

AGRARIAN INSTITUTIONS AND RURAL DEVELOPMENT : A MICRO STUDY IN THE DISTRICT OF BURDWAN, WEST BENGAL

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ABSTRACT

The strategy of sustainable rural development warrants effective institutional reforms to create an enabling environment for tackling distortions in the process of social transformation of the rural economy. Using a primary survey covering 203 rural households of four villages under Burdwan district of West Bengal, this paper shed some lights on the micro foundations of the operation of two fundamental agrarian institutions (namely, land tenancy and rural credit) and their operational implications on the process of sustainable rural development. The institution of tenancy acts as a redistributive mechanism to reduce rural inequality by making the distribution of operational holding more egalitarian than the ownership distribution. On the other hand, an access to rural credit has the capacity to reduce rural inequality by harnessing the excess capacity of the rural masses. It is expected that institutional intervention by integrating these two agrarian institutions will create an appropriate environment for enhancing the operational efficiency of rural institutions so as to ensure sustainable rural development.

Introduction

The importance of institutions in rural development has long been recognised in designing appropriate policy by the decision makers. In analysing the relationship between institutions and rural development, the institutionalists argue for institutional reform which they consider an indispensable condition for the process of agricultural transformation. In this process of transformation, a proper modification and replacement of existing institutions are assumed to take place specially for those inefficient institutions which put an obstacle in technological innovation.

The formation and development of rural institutions have an important bearing upon rural development. Rural institutions act as guiding forces in the operation of rural economy. It is

difficult to do justice to the entire web of institutions that comprise rural society. However, in the study two notable rural institutions which play a dominant role in providing economic well-being of the rural people are considered: institution of tenancy and the institution of rural credit. Tenancy is an oldest agrarian institutional device evolved in order to make the distribution of operational holdings more equitable than the distribution of ownership holdings and contributes to a better distribution of income than would be possible without it (Srivastava, 1983). In the literature, two conflicting schools of thought are widely prevalent as regards the operation of the institution of tenancy and its promotional roles to rural development. The traditional view of land-lease market is often characterised by tenants as the weaker class and the terms and conditions of lease are determined

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mostly by the stronger class, namely, the landlord. Accordingly, the institution of tenancy is seen as a source of exploitation under semi-feudal mode of production which retards technological innovation in agriculture (Bhaduri, 1973; Bharadwaj, 1974; Prasad, 1974). In a stark contrast to the traditional view of land-lease market, in some writings tenancy arrangement is seen as a 'capitalist relations between owners of land and tenants of land' (Rudra, 1982; Bardhan, 1984) rather than the 'exploiter-exploited' relationship mentioned earlier. In the capitalist relations, landed farmers lease in land to adjust his owned land with the desired cultivated land.

The terms and conditions of the tenancy are often influenced by the transactions in other non-tradable factor markets (notably labour, draft animal and credit). The most obvious of these is the imperfectly developed credit market in the sense that asset poor tenants can overcome a credit constraint by developing their own "access institutions". Cost sharing and interlinked credit tenancy transactions are two such important forms of institutional adaptations that the institution of tenancy have modified to substitute imperfectly developed credit market. So a better understanding of the genesis of rural credit market is regarded as an essential precondition to effectively analyse the institution of land-lease market.

Data Sources

The study is based on a field survey in rural West Bengal in the year 2006-07. Taking into consideration the co-existence of the incidence of tenancy and the extent of rural credit transactions, the study purposively selected a particular block, namely Raina I, from the district of Burdwan in West Bengal. The block, Raina I, comprises two distinct agro-climatic zones-one, with canal irrigation and the other zone with rain-fed farms. A two-stage sampling design was followed in order to select the households of the survey. In the first stage, the villages, namely, Saktia and Anguna from Mugura village panchayat were chosen as a relatively well communicated and infrastructural developed

villages, whereas the villages, like, Dhamash and Boro were chosen from Natu village panchayat as underdeveloped villages under the same criteria¹. In the second stage, 203 households were purposively chosen covering the categories of landless agricultural labourers, marginal farmers (less than 2.5 acres), small farmers (2.5-5 acres), medium farmers (5-10 acres) and large farmers (above 10 acres).

Institution of Tenancy and Transformation of Rural Economy

Nature and Forms of Tenancy : In an agricultural mode of production, tenancy can be considered as an institution in which landlord leases out his land to a tenant who cultivates the land and gives a fixed proportion of the total output (in cash or in kind) to the landlord. The most important and widely used tenurial practices are- fixed rent, pure sharecropping and cost sharing tenancy. Coexistence of all three forms of contracts is prevalent in our surveyed villages. Out of 203 households surveyed, we have come across 106 households who are involved in different types of tenancy contracts. Thus, 52.22 per cent of total surveyed households are engaged in lease in land market. Out of 106 cases, 37 cases reported fixed rent tenancy; and in about 33 cases² sharecropping is the mode of tenurial contract (Table 1). Sharecroppers are not a homogeneous group of tenants. A wide variation in output sharing arrangements under sharecropping assumes three different forms between landlord and tenant-1/2:1/2, 2/3:1/3 and 3/4:1/4. A large number of cases are associated with 1/2:1/2 crop sharing arrangement with the existence of cost share between landlord and tenant. Our data also indicate that other forms of cost sharing arrangements are 3/4:1/4 and 2/3:1/3 with costs borne fully by the tenant. A negative association is found between crop share and cost share. A large number of cases, nearly 44 per cent cases, are associated with the 1/2:1/2 crop sharing arrangement with the existence of cost share between landlord and tenant. Our data also indicate that other forms of cost sharing

arrangements are 3/4:1/4 and 2/3:1/3 with costs borne fully by the tenant. It seems to suggest that the output share does depend on the share of inputs even in the absence of legislation of *Operation Barga*³.

An analysis of a distribution of tenurial contract under different categories of households indicates that landless and marginal farmers tend to lease in land under both fixed rent and pure sharecropping contracts (Table 1). They are followed by small farmers who constitute 17 per cent under pure sharecropping contract. Cost sharing contract, however, is being

predominantly preferred by landless farmers due to their weak economic position to share the cost of cultivation. Thus, in our survey area, the overall picture seems to suggest that the majority of lessees belong to the landless and marginal category of farmers. The conventional image of a lease market in our survey area has been one in which a large number of small lessees lease in from a small number of big lessors⁴. So, there is enough scope to implement the land reform package for providing security to the large number of lessees and to bring about equitable distribution of income in the rural area.

Table 1 : Distribution of types of tenancy under different categories of households

Types of contracts	Category of households					
	AGL	MRF	SMF	MID	LF	ALL
Fixed rent tenancy	10 (27.04)	24 (64.86)	1 (2.70)	1 (2.70)	1 (2.70)	37 (100.00)
Pure sharecropping	6 (25.00)	13 (54.17)	4 (16.67)	1 (4.16)	0 (0.00)	24 (100.00)
Cost sharing	5 (55.56)	4 (44.44)	0 (0.00)	0 (0.00)	0 (0.00)	9 (100.00)
Both fixed rent and sharecropping	14 (38.89)	17 (47.22)	4 (11.11)	1 (2.78)	0 (0.00)	36 (100.00)
Total	35 (33.02)	58 (54.72)	9 (8.49)	3 (2.83)	1 (0.94)	106 (100.00)

Source : Field Survey 2006-07.

Note : 1. The figures in the parentheses indicate percentage of the specific category of household belonging to specific tenurial contract.

2. AGL=Agricultural labourers, MRF=Marginal farmers, SMF=Small farmers, MDF=Medium farmers, LF=Large farmers.

In our surveyed area five different categories of farmers, except owner cultivator, exist: (i) pure tenant cultivators, who cultivate only leased in land, (ii) owner-cum-tenant cultivators whose operational holdings consist of owned and leased in land, (iii) owner-cum-landlords who lease out a part of their own land and cultivate the rest, (iv) landlord-cum-tenant cultivators who lease in a part / whole of their cultivated land and lease out a part / whole of

the owned land, (v) pure landlord households who lease out all of their cultivable land. The economic status of different tenurial categories of households can be gauged from the average operated area of the particular household as land is considered the major source of income in the village economy and the entire rural population makes its livelihood directly or indirectly from it. The average operated land of all the villages under different tenurial categories is shown in

Table 2. From the percentage distribution of different tenurial categories of households in the surveyed villages, it is evident that owner-operator, represented by 40.82 per cent of total household surveyed, play a dominant role in the land-lease market in our study area. They are followed by owner-cum-tenant households

being represented by 33.16 per cent of total households. It is also evident that owner-cum-tenant cultivators largely dominate the sample of tenant households. The sample of landlord households⁵ together accounted for 8.16 per cent of total households⁶.

Table 2 : Average operated area (in acre) for different tenurial categories of households

Tenurial categories	Percentage of tenurial category	Average operated area (in area)			
		Saktia	Anguna	Dhamash	Boro
Pure-tenant	17.86	1.19	0.75	0.57	2.26
Owner-cum tenant	33.16	7.40	3.25	2.95	4.22
Pure-landlord	0.51	0	0	0	0
Owner-cum landlord	4.59	1.8	2.92	5.56	3.0
Landlord-cum-tenant	3.06	0	7.2	2.79	6.16
Owner-operator	40.82	3.37	1.50	5.73	4.06
Village(Average)	100.00	4.31	2.20	3.69	3.18

Source : Field Survey 2006-07.

Among different categories of households in all surveyed villages, the average operated holding is highest for the landlord-cum-tenant households whereas it remains low for the pure tenant category. Thus it can be argued that the economically powerful category is the landlord-cum-tenant whereas the weakest category is the pure tenant cultivators.

Distribution Implications of Tenancy : Temporary transfer of land via tenancy is one of the oldest institutional devices evolved in order to make the distribution of operational holdings more equitable than the distribution of ownership holdings. To examine the role of tenancy in redistributing operational holdings, the study addresses the problem by examining the distribution of owned and operational holdings, before and after tenancies, in all surveyed villages. The main hypothesis we want to test is that if there is high degree of concentration in the ownership of land, then the institution of tenancy would be able to reduce the degree of inequality in the distribution of operational holdings.

The distribution of ownership holdings for the different categories of farmers is presented in Table 3. It can be seen that there is a significantly high degree of inequality in the ownership distribution of landholdings. Bottom 81.28 per cent of farmers belonging to the landless and marginal size groups own only 32.03 per cent of total land, whereas 6.4 per cent of farmers belonging to the middle and large size groups own 38.59 per cent of total land. It is also found that there is high degree of concentration of landed property in the group of medium size farmers. The Gini-coefficient in case of combined data of all the villages is estimated at 0.59, which shows a higher degree of inequality in the distribution of owned land. The existence of unequal distribution of land creates sharp stratification in the rural society (Myrdal, 1968). In the words of Myrdal: "Inequality among individuals is largely a question of landownership. Rural income has been functionally related to landholdings, the poor are more likely to be landless than owning land".

Table 3 : Distribution of owned land in the surveyed villages

Size-class (in acre)	No. of holdings	% of holdings	Cumulative % of holdings	Amount of area (in acre)	% of area	Cumulative % of area
0.00	44	21.67	21.67	0	0	0
.01-2.5	121	59.61	81.28	93.78	32.03	32.03
2.5-5	25	12.32	93.60	86.02	29.38	61.41
5-10	11	5.42	99.02	81.40	27.80	89.21
Above 10	2	0.98	100.00	31.6	10.79	100.00

Source : Field Survey 2006-07.

In this context, it can be presumed that such high inequality in the distribution of owned landholdings can be mitigated by the working of the institution of tenancy. After readjustment

of land through tenancy arrangement, the distribution of operational holdings obtained in our study area is shown in Table 4.

Table 4 : Distribution of operated land in the surveyed villages

Size-class (in acre)	No. of holdings	% of holdings	Cumulative % of holdings	Amount of area (in acre)	% of area	Cumulative % of area
0.00	11	5.42	5.42	0	0	0
.01-2.5	121	59.61	65.03	116.30	20.06	20.06
2.5-5	35	17.24	82.27	129.53	22.34	42.40
5-10	27	13.30	95.57	184.51	31.83	74.23
Above 10	9	4.43	100.0	49.36	25.77	100.00
Total	203	100.00		579.69	100.00	

Source : Field Survey 2006-07.

It is found that 82.27 per cent of the total households belonging to landless, marginal and small size groups operated 42.40 per cent of the total operational holdings, whereas 4.43 per cent of farmers belonging to the large size group accounted for 25.77 per cent of total operated holdings. The degree of inequality in the distribution of operational holdings for all the villages, as estimated by Gini coefficient, is 0.54, which is lower than the degree of inequality in the distribution of owned land. Thus, the institution of tenancy in general, lowers inequality in the distribution of operational holdings.

The broad picture concerning the role of tenancy in the adjustment of landholdings is examined for all individuals village level also. Inter-village variations of resource adjustment capacity of tenancy can be examined by comparing the values of Gini-coefficient at individual village levels. Village-wise variations in Gini-coefficient are plotted in Table 5.

It is found that tenancy arrangement has reduced inequality in the distribution of operational holdings in all villages, except in one village (Anguna) where tenancy has in fact aggravated the problem of inequality. In this context, the village, Anguna, deserves a special

Table 5 : Inequality in the distribution of owned and operated land in the surveyed villages

Villages	No. of households	Gini-coefficient	
		Owned land	Operated land
Saktia	42	0.58	0.49
Anguna	68	0.51	0.61
Dhamash	43	0.49	0.47
Boro	50	0.69	0.49
All villages	203	0.59	0.54

Source : Field Survey 2006-07.

attention in regard to typical marginalisation of agricultural holdings. The village accounts for a significant lower value in both averages owned and operated landholdings. The transfer of land through tenancy and mortgaging of land takes place in such a way that the ownership distribution of land and operational holding remain relatively skew.

The central focus of rural development is to reduce rural inequality specially in the distribution of operational holdings. Tenancy acts as an adjustment mechanism to bring about equality in the distribution of operational holdings. Undoubtedly, in our study villages the institution of tenancy has reduced rural inequality to a significant extent by making the distribution of operational holding more egalitarian than the ownership distribution. Under the circumstances, land reform is considered as an effective institutional tool for rural development. The institutional intervention in the form of *Operation Barga*⁷ is expected to provide greater security to the tenants and this in turn would certainly reduce rural inequality to a great extent. In other words, *Operation Barga* as an institutional reform seeks to provide production stability by giving legal rights to the sharecroppers, facilitating the provision of credit, ensuring higher incentives for efforts, and restoring vitality to the agricultural sector by stimulating production so as to bring the prosperity to the rural society.

Institution of Rural Credit Market

Rural development involves raising the socio-economic status of rural poor on a sustainable basis through optimum utilisation of local resources. The institutional approach to rural development advocates for harnessing the rural poor's underutilised capacity by creating appropriate institutional arrangement in enhancing the access to assets, financial and other services, technologies and markets. An access to the institution of rural credit will be effective for those credit constrained households who are unable to pursue these opportunities for lack of financial resources. A step in this regard will certainly enhance the economic well-being of rural masses and hence will accentuate the process of effective social transformation of rural areas. In fact, rural credit is considered as an indispensable precondition for rural development. An attempt has been made in this section to explore the operation of rural credit market in our study villages and its associated linkages with the rural development.

Participation of Households in Rural Credit Market : A large number of households (94 per cent) have participated in the institution of rural credit to fulfill their credit requirements. Only a negligible proportion of total households (6 per cent) have not participated in any formal or informal credit markets (Table 6). A large number of borrowing households in the study villages is the reflection of necessity of credit support to a

large section of rural households. Among the borrowing households, slightly more than 15 per cent of the households are dependent on only institutional credit. The institutional credit agencies are unable to meet the entire credit demand of the 31 per cent of borrowing households and so, they are bound to depend on non-institutional sources for the remaining 'credit gap'⁸. A majority of households (nearly 53 per cent) of our surveyed villages are often ill-served by the limited formal institutions available. So they solely depend on informal institutions to meet the entire credit demand. In this sense informal institutions are seen as a substitute for formal institutions. In respect of

different categories of households, landless and marginal farmers are mainly dependent on informal sources of lending in order to meet their credit requirements. They together accounted for 92 per cent of total borrowing households taking loan from informal sources only. On the other hand, small, medium and large farmers have an access of formal sources of lending. Most of the credit demands of middle and large farmers are covered by the formal credit agencies in our study villages. The overall conclusion is that there is a tendency of positive association between institutional credit availability and owned landholding of the households.

Table 6 : Participation of households in rural credit markets

Category of households	No. of households	Households		Borrowing households under		
		Borrowing	Not Borrowing	Formal only	Informal only	Both
AGL	44	43 (97.73)	1 (2.27)	2 (4.65)	31 (72.09)	10 (23.26)
MRF	121	114 (94.21)	7 (5.79)	11 (9.65)	62 (54.39)	41 (35.96)
SMF	25	23 (92.00)	2 (8)	10 (43.48)	8 (34.78)	5 (21.74)
MDF	11	10 (90.91)	1 (9.09)	6 (60.00)	0 (0.00)	4 (40.00)
LF	2	1 (50.00)	1 (50.00)	1 (100.00)	0 (0.00)	0 (0.00)
ALL	203	191 (94.09)	12 (5.91)	30 (15.71)	101 (52.88)	60 (31.41)

Source : Field Survey 2006-07.

Note: 1. Figures in the parentheses indicate percentage.

2. AGL=Agricultural labourers, MRF=Marginal farmers, SMF=Small farmers, MDF=Medium farmers, LF=Large farmers.

Institutional loans are given for production purpose, whereas informal sector loans are mainly utilised for consumption purpose. Nearly 80 per cent of formal credit is utilised for production purposes, whereas more than 50 per cent of informal credit is utilised for consumption

purpose in all surveyed villages. Informal sectors are also meeting requirements of production credit for the farmers as a significant 42 per cent cases, the rural households take informal loans for production purpose. The loans obtained from traders are used mostly for production purpose

as these loans are often given in kind (fertiliser, pesticides, seeds etc.) and hence cannot be used for purposes other than production. Although in significant cases the loans obtained from moneylenders are used for the purpose of production, in a large number of cases, these loans are used for the purpose of consumption. In fact, moneylenders and landlords are providing more than seventy per cent of consumption loan to all categories of households.

The duration of loan can be broadly classified as: short-term (less than six months), middle term (covering one annual period), and long-term (more than one year). In our survey area it has been seen that more than 67 per cent of formal loan are granted for short-term basis, while the corresponding figure for short-term informal loan is a little more than 68 per cent. Only a marginal 5 per cent of formal loans are granted for long-term investment. Institutional credit agencies have not supplied investment loans on a long-term basis to a greater extent.

Nature, Distribution and Collateral Requirement of Informal Loan: In a categorisation of informal loan cases by types of lender (Table 7), it can be found that traders and moneylenders

play a crucial role in providing credit needs of the landless, marginal and small farmers in the survey area. They together accounted for nearly 66 per cent of total informal credit market. They are followed by the landlords and friends and relatives. The landlords also occupy an important position in the informal credit market as they have offered loans in about 19 per cent of total informal loan cases. Landlords are providing subsistence loan to landless and marginal farmers by mainly interlinking credit and labour markets to ensure labour supply during busy agricultural season. Medium farmers are not so much dependent on informal sources. However, under critical circumstances, if any, traders, friends and relatives provide necessary working capital to them. Large farmers are no longer dependent on informal lenders. Friends and relatives are found to have advanced nearly 16 per cent of total loan cases in the informal credit market.

On the basis of the analysis of the distribution of the informal loan amount (Table 7), it appears that the most important sources of informal credit in our study villages are traders, friends and relatives, moneylenders and

Table 7 : Percentage (%) distribution of informal loan cases and loan amount by borrower-lender types

Type of borrower	Type of informal lender							
	Money lenders		Landlords		Traders		Friends & relatives	
	Loan Cases	Loan Amount	Loan Cases	Loan Amount	Loan Cases	Loan Amount	Loan Cases	Loan Amount
AGL	30.34	24.96	25.84	15.04	33.71	43.13	10.11	16.87
MRF	33.33	27.18	17.22	10.05	32.23	37.38	17.22	25.39
SMF	27.27	21.41	4.55	2.35	45.45	39.54	22.73	36.70
MDF	0.00	0.00	0.00	0.00	60.00	92.81	40.00	7.19
LF	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ALL	31.42	22.40	18.58	8.92	34.12	45.70	15.88	22.98

Source : Field Survey 2006-07.

Note:1. AGL=Agricultural labourers, MRF=Marginal farmers, SMF=Small farmers, MDF=Medium farmers, LF=Large farmers

landlords if we place them in descending order. The ranking of informal lenders in the distribution of the amount of informal loan remains same as those of the distribution of informal loan cases. The only exception is found in the case of friends and relatives. Friends and relatives appeared to be an important source of informal credit in the distribution of informal loan amount as compared to the distribution of informal loan cases.

The collateral based lending policies pursued by the formal credit agencies often dictated by land is the most favourable collateral accepted in the formal credit market. On the other hand, the market for informal credit varies considerably in terms of wide range of collateral securities accepted by them. Some assets (i.e.

land, gold and utensil) and asset substitutes (i.e. labour and product) are offered as collateral security in informal credit transactions in our surveyed villages. Non-land collateral occupies a dominant position in the informal credit market. Land is offered as collateral in about 7.69 per cent cases while gold and utensils served as collateral in about 50.55 per cent cases. Non-marketable collateral such as labour and product (41.75 per cent) have been one of the important collateral securities accepted by the informal lenders. However, collateral securities are not equally important for all categories of borrowers. Table 8 shows that the requirement of collateral security is strongly imposed upon the poorer households and the requirement narrows down as we move on to the higher farm size categories.

Table 8 : Category of households' wise distribution of the requirement of collateral in informal credit transactions

Category of Households	Total number of loan contracts	Total number of loan contracts backed by collateral	Total number of loan contracts without collateral
AGL	89 (100.00)	60 (67.42)	29 (32.58)
MRF	180 (100.00)	110 (61.11)	70 (38.89)
SMF	22 (100.00)	10 (45.45)	12 (54.55)
MDF	5 (100.00)	2 (40.00)	3 (60.00)
LF	0 (0.00)	0 (0.00)	0 (0.00)
ALL	296 (100.00)	182 (61.49)	114 (38.51)

Source : Field Survey 2006-07.

Note : 1. Figures in the parentheses indicate percentage of loan contract.

2. AGL=Agricultural labourers, MRF=Marginal farmers,
SMF=Small farmers, MDF=Medium farmers, LF=Large farmers

The existence of imperfectly developed credit market⁹ is one of the fundamental characteristics of the rural economy. In an unequal rural economy, the poor may lack access to credit markets for precisely the reason that they lack sufficient wealth to be acceptable as a suitable form of collateral. This is evident in our survey area where the requirement of collateral

security is strongly imposed upon the poorer households and the requirement narrows down as we move on to the higher firm size categories. In such an environment, the greater the equality in wealth distribution, the greater the degrees of economic efficiency as the constraints that hinder the capital market are loosened. Thus, an institutional intervention aimed at wealth

redistribution by land reform can be considered as a prerequisite for rural credit reform. At the same time, a well intentioned land reform programme may be rendered counter-productive by the absence of a simultaneous programme of credit reform. An integrating institutional framework by considering the interaction of two agrarian institutions is analysed in the next section.

Interactions of Tenancy and Rural Credit and its Implication to Rural Development

Transfer of property right through institutional reform is regarded as instrumental in improving the lives of the poor people in rural agrarian economy. Improved security of tenure through implementation of *Operation Barga* can raise the expected return from investment and ease credit constraints. Banerjee, *et.al* (2002) argued that limited interventions in property rights of a tenancy reform programme called *Operation Barga* can have a positive impact on productivity. The overall productivity gain by transferring land from less efficient cultivators to more efficient ones is greater if there is well functioning rural credit market. Otherwise, the more efficient farmers would not be able to optimally use the allocation of resources due to lack of necessary finance. In this sense, the interlinked institutions governing farmers'

physical and financial assets—those of land and for finance—are particularly important for rural development (World Development Report, 2002). The complementary natures of both institutions indicate that the benefit of transferring property right is low because of failure of other agrarian institutions like input, output and credit market institutions. Thus, the benefit greatly depends on the broader institutional environment relevant for rural development.

The government of West Bengal linked credit with legalised tenure to give the recorded sharecroppers the possibility of accessing institutional credit by using their titled land as collateral (Government of West Bengal, 1979). To evaluate the working of both these complementary institutions, the group of tenants can be broadly classified into two categories depending on the security of tenancy: unrecorded tenants (that is, the group which typically portrays the traditional tenancy arrangement) and the recorded tenants (the participants in *Operation Barga*). In our 106 sample of tenant households, only a 17 percentage of tenants have registered their leased in land and thus can be recognised as recorded tenants¹⁰. A negligible 5 per cent of tenants have both traditional and recorded tenancy arrangements in their possession. Thus,

Table 9 : Extent of participation in the credit market by tenurial categories (in percentage)

Item	Recorded tenants	Unrecorded tenants	Both recorded and unrecorded tenants
Sources of credit			
(a) Institutional only	11.11	14.46	20.00
(b) Non-institutional only	61.11	52.22	40.00
(c) Both	27.78	28.91	20.00
Non-borrowing	0.00	2.41	20.00
Total	100.00 (18)	100.00 (83)	100.00 (05)

Source : Field Survey 2006-07.

Note : Figures in parentheses represent total number of tenants.

a majority of 78 per cent of tenants are not participated in *Operation Barga* (Table 9). To examine the extent of participation in the credit market by the two categories of tenants, the source of credit is broadly divided into institutional sources (commercial bank, cooperative and government agencies) and non-institutional sources (moneylenders, traders, landlords and friends and relatives).

It is evident from Table 9 that the percentage of households depending on exclusively institutional sources is higher in the case of unrecorded tenants (14.4 per cent) compared with recorded counterparts (11.11 per cent). The distribution of institutional credit by tenurial category has a desired implication on the distribution of non-institutional credit. Recorded tenants are much more dependent on non-institutional sources to meet their borrowing requirement mainly because of their marginal holdings. So, *Operation Barga* and its consequential effect on the marginalisation of landholding are acting as a hindrance to provide access to institutional credit to bargadars. In this context it needs to be pointed out that the percentage of borrowing households depending on both institutional and non-institutional sources has been slightly lower in case of recorded tenants (27.28 per cent) compared to unrecorded tenants (28.91 per cent). Only 2.41 per cent of unrecorded tenants belong to non-borrowing households. It is to be noted in this context that no-sweeping generalisation can be made on the basis of a small scale micro study. Some studies draw similar finding that the subsidised loan programme has a very limited impact upon the registered sharecropper (Kohli, 1987; Rudra, 1981). However, contrary to our findings, there is also evidence that the percentage of households depending on institutional sources of credit is much higher in the case of recorded tenants compared with their unrecorded brethren (Bhaumik, 1993).

Conclusions and Policy Implications

The strategy of sustainable rural development warrants effective institutional reforms to create an enabling environment for

tackling distortions in the process of social transformation of the rural economy. Two important agrarian institutions which have far-reaching influences on rural transformation are: the institution of tenancy and the rural credit. The institution of tenancy has the capacity to reduce rural inequality by making the distribution of operational holding more equitable than the ownership distribution; while, access to rural credit provides livelihood security of the people and thus reduces income inequality in the rural economy. It is worth mentioning here that the access to formal credit is found to be positively related to the land ownership pattern. In consequence, the existence of "credit gap" in the formal credit institutions compels the people to depend grossly on informal credit sources like landlord, moneylender, trader etc. with unfavourable terms and conditions. So the operational efficiency of the agrarian institution of tenancy and rural credit institution need to be achieved by evolving an integrated institutional framework combining these two agrarian institutions for ensuring sustainable rural development.

In the light of the above conclusion, major policy suggestions that can be made to achieve a sustainable rural development strategy in our study area are the following :

Firstly, marginalisation of operational holding is essentially a stylised feature of West Bengal agriculture, especially after the successful implementation of *Operation Barga*. In West Bengal, nearly 81 per cent of the operational holdings now belong to the 'marginal' category (NSSO, 1997). The marginal farmers have also received inadequate attention from the institutional agencies as they are not satisfied with collateral security of marginal land. Hence the integrated policy of the government to link recorded tenants with the provision of institutional credit has not been materialised as per expectation. Moreover, the exact number of

bargadars in the State has long been a matter of controversy. It is evident that barga recording has not met with broader success as higher concentration of the unrecorded bargadars is still found to practise widely in West Bengal (as evident in our study area). In this circumstance, some renewed drive of *Operation Barga* is expected to bring the unrecorded tenants in the net of bargadars. A comprehensive long-term policy of *Operation Barga* coupled with the supply of institutional finance is expected to bring efficiency in the allocation of resources and hence all-round rural development in West Bengal.

Secondly, formal financial services should be extended to cover landless and marginal farmers who are mainly dependent on informal sources of lending. To ensure an inclusive financial sector¹¹, banks should create awareness among the villagers about financial services especially in the form of advice on money management, debt counseling, saving and affordable credit facilities etc. The institutional design of rural financial institutions can be

improved by promoting micro credit institutions¹² for inducing better repayment practices.

Thirdly, banks extended credit to the farmers on the basis of 'scale of finance'. That means the size of the formal credit depends on the amount of land ownership. The norm of 'scale of finance' is mainly responsible for the existence of a large 'credit gap' in institutional loan in our surveyed villages. The institutional agencies should fix the scale of finance in a more flexible manner to cater to the demand of all types of farmers. A wider approach in the fixation of scale of finance should encourage farmers to involve in land-lease market to equilibrate desired cultivated area with the operated area.

Fourthly, loan from cooperative credit society is associated with the insurance coverage. The policy of linking credit with insurance should be extended to other commercial banks¹³ Other commercial banks should also provide consumption loans against utensils as collateral security, as practised by the cooperative bank in our survey area.

Notes

- 1 Further details about the features of study villages based on primary and secondary data, and sample design are available in Laha (2008).
- 2 24 cases are associated with pure sharecropping (i.e. no cost sharing) and 9 cases are associated with cost sharecropping.
- 3 In the programme of Operation Barga, it was legislated that the landlord can at most take 25 per cent of the output if he does not share in cost and could ask for 50 per cent if he shared 50 per cent of the costs.
- 4 The practice of land leasing in West Bengal has been a phenomenon largely confined to marginal, and to some extent, small and medium categories of households (Bhaumik, 1993).
- 5 They are consisting of pure-landlord, owner-cum-landlord, and landlord-cum-tenant households.
- 6 Inadequate representation of landlord class as a whole mainly caused by the absentee landlord who reside outside the village for most part of the year and the problem of collecting information on these households residing within the village.
- 7 The government of West Bengal initiated Operation Barga in 1978 to reform the sharecropping system that was widespread throughout the State. The primary objective of Operation Barga is to restructure the agrarian relations and direct them to an egalitarian society by enlarging the land base of the rural poor. By the end of November, 2005, the total number of bargadars recorded in the Record of Rights was 15.31 lakh. The area under these bargadars amounted to 4.54 lakh hectares (Economic Review of West Bengal, 2005-06). The evidence reflects an unparallel history created in reforming property rights in India. However, in our surveyed villages only 17 per cent of the surveyed tenants have participated in the drive of Operation Barga and registered their leased in land. The policy of the West Bengal government to give sharecroppers the possibility of accessing institutional credit using their land rights (in the form of pattadars and bargadars) as collateral has also not found empirical support in a significant extent in our study area.

- 8 Credit gap is defined as the proportion of shortfall in credit availability (from institutional sources) to credit required by the farming households.
- 9 Credit market is imperfect in the sense that it is not equally accessible to everyone and poor farmers with no collateral may find it hard to obtain loan from formal financial institutions.
- 10 In our survey area, the landless and marginal farmers predominantly participate in the land-lease market (Table 1). Official records revealed that the percentage of bargadars in the group of landless and marginal farmers is mainly 11.31 per cent, while combining the bargadars and pattadars, the percentage becomes 29.39 in Raina I block (BAES, 2005).
- 11 Some recent steps are now taken by RBI like availability of a basic banking 'no frills' account, simplification of procedure to open a bank account, introduction of the practice of limited overdraft facilities of Regional Rural Banks and one time settlement scheme at the time of borrowing, introduction of general purpose credit card facility and development of micro finance institutions to ensure greater financial inclusion.
- 12 Micro finance institutions can be considered as an innovative institutional mechanism based on the successful elements of informal institutions and formal interventions. Social and peer pressures are particularly effective enforcement mechanisms used in micro finance institutions for inducing repayment. In our surveyed villages, recently a special drive is taken to provide livelihood finance to those of asset poor households through formation of self-help groups. However, it would be difficult to conclude about the performance of the group at this present juncture due to premature nature of these SHGs.
- 13 Other commercial banks should also provide consumption loans against utensils as collateral security, as practised by the cooperative bank in our survey area.

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