too long and uneconomic. While the traditional multipurpose societies are yet to be completely replaced by the Comilla Cooperative system,² we find new variants being experimented with in certain parts of the country (such as, the 'Grameen Bank Prakalpa' and the Rural Finance Experimental Project). Increased experimentation is desirable, but it can be costly. Moreover, it can give rise to distortions (such as, developing psychological dependence amongst the rural recipients on government assistance) that may hinder future development efforts (e.g., in mobilizing rural masses for community work). Therefore, rather than imposing a structure from above, a thorough understanding of the rural credit market, the linkage between informal and formal credit markets, and the experiences of past experiments is needed for designing a viable credit project.

Studies of rural credit have mostly been approached from the perspective of institutional lenders, attempting to find the pros and cons of their lending mechanisms. A great deal of focus has thus been made on demand and supply of credit, <Page: 3> estimation of the price of rural credit, and obviously, the institutional aspects of credit. Literature on rural credit from a structuralist view is still very virgin. Since credit transactions are major observed phenomena in the rural society, their study, supplemented by the identification of the resource distribution pattern, is likely to provide a greater insight into the dynamism (or stagnation) of the rural economy.

The above aspects clearly signify the importance of the rural credit market in the field of rural studies. While working at the Bangladesh Institute of Development Studies, the author had the opportunity to stay in the villages of Noakhali district in Bangladesh and to participate in a field study supported by

¹ All page numbers in < > refer to the placement of the text that follows in the original thesis document. The present document keeps it simple and brief.

² A discussion on the institutional credit in Bangladesh is provided in Appendix A.

an experienced research team that was well-acquainted with the villagers. The present study is the outcome of the above association [during March-August 1981].

The study has focused on the major research findings. The next chapter lays down the conceptual framework of the study. References to the existing literature have been made in it to clarify relevant issues and outline the objectives. The third chapter identifies the source of data and research methodology, while the fourth introduces the readers to the survey villages. Separate introductions on the general characteristics of each of the villages have been included in the latter chapter to facilitate a better understanding. The <Page: 4> major findings of the study are provided in chapters V, VI and VII. While the first two make use of the traditionally used concepts, the last one attempts to bring out the social dynamism from the observations of the credit market. A discussion of the institutional credit in rural Bangladesh has been included in the appendices. Any digression in the text has further been avoided by making extensive use of notes. Finally, a lengthy bibliographical list is provided at the end for future reference.

II

CONCEPTUAL FRAMEWORK, ISSUES AND OBJECTIVES

The term 'agricultural credit', rather than 'rural', is much used in the existing literature. This is because of a very specialized view taken by many academics. However, from the point of view of this study it is felt that a broader view should be taken, and therefore, the term 'rural credit' should be used.³

Credit, as an important aspect in exchange, "is a surface phenomenon reflecting the underlying economic organization and the motivations of the people who inhabit it."⁴ In abstraction, credit may be viewed as a phenomenon emerging out of the need for resources (either in cash or in kind) to be used either for production, or consumption, or for some other purposes that may not be directly associated with economic activities. The demand aspect is emphasized since it is the pre-requisite for the existence of a market. Nevertheless, in a closed economy, it is hypothetically true that the same social and economic processes which determine the demand for credit, also generate its supply.⁵ Functionally, credit may be viewed (in terms of the purposes for which it is lent-out or borrowed) as follows:

1. It is a medium whereby human forces of production are (temporarily) sustained (both physically and financially <Page: 6> enabling a smooth running of the production organization. The financial sustenance could be effective through providing credit to small farmers and/or tenants to rent in land and/or to meet their production costs, while the physical sustenance relates to the consumption loan provided.
2. It is a mechanism via which resources find better outlets of return (given the opportunities available). In strict economic terms, this would imply that the lenders find it more profitable to lend rather than keep the money idle or use/ invest it for some other purpose. On the other side, the debtors, given their needs during the borrowing period, find it worthwhile to borrow. In a subsistence economy (like that in Bangladesh), creditors' decision criteria are influenced by many other factors that do not bring in immediate economic return. Similarly, the debtors' needs and preference for borrowing may not be for economic ventures either.

The above characterization is meaningful since the flow of credit to a particular sector (or, to a group of debtors) could be due to either the prosperous or distressed state of that sector (or, group of debtors). Similar duality prevails in case of the lending sector (or, lenders). If the flow of credit is to be to economically more profitable sectors, it surely indicates the direction of changes within the rural <Page: 7> society. On the other extreme, credit flow could be a reflection of the continuing dependence of the indebted class and of a resource transfer in favour of the lenders. These contrary implications of the same credit flow make it difficult to infer about the underlying social dynamism, unless an analysis

³ The expenditure side of the household budget of a farmer includes many aspects other than the cost of agricultural production. Therefore, his allocation of borrowings (even if that be from an institutional source and, on paper, meant for purposes related to agricultural production) to different needs is dictated by his relative preferences that are influenced by both economic and non-economic factors.

⁴ Bhaduri, A., *The Economic Structure of Agricultural Backwardness*, p. 1.

⁵ Such an economy, in aggregate, may not be producing enough for its people. In such cases of absolute shortfall, the discrepancy between demand and supply widens. In an ideal case, where the economy has the technical capability of producing enough for its people, supply and demand tend to have greater correspondence. The 'processes' mentioned in the text refer to the second situation.

into the relative profitability of the borrowing sectors (including the sectors of credit utilization) and the lending sectors, is incorporated.

Studies on institutional lending could also be approached in terms of the aforementioned functional aspects. Hypothetically, such lending is essentially a conscious intervention (on the part of the institutional bodies) in the rural credit market. The urge to intervene may arise in order to sustain a distressed population (e.g., those affected by a famine or some natural disaster). Such a case clearly conforms to the first functional aspect (of credit) mentioned earlier. The objective may also be to channel resources to the 'productive' class (es)⁶ for achieving agricultural and/or rural development. In reality, such an objective is usually associated with the intention of achieving increased agricultural production by spreading the new technology. Therefore, the functional characteristic (s) of such institutional lending will depend upon the nature of the technology and the linkage-effects of its adoption. If the inflow of credit occurs without the spread of technology, <Page: 8> it is likely to sustain the old structure of production and resource distribution. In an opposite case, a long run analysis of the impact of the particular technology is essential to identify the progressive role(s) of associated lending programmes. Whatever objectives are set, the actual direction of the flow of institutional credit depends on the nature of the disbursing institution, procedures of lending, and most importantly, the state of affairs at the recipients' end that would include the rural power structure, nature of demand, and literacy. The last aspect necessitates an analysis of the linkage between institutional and non-institutional credit markets for understanding the potentiality of success of a particular form of institutional lending.

The aforementioned objective of institutional lending relates to increasing the volume of credit to particular sectors. It could as well be to influence (mainly reduce) the prices of rural credit and leave the rest to the private market. But price is again a surface phenomenon and the direction of flow in a given price system, will depend on the ability of different groups of the rural population to gain from it. The latter obviously depends on the initial resources of these different groups.

It has been argued above that the initial distribution of resource ownership and the nature of resource utilization give rise to particular patterns of demand and supply of <Page: 9> credit. Institutional lending, being a part of the aggregate market, is also influenced by the above structural factors. A second point to be noted is that the credit market provides more than a static picture of the underlying economic and social organization. The direction of credit flow reflects also the changes in the economic base that are not captured by a static identification of resource ownership. Understanding the particular nature of the flow necessitates, however, inquiries into the characteristics and interests of both the debtor and the creditor classes, the non-economic relations that influence the transactions, transfer of resources as collaterals and interest payments,⁷ and most importantly, sectors where credit is being utilized and their relative potentiality in transforming the society.

Most literature on rural credit takes an institutional perspective. Thus, the focus is on logically setting the objectives and evaluating credit programmes on the basis of their achievements. In terms of their arguments, many proponents of institutional lending express an attitude of pity towards the rural masses. This is evident in the argument by some that "... those at the bottom of the ladder cannot

⁶ The governments in the underdeveloped countries and the international development agencies, such as the World Bank, identify the 'small farmers' as such 'productive' class. In the World Bank Sector Policy Paper on Agricultural Credit, published in 1975, the set of small farmers is defined to 'include families farming less than five hectares (where one hectare equals 2.471 acres) or, in countries where all farms are small in absolute size, farmers comprising the poorer half of the country's rural population' (p. 3).

⁷ This aspect again necessitates an investigation into the forms of transaction and the determination of interest rates.

reasonably hope to produce enough for their own consumption: Herein comes the need for providing credit to the small farmers."⁸ There are others who view agricultural development as synonymous with increased agricultural production and <Page: 10> argue that the government's expenditure on agriculture should be in proportion to the latter's contribution to national income.⁹ Even though the need to provide distress loans (or grants) in certain situations is not denied, such simplistic arguments should not hold sway in the planning of a capital scarce underdeveloped economy.

The main argument for institutional lending follows from the role expected from credit in increasing agricultural production, especially in the context of the new technology.¹⁰ The latter makes use of more purchased inputs necessitating more cash-holding in the hands of the farmers. Assuming other things to remain favorable, the spread of the new technology is likely to be hindered by the scarcity of cash of small farmers. It is argued by some that the informal credit market is incapable of filling this need. According to them, modernization of agriculture demands a coordinated approach necessitating the introduction of institutional credit.¹¹

Due to the coordination of the international development agencies, the credit programmes (and even the organizational mechanisms) adopted in many underdeveloped countries are strikingly similar.¹² Typically, they aim at providing subsidized credit to the small farmers for financing agricultural expenses. In the recent past, there has been increasing concern for providing the rural poor with self-<Page: 11> employment in subsidiary activities, such as, rickshaw-pulling and petty trading in rice. But, as compared to the enormous spending made on these programmes, there has been little success in supplying credit to the small farmers and rural poor. The failure has generated a host of academic research based on empirical data. A number of obstacles that have been identified are stated below:¹³

1. (a) there exists an unholy alliance between the urban interests and the rural elites that act against the rural poor in availing institutional facilities.
(b) Even though the new technology is scale neutral (except in the case of the provision of irrigation) and is profitable, it also requires a much deeper financial involvement by the farmer. So long as the main basis of economic power is based on unequal ownership of land, an equitable access to the resources on the part of the small farmers is unlikely
2. Low interest rates act as a disincentive for the supplying agencies (e.g., the commercial banks).
3. Due to the lack of investment opportunity for the *poor*, their demand for credit is low.

⁸ Asaduzzaman, M. and M. Hossain, Some Aspects of Agricultural Credit in Two Irrigated Areas in Bangladesh, p. 2.

⁹ Sharanappa, S. Rural Credit and Economic Development, p. 9, and Bhole, L.M., Financial Structure for Rural Development: In Retrospect and Future Perspective.

¹⁰ In some countries, the 'new technology' implies the mechanization of agriculture that spread with the 'Green Revolution.' However, mechanization did not bear any fruit in the context of Bangladesh, where both owned land and landholdings are relatively small. Rather, the high yielding variety (HYV) seeds cultivated in irrigated plots and making use of chemical fertilizer, gained greater acceptance. Every mention of the 'new technology' in this study refer to the above-mentioned input-package.

¹¹ Lele, Urna J., The Roles of Credit and Marketing in Agricultural Development, p. 417. See also World Bank, Agricultural Credit --Sector Policy Paper, p. 3, where the following statement has been made, "since small farmers suffer most from poverty in the developing world, improving their productivity and income is a matter of high priority" "The report further states that "credit also has to be provided to medium-and large-scale farmers in order to help increase world's food production."

¹² Bangladesh Bank, Problems and Issues of Agricultural Credit and Rural Finance, p. 59.

¹³ The obstacles mentioned are conclusions reached in different studies and the r e f o r e, these should not be viewed as parts of a single viewpoint. For 1(b), see Islam, N., Development Strategy of Bangladesh, pp. 24-29; and see also, Faaland, J. and J.R. Parkinson, Bangladesh: The Test Case of Development, p. 144. For other obstacles mentioned, see Adams, D.W. and D.H. Graham, A critique of Traditional Agricultural Credit Projects, pp. 347-362.

4. If borrowing costs are included, the effective interest rates on institutional credit are relatively higher for the small farmers and poor. Thus, their demand for it is low.

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The above discussion has been laid down only to show how a great volume of literature on rural credit has followed the long and expensive path of institutional experimentation, to realize in the end that the problem cannot be approached in isolation.¹⁴ Since the structural issues influence the direction of flow of institutional credit, it is worth looking into the extent and nature of the linkage between the institutional and non-institutional credit markets,¹⁵ and attempt to analyses whether, and to what extent, the existing institutional lending replaces or reinforces the non-institutional market in a particular rural society. Secondly, it is recognized that the direction of credit flow and the price of credit are also influenced by the relative profitability of various sectors and that the benefits of cheap lending to poor people depend upon their accessibility to the profitable sectors. It is, therefore, essential that the identification of the direction of credit flow be supplemented by an inquiry into the aforementioned factors. These two issues can best be approached within a conceptual framework discussed earlier.

In most underdeveloped countries, institutional credit accounts for an insignificant part of the total supply of rural credit. The rest is provided locally by 'non-institutional' sources. Traditional literature on rural credit identifies the following sources of non-institutional credit:

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relatives, friends, money lenders, landlords and unregistered cooperatives. While the influence of kinship relations on lending and borrowing needs to be identified; the above categorization may often obscure the true motive behind lending. Thus an inquiry into such lending is essential in understanding the implications of credit flow in a particular direction. The debtor-creditor relation could as well be identified in terms of their relative position in the organization of production. The most provocative exercises have possibly emerged from dealing with such relations, for example, landlord-tenants, and thereby attempting an explanation of agricultural backwardness.¹⁶ Such exercises have also been made in analysing the welfare impact of the supply of institutional credit at a particular interest rate.¹⁷ While narrowing down the focus to particular relations simplifies the analysis and is essential for clarity, the problem may arise if the relation is not the dominant one. In such a case, the under lying social and economic changes cannot be understood by the activities in the abstractly defined credit market. Since the rural society in the present day is no more an isolated entity, and the urban and non-agricultural interests always intermingle in the rural periphery, a broader focus is essential. It is all the more important to identify the nature and implications of credit flows.

¹⁴ This recognition is evident from the following paragraph in Barton's article "Informal Financial Markets and the Design of Rural Credit Programs," in Bangladesh Bank, op. cit., p. 63. A more thorough understanding of the extent, nature and composition of informal financial markets, the operation of informal financial intermediaries, determinants of the supply of and demand for informal financial services, the nature of the linkages between formal and informal markets, and other such questions relating to informal financial

activities in rural areas is a fundamental requirement for designing more rational, effective programmes for making available improved financial services to the rural poor.

¹⁵ Such an exercise has been made in Braverman, A. and T.N. Srinivasan, Agrarian Reforms in Developing Rural Economies Characterized by Interlinked Credit and Tenancy Markets.

¹⁶ Bhaduri, A., Op. cit. passim

¹⁷ Braverman, A. and T.N. Srinivasan, Op. cit. passim

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In our approach to the credit market, both demand and supply sides need to be analyzed simultaneously. Depending on the nature of both these sides, particular forms of transactions arise and prices are determined. An inquiry into these needs to be made to identify the direction and extent of resource flow through the transfer of collaterals and through interest payments.

Most studies on rural credit in Bangladesh have so far been conducted under the auspices of the banking institutions and the international agencies, such as, the World Bank and the USAID. Except for some passing remarks on the misery of the small farmers and rural poor, their focus has been on the achievements and failures of institutional credit schemes. No extensive survey of rural credit has either been done in the country since the liberation in 1971. The number of articles dealing with rural credit from a 'non-institutional perspective' are also very few.¹⁸ Moreover, their survey coverage is limited which makes it difficult to make use of their quantitative estimates on indebtedness and percentage contribution of different sources of supply.

From the line of arguments presented so far in this chapter, it should be clear that the present study does not aim at making quantitative estimates, such as, of demand and supply of credit, rather an attempt is made to explain the determinants of the observed phenomena. Thus, the objectives are set forth as follows:

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1. An inquiry into the rural indebtedness in Bangladesh and its nature,¹⁹ causes of demand for credit by different groups of the rural population and the motives behind lending by different sources will be identified.
2. The forms of transaction emerging out of the interaction of various needs and motives of the participants, and the factors influencing the determination of the price of credit, will be investigated for a better understanding of the resource flow through the credit market.
3. Finally, to make use of the observations in the credit market in understanding the underlying social and economic changes, estimates will be made on the 'inter-sector'²⁰ flow of credit and earlier findings will be supplemented to draw inferences.

¹⁸ For example, Quasem, A. et al., Rural Credit in Bangladesh: A Case Study of Patuakhali, and also, Asaduzzaman, M. and M. Hossain, Op. cit. passim

¹⁹ Here, the reference is made to the 'prosperity' and 'distress' aspects of credit discussed earlier in the text.

²⁰ The term 'inter-sector' is used in a restrictive sense, where sectors are identified with land ownership-occupational groups.

III

SOURCES OF DATA AND RESEARCH METHODOLOGY

Present interest in the rural credit market was generated as a consequence of my association with a research project under the auspices of the Bangladesh Institute of Development Studies (BIDS). The study was confined within Noakhali, one of the twenty [old] districts in Bangladesh. The choice of the district was not based on any a priori statistical selection. Rather, a two-year old Field Station in the district with an experienced research team provided the opportunity to conduct the study.

The BIDS, in collaboration with the Copenhagen-based Centre for Development Research, initiated a research study in three Thanas²¹ of Noakhali district. Baseline surveys in four sample villages were conducted during the second half of 1979, which provide the data for that period in the present paper. The research was continued in the district during the period from April to August 1981, under the exclusive supervision of the BIDS staff. The present paper is mainly based on the data obtained during that period. It has however, been enriched by earlier findings.

It should be evident from the discussion in the preceding chapter that our main objective is to understand and explain the phenomena rather than present a static quantitative <Page: 17> picture of the rural credit market. However, capturing the phenomena over time needs repeated surveys that were not possible on our part. One way this limitation can be minimized is to study villages that are representative of different 'production organizations'. Under such circumstance, the differences in phenomena [revealed/surfacing] in the credit market can be explained by those diversities. The understanding can further be enhanced if those differences in 'production organization' are analogous to different stages in 'rural development'.²²

The concept of 'production organization' used above is rather ambiguous; especially in the context of rural Bangladesh where agriculture is invariably the major source of income and employment. Moreover, there exist wider similarities in the distribution of land ownership and in the tenurial pattern. In spite of such common characteristics, the villages are not homogenous. Besides the topological settings and the soil conditions, the differences among villages have been observed to emerge from the following aspects:

1. The variations in the extent of adopting new technology which are usually associated with the intensity of other variants of the government-sponsored rural development programmes.

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2. The extent of impact of the non-agricultural sectors, especially that of the small and large-scale industries. This is likely to be more if a village is situated close to an urban centre.

3. The proportion of household income generated from the service sectors, including the remittance money from family members working in the urban centers or abroad. On the basis of the above criteria,

²¹ Thana is an administrative unit. Government offices for both revenue collection and law enforcement exist at this level.

²² The changes currently being experience in the rural areas of Bangladesh are mostly initiated by the government (or, semi-government) --sponsored programmes. In the absence of any significant natural development process, analogous to those historically experienced by the present day developed countries, the term 'rural development path' seems more suitable to identify the case of official intervention.

the following three villages were selected for the credit study from three different Sub-Divisions within the district:

Hasanpur: The village is mostly non-irrigated with traditional varieties dominating agricultural production. It is situated near a metal road, only five miles away from the Sub-Divisional headquarter. The village is also affected by one textile mill situated nearby.

Madhupur: The village is located inside a major irrigation scheme and thus the adoption rate of the new technology is very high. The Sub-Divisional headquarter is only about a mile away from the locality. Moreover, a Bidi Factory²³, situated at one end of the boundary, plays an important role in the village economy and society.

Rajendrapur: It is a non-irrigated village in the interior. Its backwardness in agriculture has forced many villagers to seek urban employment--mostly as <Page: 19> industrial workers. One commercial bank has been conducting a 'Rural Finance Experimental Project' in the area since September 1980. The Project is sponsored by the Bangladesh Bank and the USAID.

It was observed that Madhupur village is well endowed with resources and has the greatest potential in making progress. Moreover, Agricultural Cooperative Societies (KSS) and other institutional media have been disbursing credit in this village for a longtime. Hasanpur, on the other hand, suffers from the lack of water management. But it has greater interactions with the urban economy. Amongst the three villages, Rajendrapur is the poorest and the least developed. Even though the contrasting characteristics of the survey villages fit in with one objective (in sampling), it should be mentioned that the choice of the first two villages was also influenced by the availability of basic household information and the long acquaintance of the research team with the villagers.

The study in the survey villages was primarily based on a questionnaire survey and selected case studies that were conducted during the period from May to August 1981. Since basic survey data were available for Hasanpur and Madhupur villages, a selected sample was covered by the credit survey in 1981. Cross-verification of the two sets of data was possible due to local data collectors who have been working <Page: 20> with the Project for a long time. Besides, information provided by the respondents as regards their receipt of institutional credit was verified with the appropriate authorities. While all residing households at Rajendrapur were surveyed and the information is more complete, there are some gaps in the information obtained on Hasanpur. Therefore, it has not been possible to provide quantitative estimates of credit flow (dealt in Chapter VII) in Hasanpur. Rather, our general observations on the village have been incorporated where necessary.

Finally, some remarks may be made as regards the degree of generality of the findings presented in this paper. Since the findings are based on the study of only three villages, it appears statistically unreasonable to assume that they hold true for the whole of Bangladesh (where there are more than 62,000 villages). However, the sample villages have been chosen so as to represent the diversities within Noakhali district. A comparison of Noakhali's cropping pattern and per acre productivity with those of the national averages, has been provided in Table B.1 in the appendix²⁴. The differences do

²³ 'Bidi' originally meant hand-made cigarettes prepared from tobacco leaves. Even though leaves have been replaced by paper, the name still continues to hold. The present difference between a Bidi factory and a cigarette factory lies in the absolute reliance of the former on human labour.

²⁴ Problems of comparing the data obtained on survey villages with the national statistics are mentioned in chapter IV. Nevertheless, it may be mentioned that our findings on landless do not differ much with that of the national averages. Defining landless as a rural household that does not claim ownership of any land other than homestead land (which it may not own), the '1977 Land Occupancy Survey of Rural Bangladesh' data shows the landless figure to be 32.8 percent of total

not appear significant except that Noakhali is a step ahead in adopting the new technology.²⁵ Inclusion of Rajendrapur and Hasanpur villages, however, counter-balance such bias. Thus, the findings of the study are likely to have a greater degree of generality than it appears in the first instance.

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More important is our attempt to make use of the quantitative estimates to draw causal relations rather than claiming those estimates to hold true for the whole country. Therefore, so long as the diversities²⁶ influencing the credit market are captured by the sample, the findings and explanations will also be applicable for a wider space. It is further assumed that the rural areas of most underdeveloped countries, with low per capita availability of agricultural land, are also characterized by similar factors. Therefore, the findings are likely to have some relevance for them too.

rural households. The percentages of complete landless (i.e., household owning no cultivable land) in our case are respectively 31.8, 48.4 and 28.4 in Hasanpur, Madhupur and Rajendrapur villages.

²⁵ In terms of the adoption of the new technology, Comilla and Chittagong districts are more advanced.

²⁶ Here we refer to the differences in the 'production organization.'

IV

CHARACTERISTICS OF SURVEY VILLAGES

A broader characterization of the survey villages has been provided in the preceding chapter. This chapter deals with certain characteristics of the survey households and makes brief observations of the different interest groups in the survey villages and their alignments that are crucial in the later analysis of the credit market behaviour.

Since land is the major source of earning and employment, the economic and social life in rural Bangladesh pivot around the ownership and use pattern of this scarce resource. Even the control over distribution is either determined by this ownership, or else, such control necessitates close alignments with rich landowning class (es). Land groups defined in Table IV. 1 are based on ownership of cultivable land only, which makes it difficult to compare with the available national statistics where land groups are defined on the basis of total land owned (including homestead land). Nevertheless, earlier reports on the survey villages confirm a high degree of correlation between the ownership of cultivable land and the ownership of total land.²⁷ Since cultivable land has a direct association with production, economic classification based on it is an attractive practice.

Table IV. 1

DISTRIBUTION OF HOUSEHOLDS IN THREE SURVEY VILLAGES
ACCORDING TO CULTIVABLE LAND OWNED.

(Percentages of total)

Land Groups (in acres)	All Households			Households surveyed in 1981		
	Hasanpur	Madhapur	Rajendrapur	Hasanpur	Madhapur	Rajendrapur
0	31.8	48.4	28.4	38.9	54.2	29.2
Up to .5	15.7	31.3	38.0	18.9	31.1	37.6
.51-1.5	23.9	11.8	24.5	21.1	9.0	24.7
1.51-4.0	22.4	6.6	6.4	17.9	5.6	6.8
Above 4.0	6.2	1.9	2.7	3.2	-	1.7
No. of households	317	364	187	95	177	178
Surveyed hh's (%)				30.0	48.6	95.2

Findings presented in Table IV.1 show that the proportion of middle farmers is high in Hasanpur compared to the other two villages. If one takes into account the high fertility of land and wider employment opportunities at Madhapur, the skewness in the distribution of resources is not as visible

²⁷ Rahman, H.Z. Raipur Report (first draft).

as it is in Rajendrapur. Percentage distribution of arable land, according to land groups in Rajendrapur is presented in Table IV.2. The figures show that around 9 percent of all households own 50 percent of the total <Page: 24> arable land. This is similar to the finding of the '1977 Land Occupancy Survey ' which shows that around 11 percent of all rural households own 52 percent of total lands in the survey areas.²⁸

TABLE IV. 2
PERCENTAGE DI STRI BUTI ON OF ARABLE LAND OWNED
BY DIFFERENT LAND GROUPS, RAJENDP~PUR, 1981

Item	Land Groups (in acres)					Total
	0	Up to .5	.51-1.5	1.51-4.0	Above 4.0	
% of Households	28.4	38.0	24.5	6.4	2.7	100.0 (2.1)
% of arable land	-	13.0	37.0	25.8	24.2	100.0 (9.5)

Note: Figures in the parent hoses show the percentages for absentee landowners

Since the difference in the characteristics of the survey villages play a crucial role in our later analysis, it is essential to provide further insights into each village.

Therefore, brief introductions to the general characteristics of each village and the different interest groups active in shaping the credit market, have been provided below.

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Hasanpur

The economy of Hasanpur village is mainly based on agriculture where development is greatly impeded by waterlogging at 'Bara Pathar' a low-lying area of around 3000 acres. Around 200 acres of the land of Hasanpur villagers are in this 'Pathar'.

At one time, the area was frequently affected by the flood water coming down from the northern hills. This compelled many villagers to migrate out for jobs elsewhere. During the British Rule, it was Burma and later, Karachi (in Pakistan) that provided the outlet. Flooding become a rare event in the post-Liberation period. But along with it, such lucrative outlets were also stopped. Consequently, occupational diversification is extensively practiced here. The limited options are provided by the Feni town and the nearby Dost Textile Mill. The fortunate ones make their way into the low-paid income groups in the informal sectors in Dacca and Chittagong cities, where some of the well-off local people have already made their footings.

In spite of a significant inflow of resources from the above-mentioned activities, especially in bad years; land is still the major resource around which the social-political dynamism of the village vibrates. This does not rule out the fact that linkages with the non-agricultural sectors help in

²⁸ Bangladesh Bureau of Statistics. 1979 Statistic al Yearbook of Bangladesh.

sustenance and enhancement in the ownership of land. In <Page: 26> individual cases, such linkages often play a determining role.

The richest landowner in Hasanpur village is also the chairman of the Union Parishad,²⁹ owning around 45 acres within Hasanpur village and another 30 to 40 acres in nearby villages. The family carried out the first accumulation of land during the 19 30's when the chairman's grandfather was the President of the then Union Board.³⁰ Later accumulation took place during the partition of India and Pakistan (in 1947), especially after the riot in 1946 when the well-to-do Hindus left the area. It has been reported that the rich

'Chowdhuries' have stopped engaging in lending practices since the early 1950 's, nor have they purchased arable land. On the contrary, they have recently started disinvesting on land to fortify their position in the towns and cities.

Many of the middle landowners (belonging to both Chowdhuri Bari³¹ and outside it are well-linked with the non-agricultural sectors and are supported by the regular inflow of cash earnings. This group plays a determining role in the land and credit markets in the village.

The majority of the villagers of Hasanpur are poor and (formally) illiterate, but social consciousness amongst them is quite high. Those who have an inflow of cash earnings (e.g., rickshaw-puller, wage-labourer in town and petty traders), find lending practices as one of the means to <Page: 27> increase their income. This has encouraged formation of unregistered cooperatives --often 'Bari'-based and with only female members. Another important aspect to be noted is the relative independence of the poor people from the domination of 'landlords' due to their wider occupational diversification.

Madhupur

Besides crop cultivation, the Madhupur economy is also characterized by betel nut plantation. The economy got a major lift with the establishment of the Chandpur Irrigation Project around 1972. This has greatly facilitated the introduction of high yielding variety (HYV) seeds and cultivation of at least two crops per year in most arable land. Thus, a farmer with an acre of land in the project area is able to reap enough harvest to cover consumption needs.

Besides agriculture, the economy and society of Madhupur village are substantially influenced by the nearby Sramik Bidi Factory and one Star Bidi Factory situated at Raipur town. Moreover, a close interaction between the activities in the town influences the shaping of the economic classes and their attitude.

In spite of the diversification in economic activities, historical formation of social classes in Madhupur village has primarily been based on the ownership of land. The rich landowners in Madhupur do not hail from a single 'Bari'.

²⁹ Union Parishad is a body of elected members representing different wards in a union. They maintain the 'liaison' between the thana-based government officials and the rural population. Much of the government expenditure on rural infrastructural development is channeled through the Union Parishad.

³⁰ The present-day Union Parishad was known as Union Board during the British Rule. There was also a difference in the election procedure of members.

³¹ 'Bari' literally means a cluster of houses where people of the same kinship group live. Yet, identifying a person with a particular 'Bari' does not say much about his/her physical residence. Rather it implies that he/she belongs to the particular kinship group.

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Three major trends may be observed among this class. One of them has entrenched in the (city -based) service sector. They are least interested in the rural affairs except for retaining their ownership over land and the social status. The second group is in the process of finding greater interest in non-agricultural business sector. These two groups usually rent out their land. The third group is primarily land-based and is engaged in the stock business of paddy and betel nut. During the recent past, the de facto owner of the Sramik Bidi Factory, has been taking an increasing interest in village politics. His control over cash³² has earned him an ally in the aforementioned second group. It may be mentioned that they jointly succeeded in the last election of 'Gram Sarkar'³³. However, the land-based group still holds an influential position in the village 'salish',³⁴ and are trying to regain their position. As we shall see later, the conflict between these two groups is well-reflected in the credit market. In spite of the dominance of upper class, the middle farmers in Madhupur (i.e., those owning between 0.5 to 1.5 acres of cultivable land) are no less dynamic. They are engaged in diversified economic activities to enhance their position. In terms of numbers, they are the most active ones in the credit market. This group balances the power conflict in the upper stratum and thereby has succeeded in dominating the Agricultural Cooperative Society (KSS) and the Pump groups.

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At the bottom of Madhupur population are those who *have* only their labour power to sell and the Bidi factories provide the market for it. In spite of adverse hygienic effect of such work, especially for the numerous child labours, it provides a good flow of cash income--not only to sustain themselves, but also to enable them to dream of a bright future.

Rajendrapur

Rajendrapur is an interior village in Rajganj Union. The absence of Irri and pajam³⁵ varieties of paddy in the cropping pattern shows the backwardness of agriculture in the village. The economy has only marginally been affected by the old marketplace at Rajganj. Moreover, due to the absence of industries in the nearby area, the economy had not the opportunity to experience changes that have been observed in the other two survey villages. Thus, opportunities for occupational diversification are limited in Rajendrapur.

The only rich 'Bari' in the village is the 'Karim Baksh Pandit Bari'. Some of the well-to-do ones of this 'Bari' have now settled in the cities. Many others are engaged in the low-paid service sector (such as, clerk, storekeeper and schoolteacher), keeping in close touch with their landed properties. There are people from other 'Baris' with similar jobs, but their numbers are few. Some others in the richer Land ownership group are engaged in shop-keeping and/or <Page: 30> trading in paddy and rice. The conflict of these different interest groups in the upper circle is, however, not visible like that of

³² The Sramik Bidi Factory was originally established with the intention to be run by a cooperative of workers. Over time, majority shares of the factory were concentrated in a few hands. At present, the factory is effectively run by a manager who happens to be the major shareholder too. There was a tacit understanding among original shareholders that a part of the profit will always be distributed to the needy workers. This is still practised and the decisions are usually made by the manager. The latter also has control over the use of factory-fund for other purposes.

³³ Gram Sarkari, meaning 'Village Government' in English, is a body of elected members at the village level. Election of such a body was first introduced in 1980.

³⁴ 'Salish' is an informal judiciary body that settles disputes between fellow villagers. At times, the particular meetings where hearings of the disputing parties are made and judgments are passed, is also identified as 'Salish'.

³⁵ Irri is a high yielding variety of paddy discovered by the International Rice Research Institute. There are, of course, different varieties within Irri. Pajam is a better-quality high yielding variety of Transplanted Aman paddy

Madhupur. Instead, the small service-holders, land-based rich households and the traders are in close alliance in the rural power structure.

Among the landless and the poor landowners, there is a significant tendency to seek jobs in the city. Many villagers of Rajendrapur work as temporary or permanent labourers in the mills of different districts. Interestingly, this group is found to channel their earnings to the agricultural sector for cultivation on the basis of sharecropping. While permanent jobs in the mill provide an opportunity to break away from land, very few can obtain them. The majority of the rural poor are compelled to join the bulk of the cheap agricultural labour force. Unlike their counterparts in Hasanpur, they have fewer options to reduce dependence on the landowning class (es).

Finally, it should be mentioned that the Rupali Bank branch at Rajganj has started disbursing credit to this village, under the Rural Finance Experimental Project, since September 1980. The conservative policy followed by the bank manager has, so far, benefited the richer ones within the target group.

RURAL INDEBTEDNESS AND THE CREDIT MARKET

Most rural studies in underdeveloped countries consider the extent of rural indebtedness as a measure of misery. While this may hold true for a particular economy and economic classes within it,³⁶ such a measure is not always realistic. Borrowing could, on the contrary, be a sign of prosperity in a transient market economy. But the 'prosperity' aspect of indebtedness is difficult to identify-especially in a mixed economy.

There is more than one measure of indebtedness. Here, we have simply presented the percentages of survey households in some form of debt. The data presented in Table V. 1 show that the extent of indebtedness is very high in all the three survey villages, and it has increased in the two villages considered. Before focusing on the profile of debtors, a few findings may be drawn from the data on indebtedness. First, even though no correlation can be drawn between landownership and indebtedness, the latter is higher among the marginal landowners³⁷ than that among the completely landless households in all three villages. Second, the rate of increase in indebtedness is much lower in Madhupur than that in Hasanpur. The reasons for higher indebtedness amongst the marginal farmers may be sought in the following factors: (1) compared <Page: 32> to the landless, they have stable families with greater expenses and fewer workers.³⁸ Moreover, due to engagement in self-cultivation, the flow of their earnings and expenses is not evenly distributed over the year. This is likely to lead to extravagant expenses after the harvest and a severe deficit during the cultivation season. (2) Since they own a scarce resource like land, their creditability is higher. As for the difference in the increases in indebtedness, the reasons may be sought in Madhupur's relative prosperity due

TABLE V.1

EXTENT OF INDEBTEDNESS IN THE THREE SURVEY VILLAGES

Land Groups (in acres)	Households in debt				
	Madhupur		Madhupur		Rajendrapur
	1979	1981	1979	1981	1981
0	48.7	78.4	45.3	62.5	67.3
Up to .5	52.6	100.0	60.0	69.1	74.3
.51-1.5	57.1	95.0	68.0	75.0	77.3
1.51-4.0	60.9	88.2	60.0	70.0	83.3
Above 4.0	66.7	100.0	-	-	66.7
All groups	54.3	88.4	52.8	66.1	73.6

³⁶ Any conclusion as regards the implications of indebtedness ought to be reached from the consideration of changes in it over time

³⁷ For Hasanpur and Rajendrapur villages, marginal landowners are those who own less than 1.5 acres of cultivable land. Households owning more than 0.5 acres of cultivable land in Madhupur may be considered to be at par with those owning more than 1.5 acres in Hasanpur and Rajendrapur.

³⁸ The role of women in such households is confined to that of housewives only.

Finally, the increasing indebtedness in all land groups is likely to support the argument that the rural economy in aggregate, is being increasingly dependent on outside assistance. This does not however, appeal much when the credit market is viewed separately. The market is still dominated by non-institutional sources³⁹ implying the existence of net surplus among some groups of people. The fact that indebtedness increased for all land groups shows that landownership is not the only factor determining the patterns of surplus distribution and differentiation in the rural economy and society? An attempt to understand the social changes/stagnations, by incorporating occupation into the classification, has been made in chapter VII. Until then, much of the analyses are based on classification according to landownership. Profile of the Borrowers the questions 'who borrows' and 'why do they borrow' need to be answered simultaneously. Some aspects of the demand side of the credit market have been hypothetically discussed in the second chapter. In this section a cursory view of the borrowers has been presented.

We have seen that the absolute figures on indebtedness are very high for all land groups in the survey villages. In order to identify their relative debt situations, distribution of total cash borrowing according to land groups has

³⁹ Figures on non-institutional credit as percentages of total credit in the survey villages are presented in Table A. 3

Table V.2

PERCENTAGE DISTRIBUTION OF CASH BORROWING
ACCORDING TO LAND GROUPS IN THREE SURVEY VILLAGES, 1981

Land Groups (in acres)	Hasanpur	Madhupur	Rajendrapur
0	8.6	27.3	11.1
Up to .5	17.2	24.6	23.6
.51-1.5	29.7 (21.1)	38.1 (9.0)	31.0 (24.7)
1.51-4.0	36.0 (17.9)	10.0	8.4
Above 4.0	8.5	-	25.9* (1.7)
All groups	100.0	100.0	100.0

Note: Figures in the parentheses show the percentages of households in a particular land group.

* Such a high figure is due to the borrowings of a household that migrated-in from India and is engaged in legal disputes on land with some of the established local elites.

been presented in Table V.2. If compared with figures on percentage distribution of households in Table V.1, it is observed that the households owning 0.51 to 1.5 acres of land are relatively more indebted in Madhupur and Rajendrapur villages. While this is also true in Hasanpur, the relative indebtedness of 1.51-4.0 acres group is much higher. The interest of this group has been observed to be similar to the interest of 0.51-1.5 acres group in Madhupur. Many of these households are borrowing money to enhance their economic <Page: 35> position.⁴⁰ On the contrary, households in the land group 0.51-1.5 acres in Hasanpur borrowed mostly to sustain themselves. The same group in Rajendrapur is now greatly benefited by the newly launched credit programme (i.e., RFEP). The fact that much of it has been spent on repaying past loans,⁴¹ however, proves that in the absence of such institutional facilities, the situation would not have been much different.

The incidences of borrowing for different groups of households and for different purposes are difficult to judge on the basis of percentages of total credit only. Moreover, the observed figures may not always represent the true demand for credit since a part of the demand may remain unrealized. Therefore, the data on actual uses of the borrowed money may be treated as sources of demand only with caution.⁴² A list of these sources is available in Tables B.2 and B.3, Appendix B. At this point of discussion, a few remarks may be made based on the data available. First, if we ignore the productive role of consumption, only a small proportion of the total borrowing is spent for productive purposes--around 38 and 26 percent's respectively for Madhupur and Rajendrapur villages.⁴³ This implies that those who can fulfill their demand for credit demand less for productive purposes. Secondly, 'social ceremonies' and 'repayment of past loans' account for a significant portion of the non-productive <Page: 36> uses. While the first is determined by the social norms and values, the second has

⁴⁰ Figures presented in Table A. 2 in the statistical appendix support the statement for Madhupur, while the remarks on Hasanpur are based on our case studies

⁴¹ Table A.3 in the statistical appendix.

⁴² Here also, a discrepancy may arise since the divergence between stated purposes and those on which expenses have actually been made, has been observed to be very wide in cases of borrowing from institutional sources.

⁴³ The productive expenses include those on cultivation, business and purchase of agricultural inputs other than land. Only 4.13 percent of total credit in Rajendrapur was spent on the purchase of agricultural inputs while the remaining 6.83 percent was spent on purchasing or leasing-in land. (71)

interesting economic implications --for example, the availability of cheap institutional credit may initially be spent on repaying past debt or else it could be a sign of vicious circle of debt. Finally, it should be pointed out that the use pattern is not identical for all groups of households.⁴⁴ All those issues draw attention to causal relations between the direction of credit flow and the social changes (or stagnation). Therefore, a detailed analysis is made in chapter VII.

Sources of Credit

Since most surveys are conducted on households and there is social inhibition against moneylending in rural Bangladesh, information obtained is usually from the debtors' perspective. In such a case, identification of the social and economic status of the lenders may not always be possible. A query along that line is attempted in chapter VII. Here the analysis is based on a classification of non-institutional lenders that takes into account the kinship relations.⁴⁵

Data presented in Table V.3 show that the non-institutional sources are still the predominant suppliers of credit in the survey villages. Amongst these sources 'Relatives' and 'Friends and Neighbours' are the two categories that may be termed as 'social relations'. A separate section has, <Page: 37> therefore, been devoted to them. Amongst other sources, 'moneylenders' play a significant role in Hasanpur, while it is almost absent in the other two villages. It should be mentioned that money lending as a profession is almost extinct since the Partition in 1947, and especially after the promulgation of the East Bengal Land Acquisition Act in 1950. No professional moneylender was found in any of the survey villages. Those reported in the study as 'moneylenders' are outsiders and moneylending may not be their only occupation.

In the case where a debt or borrows money from a person whose land he (i.e., the debt or) cultivates, the lender has been identified as 'landowners'. The presence of this category of lenders is significant in Hasanpur, while it is almost absent in the other two villages.

The presence of the 'housewives' and 'unregistered cooperatives', as lenders in the rural credit market, has interesting implications. These lenders are mostly land-poor people who have a regular inflow of cash from non-agricultural sectors. Lending is sought by them as a quick means of earning money. Many housewives do so without their husbands' knowledge, which at times, makes them helpless in the case of defaults. The case studies show that in most cases, the housewives practice money lending to either meet auxiliary household expenses or to make enough savings for daughters' marriages.

⁴⁴ An inquiry into the s e differences may enable a closer understanding of the role of credit market in social changes. For example, involvement of poor people in business (as in Rajendrapur) has a different significance than that of the richer section of the population (as in Madhupur).

⁴⁵ The broad categories of lenders listed in Table V 3 in the text may not, in the strict sense, be mutually exclusive. Yet such a classification has been practised by most earlier studies in Bangladesh and also during the 1979 survey conducted in the area.

Table V.3

EXTENT OF INVOLVEMENT BY DIFFERENT LENDING GROUPS
IN THE CREDIT MARKET IN SURVEY VILLAGES

(% of total cash loan in each year)

Lender Types	Hasanpur		Madhupur		Rajendrapur
	1979	1981	1979	1981	1981
Institutional Sources	27.4	9.4	25.7	21.1	32.9
Non-Institutional Sources:	72.6	90.6	74.3	78.9	67.1
Money lender	6.5	15.8	2.1	0.5	0
Landowner	4.6	16.9	0	0	0
Shopkeeper/Dealer	0.8	8.0	5.7	0	0.4
Relatives	29.1	20.6	41.8	19.6	20.4
Friends & Neighbours	8.4	4.3	16.6	26.6	17.8
Housewives	2.6	3.7	N	2.7	0.1
Unreg'd Cooperative	15.5	2.4	0.6	2.6	0.5
Sramik Bidi	n.ap.	n.ap.	0	25.3	n.ap.
Other	5.1	18.9	7.5	1.6	27.9

Notes: n: negligible; n. ap.: not applicable

* Borrowings from the factory fund and from the manager of the factory have been included under this category.

The phenomenon of forming youth cooperatives in rural areas of Bangladesh has been widespread since the Liberation in 1971. The urge for going into stable economic ventures led many of these cooperatives to lend out their initial deposits (of members) at high interest rates. This was the case in Hasanpur, but the extent of cooperation is on the decline now. An examination into social cooperation may <Page: 39> possibly show that it is inversely related to the scope for upward mobility based on individual efforts.

Some interesting observations may be made from the data presented in Table V.3, which relate to the relative roles played by the institutional and different types of non-institutional sources. First, the proportion of institutional credit in Hasanpur declined from 27.4 to 9.4 percent in two years,⁴⁶ while the pace of decline is much less in Madhupur. Secondly, borrowings from 'moneylenders' and 'landowners' increased in Hasanpur during this period, while the 'Sramik Bidi Factory' replaced many non-institutional sources in Madhupur. Thirdly, the proportion of borrowing from institutional sources is very high in Rajendrapur compared to the other two villages. It should further be mentioned that while Rajendrapur is experiencing the impact of institutional lending only since the recent past, there has been institutional lending in the other two villages for at least a decade. A final point may be made as regards the utilization of the borrowed money. From data presented in Table B.3, Appendix B, we observe that much of the borrowing from institutional sources in Rajendrapur was spent on repayment of past debt.⁴⁷

⁴⁶ The concerned bank managers, when interviewed, complained about defaults in payments as the main reason. The KSS President at Hasanpur mentioned past crop failures as the main reason for default.

⁴⁷ Table B.4 in the appendix shows that 89.2 percent of the households owning 0.51 to 1.5 acres of land in Rajendrapur borrowed from institutional sources. Table B.3 shows that 22.2 percent of their total borrowing was spent on repaying past debt.

Given our understanding about the contrasting settings of the survey villages, the above findings support the following proposition: the supply of cheap institutional credit to a rural area characterized by backward agriculture, greatly relieves the indebted class, since they are able to repay their past debts that were borrowed at high interest rates (as in Rajendrapur). If no qualitative changes in the modes of agricultural production are brought in, either as a consequence of this lending or by some other external intervention (such as, the irrigation scheme that benefits Madhupur), the same causes that led to borrowing will result in defaults in repaying institutional loans. If the institutional lending is stopped in such a case, the borrowers will revert back to the old set of lenders (as in Hasanpur).

A Discussion on the Roles of 'Relatives' and 'Friends and Neighbours'

The prominence of the 'relatives' and 'friends and neighbours' in the non-institutional credit market may lead one to believe that people are influenced by kinship relations in choosing lenders. It is a general truism that one usually borrows from persons whom one knows. The same holds true in case of lending, especially if there is no legal means to ensure repayment. As to our questions regarding preferences for particular lender(s), many debtor-respondents replied that they preferred to borrow from 'relatives' and 'friends and neighbours' since they fear being cheated elsewhere. There were others who, on the contrary, accused the 'relatives' of greed. We discuss briefly below, how the non-economic aspect of the relations plays its role in the rural credit market.

Like all other variables, the observed volume of lending by relatives and friends⁴⁸ is the result of the interaction between different motives of the participants. The fact that these motives are not all 'non-economic' is borne by the data presented in Table V.4. It is seen that 42 to 64 percent of the credit lent out by the relatives and friends is on land mortgage. Yet, when compared with other non-institutional sources, they are found to provide a greater proportion of interest-free credit. This point could as well be used to argue that economic motives influence debtors' preference.

From the case studies, it was observed that in case of cash lending, the creditors prefer to lend to people who are at a lower social standing than them. The reason lies in ensuring repayment through social and other pressures. The transactions with relatives and friends have also been observed to be influenced by such factors. The debtors, on the other hand, are likely to be indifferent between lenders in the case of cash borrowings, unless preferential interest rates are offered. The motives are different in case of land-mortgage. In such cases, the debtors prefer relatives and friends to ensure getting back the land. Thus, it is found that the issues of security and better terms (i.e., interest rate or mortgage value) play a significant role in

⁴⁸ From here on, we use 'relatives and friends' to designate the two lender groups being discussed.

'Table V.4

A COMPARISON BETWEEN CREDIT LENT-OUT BY THE RELATIVES & FRIENDS WITH OTHER NON-INSTITUTIONAL SOURCES IN HASANPUR AND RAJENDRAPUR VILLAGES, 1981.

Village	Debtor-Creditor Relation	% of Total Cash Credit Lent-out by each Group				Total
		Interest-Free	With Interest	Land Mortgage	Payment in Kind	
Hasanpur	Relatives	40.5	5.5	47.4	6.6	100.0
	Friends	28.6	10.1	60.5	0.8	100.0
	All other	4.3	6.8	87.9	1.0	100.0
	NIS					
Rajendrapur	Relatives	47.5	8.0	42.2	2.3	100.0
	Friends & Neighbours	30.8	5.1	63.9	0.2	100.0
	All other	19.0	30.7	50.3	-	100.0
	NIS					

Note: NIS: Non-Institutional Sources

the choice of lenders and debtors. Only to the extent that creditors provided interest-free loans to relatives, with no other non-economic interests attached to them, kinship relation has its influence. On the part of the debtors, dependence on relatives and friends essentially arises due to illiteracy--kinship relation only acts in creating trust for some people rather than others.⁴⁹

Institutional Credit in Madhupur Village

Institutional credit to the rural areas is primarily meant for financing cultivation. Where the KSS exists, the main bulk is disbursed through them under crop loans. Amongst the three survey villages, KSS exist only in Hasanpur and Madhupur. The one at Hasanpur was functionally inactive during the survey period due to huge defaults on past loans. In contrast, massive institutional lending in Rajendrapur is only a recent phenomenon whose impact is yet to take concrete shapes. Since institutional lending is long practised in Madhupur village and it still accounts for a significant portion of the total credit, a study of it will be more illuminating.

The different variants of institutional credit that have been reported to have existed in Madhupur at one time or another, are the following:

- (1) KSS Loans;
- (2) Direct loans from banks;
- (3) Jute extension loans;
- (4) Rural social service (RSS) loans; and

⁴⁹ It should be noted that the preference for interest-free loans from relatives and friends is not included when we use the term 'dependence'.

(5) Taccavi loans disbursed by the Union Parishad.

The last type of loan has not been disbursed in the recent past, while the RSS loans had been disbursed once, but they never reached the intended targets. The loans disbursed for jute cultivation account for an insignificant part of total <Page: 44> institutional credit since such cultivation is limited in Noakhali district. KSS loans and direct bank loans are the main components of institutional credit in Madhupur village. We have, therefore, exclusively focused on them in this section.

KSS at Madhupur is effectively run by a middle farmer who owns one acre of cultivable land. Since he was the first to adopt HYV's and use chemical fertilizers in the early 1960's, the then Government of Pakistan awarded him the title of 'Ideal Farmer'. He later became the Manager of KSS and also obtained a dealership right from the BADC⁵⁰ to sell chemical fertilizer. Present Manager of KSS is a son of the aforementioned person. Since people borrowing under crop loans (and under Jute Extension loans) have to accept a package of cash and chemical fertilizer,⁵¹ control over the KSS and the dealership business by one individual or a close group of individuals is likely to give rise to monopoly power. Such possibility is not completely absent in Madhupur village. It has been reported by the respondents in our case studies that the meetings of KSS are not very regular. Those who claimed to have borrowed KSS loans, have further reported that such borrowings are associated with interest rates ranging from 40 to 72 percent per annum.⁵² This clearly is much higher than the 17.5 percent interest rate commonly charged on KSS loans at borrowers' level. Interestingly <Page: 45> enough, our survey also shows that those participating in the management of KSS, are also engaged in non-institutional lending.

A high rate of illiteracy and the dependence on intermediaries for institutional loan, may be the reasons for the above-mentioned distortion in the market for institutional credit.⁵³ Even for the (non-KSS) direct loans from the banks, people seek help from intermediaries due to lengthy and cumbersome lending procedure and due to the high opportunity cost of time needed to be spent at bank offices. The extra cost of receiving such loans, incurred mostly as bribes, ranged from five to ten percent of the amount borrowed on paper. A separate cost is also associated with crop loans since a part of it is paid in kind. Many borrowers of institutional loans complained that the delay in loan disbursement compelled them to borrow from non-institutional sources and buy fertilizer from the open market at higher prices. Moreover, they had to sell the credit cards to the dealers at a six to ten percent down payment.

The above findings show that the present practices of institutional lending in Madhupur benefit the group of loan intermediaries and dealers. Interestingly enough, this group is not necessarily the earlier established rural elite. The form of institutional intervention creates the means for middle ranking people with thrift to gain from it. However, <Page: 46> as has been observed in Madhupur, they have to maintain good terms with the land-based elites in order to carry out their practices.

⁵⁰ Bangladesh Agricultural Development Corporation (BADC) distributes chemical fertilizer through registered dealers at fixed prices.

⁵¹ During the survey period, out of a total credit of TK. 1200, TK. 700 was given in cash. For the remaining part, a credit card was issued by the bank, which had to be shown to a dealer for receiving chemical fertilizer.

⁵² All quantitative estimates referred to in this section have been obtained from case studies.

⁵³ TK.200 at 40 percent interest rate is obviously better than borrowing from other non-institutional sources who charge higher interest rates.

VI

FORMS OF TRANSACTIONS AND THE DETERMINATION OF INTEREST RATES

The form and amount of credit transactions are usually determined by the nature of borrowers' needs, the collateral offered by them and the sources from which credit is available. Immediate consumption needs are met by borrowing paddy or rice, and such practices are mostly prevalent amongst poor people and in families where the male members are away from home. Reports on credit in kind also include purchases from local shopkeepers whose payments are made at a later convenient date, and the merchandise brought in by the petty traders from whole sellers and/or big businessmen. In such cases there is usually an over-pricing of goods that does not concern us here. Even though quite a significant percentage of the survey households were found to be engaged in borrowing in kind,⁵⁴ yet only an insignificant volume of it was meant for consumption.⁵⁵

The different forms of transaction within cash borrowing and the percentages of credit transacted under such forms, are presented in Table VI.1.⁵⁶ Since institutional credit is included under 'cash with interest' transactions; it is evident from the data that most of the non-institutional credit in Hasanpur and Rajendrapur villages is received by mortgaging-out land. On the other hand, the proportion of cash credit is very high in Madhupur.

Table VI. 1

EXTENT OF DIFFERENT FORMS OF TRANSACTION ~N THREE SURVEY VILLAGES, 1981

Transaction Forms*	Total Cash Credit (%)		Cash indebted house-Holds in Madhupur
	Hasanpur	Rajendrapur	
Cash without interest	14.0	23.8	40.2
Cash with interest	16.3	35.8	49.6
Land mortgage	69.0	39.7	11.1
Part or full payment	0.7	0.7	6.0
In kind			

*Transaction forms are identified in terms of mode and terms of payment.

As has been mentioned earlier, credit in kind (for consumption needs) is very insignificant in the survey villages. Payment in kind is quite significant in Madhupur village where such credit is usually associated with betelnut plantation. This could be termed as advanced purchase of the betelnuts at a much lower price. Hypothetically a similar process of exploitation may prevail in the case of cash credit (both institutional and non-institutional) if the repayment period is strictly followed. In such cases, the borrowing peasant households are forced to sell their produce immediately after harvest when the prices are much lower. The effective real interest he paid would therefore be more <Page:

⁵⁴ Respectively 8, 22 and 18 percent of the survey households in Hasanpur, Madhupur and Rajendrapur village were engaged in some form of kind transaction.

⁵⁵ Total credit in kind in Rajendrapur village accounted for around fourteen percent of the value of all credit (cash and kind). But consumption loans accounted for only four percent of total credit in kind. While the shopkeepers accounted for seven percent, the rest of the credit in kind was associated with business.

⁵⁶ Data on credit volume under cash transaction form for Madhupur are not available.

49> than the nominal rate charged and this difference is proportional to the differences in prices prevailing during borrowing and repaying seasons.⁵⁷ Nevertheless, timely repayment is hardly practised in the survey villages, thereby reducing the adverse effect of 'forced commercialization'.⁵⁸ Rather, a flat rate often percent interest per month is charged on collateral-free credit. Only in some cases, the rate is 20 percent per month, which may be considered as exception rather than a rule. If the borrowing is associated with some form of collateral (such as, gold), the rate charged varies from six to eight percent per month.

Cases of default in cash transaction are very common in Hasanpur and Madhupur villages. From the interviews with the members of local elites, we came to know that there were two to three such disputes every month. These are settled by them in the 'salish'. The frequency of the disputes placed for 'salish' is more during the post-harvest period since the lenders consider it to be the appropriate time to pressure the debtors. The verdicts of the 'salish' are usually influenced by the debtor s ' ability to repay and their relation, vis-a-vis the creditors, with the rural elites. In most cases the effective interest paid by the debtors fall below fifty percent per annum. But this affects their future creditability. On the other hand, if the lenders do not have direct control over the debtors, their safe lending practices <Page: 50> need to be maintained by having good relations with the rural elites. Thus, the aforementioned role of the 'salish' in the credit market essentially helps the rural elites to retain their control over fellow villagers.

The absence of collateral in most cash lending makes mortgaging-in of land a necessity on the part of the lenders. Under the system, the borrower mortgages-out a piece of land (usually, cultivable land) against which he or she receives cash. By the same contract, the creditor obtains the right to cultivate that land and benefit from the procedure until the debt is paid back. Since a greater amount of money can be borrowed on land-mortgage, such borrowings are usually meant for major medical expenses, getting an outside job, business, dowry, and even for buying or renting-in better piece of land. Due to the diversity of these reasons, no systematic relation is observed between land ownership and such borrowings.⁵⁹

The determination of the effective interest rate on lending under land-mortgage is complicated by the presence of production costs and wide fluctuations in crop production and prices. Moreover, in the absence of the wide-spread practice of cash-renting, mortgaging-in land may reflect a peasant household's investment decision on land rather than on lending. In such cases, opportunities to employ family labour ought to be considered as a benefit to the creditor. Never <Page: 51> the less, the latter practice has been observed to be less in the survey villages. In Hasanpur , where land-mortgaging is widely practised, around 73 percent of the total land under mortgage was leased back to the debtors. It is thus reasonable to calculate the interest rate on the basis of the value of produce received under share-cropping.⁶⁰ Such estimates, from the information provided by the respondents in case studies have been provided in Table VI.2. It may be observed that the interest rates on land-mortgage are much lower than those charged on cash lending. The reason lies in the fact that land is now attached as collateral. Moreover, the contract itself promises access to the land market which is otherwise very

⁵⁷ The prices of paddy have been reported to be twenty to eighty percent higher during the time of distress borrowing. The data on wholesale prices of paddy in neighboring district show that the highest price in 1978-79 (July) was fifty-six percent higher than the lowest price in that fiscal year (November).

⁵⁸ The concept is borrowed from Bhaduri, A., Ope pp. 12-25.

⁵⁹ Table B.5 in the appendix.

⁶⁰ Normally, under share -cropping arrangement, half of the produce is received by the landowner (in our case, the creditor), and he does not pay for the cost. In many other villages in Bangladesh, a [art pf the cost is shared by the landowners.

narrow due to scarcity. Even though there is no legal bondage to sell the land (in case it is sold) to the creditor, yet such likelihood is higher in case the debt to an individual gets enormous.

We have stated earlier that interest rates charged on cash lending are same in all the three survey villages. But here we find the rates to differ widely in case of land-mortgage. The high figure for Hasanpur is possibly due to the vulnerability of its agriculture to natural calamities. On the other hand, even though Rajendrapur has relatively backward agriculture, the estimated interest rate is lower than that in Madhupur. It is thus plausible that closer

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Table VI.2

ESTIMATED INTEREST RATES ON CREDIT UNDER
LAND-MORTGAGE IN THE SURVEY VILLAGES, 1981

village	Value of mortgage (take per acre)	Annunal Receipt Under Share- Cropping (Maunds ¹ /acre)	Minimum Return ² (taka)	Minimum Annual Rate Of interest ³ (%)
Hasanpur	5200	25.0	2500	48.1
Madhupur	14000	47.5	4750	33.9
Rajendrapur	6400	15.5	1550	24.2

1. One maund equals 82.28 pounds.

2. Calculated by assuming the price of paddy to be Tk. 100 per maund, which has been reported to be the floor price during the year preceding the survey.

3. Rate of interest is equal to $\frac{\text{minimum retrurn}}{\text{value of mortgage}} \times 100$.

Proximity to urban centres provides more profitable investment opportunities in Hasanpur and Madhupur villages, which have a positive effect on lending rates. It is at times contended that interest rates are also affected by landlord-tenant relations. Since such relations may be blurred by kinship relations, where most interest-free loans are practised, it is not possible to make any comment on it on the basis of available data.

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There has been a difference of opinions as regards the possible link between credit market and the labour market.⁶¹ some social analysts consider the Bangladesh society to be semi-feudal and presume that the agricultural labour force is tied to land through their indebtedness to the land-owners. No such case of 'bonded labour' has been observed in any of the survey villages. But there have been reports on occasional sale of labour days in advance.⁶² While at Madhupur, no underpricing of labour has been alleged by the debtors; there were such cases in Hasanpur, and it varied between eight to thirty percent. Nevertheless, such a phenomenon may be considered to be an exception and no general conclusion about the social mode may be made from this.

⁶¹ Prasad, P.H., Reactionary Role of Usurer's Capital in Rural India, and also , Rudra, A. and P. K. Bardhan, On the Interlink age of Land, Labour, Credit Relations Tn Agriculture.

⁶² Under such an arrangement an individual borrows some money during the lean season and promises to repay by working on the creditor's land during harvest, or some other time.

VII DIRECTION OF CREDIT FLOW AND ITS IMPLICATIONS

It has been mentioned at the beginning of this study that the credit flow reflects the current underlying social and economic processes. A flow to particular sectors (i.e., to debtors) may signify the profitability of those sectors. It may as well reflect their distressed condition. On the other hand, the outflow from particular sectors reflects their capability of generating surplus at the household level. Moreover, credit transactions within a particular set of creditors and debtors indicate the existing social and economic bondages between these groups, and also the interests of the lending groups. Any influence of kinship relations may, of course, blur the economic relations. Nevertheless, an investigation into the credit flows in Madhupur and Rajendrapur villages has been attempted in this chapter. Quantitative estimates of the relative proportion of credit volume transacted between various sectors are presented in Tables VI I.1 and VII.2.

Table VII.1

FLOW CHART OF NON-INSTITUTIONAL CASH CREDIT¹ IN MADHUPUR, 1981 (% of total)

Lenders Debtors	I	II	III	IV	V	VI	VII	All groups
I (A)	9.53	0.42	1.21	-	34.38	1.15	1.69	48.49
I (B)	2.95	0.42	-	0.24	7.67	-	0.61	11.89
I (A+B)	12.58	0.85	1.21	0.24	42.05	1.15	2.30	60.38
II	4.57	0.01	0.36	0.94	1.51	-	1.86	9.33
III	0.42	0.30	0.33	0.12	0.21	-	0.67	2.05
IV	-	-	-	N	2.00	0.61	-	2.64
V	-	-	-	-	1.82	-	-	1.82
VI	0.98	0.36	0.54	1.39	8.64	2.42	3.31	17.52
VII	1.21	-	-	-	4.84	0.21	-	6.26
All Groups	19.76	1.52	2.44	2.69	61.07	4.39	8.13	100.00

1. Credit disbursed by identified lenders is 90 percent of total non-institutional credit.

Note: I (A) -Cultivation Supervision / Landlord (i.e., big Landowners who either rent-out their land or employ outside-workers), I (B) -Cultivation Self-Engaged (i.e., Landowners cultivating a part or all of their land by themselves), II - Agricultural Day Labour, III -Bidi worker / Rickshaw-puller/other transport worker, IV -households engaged in handicraft production, V -Contractor/Big Trader/Dealer/Other Entrepreneur, VI -Petty trader/shopkeeper, VII -Service/Local Professionals.

Table VII.2

FLOW CHART OF NON-INSTITUTIONAL CASH CREDIT¹
IN RAJENDRAPUR, 1981
(% of total)

Lenders Debtors	I (A)	I (B)	I	II	III	IV	V	VI	VII	VIII	All Groups
I (A)	-	3.76	3.76	-	0.14	-	-	-	0.36	-	4.26
I (B)	0.07	5.57	5.64	0.59	1.49	-	2.31	3.11	28.91	2.39	44.44
I (A+B)	0.07	9.33	9.40	0.59	1.63	-	2.31	3.11	29.27	2.39	48.70
II	-	5.42	5.42	-	0.51	0.59	-	0.18	1.84	-	8.54
III	4.39	0.08	4.47	0.36	0.25	0.65	-	-	2.90	0.33	8.96
IV	-	4.41	4.41	0.03	0.22	1.76	-	1.37	3.65	0.69	12.13
V	-	-	-	-	-	-	-	-	-	-	-
VI	-	0.57	0.57	-	-	-	-	1.80	-	0.57	2.94
VII	-	0.11	0.11	-	0.36	1.45	0.22	-	7.80	4.77	14.71
VIII	-	2.53	2.53	-	0.72	0.11	-	0.23	-	0.43	4.02
All Groups	4.46	22.45	26.91	0.98	3.69	4.56	2.53	6.69	45.46	9.18	100.00

1. Credit disbursed by identified lenders is 80 percent of total Non-institutional credit.

Note: Lender-debtor categories are the same as those in Table VII.1 for I to VII, type VII I is Permanent industrial Labour.

In Madhupur, the major lending group includes individuals from outside agriculture (i.e., group V, see Table VII.I) who do not borrow from the rural non-institutional market. On the contrary, they lend to all groups. This is due to the role played by the manager of the Sramik Bidi Factory, who at the time of the survey, was in the process of gaining a foothold in the local politics. As may <Page: 57> be seen from Table VI I.1, the major bulk of the transactions of this group is with the landowning class who are not physically engaged in cultivation.⁶³ The latter group is clearly in a net deficit situation. While this does not necessarily imply that the group I (A) is in distressed condition, yet it may be concluded that they are not capable of financing big business ventures with their own funds. Most of group I's lending is confined within that group. But the relatively greater indebtedness of the households not engaged in cultivation may imply that self-cultivation is more profitable using the new technology. As for this group's outside relations, a significant portion of their lending is made to agricultural labourers. Besides group V, the service sector (group VII) has a distinct net outflow of credit implying their relative viability in the system. The part of the working classes who has a regular inflow "of cash (both groups III and I V) seem to be doing well in the system.

While net inflow of cash to sectors, such as groups I(B), II, III, IV and VII, would imply their distressed condition; the same rule does not hold true for petty trading. The latter receives a significant inflow of credit in Madhupur signifying great deal of economic activities in this sector. It also implies that such activities are still profitable in Madhupur village.

⁶³ The relation between the manager of the Sramik Bidi Factory and a section of the rich landowning class at Madhupur, has already been mentioned in Chapter IV.

Unlike Madhupur village, the big businessmen and dealers play an insignificant role in the credit market of Rajendrapur, even though they have a net outflow of Credit. The dominance is rather by people in the urban service sector and other professionals (such as, village doctors and teachers, included in group VII) who have a regular inflow of cash. The other groups with a positive balance, besides group V, are the permanent industrial workers and the petty traders. While the former has a regular inflow of cash income, the latter seems to have a net surplus. The major clients of group VII are those engaged in cultivation-usually the marginal ones. The self-engaged cultivator's also take an active interest in the credit market and the agricultural day labourers receive most of their credit from this group. But in aggregate, the former group is in a gross deficit position implying a low return from land.

Some observations may be made upon comparing the findings on the two villages. First, the common characteristic of the net lenders in both villages is that they have cash earning originating from non-agricultural sectors. Second, groups I I I and IV are relatively better off in Madhupur than their counterparts in Rajendrapur. Third, the self-engaged cultivators are worse off in Rajendrapur . Fourth, agricultural day labourers have a relatively greater independence in Madhupur due to their prospect of borrowing <Page: 59> from group V. Fifth, while a net inflow of credit to petty trading takes place in Madhupur, the petty-traders in Rajendrapur channel almost half of their surplus to agriculture. Further to these observations, an investigation into the transaction forms practised by different groups in Table VII.3, shows striking similarities in the lending pattern of agriculturists, service holders and the permanent industrial workers in Rajendrapur. The only exception is possibly that the industrial workers do not have any obligation towards the agricultural day labourers.⁶⁴ From the same table, we find that group V in Madhupur takes a significant interest in mort gaging-in land.⁶⁵ It should further be noted that big landowners are less interested in productive investment in land. In Madhupur, they are switching to business,⁶⁶ where as in Rajendrapur , they are still interested in land-mortgaging and/ or i n purchasing land.⁶⁷

Given the differences in the economic settings of the two villages, the above observations show why participation in rural credit market s and their nature may differ from place to place. Where the traditional agricultural practices are prevalent and non-agricultural sectors do not interact closely (as in Rajendrapur), people from non-agricultural service sectors are relatively in a better position than even those who own a good amount of land, but are engaged exclusively in cultivation. This is also reflected in people's <Page: 60> urge to get urban jobs that have been reported in many case studies. The scenario is different in Madhupur where big businessmen and dealers dominate the credit market. Moreover, around 27 percent of the total credit in Madhupur

⁶⁴ Such finding obviously raises doubt on the prospect of political alliance between the two classes at village level.

⁶⁵ Two other observations may be made from the data presented in Table VII.2. First, the poor groups lend a significant percentage of their total lending on interest to be paid in cash, whereas the richer groups are less interested in such lending. This does not necessarily reflect the lack of interest of the poor group in mortgaging-in land. In contrast, they also mortgage-in land whenever they have the ability, as we observe in case of permanent industrial workers from Rajendrapur village. A second observation is that both landowners and big businessmen of Madhupur, who are associated with land and credit markets, do not charge interest on a significant portion of their lending. The case is different in Rajendrapur, where, as our respondent told us, 'the rich people wait with cash for the poor to bring up a piece of land to mortgage-out to him. The new technology and the conflicts within the elite class obviously favour the rural poor in Madhupur.

⁶⁶ Table A.2 in the statistical appendix.

⁶⁷ Table A.3 in the statistical appendix.

Table VII.3

PERCENTAGE DISTRIBUTION OF CREDIT DISBURSED BY
DIFFERENT NON-INSTITUTIONAL LENDERS ACCORDING TO
TRANSACTION FORMS, 1981

<u>Madhupur:</u>	Lenders 1							
	I	II	III	IV	V	VI	VII	VIII
No Interest	63.4	51.7	92.8	56.1	62.8	86.3	90.1	n.ap.
Land- Mortgage	18.7	-	-	19.7	30.1	-	7.8	n.ap.
All other with interest	17.9	48.3	7.2	24.2	7.1	13.7	2.1	n.ap.
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	n.ap.
<u>Rajendrapur:</u>								
No Interest	26.8	2.6	35.4	68.0	65.7	42.3	28.1	3.1
Land- Mortgage	70.5	59.9	54.8	6.3	34.3	44.2	67.3	87.8
All other with interest	2.7	37.5	9.8	25.7	-	13.5	4.6	9.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	

1. The lender categories are the same those mentioned in Tables VII.1 and VII.2.

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is spent on business⁶⁸ implying a redirection of resources away from agriculture. While this appears to be a sign of optimism, one could as well argue that extreme landlessness has compelled people to seek livelihood in non-agricultural sectors. In spite of the contrast between the two villages, the fact remains that the household surplus channeled to the credit market originates mainly from non-agricultural sectors. An investigation into the lending patterns also showed that these net creditors have a deep interest in owning land, even though exclusive dependence on land is not their goal. Such attend in interests is one of the main reasons for economic stagnation. But the reasons for it ought to be looked elsewhere--perhaps in the obstacles to other non-agricultural ventures, and in the nature of urban interests and their relations with those of rural groups.

⁶⁸ Table A.2 in the statistical appendix.

VIII

CONCLUSIONS

In conclusion, we may say that the problems stated in the study appear to be complex. They are, however, in one way or another, related to the rural credit market. The general conclusions of the study are discussed in the following paragraphs.

In our study of the three villages in Noakhali district of Bangladesh, we have seen that rural indebtedness is on the increase and such increases do not, in general reflect positive changes in the economy. Though the increasing indebtedness does not necessarily imply an absolute dependence of the rural society on outside assistance, yet the evidence suggests that net creditors in the market have their surplus originating from non-agricultural sectors. A control over cash--whether it be through owning business, or by having a regular income from a permanent job--may in the long run lead to control over land assets through the credit market.

Our study shows that the non-institutional sources are still dominant in the rural credit market. The findings indicate that rational institutional lending cannot continue for long unless and until changes in the modes of agricultural production are brought in. From the pattern of borrowing and their utilization in backward villages and the <Page: 63> lending pattern of net creditors in the advanced village, it seems unlikely that, given the existing ownership pattern of resources, such changes will result from within. Another aspect should be mentioned as regards the beneficiaries of institutional lending. Since the new technology is, to a great extent, scale neutral; it is not always true that the earlier established elites benefit from such lending. In our study on Madhupur village, we have observed that the form of institutional intervention through KSS, allows for intelligent middle farmers to gain from the programme. But it should also be noted that such gains can be achieved only through a close alliance with the established elites.

The study shows that relatives and friends account for a significant part of rural credit in the survey villages. But the kinship linkage, in its pure form, appears to have only a marginal influence. Among other non-institutional sources,

'Moneylenders' and 'landowners' were found to be active in villages characterized by backward agriculture. Even though this is not visible from our questionnaire survey in Rajendrapur; high repayment figures may signify that the earlier debts (assumed to have been borrowed from the fore mentioned two lenders) had high interest rates associated with them. Another interesting observation, worth mentioning, is the participation of the rural poor as lenders in the credit market to enhance their meagre income.

Our inquiry into the forms of transaction shows that credit in kind is negligible except in the case of betelnut plantation. This implies the insignificance of 'forced commercialization' in rural Bangladesh. Frequent irregularities observed in repayment also support the above statement. Amongst all forms of credit on interest, land mortgaging has been observed to be the dominant. A comparative study of the interest rates derived from the land-mortgaging practices in the survey villages showed that the rate of interest is influenced by the presence of collaterals and opportunities for profitable investment. A third, and possibly the major, factor influencing interest rates is the distressed nature of demand. This has not been observed to show up much in the mortgaging value, since there are more people eager to buy

or mortgage-in land. But we have observed that much of the cash lending on interest, amongst the non-institutional ones, are done by the poor people. They usually have small cash holding that are lent out to poor and marginal ones, who usually borrow under distressed conditions. The high interest rates associated with such lending support the influence of distressed demand on interest rates.

Our final focus in this study has been to show that the credit market does reflect the relative strength of different economic sectors and of different classes of people in the society, their interest pattern within the existing system, <Page: 65> and the direction of changes that are taking place. The correspondence is evident when the sectoral flow of credit is compared with the characteristics of particular survey villages. From our study of Madhupur and Rajendrapur villages within the above framework, we observe the relative backwardness of the land-based economy. It is also observed that the introduction of new technology and the closer interaction with non-agricultural sectors generate positive changes in the rural society and make way for a new set of power balance to emerge. But the introduction of new technology depends mostly on the establishment of irrigation schemes rather than on massive injection of credit into the economy. On the other hand, for sustaining changes in the rural society, continuous development of the non-agricultural sectors seems to be a more important prerequisite.

Even though we have observed that the credit markets in the survey villages are the outcome of the economies distressed condition, their present nature, in turn, sustains and enhances that condition. While the interest-free loan helps in maintaining social harmony (that may not be desired), high interest rates charged on cash lending and wider practices in land-mortgaging indicate that the market strengthens the vicious circle of poverty prevailing in the rural Bangladesh.

APPENDIX A

INSTITUTIONAL CREDIT IN RURAL BANGLANDESH

Government intervention in the rural credit market in the South Asian sub-continent dates back to the beginning of this century. The policy of the British Colonial Rulers during the nineteenth century was mostly of non-interference with prevailing forces. Even though the Land Improvement Act of 1883 and the Agriculturalists' Loans Act of 1884 enabled the Provincial Governments to advance loans "to the cultivators, such activities were confined to only distress credit, known as *taccavi* loans. The ineffectiveness of the above enactments contributed to the pauperization of the rural masses. In order to make organized efforts to supply credit at a reasonable price, the Cooperative Credit Movement was launched under the Credit Societies Act of 1904. An estimate by M. Islam shows that only 6.4 percent of borrowers at all-Bengal level received credit from the cooperatives.

By 1947, there were 26,664 rural credit cooperatives scattered around East Bengal, which is presently known as Bangladesh. However, little of their resources remained after going through the long years of depression in the 1930's and the onslaught of the debt Settlement Board, established in 1937. The problem with the fund was accentuated by war-period crisis. In the meantime, the Partition took place and the lack of support from the government in the <Page: 67> following years led to a gradual liquidation of the cooperatives.

The government in the newly created Pakistan introduced a three-tiered cooperative system in the eastern province that has many similarities to the earlier system. The East Pakistan Provincial Cooperative Bank was organized in 1948 to act as the apex bank for this new system. At the secondary level, there were 62 central Cooperative Banks, with over 4,000 Union Cooperative Multipurpose Societies at the primary level. The system was further supported by 16 Cooperative Land Mortgage Banks, which functioned at the primary level. The government also initiated credit disbursement through the normal banking channel. The Agricultural Development Finance Corporation and the Agricultural Bank of Pakistan were established respectively in 1951 and in 1957. These two institutions were later merged in 1961 to form the Agricultural Bank of Pakistan, renamed as Bangladesh Krishi Bank (BKB) after the liberation in 1971.

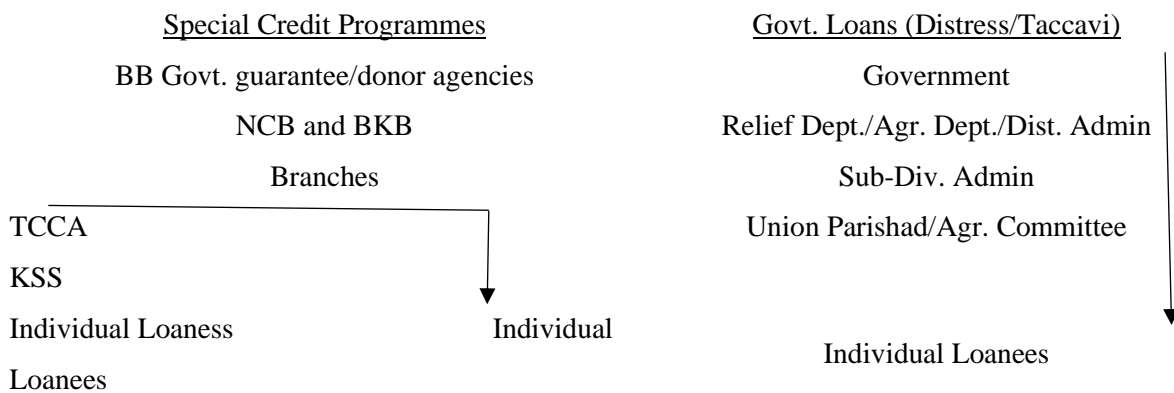
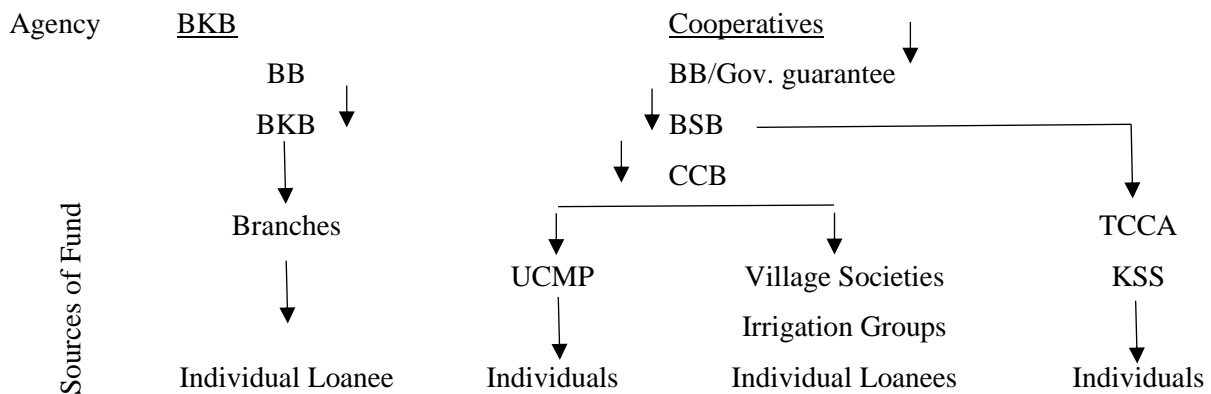
The experience with the three-tiered cooperative system was highly unsatisfactory. Moreover, it was multipurpose in name. The growing realization that credit disbursement ought to be incorporated into a broader integrated programme led to the search for an appropriate rural institution. The Academy of Rural Development, formed in 1959, began a series of pilot experiments on rural institutions in the early 1960's. These <Page: 68> experiments led to the adoption of quite a number of national programmes, such as, the Rural Works Programme and the Thana Irrigation Programme. The most important was, the two-tiered cooperative system. Under this system, village-based agricultural cooperative societies, known as the Kishi Samabay Samity (KSS) were formed, which were then federated at the Thana level into a Thana Central Cooperative Association (TCCA). After the initial success of this system in Comilla Kotwali Thana, the government decided in 1971-72 to undertake a national programme of expansion and thus the Integrated Rural Development Programme (IRDP) was launched.

In spite of the expansion of IRDP since its formation, the traditional three-tiered cooperative system still exists in many parts of the country. The apex bank was renamed the Bangladesh Samabary Bank (BSB) after the liberation. BKB has, however, come to be a major source of institutional credit to the

agricultural sector. The nationalized commercial banks have also been involved, especially after the Special Agricultural Credit Programme was launched in 1977. Along with BKB, they are involved in a number of experimental projects that are currently being carried out in some parts of the country. The general structure of the institutional credit agencies engaged in rural Bangladesh is presented diagrammatically on the next page.

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STRUCTURE OF THE INTERNATIONAL CREDIT AGENCIES



Notes: BB: Bangladesh Bank, CCB: Central Cooperative Banks, NCB: Nationalized Commercial Banks.

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Finally, brief descriptions of the KSS and the RFEP are provided below since they exist in the area surveyed by the present study.

KSS is usually formed by those who own cultivable land and are engaged in cultivation. The KSS members are expected to make a joint production plan on the basis of which they prepare a joint loan plan. This plan is verified by an area inspector before it is sent to the Thana Loan Officer. Upon the latter's recommendation, decisions on approval are made by a Loan Committee. If approved, the decision is conveyed to Sonali Bank and an equivalent amount of money is transferred to the KSS

account in the appropriate branch of that bank. Usually the bank account is handled by the President and the Secretary of the KSS, and the loans to individual borrowing members are distributed by them. Interest rates charged at different steps of this lending are as follows:

(i)	Sonali Bank to TCCA	7.5%	Compounded quarterly
(ii)	TCCA to KSS	12.5%	(includes a service charge of 2%)
(iii)	KSS to Farmers	17.5%	includes a service charge of 2% and a Manager's Commission of 1%)

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RFEP is the fruit of an agreement between the governments of Bangladesh and the United States that was signed in August 1977. The nine principal financial institutions that are engaged in lending to the rural areas in Bangladesh, are demonstrating and testing nine different systems under this project. Overall project management is the responsibility of the Central Bank of Bangladesh--the Bangladesh Bank, which does so in close collaboration with the USAID office at Dacca. Among a number of policy and procedural variables that are being tested through this project, the most important one is to assess the impact of different interest rates on: (i) reaching the target group;

(ii) credit demand;

(iii) borrowers' benefit/costs and

(iv) lending institutions' financial position.

The target group is defined essentially as family heads owning two acres or less of crop land, with an annual gross cash income of TK. 6000 or less. Initially, a household survey is conducted in the project area to identify this group. Loans are made by the participating Institutions from their own resources. One-third of it is reimbursed periodically by the Bangladesh Bank. Moreover, for each loan repaid by the borrower on time with interest, an additional one-third of the loan value is reimbursed. All these go into the participating institutions' wholly owned assets.

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Rajendrapur, one of our survey villages, is covered by a branch of Rupali Bank. The bank is experimenting with the Village-Agent Model within which a local recruit acts as a temporary staff member of the bank to deal with the lending scheme, under the supervision of the loan officer and the bank manager. The rate of interest charged in this sub-project is eighteen per cent per annum.

APPENDIX B
STATISTICAL ANNEXURE

Table B. 1

SOME COMPARISONS OF NOAKHALI DISTRICT WITH THE AVERAGES OF ALL
BANGLADESH, 1978-79

Item	Noakhali	Bangladesh
<u>Cropping Pattern</u>		
% of net cropped area cultivated under		
Local Aus		
HYV Aus		
Broadcast Aman	22.94	33.37
Local Transplanted Aman	13.37	4.93
HYV Aman	11.60	19.97
HYV Boro	57.10	40.85
Jute	6.19	4.25
	13.74	7.13
	2.16	9.86
<u>Intensity of Cropping 1</u>	159.19	153.10
<u>Productivity</u>		
Local AUS (tons/acre)	.312	.335
HYV Aus (tons/acre)	.856	.920
Broadcast Aman (tons/acre)	.399	.401
Local T. Aman (tons/acre)	.527	.502
HYV Aman (tons/acre)	.918	.955
HYV Boro (tons/acre)	.893	.930
Jute (bales/acre)	3.00	3.14

$$1. \text{ Intensity of cropping} = \frac{\text{total cropped area}}{\text{net cropped area}} \times 100$$

where the net cropped area is the total land under cultivation in a particular year.

Source: Calculated from data provided in 'The Yearbook of Agricultural Statistics of Bangladesh', 1979-80, Bangladesh Bureau of Statistics.

Table B. 4

PERCENTAGES OF INDEBTED HOUSEHOLDS BORROWING FROM
INSTITUTIONAL SOURCES ACCORDING TO LAND GROUPS, 1981

Land Groups (in acres)	Hasanpur	Madhupur	Rajendrapur
0	10.3	26.7	30.6
Up to .5	16.7	26.3	48.1
.51-1.5	15.8	33.3	89.2
1.51-4.0	20.0	28.6	50.0
Above 4.0	66.7	-	50.0
all Groups	15.5	28.2	43.1

Table B.5

PARTICIPATION OF DIFFERENT LAND GROUPS IN
LAND MORTGAGING IN THE THREE SURVEY VILLAGES, 1981

Items	Land Groups (in acres)					
	0	Up to .5	.51-1.5	1.51-4.0	Above 4.0	all Groups
% of cash credit borrowed on land-mortgage						
Hasanpur	1.4	10.6	35.4	41.1	11.5	100.0
Rajendrapur	1.0	22.0	30.6	13.1	33.3	100.0
% of cash-indebted households engaged land- mortgage						
Madhupur	5.0	13.2	25.0	33.3	-	10.3
Amount borrowed land- mortgage as % of total borrowings in each group						
Hasanpur						
Rajendrapur	11.4	42.6	82.2	78.9	92.5	69.0
	3.9	36.2	39.6	64.7	66.2	39.7

APPENDI X C

QUESTIONNAIRE ON RURAL CREDIT MARKET I N NOAKHALI DISTRI CT

[The author will share if a demand is placed.]

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