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**The Finance of Forced and Free Markets:
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Ben Crow and K A S Murshid
November 13, 1989

THE FINANCE OF FORCED AND FREE MARKETS - MERCHANTS' CAPITAL IN THE BANGLADESH GRAIN TRADE ¹

Introduction

This paper is about the diverse forms of financial relationship found in foodgrain markets in Bangladesh, and the contrasts they reflect between backward and advanced areas. It reports the findings of intensive, long-term studies of the trading circuits, joining producers and consumers, associated with a range of large foodgrain markets. We have studied markets in two rural areas - one, a backward, deficit area of the country, one in an advanced, surplus area - and in Dhaka, the capital city of Bangladesh.

We have found financial relationships which cannot adequately be described with the familiar terminology of principal, period and interest rate. They include financial relations which influence price formation and those which tie, or attach, a subordinate trader to a larger trader. This paper is a first attempt to catalogue the different types of credit relation and to describe their functions within the context of particular structures of rural production. The focus of this paper is on the financial or credit relations associated with foodgrain markets. We note some of the ways in which bank credit is available to grain traders but we do not here explore the implications of the ways that state procurement provides capital to the grain trade.

Financial relations in Bangladesh grain markets have to be understood in the particular context of the rapid expansion of those markets. In the last two-and-a-half decades, the amount of foodgrain distributed by the private market appears to have expanded from 1 million tons to some 10 million tons. Over the same time there has also been substantial investment in new agricultural technologies in some parts of the country. The credit relations we are describing provide working capital to small traders and short-term capital to poor peasants. We suspect that these relationships have partly grown to meet the huge expansion of capital required for recent commercialisation and new agricultural technologies. The diverse forms of financial relation we have found are not, however, found in all the three areas we have been studying. Some forms of financial relation appear more prevalent in backward areas and some in advanced.

The backward area we have studied has a high proportion of tenanted land (mostly under

¹ The findings in this paper come from a joint research project of the British Open University and the Bangladesh Institute of Development Studies. The research is funded by the UK Overseas Development Administration. The paper rests on the detailed research of five field researchers: Tarit Datta Gupta, Jagadindra Mazumdar, Shahjahan Miah, Shahid ur Rashid and Abdur Rashid. A Glossary of Terms is contained at the back of the paper.

sharecropping arrangements and usufruct mortgages), with large holdings controlled by absentee landlords, and low levels of investment in agriculture (with no irrigation). The advanced area has a low proportion of tenanted land (with cash rents predominating, rather than sharecropping, where land is tenanted), a more even distribution of landholdings, and high levels of investment in agriculture (almost all of the land is irrigated).

Our most striking finding is a marked contrast between financial relations in the area of backward agriculture we have studied and those in the area of relatively advanced agriculture. Tied credit arrangements amongst traders and a dominant role for merchant capital in the consumption and investment credit of poor peasants are evident in the backward area. In the advanced, 'green revolution', area the bonding of traders through loan arrangements seems much less prevalent, and peasant consumption and investment loans are provided by banks and other peasants, rather than by merchants. The markets we have studied in Dhaka combine elements of the financial relations of both backward and advanced areas. Many merchants depend on tied credit relationships to ensure some elements of their business during at least some seasons. Some groups of merchants in Dhaka finance small trader's advances to poor peasants in backward areas in order to ensure the grain supply to Dhaka during some seasons.

In very broad terms, we have discovered a changing situation in which traders with tied financial relations are competing with traders adopting more generalized free relationships. In the backward area we describe, the comprehensive political and economic power exerted by the local ruling order has allowed a group of traders, who form part of that order, to establish a hierarchy of 'interlocked' markets which extract high returns from the production under its control.

Our findings relate to debates about interlocked markets, forced commercialisation and the nature of rural markets. We briefly review the literature on those debates in Section 3.

The structure of this paper is as follows. In the following section we outline the main forms of grain distribution in Bangladesh and begin the description of the financial relations we have found by providing a description of the five main categories of relation. Section 3 reviews some of the literature which relates to our study.

Sections 4, 5 and 6 focus on the three areas we have studied. Section 4 is the longest, it describes the complex hierarchy of relations governing the use of land, exchange of grain and provision of finance in this backward area. Section 5 outlines the simpler systems of finance and trade found in the advanced area. It ends with a discussion of the contrasts between the advanced and backward rural areas. In Section 6 we briefly review the financial relations of the Dhaka markets and the way that those arrangements reflect aspects of backward and

advanced areas.

Section 7 presents data on the functions and obligations of the unusual financial arrangements we have described and some of the price differences they entail for traders and peasants who have to use them. Section 8 summarises our findings and presents our discussion of their implications.

2 FOODGRAIN DISTRIBUTION IN BANGLADESH AND THE MAIN FORMS OF CAPITAL RELATIONSHIP

There are three main systems of foodgrain distribution in Bangladesh -

- (i) a privately-owned market,
- (ii) a state food distribution system and
- (iii) direct exchanges between households for land (eg sharecropping), labour, commodities and services (this latter category is growing, because payment for the use of some new technology, such as pumps and threshing machines, is in grain).

Then there is also

- (iv) production consumed within the household.

Each of these systems of distribution has its own characteristics. This article is focussed primarily on (i) but also on some elements of its interaction with (ii) - (iv).

The paper focusses on credit relations amongst foodgrain traders (trading credit) and on those between traders and peasants (loans generally secured by the peasant's crop). In Table 1 we have listed the main forms of loan associated with grain markets in Bangladesh together with some of their characteristics.

These financial relations fall into five broad categories:

- (i) Cash advances from traders to poor peasants, repaid in paddy² at harvest time (*dhaner upore* and advance purchase)
- (ii) Tying cash advances from big traders to small traders during the post-harvest trading season (*dadon*)
- (iii) Paddy advances from rich peasants to poor peasants and to traders repaid in cash at harvest time (paddy loans - repaid at a price higher than the market price)
- (iv) Loans of rice from rural shopkeepers to poor peasants and agricultural workers to be repaid in cash, or sometimes in paddy (rice loans)
- (v) Paddy or rice credit sales amongst traders repaid in cash which in some cases will

² Paddy is the term for the rice grain before it is processed.

tie the purchaser to the lender (*paikari baki*)

Financial relations (i) and (iii) allow the lender to influence the price that the poor peasant receives or pays for the crop. Financial relations (ii) tie the small trader to the supplier of capital and influence the market share and velocity of trade of the lender, but does not have a direct return comparable to an interest component. Thus, when a small trader procuring paddy from peasants takes a *dadon* loan for working capital from a large broker, the widespread condition for this loan is that all his procurement has to be channeled through that broker until such time as the loan is repaid in full. Financial relations (v), short term loans of rice or paddy amongst traders may be no more than deferred payment for commodities, but amongst some merchants in some markets it ties the purchaser to the seller for all his supplies of that commodity. Financial relations (iv), the supply of rice on credit, may carry with it the risk of transformation into higher interest rate forms of lending on default. The characteristics of these financial relationships will be explained in more detail in the sections describing particular markets.

In Figure 1 we have summarised some of the data contained in Table 1 in order to indicate the areas where the different types of credit relation are concentrated and the seasonal pattern characteristic of each.

All of these relationships have implications for how the market works. Price formation is decisively influenced for particular groups of peasants and traders, some markets are partially segmented, and we have identified market structures which effectively create oligopolies with high returns.

TABLE 1 MAIN TYPES OF TRADING CAPITAL

Name and season	Parties (and area)	Form of relation	Yield to lender	Length
<i>Dhaner Upore</i> (money on paddy). Growing season.	Trader-poor peasant. (Backward)	Cash repaid in paddy	Very high but risky	3-5 months
Advance purchase. Just before harvest.	Trader-poor peasant (Backward)	Cash repaid in paddy	Very high	High, 2 to 4 weeks
Dadon During trading season.	Trader-trader (Mostly backward)	Cash repaid in paddy	Ties subordinate trader and promotes lenders throughput	High, 1-15 days
Paddy loans During trading months. season.	Big grower-trader or poor peasant (Everywhere)	Paddy repaid in cash	Increases lenders returns and reduces risk.	Variable, 2 days to 4
Rice loans During pre-harvest lean season.	Shopkeeper poor peasant (Everywhere)	Rice repaid in cash	May give better price and interest component	Variable, 3-14 days for poor peasants, 1-6 months for rich
Credit sales. During trading season.	Trader-retailer (Everywhere)	Paddy repaid in cash	Promotes lender's throughput	High, 3-15 days.

3 A BRIEF LITERATURE REVIEW

Little has been written specifically about trade finance or about working capital (apart from a pioneering paper by AK Sen in 1964). There are, however, three bodies of academic literature which relate to the subject under consideration: studies of grain markets in Bangladesh (surveyed in Crow, 1989), theoretical work on interlocked markets (notably the work of Amit Bhaduri and Krishna Bharadwaj), and research on the finance of craft industry, such as handloom weaving (most recently surveyed in Choudhury, 1989). The most important literature for the understanding of the backward area under consideration here is the work on the theory of interlocked markets.

Studies of Bangladesh grain markets

The main concern of the studies of grain markets in Bangladesh has been to examine the allocative efficiency of foodgrain markets and overall trading margins (Crow, 1989). Having established that markets are largely 'competitive', papers within this literature tend to focus on the government price and stocking policies which can be derived from analyses assuming perfect competition. The earliest, of these studies and in many ways the most thoroughly researched, is that of Osman Farruk (1972) who generated detailed price and cost data to conclude that foodgrain markets were competitive and well-integrated, with numerous participants and small marketing margins, leaving the grower a relatively large share of the price paid by the consumer. Subsequent studies (Ahmed and Bernard 1988, Price Waterhouse 1988) have come to similar conclusions using different methods. Ravallion (1987) and Ahmed and Bernard, nevertheless, concede that under certain circumstances, such as situations of acute scarcity or transport disruption, market margins and traders' expectations may be disrupted.

Interlocked markets: The Bhaduri-Bharadwaj Thesis

The theoretical work of Bhaduri (1973) and Bharadwaj (1974) broke new ground in market analyses, by suggesting why rural markets in backward regions are often 'interlocked'; that is, credit transactions, for example, may be tied to those for land, labour or output. This work was developed, especially by Bhaduri (1973, 1977, 1981, 1986, 1988) to draw implications for technical change, appropriation and accumulation of 'surplus', its distribution, and growth. The discussion here centres around the terms of market participation of different social groups and the barriers to accumulation and innovation represented by the overarching control which preferential access to markets may give to 'backward' dominant classes.

The idea of *interlocked markets* describes the contractual tying of the terms of exchange in two sets of transactions (Ellis, 1988, p150). Entry into the first "market" (land rent, for example) establishes the terms of participation in a second "market" (with labour, or output being

provided at less than prevailing rates to the landowner). Sharecropping is one example of market interlocking where the provision of land is used by the landowner to establish conditions for the tenants payment of output and provision of labour power. In this paper we describe arrangements where the loan of cash by merchants sets the price for the supply of output after harvest.

Interlocked markets are frequently described in terms of the example of consumption loans taken by a tenant household from its landlord, usually during the pre-harvest lean season. Repayment is stipulated in terms of physical output, payment of labour services or cash. In this case, the landlord may be able to undervalue the collateral offered (eg. labour services, price of output) because of the differential power (due to monopoly and personalized dependency) of the two parties (Bhaduri 1977 p344), thus making possible the extraction of surplus (through interest payments, price differentials or land rents). Bhaduri (1983, IV) argues that the landlord may discourage innovation by the tenant in order to ensure the continuation of the tenant's indebtedness and subordination.

Empirical studies in the context of Bangladesh (summarised in Rahman, H Z 1989 pp 25-8) have generated conflicting conclusions, but few, if any, studies have investigated links between output markets and credit or labour markets. Taslim (1988) argues on the basis of household data from three areas that interlocked markets are not important in Bangladesh. Rahman, H Z (1989, 26) suggests Taslim may have underestimated the extent of regional variation. Islam and Rahman (1985) found linkage between land and labour in 16% of cases and land and credit in 25% of cases (cited in Rahman, H Z 1989 p 26). Detailed case studies of particular villages (such as Jansen 1987) find interlocking pervasive. This may be explained by regional differences. An empirical study in West Bengal found little evidence of the interlocking of credit, land and labour markets but failed to examine linkages with product markets (Rudra and Bardhan 1983). This paper finds extensive evidence of the existence and nature of ties between credit and output markets.

The reproduction of interlocked or incomplete markets (Majid 1988) is associated with the dominance of rentier landlords, moneylenders and merchants in the social group controlling an area (Bhaduri 1981) and ultimately with the slow pace of development of alternative employment opportunities (Bharadwaj 1985).

Bhaduri characterises the commercial structure of interlocked markets as a regime of forced commerce because peasants are forced to dispose of part of their consumption needs to service their borrowing. They make distress sales of grain at harvest time and have to buy grain when their stocks run low a few months later. This aspect of Bhaduri's argument is summarised by Majid:

[Bhaduri's] usury argument states that exchange relations in a backward agrarian

economy dominate production such that surplus extraction takes place through unequal exchange in the product market in which the poor peasant is involuntarily involved at specific periods in the agricultural cycle for both buying and selling. The timing of his involvement in this market, which is characterised by cyclical price movements, involves a perverse price response from the peasant (buying dear and selling cheap). This in turn is forced upon him through his indebtedness from consumption loans, and his consequent need to reproduce himself and remain in cultivation.'

Bhaduri contrasts a process of forced commercialization with the 'underlying presumption of conventional economic theory' that commerce develops as the complexity and level of production develop through specialization. In the case of forced commerce, 'the level and growth of production may be constrained by the need to maintain certain forms of commercial exploitation. In such a case, the level of production tends to adjust to existing commercial relations rather than the other way around' (Bhaduri 1986 p 271).

Interlocked markets: criticism of the Bhaduri-Bharadwaj thesis

Criticism of this approach to interlocked or interlinked markets has suggested that the theory fails to explain observed relations and has suggested alternative explanations. Stiglitz (1986) and Braverman and Gausch (1986) list a number of criticisms of what Stiglitz calls the 'exploitation hypothesis'. The Bhaduri-Bharadwaj approach fails to explain:

(i) the mechanism by which landlords without a monopoly are able to exercise their exploitative power (Stiglitz, 1986, p 261)

(ii) the detailed structure of rural organisation - 'why cost shares are the way they are or why (or how) landlords who exploit their workers use the credit market to gain further exploitative capacity' (Stiglitz, 1986, p261)

(iii) why interlinkage occurs in a wide range of circumstances (Braverman and Guasch, 1986, p 1260)

(iv) why monopolist landlords need the 'extra instrument' (of credit interlinkage, for example) in addition to the wage or rental contract (Braverman and Guasch, 1986, p 1260).

The alternative approach outlined in Stiglitz 1986 explains interlinkage as a way of operating within markets where information is costly to obtain and imperfect (incomplete).

This approach suggests that interlinkage may arise as a response to the potential 'externalities' (costs to others of a transaction or production relationship) generated by a situation with incomplete information. Stiglitz gives the example of three parties: a landlord, a tenant and a moneylender. He suggests that the contract between the moneylender and the tenant-borrower will have implications for the landlord's returns, and the terms of the landlord's contract will also affect the returns to the moneylender. The lender's risk of default by the tenant-borrower is influenced by the production decisions of the tenant-borrower and by the

terms of the tenant-borrower's contract with the landlord (with the probability of default being reduced if, for example, the landlord provides fertilizer). Similarly, the landlord's share income may be affected by the terms of the credit relation with the moneylender. Stiglitz postulates that in these circumstances the landlord will take on the role of the moneylender in order to avoid the potential uncertainties and conflicts of interest created by the tenant-borrower seeking credit elsewhere. An interlinked market is thus created. Stiglitz suggests (p259):

'Wherever there are such externalities, a natural market solution is to internalize the externality, and that is precisely what the interlinkage of markets does.'

This leads to the more general claim that 'interlinkage is motivated by the desire for economic efficiency, not necessarily by the desire for exploitation of the worker' (Stiglitz, p 259).

Like much theoretical discussion of interlinked markets, these articles take the landlord-tenant relation, linking land, labour and credit markets, as the most accessible example. The empirical material of our paper concentrates on the merchant-peasant and merchant-merchant relationships, interlinking credit and grain markets. The 'imperfect information paradigm' of Stiglitz and others can obviously be extended to the cases we describe. The merchant can reduce the externalities of trade by taking on the role of credit lender at the same time.

It is not immediately obvious, however, that this provides a convincing explanation of the differences of trade and financial structures we describe between advanced and backward areas or of the large price disadvantage experienced by those who take credit from merchant moneylenders.

4 A BACKWARD AREA - INTRODUCTION

The backward area we have studied is in the South of Bangladesh in the district of Noakhali. We have concentrated on two large foodgrain markets collecting paddy and distributing rice, two local village markets within the hinterland of each of the collection markets, and a sample of 100 rural households selected from the areas served by the village markets.

One of the collection markets dominates an area of *char* land, that is land newly formed by riverine action. The area is predominantly single cropped with *Aman* paddy cultivation (from August to November) constituting the main agricultural activity.

The historical sequence of settlement in this area, one which is not untypical of *char* and island areas of Bangladesh, established sharecropping under the control of absentee landlords. First the land was submerged in the 1950s by riverine action. The original land owners migrated to other parts of the country. They were separated from their means of livelihood and many were immiserated in the process. The land was reclaimed through the construction of a cross dam, or large earth embankment, in the mid 1960s. Some of the original residents were able to reclaim their land, but a process of landgrabbing ensured that the major share of the land went to new owners, those who had most influence to fight (mostly false) claims through the courts and most muscle to fight land grabbing battles. They installed new migrants as sharecropper tenants on their land, while they became or remained resident in the nearby towns.

Within the *char* area land productivity is low. This is only partly because opportunities for the expansion of groundwater utilisation through private tubewells, which have prefigured growth in other parts of the country, is limited (in the absence of large scale development of polders) by the potential for saline water incursion. The more fundamental reason is that the investment and collective action necessary to create effective water control are actively opposed by the local ruling order³.

This *char* area is what may be termed a 'frontier' backward area. Its recent re-settlement required new market places and new market institutions. This gives the area special characteristics. As we shall note in later sections (particularly in Section 7), there is evidence to suggest that similar financial arrangements are to be found in other backward areas.⁴ A

³ A dutch-financed development project in the area which has increased production through control of irrigation and drainage has evoked concerted and effective opposition from traders and landowners. This opposition has prevented the successful pilot project being replicated. In this case the opposition arises from the project's distribution of land to landless households as well as its threat to their hold on production.

⁴ In general, the rapid commercialisation of grain markets throughout Bangladesh gives the whole economy some of the characteristics of what Galbraith has termed the 'frontier economy' (he was referring particularly to the newly-settled areas of the West and mid-West of the USA during the nineteenth century (Galbraith 1988)).

second backward area collection market, is some 18 miles from the first and it acts as an important import and export market for a large area of Noakhali. Its immediate hinterland is not char lands but it is also a relatively backward single cropped area. Productivity of the land is low, and investment in new agricultural technology slight. In this paper we are primarily focussing on the situation the *char* lands. We make reference to this second market because it is a source of competition to the first 'tied' market which dominates the *chars*.

Despite low yields, and little apparent district wide surplus (Giasuddin and Hamid 1986), there are sizable exports of paddy from the *char* area in the months after the harvest, and imports of rice back in the remaining 6-8 months of the year. Since the land was created in the 1960s, there has been a rapid expansion of traders and village market places to procure the paddy crop and distribute rice. This has inevitably entailed an expansion of trading capital.

4.1 Credit hierarchy, trade circuits and types of credit relation

The *char* area grain collection market stands at the apex of a hierarchy of financial and commercial relationships which channel cheap paddy from the *char* area to moneylending traders and absentee landlords. This hierarchy is depicted in Figure 2(a). It is maintained through control of local power structures, the police and private thugs, and through control of transport within and from the area. The hierarchy can be seen as having two functions. During the post-harvest trading season, it secures the supply of paddy to the traders at its apex. In the lean months (for both peasant consumption and trading) when the crop is growing, it provides circuits for investment of capital with high returns.

In Figure 2(a) and in the discussion here we focus primarily on the way in which the hierarchy interlocks the credit and grain markets. The hierarchy is wider than this. A large portion of grain goes to resident and absentee landlords under agreements which promise a share of the crop output for the use of land. There are also agreements which promise payment in grain for supply of labour, commodities and the use of equipment (notably milling and threshing equipment), but these account for a much smaller proportion of exchange. The hierarchy is thus a generalized interlocking of capital, land, output and labour markets, and the moneylending merchants are only one section of the social group at the apex of the hierarchy to benefit from the extraction of surplus product which it allows.

Figure 3 shows the principal trading circuits of the two main seasons of trade. In the 3-4 months after the Aman harvest (November-December) large flows of paddy leave the *char* area under the compulsions of sharecropping contracts, *dhaner upore* and other forms of distress sale. Then, as poor peasants' stocks are exhausted, the direction of flow is reversed and rice returns to the area through the circuits shown in Figure 3 (b). This figure shows the situation prevailing in the lean months from March through to October and November.

In the following sections we describe the operation of the different roles within the hierarchy and the truck monopoly which helps exclude competing traders from outside the area. First we describe the forms of trading capital characteristic in the backward area.

There are two main forms of financial relationship operating in this backward area and constituting the economic links of the hierarchy - *Dhaner Upore* and *dadon*⁵. The first of these is a preharvest loan which fixes the price of the harvested crop used to repay it. The second is a loan of working capital which ties a subordinate trader to a moneylending trader. *Dadon* is common throughout many markets in Bangladesh and *Dhaner Upore* seems to be concentrated in single crop, remote and flood-prone areas (where it goes by a variety of local names). *Dhaner upore* is the predominant form of credit for the majority of cultivators in this backward *char* area.

Dadon loans are rapidly circulating loans with a number of interesting features. In return for the loan, the subordinate trader agrees to deliver regular quantities of paddy to the arat of the *dadon*-lender. The frequency of these supplies will vary through the season (with peak frequencies when market supplies are plentiful, that is, after the harvest and when stocks are sold at price peaks), but the usual frequencies seem to be in the range of 2-15 days. There is a measure of compulsion on the subordinate trader to keep operating: the moneylending trader may ask for the return of his loan if he feels that his subordinate has not been supplying paddy with a regularity appropriate to the season and the operations of comparable traders in the market. Although a *dadon* loan is initially a loan of working capital from the moneylending trader to the subordinate trader, it gives the moneylending trader the use of the whole of the working capital of the subordinate trader. By taking the *dadon* loan, the subordinate trader has agreed to supply all the paddy he gathers through the arat of the moneylending trader. The *dadon*-lender is thus the recipient of a quantity of paddy with a value well in excess of (often double) the amount of his loan.

Two other forms of credit are associated with foodgrain transactions. Loans of paddy are made by surplus growers to local traders. Village grocery shops lend rice to poor peasants and labourers.

Cash loans are also available from local moneylenders and big cultivators, at a nominal interest rate of 10% per month. This type of credit is less common in the *char* areas. There has been some recent disbursement of bank loans, through the Krishi (agricultural) bank, but its loans are small in number relative to demand and those obtaining loans are mostly larger

⁵ In an earlier article (Crow, 1989) one of the authors described trader-peasant loans (*dhaner upore*) as Dadon I and trader-trader loans (*dadon*) as Dadon II. Both types of capital are sometimes referred to as *dadon*, a word derived from the Persian verb to give suggesting origins in an early contact with colonial commerce. For clarity we have here adopted the most common local term to distinguish *dhaner upore*.

cultivators and local traders. *Dadon* is the main form of working capital loan for small traders operating in this area.

There are also *jolati* cash loans which are unusual because they are in the opposite direction to the majority of loans (from rich to poor). *Jola* means own funds or savings. *Jolati* loans are given from the small savings of the poorest groups to less poor households. These loans, frequently made by poor women, are repayable in cash at the moneylending rate of 10% per month⁶.

Functioning of the credit hierarchy.

Figure 2(a) describes the main elements of the hierarchy as it influences the circulation of grain. At the apex of the hierarchy are moneylending merchants and absentee landowners. The merchants, who are few, collect paddy and supply rice or grocery items. Their transactions with the *char* area are mostly through two types of subordinate traders: paddy collecting traders and village grocery stores. The moneylending merchants make *dhaner upore* loans (cash to be repaid in paddy) to their subordinate paddy traders prior to the cultivation season. These cash loans are re-lent at higher rates to peasants. Moneylending merchants also make cash loans and give rice and other commodities on credit to village grocery stores. The cash may be re-lent as *dhaner upore*, and the commodities are re-lent to middle and poor peasants at risk of transformation into *dhaner upore* loans.

Some subordinate traders onlend *dhaner upore* and *dadon* to a further group of intermediary traders who then advance *dhaner upore* cash or commodities to peasant households. These intermediary traders have even less capital than the first layer of subordinates.

BOX 4.1 FOUR TYPES OF CAPITAL USED BY ONE TRADER

The hierarchical nature of the financial relations and the coexistence of the different forms of capital is illustrated in Figure 2(b) which describes the financial relations of one subordinate trader operating in the *char* area. This example is instructive because four different types of capital relation were entered into during the 1988 Aman season by this trader. Taking the relations in chronological sequence, they were as follows:

Personal loan: Prior to the growing season, the subordinate trader borrowed Tk8000 from his merchant moneylender for his own purchase of land and for the costs of his cultivation. It was agreed that this loan would be repaid at harvest time with the same amount of cash plus an 'interest' in paddy of 2 Maunds per thousand Taka. This represents a return to the lender of roughly Tk 400 on each Tk 1000 lent over the 7 or 8 months of the loan.

Dhaner Upore: Just prior to the growing season, this trader borrowed a further Tk 13 500 to be repaid in paddy at harvest time, at the rate of 7 Maunds paddy per Tk 1 000. This *dhaner upore* loan is re-lent to peasant households, over the next month or two, at

⁶ These loans may form part of emerging survival strategies of poor women in the face of impoverishment (Kabir forthcoming).

a nominal rate (actual rates are somewhat lower as we show in tables below) of 8 Md per Tk 1 000. In principle, these repayment arrangements suppress the peasants output price to Tk 125, and the price received by the subordinate trader to Tk 143, whereas the moneylending merchant is getting Tk 195 to Tk 210. We provide actual data for these prices and discuss their interpretation in a later section.

Advance purchase: A further Tk 10 000 is borrowed by this subordinate trader from the same merchant moneylender a few weeks prior to the harvest. This loan is to be repaid in paddy at the market rate, but with an additional commission to the moneylending merchant of Tk 3 per Maund. Like *dhaner upore* this money is lent to peasant households to be repaid in paddy at a fixed price, lower than the market price. It differs from *dhaner upore* in two respects. The period of the loan is two to four weeks compared to the 3-5 months of *dhaner upore*, and there is no accepted or 'nominal' repayment rate in the case of advance purchase loans. The trader negotiates a price below the market price.

Dadon: Finally, in the days either side of the harvest, the subordinate trader takes a dadon loan of Tk 18 000 from his moneylending merchant. This is the high velocity, revolving loan which ties all the subordinate trader's paddy procurement in the post-harvest trading season to the moneylending merchant.

The capital needed to establish this hierarchy comes from three main sources. The moneylending traders have substantial loans from the banks. They have also accumulated funds over the years through their lending. The third source of funds is the absentee landowners who accumulate through the sale of their portion of the harvest (received from sharecroppers) and can reinvest their returns in *dhaner upore* loans.

TABLE 2 SHOWING TYPES OF FINANCIAL RELATION IN THE BACKWARD AREA

Name and season	Parties (and area)	Amount per loan Tk	Conditions (implicit rate of interest)
<i>Dhaner Upore</i> (money on paddy). Growing season.	Trader-poor peasant.	100 - 12 000 (but often 1 - 3 000)	Cash loan to be repaid in paddy after the harvest (100 - 180+%)
Dadon	Big trader to small	15 000 to 100 000	All the small trader's procurement is promised to the big.
Advance Purchase	Trader to peasant	1 - 3 000	Cash loan to be repaid in paddy at harvest. (very high).
Paddy loans	Big grower to trader	1 000 to 50 000	Paddy loan repaid in cash at above market price.

4.2 Trader types and trader relations

In the following subsections of 4.2, we establish the roles of four key types of merchant in the hierarchy:

Subordinate trader	4.2.2
Village grocery shop	4.2.3
Merchant moneylender	4.2.4
Small processor	4.2.5

We have chosen to focus primarily on case study material to document these roles because it allows examination of the subtlety and complexity of the relationships which sustain the hierarchy. Case study descriptions of individual traders appear in boxed sections of text.

Before describing the trader roles, we explain the workings of the transport monopoly established by the local ruling order in the dominant market town, and the ways that this reinforces the hierarchy.

4.2.1 The Truck Association monopoly

The Truck Association was formed 15 years ago (not many years after the formation of the new land which it serves). When it started it had only a few trucks, now it includes as members the owners of 50 trucks. Some time after the formation of the association, its members agreed that they would not allow trucks from other areas to carry goods within the jurisdiction of their association. Trucks from other areas can bring goods to the area, but they are expected to leave empty and they cannot ply between two places within the area. The association defined its jurisdiction to include the hinterland of the market dominating the *char* area, and the local district headquarters town. This area includes the local government foodgrain storage depot (LSD).

In order to sustain their monopoly the Association has three employees known as 'linemen' who observe the movement of trucks from other areas. These linemen are paid a monthly salary of Tk 1200 - 1400 each (equivalent to the salary of a moderately-paid government employee) and they are also able to receive payments from the drivers of the trucks. If trucks from other areas pass through the Association's jurisdiction they are stopped and fined. For example, on the 26th March 1989, 5 bags of paddy were seized from a truck of the competing 'free' market, because it was carrying paddy from a *char* area controlled by the Association.

The immediate monetary benefits of this monopoly can be observed by comparing the Truck Association rates with the rates along similar roads outside the jurisdiction of the monopoly. Within the monopoly, Tk 5.50 carries 1 Md of paddy 15 miles; outside Tk5 carries 1 Md of

paddy 60-70 miles. In this case the Truck monopoly adds more than 300% to the cost of carrying paddy.

The benefits of this monopoly are not solely monetary, however, because the exclusion of external trucks helps to keep out external, competing traders. It is part of the apparatus which protects the surplus extraction hierarchy. It complements the control of insecurity as a measure segmenting the markets of this area.

There was until a few years ago, a comparable truck association operating with monopoly privileges in the nearby 'free' market. It was broken when local traders realized that the scale of operation of the market was declining, and they perceived the operation of their truck association as a threat to the survival of the market. At that time, transport rates within the Association's jurisdiction were roughly double their current level, and the Association's control over local trips led to the paradoxical outcome that it cost more to carry paddy to a market within the Association's jurisdiction 30 miles away, than it did to carry paddy to the capital city, more than 90 miles away. With the help of local political leaders and a syndicate of drivers, some truck owners and traders formed a counter association. This association was able to establish more competitive rates.

Because the moneylending traders of the *char* market are dominant in their town, and alternative routes to the *char* area are few and difficult (the town sits at the apex of the roads serving the *char* area), and because they control security in their *char* area, no organised competition threatens their truck monopoly and their extraction hierarchy at present.

We now proceed to examine how some of the hierarchy functions through an examination of key roles within it. We have observed the operation of many traders in these positions. In the following sections we first summarise the general features of the role in question, then describe the operations of the particular trader whose business we understand most fully.

4.2.2 Subordinate trader - *dadon bepari*

The subordinate trader is an itinerant trader, known as a *faria* or *bepari*, who buys paddy from the growers and sells it in the district market. They are resident in the *char* area with both homestead and cultivation land. Most will be seasonal traders, concentrating their trading efforts on the investment of loans in the months leading up to the *aman* harvest, then in the following months collecting the paddy of the harvest. In parallel with their paddy trading these individuals cultivate land.

In general this subordinate trader takes two main sorts of loan from his moneylending merchant. Firstly, there is cash for 'investing' with the growers as *dhaner upore* just prior to the time for land preparation and transplanting. This cash is lent to the grower on condition the

grower supplies a fixed quantity of paddy after the harvest. This credit thus pays the grower a fixed low price for his paddy early in the cultivation season. Then the trader takes a second type of credit at the time of the harvest (the start of the trading season). This is a dadon loan, a revolving cash loan which ties him to provide all paddy he procures to his money-lending master.

Just before the harvest the trader may take a further instalment of cash from his moneylending merchant, again for lending to the growers. This credit operates in the same way as *dhaner upore*, but over a shorter period of two to four weeks, rather than the three to five months of *dhaner upore*. This form of credit we are calling advance purchase.

Subordinate paddy collecting traders are numerous throughout the *char* areas. They vary widely in their scale of operation. The smallest, often known as *farias*, may be operating with virtually no working capital, and may intersperse their trading activities with hiring themselves out as wage labour for whatever employment is available. These household's may be amongst the poorest of the area, with little economic stability or prospect of accumulation. At the other end of the scale, the bigger *beparis* may have Tk 2000 to Tk 5 000 in own working capital, and have some potential for accumulation. These *beparis* are purchasing or mortgaging in land. Virtually all these traders are nevertheless tied to moneylending merchants in the dominant market town through financial arrangements which provide the bulk of their 'investment' and trading capital.

CASE STUDY BOX 4.2.2 THE SUBORDINATE TRADER: AN ATTEMPT TO GET FREE

The *bepari* we describe here is amongst the largest of these subordinate paddy collecting traders. He has begun to accumulate a little of his own capital, and he is, as a result, able to negotiate with his master in a more equal manner than is the case with many subordinate traders. He claims to be the first in this area to have established himself independently of the money-lending traders (for part of 1988-9). He will nevertheless be returning for more loans from his money-lending trader next year.

Figures 4(a) and 4(b) show aspects of the financial relations of this small trader. He has taken loans from the moneylending trader whose operations are described in the section 4.2.4 and he operates in the same market as the grocery shop described in the next section. He is one of about 25 subordinate traders working with dadon loans from this moneylending trader.

Figure 4 (a) shows the loans from the moneylending trader to this subordinate trader. Figure 4 (b) shows the onward lending of this money to poor peasants.

Figures 4 (a) and (b) indicate the scale and timing of *dhaner upore*. This trader received Tk 17 000 as a *dhaner upore* loan from the moneylending trader in mid-*assar* (beginning of July). It took him two weeks to on-lend that sum, plus Tk 2 000 of his own capital, to poor peasants. The subordinate trader had to repay this *dhaner upore* loan to the moneylending trader immediately the harvest started arriving (mid-November) even though he was only able to collect the paddy payment from the cultivators over the following month. He paid paddy from his own production. The agreement negotiated with the moneylending trader when the *dhaner upore* cash had

been advanced was that Tk 12 000 of the money was to be repaid at 7 maunds of paddy per Tk 1000 and the remaining Tk 5 000 would be interest free, to be converted into part of a dadon loan. The moneylending trader gets no cheap paddy from this Tk 5000 of the loan but it provides a bond which ensures the trader will take a dadon loan from him and procure paddy through the trading season after the harvest. The bond could have been broken if the small trader had been able to accumulate enough to pay off the whole Tk 17 000. He was not able to do that because (like most such subordinate traders) he takes most of the risks (of default), delays (his repayment to the moneylending trader takes place immediately after the harvest, whilst his receipts from poor peasants are negotiable and often later) and quality differences (his payment to the moneylending trader has to be of an agreed quality, whilst his receipts from poor peasants will generally be their worst quality paddy) associated with *dhaner upore* repayments.

There are several negotiating strategies followed by moneylending traders in their attempts to maintain their hold over and their returns from subordinate traders. Subordinate traders respond with their own plans which attempt to maximise their returns. The trader we are focussing on here tried to minimise his dadon commitment to this moneylending trader and to reduce it as rapidly as possible. When he repaid his *dhaner upore* loan immediately after the harvest he took a dadon loan of Tk 15 000 (Tk 10 000 in new cash, Tk 5 000 carried over from the *Dhaner upore* loan) (Figure 4 (a)). (This is the minimum sum allowed by this moneylending trader. Most of his subordinates take Tk 20-25 000, some 3-4 of them take loans of Tk 70-80 000). Then the major part of his working capital for this season he obtained as paddy loans from the big growers.

This strategy of minimizing his dadon commitment to the moneylending trader, so that he could break free later in the season, almost came unstuck. In early Phalgun (late February 1988) he had purchased paddy from growers when the price suddenly fell. He could not sell his stocks without incurring a substantial loss but he had to keep on operating (partly because of his obligation to supply the moneylending trader). He therefore increased his dadon from Tk 15 000 to Tk 40 000. One week later the price rose again by Tk 15 per maund and he was able to sell his stock at a large profit, and to reduce his outstanding dadon debt to Tk 15 000 again. He continued reducing his dadon gradually, but his final repayment was precipitated by a dispute with the moneylending trader over the prices.

In mid-Magh (early Feb 1989), the moneylending trader reported selling a volume of the subordinate traders paddy at a price that the subordinate estimated was substantially lower than the prevailing price on that day. There was an argument (several such arguments have been reported to us), the subordinate threatened to operate with other traders. He was reminded that he could only do so after paying his outstanding dadon. He was able and did repay his loan (paying Tk 6 000 in cash and supplying Tk 3000 worth of paddy - see Figure 4 (a)), thus becoming a free bepari.

With this break the subordinate trader gained the right to deal with other traders in the big collection market. He was even able to circumvent the Truck Association monopoly on one occasion and supply a truck load of paddy to the big import export market 15 miles further than his usual market place. This happened when paddy was not selling in his usual market, and he had a debt to the big growers which he needed to repay. He visited the more distant market and talked to aratdars there. They assured him he could get cash payment for his paddy at the full market price. Then, on returning to his home area, he was fortunate enough to find a lorry from a non-Truck Association area returning empty after delivery and willing to take a circuitous route to avoid the areas controlled by the monopoly. The truck fare was Tk 11 per maund compared to Tk 23 per maund for a truck within the association.

Some of the profits of a relatively good season have now been invested in land. Next

season, this subordinate trader intends to take *dhaner upore* and *dadon* loans from the same moneylending trader. He does not want to seek loans from another trader. His drawing rights (up to Tk 100 000) would not be so large with another moneylending merchant.

4.2.3 The village shop

The village grocery shop completes the chain of forced commerce which starts with a cash loan to be repaid in paddy. It is with the rice supplied by the village shop that the misery of the hierarchy of trade and the full implications of distress sales are revealed. A few months previously the poor peasant was forced by compulsions of *dhaner upore* or pressing needs for cash to sell paddy at low prices for export out of the area. Now at the other end of the circuit, the poor peasant household is buying back rice (which may have been stored in the commanding market town, or more likely is imported from the distress sales of another backward eastern region of the country). The purchase is at high prices with the added risk that debt may tighten the grip of distress sales in the following year.

The village grocery shop extends rice and other commodities on credit which is apparently interest free. In fact this credit carries a significant risk that any default may be transformed into an obligation to supply paddy on the same *dhaner upore* terms offered by the subordinate paddy procurement trader. There are thus penal debt arrangements threatening at both the production and consumption ends of poor peasant transactions.

The village shop is inserted into the hierarchy by three types of commodity-finance relationship. Supplies of rice and other commodities are taken on credit from moneylending merchants in the commanding market. This line of commodity credit contains the common bonding clause that the grocer cannot seek supplies from another moneylending merchant without paying off his debts to the first. In this relationship there may be room for exceptions and negotiation, as is made clear in the case study in the box with this section. Nevertheless, the scope for default is not great. One defaulting grocer who had suffered a series of thefts and calamities, was forced to supply one of his bullocks to his moneylending merchant in partial payment of his debt.

The grocer's second set of financial relations are analogous to the *dhaner upore* capital supplied to the subordinate paddy trader. As the lean season heightens, the village grocer can seek cash from his commodity-suppliers or other merchant and absentee moneylenders for investment with his consumers on *dhaner upore* terms. The grocer will obtain these cash loans on terms paralleling those obtained by the subordinate trader: he will enter into an obligation to repay the loan in paddy but at a lower rate than he will charge to those who borrow from him.

Thirdly, the grocer lends commodities to the different categories of peasant (he does not lend to those who are landless). He lends to more influential growers with larger amounts of land

on preferential terms because they can do him a favour by lending him paddy during the high price period. These larger growers may need to borrow commodities at times of peak labour demand when they are feeding a large hired labour force. Their borrowing is essentially free.

To those who have less influence and economic standing, the poor peasants, his credit may be more expensive. Poor peasants who fall behind with repayments may have their debt transformed into a high-interest *Dhaner Upore* loan. Rice and other commodities are available at the normal price and no charge is made provided the loan is repaid within a reasonable time, perhaps two or three weeks. There may be room for negotiation of the period if there is no agricultural labouring available for the poor peasant household to earn the cash required for repayment. After a while, and as the lean season peaks, the grocer may become more insistent. At that point, the debt will frequently be transformed into a debt of paddy at the *dhaner upore* rate.

Like the subordinate paddy traders, there is considerable differentiation amongst the village shopkeepers. Some are accumulating and some are losing land and other assets. In general, however, the shopkeepers of this backward area appear to operate on a larger scale and play a more pivotal economic role than is the case in, for example, the *non-char* areas of Noakhali (where the hierarchical commercial, tenurial and financial arrangements are not established to the degree evident in the chars).

The operation of this complex element of the system is illustrated in the seasonal capital graphs of the case study grocer described in the box.

Box 4.2.3 CASE STUDY OF THE COMPLEX CREDIT TRANSACTIONS OF A VILLAGE GROCER

The village grocery shop is a tin-roofed, open-fronted wooden shop in amongst 20 other shops in a market-place which serves a large area of peasant homesteads. This one contains a television set which gathers a large crowd in the evening. The TV stands on a shelf above sacks of goods - pulses, vegetables, tins and rice - which are needed by the surrounding homesteads. There are five other village grocery stores in this market place and hundreds in the market places of the *char* area.

This business has special characteristics - it is integrated with a seasonal paddy processing business (five small scale paddy processing households undertake bonded subcontracting during the trading season - such bharkiwalas are described in Section 4.2.5). There is no reason, however, to think the financial operations of this one unrepresentative. Other village grocery stores in the market place are involved in similar credit and debt obligations, even though they do not have tied small processors.

This shop takes credit in the form of rice and also in the form of cash, from larger suppliers in the market town. These suppliers are owned by money-lending traders. The shop also takes credit in the form of paddy from the big growers of the area. In turn, it lends rice and other commodities to the poor peasants and to the big growers of the area. The debts are calculated at the prevailing market price (for this village market).

Figure 5(a) shows the commodity debts of three peasants to the shopkeeper during the last (Bengali) year⁷. Peasant One owns some land (1.5 to 2 acres). (In our preliminary classification he is on the border between a poor peasant and a middle peasant). His debt to the shop peaks in the months when he is preparing land and transplanting his main paddy crop. At the beginning of Assin, Tk 1 000 of this debt is converted into a *dhaner upore* debt. A further repayment of Tk 1 000 is made just after the harvest (at the end of the financial year). His standing and repayment pattern persuade the shopkeeper that the remaining Tk 1 772 is a good debt, and the peasant starts increasing the debt again in the new financial year.

This is in contrast to the treatment of the two poor peasants. Peasant number two starts with a series of small loans, which he manages to repay after three to four weeks (this is the period of land preparation and transplanting, he obtains wage labour working for more prosperous peasants). Then his debt builds up through the period leading to the harvest, and remains outstanding after the harvest, and on to the end of the financial year. In this case, the shopkeeper is not satisfied that this is a debt which will be repaid. Peasant number two was, when last our researcher heard, planning to sell a bullock during the *idd* festival to repay this debt. This peasant is on a down slope toward dispossession.

Peasant number three is in comparable straits, perhaps worse. His debt rapidly rises through the first three months of the year. He makes no repayments and comes under pressure from the shopkeeper to repay his debt. The poor peasant is unable to repay, and gives his land to the shopkeeper on a mortgage which expunges the debt. In this case, then, there is a direct transfer of assets from the poor peasant to the shopkeeper.

The shopkeeper is clear about the seasonal pattern of borrowing and payment, by different categories of peasant. Petty traders (smaller than this shopkeeper) such as tea-stall owners borrow from Magh to Joysto. This is the period when the poor peasants have exhausted what remains of their crop, but before the major labour hiring period of Assar Srabon. The tea-stall owners are thus having to supply tea and goods to the poor peasants on credit. Then, during Assar-Srabon, the more prosperous peasants borrow (because they have to feed large gangs of hired labour) and the poor peasants can make some repayments (because they may get work). During Bhadro, Assin and Kartik, the poor peasants again start borrowing, and the shopkeeper puts pressure on them to repay. If they do not he may persuade them that their debt should be converted into *dhaner upore*. During Agrayhan, the poor peasants repay from their harvest and in Magh and Phalgun the most prosperous may supply paddy to the shopkeeper on loan (for a higher than market price). This seasonal pattern is reflected in the credit which the shopkeeper takes from the moneylending merchants.

Figure 5(b) shows the total monetary value of the rice borrowed from the two rice suppliers to which this village Modi Dokan is attached.⁸ This seasonal credit graph illustrates two peaks of consumer borrowing and the operation of *dhaner upore*. The first peak may reflect the combination of poor peasant consumption of rice on credit, the borrowing of petty traders, and the need of the shopkeeper for cash to repay big peasants from whom he has taken paddy one or two months previously. The second peak is at the beginning of the period when more prosperous peasants are borrowing

⁷ These three were chosen by the shopkeeper from his account book to illustrate the different types of borrowing.

⁸ In total the Modi Dokan is attached to 5 different commodity suppliers. In all cases except rice, the supplies for this shop of a particular commodity can only come from one source. These are loans which tie or bond the shop to the supplier. The shopkeeper is not free to buy from alternative suppliers unless he repays his debt. In the case of rice there are two sources to ensure that the village shop can get adequate credit and the range of rice varieties required. The shop-owner is clear, however, that there is no opportunity for him to play one supplier off against the other.

to pay transplanting labour. Were it not for *dhaner upore*, we would expect this debt to continue rising up to the next harvest. Apart from repayments poor peasants can generate from their sale of labour power, there is no new economic activity to generate the cash with which he could repay his debt to his suppliers. The debt does not continue rising. It falls more or less steadily. The shopkeeper's rice suppliers have been largely repaid by the time the harvest arrives at the end of Kartik. The shopkeeper is realizing his debts by borrowing cash from moneylending traders in the market (not necessarily those to whom he is tied) as an advance for *dhaner upore* lending. He will agree to repay 7 maunds of paddy for every Tk 1000 cash borrowed. His poor peasants debts will have been transformed into paddy debts at about 8 Md per Tk 1000, so he will have cash in hand for debts which will repay a significant dividend at harvest time.

From the beginning of Agrahan right through to Phalgun (the first four months after the harvest), the shopkeepers debt to his suppliers is steady. This is because he lends money to small scale processors of paddy into rice (Bharkiwalas) who are tied to him and provide his shop with all the rice he needs. We have not investigated this aspect of his business, but the triangular credit arrangements tying the Bharkiwala to his paddy supplier, miller and rice buyer are described in a later section.

Like several other traders in this village market place, this village shopkeeper has access to limited bank finance. He is one of the few able to get loans from the Krishi Bank.

4.2.4 Merchant moneylender - aratdar

There are about a dozen 'merchant moneylenders' in the large wholesale market where paddy is collected from the *char* area. They call themselves *aratdars*, commission agents acting as middlemen between small traders collecting the paddy from the growers and the longer distance traders taking it on to the urban centres. They do fulfill this function, but the moneylending traders are distinguished from a larger number of 'free' *aratdars* in this market, who carry out the same intermediary function but insist that they do not have *dhaner upore* and advance purchase relations with cultivators.

All commercial operations are subject to a degree of confidentiality, but the moneylending traders are more secretive than their 'free' counterparts because *dhaner upore* relations are socially disreputable. The free *aratdars* are able to list those who undertake *dhaner upore* operations and this list can be confirmed with the subordinates of the moneylending traders. Even the free *aratdars* have *dadon* relations, but the conditions of these relations are less restrictive and the proportion of their business operated through *dadon* are less than in the case of the moneylending trader.

The merchant moneylenders have accumulated money very rapidly, much more so than the more established 'free' *aratdars* in the same market. Several of the merchant moneylenders have risen within the last ten to fifteen years from positions as junior employees in the foodgrain trade to positions of great wealth and influence. They are now investing in other trades and businesses (selling building materials, establishing a hotel and a petrol station,

amongst other activities). One of their number was recently chosen by the Prime Minister to decide who should be government foodgrain dealers in this *char* area.

These merchant moneylenders have established themselves as the dominant suppliers of finance to agriculture and trade in the *char* area under their control and (with absentee landlords) the main recipients of paddy produced in the area.

BOX 4.2.4: CASE STUDY OF A MONEYLENDING MERCHANT

Figure 6 describes the seasonal capital utilisation of one money-lending trader.⁹ It indicates the timing of *dhaner upore* loans from the moneylending trader to his collection traders. Most of these loans have been disbursed by the end of *assar* (mid July) which coincides with the end of land preparation and the beginning of transplanting for many *char* area cultivators. It is also a period of high prices when the stocks of many household's grain are exhausted and they are forced to purchase rice to sustain their consumption.

The trader-to-trader loans which underpin *dhaner upore* loans to cultivators have to be repaid within a short and relatively well-defined period - seven to fifteen days after the start of the *aman* harvest. This repayment is time-bound because the money lending trader needs to redirect or recirculate this capital as *dadon* loans tying his procurement traders to him. He needs to start the rapid circulation of capital immediately after the harvest. During the post harvest trading season his returns depend not primarily on high interest lending but on rapid turnover. Some of his deals will be his own buying and selling where the margin varies, but most will be commission deals. On these deals his returns are independent of the price, and directly related to his throughput, that is, the speed of circulation of his *dadon* capital. This watershed between the two types of capital is common to many traders and is the reason for the two debt collection periods of the year, one just prior to the *aman* harvest and the other, *hal katha*, just prior to the *boro* harvest.

There are a larger number of traders who will take *dadon* loans (during the trading season after the harvest), but they will include all or almost all of the traders who have taken advances for *dhaner upore*. As we noted in the case of the subordinate trader described above, much of the *dhaner upore* capital will be directly transformed into *dadon* loans during this period immediately after the harvest. When the subordinate trader delivers an amount of paddy in payment for the *dhaner upore* advance, any shortfall will be considered an initial *dadon* loan. Part of the *dhaner upore* loan may also be 'interest free' (that is, not subject to repayment at below the market price), this part is directly converted to *dadon*.

We have not been able to identify separately this merchant's investment in advance purchase credit, buying the paddy just prior to the harvest.

Some of the obligations and implications of *dadon* loans are discussed in section 7. Figure 6 shows the scale and duration of *dadon* lending. Most of the *dadon* loans have been repaid by the middle of *magh* (beginning of February), when the initial post harvest peak of sales has begun to tail off. It is noted by free aratdars that the moneylending traders dominate transactions during this first peak; the free traders intermediate a larger proportion of the second peak, some two to three months later when cultivators able to wait until higher prices prevail sell their paddy. Not all

⁹ This data could only be collected indirectly because of the particular sensitivity of this form of trade. It has been established from discussions with a number of the moneylending trader's subordinates (such as the *dadon bepari* described in the preceding section).

dadon loans are collected in. As with other forms of tied financial relationship, some of the loans are left out throughout the season. This may happen if the moneylending trader wishes to keep the subordinate under obligation for the next season. Alternatively it may reflect either the inability of the subordinate trader to repay the loan or the willingness of the moneylending trader to fund some of the other activities of the subordinate.

The fourth form of capital indicated on the graph is a more straightforward advance of working capital, known as *paikari baki* (meaning advance to purchasers). Aratdars of all kinds sell grain on credit to those who buy from them. This is *Paikari baki*. Sometimes there are conditions attached to this credit, most usually tying the purchaser to the aratdar for all his purchases. In the case of these moneylending traders, there seem to be no conditions. It is a short term loan of working capital which the purchaser pays back within a few days, probably on his next visit to that market. There is no explicit interest payment but the taking of credit may be reflected in some price penalty (as we have found in other markets).

The sum of the different types of capital shows that the total amount of capital in use in this business varies on a seasonal basis. During those periods when there is a surplus of capital some of the moneylending traders divert their capital to other enterprises. The moneylending trader whose capital use is represented in Figure 6, has businesses in Dhaka and we believe that his trading capital is transferred to those concerns during the months when it is not needed in his grain business. Moneylending traders are able to invest their capital steadily throughout the greater part of the year. This is in contrast to the situation faced by many of the smaller traders, whose capital can only be used in the grain trade for a few months each year.

4.2.5 Small tied processor

If the moneylending merchant (with the absentee landlord) is one of the commanding figures at the top of the hierarchy, the small tied processor, or bharkiwala, is amongst those at the bottom of the pyramid. While the bharkiwala household may not be the poorest of those impoverished by the structure of backward agriculture, it is perhaps the most subordinated. The bharkiwala takes orders from three different captains of commerce - two of them moneylending merchants and the third is a local miller, who may also advance loans to the processor.

Throughout most of Bangladesh, small scale processing proceeds alongside larger scale paddy parboiling and milling. Not more than 20 years ago, small scale processors like these produced paddy from rice entirely through family labour, with the use of the *dheki* (a foot-powered husking tool with an action like a pestle and mortar). Manual husking of paddy has now largely been supplanted by the electric or diesel husking mill. Bharkiwala households (also known as kutials, cycle beparis, amongst other terms) now use family labour to soak, parboil and dry the paddy, and husking mills to remove the husk and bran.

It has been suggested (Harriss, 1982 and forthcoming) in the case of India, and this seems plausible in Bangladesh too, that the fortunes of small scale processing and trade may be critically dependent on the margins created by larger scale enterprises. Where large scale

trade has established a degree of oligopoly and more profitable margins, economic space is created in which small scale processors may thrive. Their high costs and low labour productivity restrict their expansion in areas where trading and processing margins are squeezed, but they can operate in areas of oligopoly without representing any sort of threat to the large scale mills. (Frequently they serve local markets while the large scale sector produces rice for long distance sale).

In this paper we are not concerned to describe the large scale sector. That is not required for the description of the contrasts between advanced and backward commerce which are the main theme of this paper. Here, however, we wish briefly to outline the role of the bharkiwala and the constraints of trade finance which contribute (amongst other factors) to the negligible potential for household accumulation through such enterprises.

Figure 7 illustrates the principal ties of capital and the flows of grain which animate the bharkiwala enterprise. The rice aratdar, the moneylending merchant who purchases the bharkiwala's product, provides a working capital loan of dadon in return for the pledge of the whole output of the household. The husking mill similarly provides dadon to the bharkiwala, this time in return for the obligation that all of the paddy processed by the household be milled by him. The third principal tie of trade finance comes from the paddy aratdar, a moneylending merchant who provides working capital in the form of paddy. This provision of paddy on credit is incurred under a similar bonding obligation that the bharkiwala cannot take paddy from any other source until his debt is repaid. It is reported that some bharkiwalas take paddy loans from big grower households, and the village grocer described in section 4.2.3 also provides the finance for a number of bharkiwalas supplying rice for his shop. Bharkiwalas may also act as agents for moneylending merchants, taking dhaner upore loans and onlending them to poor peasants in a manner analogous to the subordinate trader described earlier.

Rice and paddy aratdars and millers in the area each have 20 - 60 bharkiwalas tied to them, suggesting a population of at least 100 - 250 bharkiwala households in the immediate vicinity of the market commanding the backward area. These small scale processors operate in the 5 months after the main aman harvest, with peak throughput in the early, low price weeks immediately after the harvest and declining scale of operation as the price of paddy rises. One rice aratdar suggests that 75% of the rice he supplies comes from bharkiwalas for the three months after the harvest. Then he has to purchase rice from other parts of the country to supply his network of tied retailers and village grocery shops.

The advance of dadon from mills to bharkiwalas appears to be an innovation of the last

¹⁰ This section is based particularly on the work of Shahid ur Rashid.

twenty years. As with other backward forms of capital, there is a suggestion that bharkiwala dadon has been rejuvenated by changes in agriculture and trade. In this case the recent extension of dadon may be associated with the expansion of mechanical milling and the decline of the bharkiwala. One miller reports that prior to liberation (1971), bharkiwalas queued to get their paddy milled. Now, the miller laments, he can only ensure his supply of paddy for milling if he extends dadon financing, because the rise of more automated mills has created competition and contributed to the decline of the bharkiwala.

We have not yet completed our investigation of the economic implications of bharkiwala subordination. At this stage it is clear that three way indebtedness could offer opportunities for price and commission manipulation which the lowly bharkiwala would be in no position to challenge.

BOX 4.2.5 BARE SUBSISTENCE FROM BIG LABOUR INPUTS

One dependent bharkiwala reports a 'profit' of 5 seer of rice (5 kg) per day from the input of the labour of eight family members (himself, his wife, his mother, his 3 sisters, and the two older children of the household). Of the 5 seers of rice, 2 seers is sold each day to buy vegetables and the remaining 3-4 seers of rice is consumed within the household. Before operating as a bharkiwala, this man was employed as the puller of a cycle rickshaw and it is to this occupation that he returns when the margin between the rice and paddy prices is squeezed or it is the off season. The input of family labour is higher in this case than in many because this household has no claim on land for drying the paddy. It has to be dried in small patches on roads and verges, and that process requires heavy supervision.

The household head is insistent that he has 'not a paisa¹¹ of his own', all his working capital has to be borrowed. He needs credit to cover a load of grain in each of four different stages in the process - soaking, drying, milling and on sale. From his account, it appeared that he had a dadon loan to cover 2 loads from the rice arat and a second loan covering only one load from a paddy arat. It seems that even his most basic capital needs are incompletely covered. This impression of a livelihood in hock to others is confirmed by his comment that even the land on which his house stands is owned by someone else.

Discussion of general features of unusual forms of trade finance is provided in Section 7, towards the end of this paper. We now turn to a description of the forms of trade and trade finance found in the advanced area we have studied. Section 5 concludes with a resume of the contrasts (of trade circuits, credit forms and commodity exchange) between the two areas.

¹¹ A *paisa* is a coin of very small value no longer in circulation.

5 AN ADVANCED AREA

5.1 Description of markets and production

The advanced area of Bogra district we have studied stands out in sharp contrast to the backward *char* lands described earlier. The Bogra area is situated in the very old alluvium of the Barind Tract, unlike the still active *chars*, and is much more densely populated. Intensive irrigation development in the former, beginning in the early 1980s, has led to widespread diffusion of modern cultivation practices and technologies. Far reaching changes in cropping patterns and productivity have occurred. Thus, unlike in Noakhali, multiple cropping is almost universal, with a relatively better served road network and expanding electrification. Share-cropping, which dominates the *chars*, is rare, with the tenancy/mortgage market monetised to a much greater degree (i.e. land rents are normally fixed in cash).

Bogra is in surplus throughout the year, in both the Aman and Boro crops, unlike in the *chars*, where tradeable surpluses are highly seasonal, with a well-marked period for outflows and inflows, from and to the *chars*.

This more advanced area has relatively simpler financial relations than the backward area and fewer intermediaries in the circuits of trade. Peasant households report that forms of credit tied to foodgrain transactions are (generally but not invariably) in decline. In Section 5.4 we compare circuits of trade and forms of credit in the advanced and backward areas.

Where credit related to the grain trade still exists it is in sharp contrast to the forms and direction of credit characteristic of the backward area. These contrasts are described in detail in section 5.5 below. In the backward area it is predominantly the merchants who lend to cultivators (in *dhaner upore* relations) in order to extract high returns. In the advanced area we have found only a few cases (in the most backward village) of that type of credit relation. There is some lending from rich peasants to poor peasants, but it takes the form of paddy for cash, rather than cash for paddy. There is also considerable lending from rich peasants to traders.

Historical sequence in advanced and backward areas

The history of land settlement, class formation and market evolution in this area of Bogra is a much longer one than the foreshortened history of the *char* area of Noakhali. This area of Bogra was settled and cultivation established by tax-farming *zamindars*, appointed by mughal rulers, 300 and more years ago. That land distribution and subsequent changes have established a relatively even distribution of landholding with few sharecroppers, few absentee landlords and a peasantry indebted neither to merchants nor to moneylenders. While the *zamindari* system of this area of Bogra, with its hierarchy of tenants and revenue

collectors, bears some resemblance to the hierarchy found in Noakhali, the differences between the two land settlements and their subsequent evolution have enabled contrasting structures of production and exchange relations to be established.

In the absence of a written history for the villages we studied, we have attempted to reconstruct the key formative events using the methods of oral history - discussions with the oldest *zamindars*, peasants and land lawyers.

The absence of sharecropping in the Bogra villages we have studied can be explained first by the *Zamindari* system, then by subsequent changes. *Zamindari* land was allotted to landholders (*jotedars*) who sublet to cultivating tenants. This tenancy was not under a sharecropping system but for a fixed rent paid in kind. Sharecropping expanded after the abolition of *zamindari* (in the mid 1950s) but then as irrigation and green revolution technologies were introduced (from the mid 1970s), fixed cash rents became the predominant form of tenancy.

The ethnic and religious background of the *zamindars* of this area contributes part of the explanation for the lack of absentee landowners and the lack of moneylenders. Until the abolition of *Zamindari*, Hindu *Zamindars* were the absentee landowners and many of the moneylenders were Hindu. *Zamindari* abolition transferred most of the land to the larger cultivators (*Jotdars*) who were muslim and whilst this area was relatively free of intercommunal violence and animosity, the power of the *Zamindars* to resist the abolition of their rights was significantly weakened by their lack of influence in a state based on Islam. Absentee landlordism was therefore largely eradicated in the mid-1950s.

Shortly thereafter, the government became concerned at the activities of rural moneylenders. It established the Reen Sailishi Board which recommended measures to outlaw the expropriation of assets by moneylenders. In other parts of the country these new laws may have had less effect. In this area of Bogra, where many of the moneylenders were Hindu, and many were ex-*zamindars* left in an exposed position by *zamindari* abolition and social distaste for the *zamindari* system, many of the moneylenders were forced out of business. Into their place stepped the larger resident cultivators who had been beneficiaries of *Zamindari* abolition, the *jotedars*. These farmers did not have cash, but they were able to lend paddy. Hence the relative prevalence of paddy loans to poor peasants.

Trading Circuits

The main trading circuits of the advanced area are shown in Figure 8. This reveals two distinct flows of grain: a local flow, which is relatively small, and which caters to local demand, and a larger flow directed to meet the demands of deficit districts to the South and of Dhaka. The smaller local flow would tend to increase as the season advances when poorer cultivators have to start buying back. In Bogra, this appears less pronounced because most

households are more prosperous than in Noakhali. Local demand in Bogra comes mostly from non-cultivating households.

5.2 Trade Finance

Table 3 shows the major types of financial relations found in the advanced area. *Dadon to beparis* to procure grain from households or other traders (in local or distant markets) is virtually absent.

The most common type of credit extended by traders is to those who buy from them. It is, in other words, concerned with the demand side of the transaction rather than the supply side (as in Noakhali). Given a relatively easy supply situation, competition amongst traders/processors has much less to do with supply than with demand. The main concern is to sell as much as possible (to aratdars) and at as high a price as possible (for other traders). At low price periods *Paikari Baki* (literally buyer's credit) provides an incentive to increase turnover and is the major form of short-term credit. The only obligation here is that a buyer with such credit outstanding may not purchase from another trader in the same market. *Paikari Baki* is given by aratdars to beparis by large processors to aratdars and by small processors to low-volume itinerant traders. Typically this type of credit would be for 7-10 days, without interest.

TABLE 3: SHOWING MAIN TYPES OF FINANCIAL RELATION IN ADVANCED AREA

Type of loan	Parties	Amount per loan Taka	Conditions	Form of payment
Paddy loans 1	Rich peasant to <i>chatal</i> , or mill	2 500 - 25 000	Repayment after next harvest	Fixed or highest market price
Paddy loans 2	Rich peasant to poor peasant or labourer	600 - 3 000 (2-6 Md)	Repayment after next harvest	Fixed or highest market price
Credit Sale	Big processor to arat	5 000 - 15 000	Repayment 4-5 days	No condition

The integration of traders and processors with cultivators, through financial linkages or ties is rare in our Bogra study area. In one of the four Bogra villages we have studied, however, *Dhaner Upore* transactions do take place. This village appears less developed than the other three in terms of irrigation coverage, access to roads, electrification etc). Only 8% of households took these loans (compared with 76% in the Noakhali *chars*) and the total scale of the lending was small.

Paddy Loans

Instead of the cash for kind *Dhaner Upore* transactions that are common in the *chars*, the dominant focus of credit (for traders' working capital and for poor peasants' production and consumption needs) in Bogra is of the kind - cash variety, paddy loans.

There are basically two types of paddy loans: In each case the lender is a rich peasant, but in one case the borrower is a trader-cum-processor and in the other the borrower is a poor peasant or landless labourer. The first relationship, between rich peasant and trader, provides paddy as working capital, and is essentially the same as the paddy loans made by rich peasants to traders in the backward area (though the method of determining the price premium given to the lender is more formalised in the advanced area). The second type of paddy loan, from rich peasants to poor peasants, is to meet consumption needs or overcome short-term cash-flow problems (irrigation costs, fertiliser expenses).

Two basic methods are used to determine the price at which repayment will be made. Either the price may be fixed in advance (above the prevailing price) or the lender and borrower may agree that repayment will be made at the highest market price achieved for equivalent

paddy in the course of the season. Thus during 1988-9 a number of such loans were repaid at a paddy price of Tk 235-250 per Maund, when the market price at the time of repayment was Tk 185-200. (A third method of valuation combines the two: the price is to be determined according the highest price achieved by the commodity providing that it does not fall below an agreed minimum).

The relative importance of paddy loans is small. Out of 25 households studied in one Bogra village, 8 reported either taking or providing a paddy loan, involving 144.5 mds. of paddy, over a period of one year. Total paddy flow out of this village, over the same period, was 1613 mds. In another village, 12 households reported taking or giving a paddy loan, involving an insignificant 33 mds. of paddy over the period of 10 months.

5.3 Traders in Bogra

Differentiation and specialisation of trading and processing tasks is less than observed in Noakhali. This is reflected in the fewer categories of trader found in Bogra: Aratdars, *Chatal* owners, mills, cycle bepari, *faria*. The mills are similar to those in Noakhali and therefore need no further discussion.

5.3.1 Rice Aratdar (Broker)

There are no paddy *aratdars* in the Bogra markets we have studied. This key category, which includes some of the largest merchant moneylenders in Noakhali, is missing. All *aratdars* were found to be rice *aratdars*, who were functioning as commission agents, essentially concerned with negotiating the transactions between suppliers (mills) and buyers. The role of the *aratdar* is to undertake risk and guarantee that the buyer will not default on payment.

Aratdars need to ensure a steady flow of rice. This however, does not seem to be a problem, as there are numerous mills around. Total milling capacity in our large Bogra market, is in the region of 2000-2500 mds per day, with actual rice output varying between 1000-2300 mds., depending on the season. This implies that the per day scale of operation of an 'average' *aratdar* ranges between 45-100 mds. The absence of a supply constraint is also borne out by the absence of tying arrangements between millers and *aratdars* to ensure supply. However, some evidence of vertical linkages have been found, with *aratdars* diversifying into various stages of processing through investments in *Chatals* (rice drying areas) and mills. Out of sixteen mills, six belonged to rice *aratdars*.

All the *aratdars* we have surveyed had access to bank loans, and do not appear to have borrowed from informal markets.

The scale of operation of these rice *aratdars* varies across a wide range both between *aratdars*

and seasonally. This is borne out by the number and seasonal pattern of arrivals of buying beparis in the *arat*. Thus, the smaller *arats* tend to have few beparis, and only for a few months of the year, while the larger *arats* have larger numbers of beparis all the year round. The example of an aratdar described below is that of an old established firm that has integrated aratdari and processing functions. It has access to substantial bank finance.

5.3.2 Chatal Owner (Medium processor)

The *Chatal* is the paved area on which paddy is spread and left to sun-dry. It is normally equipped with 'houses' or water-tanks where the paddy is soaked, and ovens, where the paddy is parboiled and made ready for milling. The functions of the *chatal* are independent of milling, which is often undertaken as a separate activity. This division of labour is reminiscent of the Bharkiwalas in Noakhali, as well as the Cycle beparis of Bogra (see below), who essentially perform the same tasks as do the *chatal*s, except on a much more modest scale. While often *chatal*s will have milling capacity installed as well, this usually occurs at a later stage in the life of a processor. Thus, very frequently, the initial investment will be in a *chatal*, with the mill coming later, as profits are made and reinvested.

Procurement of paddy is undertaken locally, especially during the period after the *boro* harvest. During the *aman* (trading) season paddy has to be procured from outside districts.

Much of the procurement is through salaried employees under the direct supervision of the owner. These purchases are made at village *hats*

BOX 5.3.2: A MEDIUM-SIZED CHATAL

MT's father was a large land-owner, who owned 15-20 acres of land. MT inherited a part of this land as his share, some of which he sold in order to generate start-up capital (50-60,000 takas) five years ago. Initially he set-up a *chatal* to provide drying facilities for paddy, which he would crush in other people's mills. He set up his own mill as well, two years ago, and also expanded his *chatal* capacity. Apart from reinvesting profits from the trade, he also obtained bank loans of Tk 100,000 using his *chatal* as security. His current *chatal* capacity is 120 mds.

His scale of operation is around 100 mds a day e.g. in February, when activity levels tend to be moderately high, with substantial *aman* paddy still remaining to be marketed.

Paddy procurement is carried out through four or five beparies from Sapahar, in the adjoining district of Rajshahi. He also buys some paddy directly from the growers, on credit. He sells through a local aratdar, with whom he has been trading over the last three years. He estimates his annual profits (net) at over Tk. 100,000 at the rate of Tk. 4-5 per md. of paddy processed. He has also invested in irrigation equipment, and rents out water to cultivators. At the time of interview, he had 600 mds of paddy in stock, and was owed Tk. 20,000 by aratdars. He does not sell directly to beparies. If they came, he would want cash. He is not prepared to risk credit transactions, except through an aratdar.

Operation costs include (a) manager's salary (Tk. 700 p.m.), three meals a day and

clothes during festivals; (b) Tk. 4/md. of paddy processed paid for labour services, to the labour 'sarder' (leader).

5.3.3 The Cycle Bepari (Small processor)

One of the characteristics of the foodgrain market in Bangladesh, is the co-existence of markedly different types of actors engaged in the same function. This is particularly true for paddy processing, where large-scale, modern systems co-exist with small scale traditional forms. Thus, in sharp contrast to *chatal*s, we have the *bharkiwalas* in Noakhali and the Cycle and Kandha Beparis (Cycle and Kandha refer to the bicycle or the human shoulder, which are used to transport paddy) in Bogra. The latter are small, family-labour based processors, who procure paddy (sometimes on credit), and make it ready for husking in a mill. They are able to survive competition from *Chatal*s by cutting costs (i.e. reducing their returns to labour) and through some product differentiation.

BOX 5.3.3: A CYCLE BEPARI IN A PRIMARY MARKET

A cycle bepari requires three lots of paddy to begin operation, with each lot at a different point in the processing stage, Thus one *chalan* or lot is being soaked, while another is being sun-dried, while the third is being par boiled. Our cycle bepari, Fazlur has three lots of paddy of 5 mds each lot. This would entail a cost of around Tk. 3000(at Tk. 200/ md). The milling charge is Tk. 16 for each lot of 5 mds. - implying a total working capital requirement of Tk. 3016. Fixed costs consist of a bicycle (Tk. 1000-2000 for a used model), some large potsand pans, baskets, brooms etc (around Tk. 230). Family labour consists of himself and his wife. If his wife is unwell, a substitute worker is hired and paid one seer of rice per day. No other workers are used. The children are too small to work.

If necessary, he will take a cash advance from the rice arat (currently no such advance outstanding) and may also obtain paddy from the growers on credit. Growers are paid a market price

Rice processed, is sold to *paikars* (buyers) from Bogra, who come everyday, early in the morning to take rice to the city. The alternative is to sell to outside beparies through the only local aratdar. This is a less preferred option, as *Paikars* can be bargained with, and usually a better price is obtained from them. A small extra return is made from the residual broken rice and husk.

5.4 CONTRASTS BETWEEN THE TWO RURAL AREAS

In this section we describe some of the contrasts between the two rural areas we have focussed on in this paper. These contrasts take three main forms. There are differences between (i) the circuits of exchange, that is the numbers of traders in different segments of the circuit from grower to consumer, (ii) the forms of credit to be found in each area, and these differences, and the distribution of tenancy, are in turn reflected in (iii) markedly different patterns of foodgrain outflow from households in the two areas. We deal with each of these contrasts in turn.

5.4.1. Trading circuits

Figure 9 shows simplified circuits of trade for the two rural areas. It is drawn from the circuits of trade indicated in Figures 2 (a), showing the hierarchy in Noakhali, and Figure 8, indicating trade circuits in Bogra. It indicates the marked absence of intermediaries between the grower and the processor in Bogra markets. Whereas such intermediaries are numerous and diverse in the backward area of Noakhali, they hardly exist at all in the main circuits of foodgrain exchange in Bogra. For simplicity Figure 9 shows only the subordinate trader segment connecting grower to processor. There are also segments, as Figure 2 (a) indicated, via absentee landowners, the village grocery shop and via local clubs of influential villagers. Whichever segment of the circuit is followed, the backward area circuits contain one, two or three more trade transactions between grower and processor than in the advanced area.

We think the trade circuit found in the backward area can sensibly be described as a supply-oriented trade structure: it is constructed to deliver credit and extract paddy from the growers. The trade circuit of the advanced area can be termed a demand-oriented trade structure: it does not require a ramified hierarchy to ensure the supply from the growers, but it does need trading institutions to ensure the onward transmission to deficit areas. We think these structures reflect differences between a structure of forced commerce and one more substantially based on surpluses above household needs.

5.4.2. Credit forms

There are two main differences between credit systems in the advanced and backward areas. Firstly, credit systems are generally cheaper and simpler in the advanced area. Secondly grain-related credit transactions in the two areas reflect the very different nature of the moneylenders in the two areas: in the advanced areas, it is resident growers who are making paddy loans, and in the backward areas it is absentee, non-growers who are making the loans, and the form of the loan (DU) reflects that.

In relation to the first point, Table 4 describes the sources of loans taken by households in the

two rural areas. It suggests that bank credit is more frequently available to the households in the advanced area than in the backward, that grain-related credit in the advanced area is only slightly less frequent than bank credit but grain-related credit is much more important, in fact the most common form of credit in the backward area.

TABLE 4 RELATIVE IMPORTANCE OF DIFFERENT CREDIT SYSTEMS

	Number of households taking credit from different sources and by different methods	
	Advanced villages	Backward villages
Formal sources		
Bank and institutions	9	3
Informal sources		
(1) cash-cash		
Moneylender	4	3
Friends and relations (without interest)	19	6
(with interest)	0	1
(2) kind - cash		
Paddy-cash loan	12	7
(3) cash - kind		
<i>Dhaner upore</i>	0	38
cash - repaid in cash and kind	0	6
(4) Loans repaid in labour		
Cash against labour	0	2
Kind against labour	0	1

Notes:

These figures relate to samples of 25 households in each of two advanced and two backward villages. Some households take loans of more than one kind, so the totals do not add up to 50. They are preliminary estimates. (The household sample is stratified to give equal numbers of rich, middle and poor peasants, and landless. These figures have not been corrected to represent the whole population).

Section 7.1 below indicates the relative costs of the two forms of grain-related credit *Dhaner Upore* and paddy loans and shows that the price disadvantage to the borrower is in a similar range for the two types of grain-related credit. This is potentially misleading because the prevalence of these types of credit is very different. *Dhaner upore* (cash for kind) loans to poor peasants are taken by a large majority of households in the backward area, whereas few peasants took paddy loans in the advanced area and the quantity of paddy involved was much less significant. In the advanced area there is much greater access to interest free loans (from friends and relations) and low interest loans (from banks).

The second point relates simply to the form of the two types of grain-related credit. *Dhaner upore* (a loan of cash to be repaid in paddy) is most convenient for those who have cash and want paddy to sell. The paddy loan is more appropriate for those who have paddy and want cash. *Dhaner upore* is a form reflecting the needs of absentee non-growers who have liquid cash to invest and who are experienced in grain trading (this suggests paddy traders and absentee landlords). The paddy loan, on the other hand is a form of lending reflecting the needs of resident surplus growers, who need cash. It transfers their costs of selling the paddy and ensures that they get at least the best price of the season (thus taking one of the risks out of their trading).

Dhaner upore reflects merchant/absentee landlord domination in the backward area and the paddy loan reflects the role of rich peasants in the advanced area.

5.4.3. Commodity exchange types

The third contrast between advanced and backward areas is in the foodgrain outflows from households in the two areas. Analysis of these flows for one season (the post-aman harvest season of 1988-9) indicates that no more than 30% (by weight) of grain leaving our backward households goes directly to the market, whereas 90% of grain leaving advanced area households does. In the backward area, interlocked exchanges account for 70% of total grain outflow. Some 45% of the total goes in sharecropping payments (that is, interlinked with land), a further 20% of the total pays for credit, and some 5% is kind payments for labour, commodities and services.

Figure 10¹² shows the picture in more detail. It divides the total outflow (calculated in weights of paddy or, in the case of rice, paddy equivalent) from the 4 villages illustrated according to the following categories of exchange:

- (i) market (ie cash exchanges, not directly influenced by any contractual obligations) sales in the two (lower price) months immediately after the harvest,

¹² The household sample is a stratified sample intended to give equal numbers of rich, middle, poor and landless peasants. The graph in Figure 10 has not been corrected to represent the whole population.

- (ii) market sales in the three (higher price) months before the boro harvest,
- (iii) share payments to landowners,
- (iv) kind payments for *dhaner upore* cash loans,
- (v) payments for labour, commodities and services (eg contract ploughing and threshing)
- (vi) gifts of paddy or rice
- (vii) payments of paddy under the Higher than Market Price system
- (viii) kind loans of other types.

In both areas, market sales in the two low price months after the aman harvest exceed those in the three high price months before the boro harvest. This can be taken as an indication that relatively few growers in either area can afford to wait until prices rise.

The main point to be drawn from this comparison of commodity exchange types is that there is a sharp contrast between the two, with 'forced' or interlocked exchanges dominating the picture in the backward area.

6 BIG CITY MARKETS

In Dhaka we have been studying three markets: a long established, but now declining wholesale paddy market, Madanganj, a rapidly-expanding area of rice milling, Kamlaghat, and the main rice market distributing rice to the city Badamtoli.

These three markets are collecting paddy and rice from all areas of the country but production in Eastern and Southern areas are most significant. There is a pattern of rapid change with Madanganj, the oldest market, formed in Mughal times, expanded by the Portuguese and British, now declining and being supplanted by the area of processing, Kamlaghat. Badamtoli market which is the largest rice wholesale market in Dhaka, has risen to prominence since independence but its expansion is threatened by the severe constraints imposed by its location deep in the medieval streets in Old Dhaka

In this section we briefly review the types of trade finance we have found and then show through case studies of seasonal capital utilisation how that finance reflects relations with areas of forced and free commerce.

6.1 Trader types and credit relations

The markets are large agglomerations of intermediaries operating from fixed shops. They negotiate the transactions between long distance traders bringing paddy and rice from production areas and the processors and retailers distributing it to the Dhaka metropolitan area. Table 4 summarises the main types of trade finance found in the three Dhaka markets we have studied.

TABLE 5: SHOWING TYPES OF FINANCIAL RELATION IN DHAKA MARKETS

Type of loan	Parties	Amount per loan Taka	Conditions	Form of payment
Dadon	Paddy or rice aratdar to up to 50 outside beparis	5 000 - 50 000	Bepari is tied to this arat for all grain he supplies	Rolling cash repayment
Credit sale	Rice arat or mill to retailer	100 - 15 000	Retailer has to purchase from this arat, price is raised.	Rolling cash payment
Dhaner upore ¹³	Paddy aratdar to outside bepari	As for dadon.	As for dadon, this DU does not affect contractual price	Paddy payment

The two case studies of Dhaka intermediaries described in Boxes 6.1 and 6.2 illustrate the use of *dhaner upore* and dadon in two medium to large trading firms, one in Madanganj and one in Badamtoli.

The first indicates the involvement of one paddy aratdar in the provision of dadon to his itinerant traders and, through them, of *dhaner upore* finance to two different regions of the country. One produces a boro crop, the other an aman, both regions are relatively backward, in terms of their investment in agriculture, their ecological constraints and their tenurial arrangements (they are, for example, areas where there is a high proportion of large farms, as indicated by the 1983-4 agricultural census data shown in map form in Zillur Rahman, 1989, map 3). Other traders in Madanganj admit, once a degree of rapport and trust has been established between trader and interviewer, that their beparis are involved in *dhaner upore* lending. They suggest that the advance of *dhaner upore* is a general practice.

¹³ In Dhaka and many of the areas from which paddy is collected for Dhaka, the relationship called *dhaner upore* in Noakhali is called *dhan lagni*. Both phrases translate as investment on paddy.

BOX 6.1: DHANER UPORE LENT FROM A CENTRAL MARKET: PADDY ARAT IN MADANGANJ

The role of the paddy aratdar (broker) in Madanganj is to mediate between itinerant traders bringing paddy from rural areas and the mill owners or crushers who process the paddy into rice. (There are few small scale household processors (such as the cycle beparis of Bogra) in Dhaka, none in the Madanganj area). The aratdars also provide finance for these itinerant traders. The pattern of that finance indicates the seasonal pattern of supplies to Dhaka and the influence of tied and usurious capital in one of the major markets supplying Dhaka.

Figure 11 shows the pattern of dadon loans to the beparis dealing with one Madanganj arat. This arat is comparable to many others in the market in scale, being slightly larger than average in capital and turnover. It differs from others in being associated with a crushing business. The owner of this arat is in partnership with others, including his brother, in the renting of two mills producing rice and one chira production business. The owner insists, nevertheless, that the pattern and nature of the dadon loans from his aratdari is comparable to those of other arats in Madanganj.

Madanganj market channels paddy to Dhaka from two important production areas - Barisal and Patuakhali in the South of the country and Mymensingh and Sylhet in the North East. Both regions contain substantial backward areas with low productivity, single cropped and sharecropped land. As might be expected from our knowledge of the Noakhali backward area, the capital lending of this arat reflects the existence of tied and usurious forms of capital in both these areas.

Figure 11 shows the pattern of dadon lending from this arat to the itinerant traders of the two areas. Lending to Barisal peaks at the time of the Aman harvest because this is an Aman production area (like Noakhali). Lending to Sylhet and Mymensingh beparis peaks at the time of the boro harvest because these areas produce boro paddy. In both cases, lending to the itinerant traders starts at least six weeks prior to the harvest. In the case of Sylhet and Mymensingh beparis, the dadon lending starts four months before the harvest. The aratdar explains this preharvest rise as a combination of two factors. His lending allows beparis to invest in *dhan logni* (the name used here for *dhaner upore*) with other growers and also to use the money for their own paddy production. He reports the rate for *dhan logni* lending as a very high Tk 100 per Maund of paddy (that is, an implicit price half the market price at harvest). There is a difference between the involvement of this arat in financing usurious lending and the methods of the moneylending traders in Noakhali. Although they acknowledge that the money they lend to the itinerant trader finances preharvest lending to growers, the Madanganj arats do not attempt to get a share of the returns of this usury. There are no arrangements to transfer a portion of the returns back to this arat. Instead, their financing of *dhaner upore* is considered part of the bond tying the bepari to them. Asked why he does not claim a share of the returns of this lending, he responded:

I do not claim that profit, that is not my headache [because it involves risks and low quality paddy]. My claim is that the whole amount has to be supplied [by the bepari] and for the whole season the bepari has to operate his business to my arat.

The difference between the timing of lending to the two areas, he relates to the extent of new technology in use in each. There is little use of fertiliser and irrigation in the areas of Barisal where his beparis procure paddy, so the peak need for *dhan logni* loans is just prior to the harvest (it is, in other words, closer to the lending we have called Advance Purchase in Noakhali).

Some of the beparis operating with this arat in Sylhet and Mymensingh keep their dadon loans all year round, and operate all year round.

The second case study indicates one way in which dadon is used by traders in Badamtoli rice market. In this case it secures rice supplies from mills and large scale traders in a region of the country where the aratdar has close connections. As with *dhaner upore*, the sensitivity of dadon obligations make estimates of the extent of its use difficult to establish conclusively. Badamtoli traders have estimated, nevertheless, that some 50% of Badamtoli aratdars use cash advances to tie the supplies of itinerant traders to their arats.

BOX 6.2: REGIONAL SPECIALISATION USING DADON: RICE ARATDAR IN BADAMTOLI

The seasonal capital utilisation graphs (Figures 12 (a) and (b)) for this trader's two main types of capital indicate a seasonal pattern reflecting regional specialisation. The largest volume and most profitable business of this arat is during the boro season with supplies of rice coming from Tangail. During this boro season the throughput is dependent on dadon advances. During last year's boro, dadon advances were made to 73 individuals or firms, of whom 6 were the owners of mills¹⁴. In this case the whole processed quantity of the mill is pledged to the arat for the loan of working capital. The rest are crushers, larger scale processing traders who are procuring paddy, getting it processed into rice then delivering it to his arat. The owner chooses to focus on boro season procurement from Tangail because he has wide contacts and many relations in that area. (While he stresses the strength of his connections with the traders who take dadon loans from him, he also employs a *mukkami*, or market worker, to keep a check that all the rice comes only to his arat). This business is entirely on commission.

During the Aman season, the arat buys (that is, not on commission) from independent traders who bring rice from the major surplus areas of Bangladesh, notably the areas of the North West.

By the end of the boro trading season (end of Kartik), the arat needs most of their dadon capital collected so that it can be used in the buying and selling business. (Tk 2.5 - 3 lakh is left with 'honest' beparis for their own use to ensure that they remain tied for the next boro season). Their scale of trading during the aman season is much lower, however, partly because they lack the leverage effect which dadon gives (as already noted, the loan of dadon gives the lender a claim on the whole of the borrower's procured quantity).

The boro season rice purchased using dadon goes to deficit areas of the country, some of them monocrop areas with backward tenurial arrangements and high levels of distress sales. This arat provides the working capital which allows that trade to proceed. He provides credit sales (*paikari baki* - in this case tying the borrower to the arat for all his supplies of rice) to Rangpur, Noakhali, Chittagong, Laxam, Feni and Comilla. During the aman season, the rice of this arat goes to Dhaka city itself, and less *paikari baki* is required for this purpose.

During the 1989 boro season, the floods of 1988 which affected Tangail badly had forced a change in the seasonal and regional specialisation of this arat. Their usual Tangail beparis and mills were unable to supply rice and the arat was therefore buying from North West Bangladesh.

¹⁴ During 1983 and 1984, after the bloodless coup d'état which brought President Ershad to power, many of the preferential capital arrangements (notably, cheap credit and government provision of paddy for milling) which had led to a rapid expansion of the mill sector under his predecessor, were reduced or discontinued. This led to severe shortages of working capital for many mills particularly in areas where government procurement of grain was discontinued.

The opinion of the manager of the arat about the change in mode of operation illustrates the way that dadon trading keeps their capital in use and minimises some of their risks. Is this year's mode of operation through direct purchase, rather than dadon, more advantageous?:

No. We would not choose this business because it involves risk of loss. If we are dealing in the beparis rice [ie rice owned by a bepari but left with them for a commission sale], we never hold onto the beparis rice but sell it even when the price is falling [because the bepari bears the loss]. With our own rice, we have to stop selling when the price is falling [thus leaving their capital idle].

7 DISCUSSION OF UNUSUAL FINANCIAL FORMS

The discussion of this paper is in two parts. In this section we discuss some of the implications of the tied forms of trade finance we have described, examining some of the functions of such financial arrangements, presenting evidence on rates of return, risks, and costs.

In section 8, we summarize the main points of the paper and discuss how far the contrasts between backward and advanced areas, and forced and free forms of commerce, can help in the formation of hypotheses about agricultural dynamics in Bangladesh.

7.1 Dadon

Dadon loans are supply-oriented loans of working capital. Dadon provides working capital for the expansion of trade, but at the same time it provides competitive advantages to the firm providing the finance and has consequences for price formation. The dadon relation provides two types of advantage for the supplier of the dadon: a supply or market-share effect, and a transfer of risk.

The basic and ubiquitous function of dadon is to ensure the throughput of the wholesaler or commission agent gathering bulk supplies for onward transport to deficit areas. In general, the scale of this firm's trade will be directly related to the amount it is able to invest in dadon.

A second effect of dadon is to transfer most of the risks of trade from the commission agent to the subordinate dadon trader. Dadon is generally provided as part of a commission or brokerage arrangement. The subordinate trader agrees to supply all of his procurement to the dadon-providing firm, and that firm agrees to sell the paddy at the market price, charging the subordinate trader (and the purchaser) a fixed commission related to the quantity of paddy sold. In this agreement all of the risks of buying and selling are borne by the subordinate trader.

In practice, the agreement is varied in two ways. The more solvent subordinate has some influence over the timing of the sale. In this case, the subordinate may request that the commission agent hold his stock until a specified market price is achieved. This first variation of the agreement is a simple function of the relative power of the two parties. An insignificant trader with no working capital can expect to have no influence over the timing of the sale of his paddy, whereas the more solvent and influential trader may get into arguments with the commission agent if he feels that his paddy would have achieved a better price had the sale been delayed by a day or two.

The second variation of the agreement concerns the dual role of the commission agent. Most commission agents, and all of the larger ones, combine brokerage with buying and selling on

their own account. This allows them to extract the benefits of a rising market while avoiding the costs of a falling market. This is done in overt and covert ways. When the aratdar expects the price to rise, he may simply inform his subordinate trader that a particular delivery is not a commission sale but a *kata dor* (fixed price) sale. In this way he can take the benefit of the price rise. But subordinate traders frequently complain that this transfer of the benefits of rising prices also occurs in covert ways. They complain that their aratdar informs them that their delivery sold at one price when they learn from other sources either that the price in the market was actually higher on the day he claims to have sold their paddy, or that the paddy was not sold on the day that the aratdar reported. Most subordinate traders are not in a position to pursue these claims with vigour. They depend for their livelihood upon the dadon loan provided by the aratdar. If they argue too vigorously, the aratdar can simply refuse to renew the loan. In addition to this direct economic subordination, the power and influence of the aratdar make him a forbidding adversary for a petty trader. Nevertheless, arguments do occur when subordinate traders achieve a degree of solvency. One such is reported in our case study of the subordinate trader.

Not all the risks of trade are transferred to the subordinate trader. The principal risk which remains with the provider of the dadon relates to default on the loan. Default risks differ between types of aratdar. Aratdars giving dadon to subordinates who trade over long distances, such as the aratdars of Dhaka markets, protect themselves against theft of their money by extending dadon only to traders they have come to trust, and initially extending only small amounts of capital. These traders may, nevertheless, be subject to high rates of default when the crop output is exceptionally low due to flood, drought or other calamity.

In the backward area of Noakhali, the generalized social control of the trading class acts as a constraint on default. Short of migration, which does happen, the local Sailish can seize assets or negotiate repayment arrangements for loan defaults.

7.2 Dhaner Upore - analysis of prices, returns and default arrangements

In section 4, we described the place of *dhaner upore* (cash loans repaid in paddy) in the backward area hierarchy. Here we examine some of the details of these loans.

Table 6 provides data on the *Dhaner upore* loans taken during the 1988 aman season by 38 households (out of a sample of 50) in two villages in the backward *char* area of Noakhali. The main purpose of this table is to provide some estimate of the price loss which growers face through their use of this form of credit. Two estimates are provided. The first compares the price the grower receives for paddy pledged against *dhaner upore* cash with the price that grower actually received for a non-tied sale at the homestead or in the market). This price is

termed Grower's loss one¹⁵. The second comparison is made with the price that the moneylending merchant uses to value the paddy if the loan is rolled over into a second agricultural year. This price is equivalent to the price achieved by most absentee landlords when they sell their paddy.

¹⁵ Because it compares the *dhaner upore* price with the 'free sale' price received by the same grower in the market, differences of moisture and quality of paddy supply are largely cancelled out.

TABLE 6: GROWER'S LOSS AND TRADER RETURNS FOR 38 DHANER UPORE LOANS

	Average	Range
Village 1		
Implicit DU price	138	117 - 166
Freesale price	209	190 - 222
Rollover Price	253	250 - 260
Grower's price loss 1 (%)		25 - 45
Grower's price loss 2 (%)		34 - 54
Gross trader's return %	131	62 - 200
Village 2		
Implicit DU price	140	129 - 143
Freesale price	207	190 - 220
Rollover price	252	250 - 265
Grower's price loss 1 (%)		25 - 40
Grower's price loss 2 (%)		43 - 49

Notes

DU implicit price = loan / quantity of paddy paid, ie in the case of an agreement to pay 8 Md per Tk 1 000, this is an implicit price of Tk 125.

Freesale price - price received by the grower for a sale (generally at the homestead) at the date nearest to the time when *dhaner upore* paddy was repaid (either a price within 2-3 days, or one interpolated between the nearest sales).

Rollover price - price at which the value of outstanding paddy debt is calculated by the moneylending merchant. These prices are calculated from four cases where the debt was extended in village 1 and seven cases in village 2.

It is more straightforward to calculate the grower's loss than to calculate the return on the capital lent by the moneylending merchant, absentee landlord, or intermediary. Table 6 indicates gross annualized returns to the lender. There are two reasons for treating these figures with caution. The first is that they take no account of the risks of lending, and the second is that they do not allow for the transaction costs of the deal.

The risks of *dhaner upore* are difficult to assess. Such books as traders keep are not available for detailed inspection¹⁶. Most subordinate traders do not keep consolidated accounts.

It is clear that default by growers, and the more usual delayed payment, of *dhaner upore* is largely borne by the intermediaries, rather than the moneylending merchants. Default rates do not, however seem excessive. The intermediaries have effective institutional procedures for collecting their debts through the invocation of the *sailish* or village court. The *sailish* is a court of the most influential men of the area which, in the words of one intermediary, 'includes all of the *dhaner upore* givers'. Small growers are allowed to attend the *sailish*, but they are not members. According to the estimate of the same subordinate trader, 5% of *dhaner upore* loans default but, as several traders commented, it is rare for the trader not to win a case in the *sailish*:

'If the members of the *sailish* do not find a way to recover the amount, sometimes they force the grower to sell his bullock or other assets. In this case they do not get the total amount, so they try to get the cash amount invested with the grower. Usually the poor sharecropper defaults because after paying the landlord and outstanding credit in the grocer's shop, he becomes empty.'

A somewhat different picture emerges if we examine the rate of bankruptcies amongst village grocery shops. Out of 9 village shops established during the ten year life of one *char* market, only six remain and one of those six is now forced by losses to operate on a reduced scale. A long-time resident of this market explained that the bankruptcies occurred when the smaller shops were unable to recover their debts; the more powerful shopkeepers are able to recover theirs, and they survive. One of the surviving shopkeepers had, nevertheless, to sell some of his wife's gold in 1987 in order to make full payment to his supplier (a moneylending merchant) after a bad crop had led to *dhaner upore* default. Another had to sell a bullock to repay a supplier after a tied processor (*bharkiwala*) had run off with his *dadon* advance.

In the commanding market, the *aratdars* and mills do not emphasize their losses. One comments that he has never lost a *dadon* loan to a *bharkiwala* in his business life. Another explains how he can force a defaulting grocery shop to sell his land in order to pay his obligations. A third says that he always wins his cases in the village *sailish* 'because members

¹⁶ The books of moneylending merchants are particularly confidential. Even the book-keeper has access only to the current books.

of the sailish have to come to this market and I have good connections with them'.

Risks may be high, but they seem to be concentrated in the lower levels of the hierarchy.

The gross rates of return to *dhaner upore* also have to be viewed in the light of the costs of credit administration. For the merchant moneylenders these costs do not appear high. Mills and paddy aratdars routinely subtract their debts from the regular deliveries of paddy for processing or sale. They do not, therefore, have the travel and time costs of regular debt collection visits reported by some other types of trader in grain markets. The rice aratdars do have to visit their networks of village shops in order to collect their debts. One of the largest rice aratdars estimates a monthly cost of Tk 3 - 400 for the collection of debt owed by the village shops and retailers he supplies. This is on a total circulating capital of Tk 3-400 000. It seems surprisingly cheap for so complex a hierarchy of credit relations.

The overall administration and default costs of the hierarchy are difficult to estimate. The *char* area is a lawless backward area, and the multiple tiers of the hierarchy suggest that it is an expensive trading system. Not all the returns of the hierarchy, however, are swallowed up in its costs. It is clear that the merchant moneylenders who occupy its apex have accumulated capital at a rate not matched by those older traders who do not invest in *dhaner upore*. In ten years, the merchant moneylenders have gathered enough to start investing in other branches of commerce, transport, paddy processing, government contracting and the construction industry.

Relation between Dhaner Upore price and harvest price

Dhaner upore appears to be a forward sale contract. It differs from such contracts because it is located in a hierarchy of social obligations giving the lender overwhelming power. It nevertheless shares with forward sales the element of risk-taking through estimation of future prices, in this case the price at harvest. Table 7 provides a rough estimate of the relation between *dhaner upore* rates and harvest prices in Noakhali for selected years going back to 1953. It suggests that there is a systematic relationship between the free market price and the *dhaner upore* price.¹⁷ The very large growers loss in 1972 may be attributable to the generalized inflation and social disruption of the early years of Bangladesh. We have not so far found evidence of years in which merchant moneylenders have made losses as a result of the harvest price falling below the *dhaner upore* price.

¹⁷ In his study of the 1974 Bangladesh famine, Alamgir noted the extent of *dhaner upore* in famine and non-famine villages and found that implicit interest rates were significantly higher in those villages more severely affected by the famine.

TABLE 7: HISTORICAL RATES OF DHANER UPORE

Year	Implicit DU price	Actual Harvest price	% loss to grower
1989	143	200	29
1975	83	115	28
1972	20	67	70
1953	10	13	23

Sources: Interviews with traders;
Comparative prices from Alamgir 1978 Table 7.1 and Bangladesh Government Food
Situation Report October 1985

7.3 Paddy loans

Paddy loans are made in both advanced and backward areas. They provide working capital for traders or consumption and investment loans for poor peasants. In Bogra there is a relatively formalised system for relating the price premium of the lender to the seasonal variation in prices, and paddy loans constitute an important source of credit for poor peasants. In both areas, paddy loans transfer the risks and costs of selling to the borrower.

Table 8 sets out the details of the paddy loans entered into by households in the two most advanced villages in Bogra that we have studied. (In village 1, examples of loans to chatals (medium scale processors) were found as well as to poor peasants so these have been shown separately.) The table indicates the scale of the paddy loans (averaging 3 to 6 maunds in the case of loans to poor peasants and 50 maunds in the case of loans to chatals) the length of the loans and the price difference which the borrower experiences as the cost of the loan.

TABLE 8: DETAILS OF 28 PADDY LOANS IN THE ADVANCED AREA

	Average	Range
Village 1		
Loans to poor peasants		
Quantity (maunds)	5.5	1 - 16
Period of loan (months)	3	2 - 4
Price difference ¹⁸ (%)	46.8	7 - 58
Loans to chatahs		
Quantity (Maunds)	51	50 - 52
Period of loan (months)	2	2
Price difference (%)	29	25 - 33
Village 2		
Loans to poor peasants		
Quantity of loan (Maunds)	2.9	6 - 0.5
Period of loan (months)	4.6	9 - 2.5
Price difference (%)	27	22 - 46

7.4 Tied credit sales

The empirical details and implications of tied credit (*paikari baki*) have not been investigated to an extent comparable with our investigation of *dadon*, *dhaner upore* or paddy loans. This form of tied finance can, nevertheless, be seen as analogous to *dadon*. It is a demand-oriented provision of trading capital which represents a mirror-image of *dadon* finance on the supply side.

The general effect of this form of tied finance is to allow traders and brokers with larger amounts of capital to gather networks of retailers or processors under their auspices as semi-permanent sub-contractors. In this way larger grain traders can establish a degree of influence over 10 - 40 retailers. In an expanding market, the ability to provide finance to new traders

¹⁸ This is the difference between the price paid by the recipient of the paddyloan and the price available on the market at the time that the paddy was lent.

could give a perceptible competitive edge to a broker by ensuring access to a distribution network.

We have not discovered systematic or formalised price differences associated with the provision of tied *paikari baki*. Some traders insist that it is common practice to charge Tk 5 - 10 per maund for the provision of this credit (ie a price differential of 1 - 5%). Other traders insist that this trade finance is provided without cost as part of their competition with other brokers and wholesalers.

8 DISCUSSION OF HIERARCHY AND SUMMARY OF PAPER

8.1 Understanding the hierarchy and stagnation

There are a series of questions relating to the hierarchy and ideas about interlinked markets which we cannot pursue in this paper, but which can nevertheless be sketched to indicate some directions for future work.

The first set of questions relates to the connection between the hierarchy of forced commerce and stagnation. We are drawn to the view that the Noakhali *chars* remain backward and the resident cultivators remain poor in part because they are dominated by the hierarchy of social control and a regime of forced commerce. To sustain this hypothesis, we need to show that it is in the interests of the dominant parties in the hierarchy to reproduce poverty and discourage investment in new technologies. Questions therefore need to be answered relating to the capacities of the dominant parties - can they ensure stagnation and poverty - and why would they want to ensure stagnation? These are difficult questions to answer without more investigation of the nature of class formation in the dominant market.

Bhaduri and Bharadwaj have, nevertheless, made theoretical points which assist the discussion of this question. Both of these writers have pointed to the crucial role of poverty in the reproduction of interlocked markets. In a recent paper, Bhaduri (1988) has identified various ways in which different dominant parties in a hierarchy may ensure its continuation. These 'contractual' arrangements he terms enforcement conditions. In the case of a landlord benefitting from tied lending to a tenant, the continued poverty of that tenant may be necessary for the reproduction of the conditions which reap substantial returns for the landlord. In this case the landlord has an interest in keeping the tenant in poverty because freedom from the loan conditions would restrict his freedom to extract surplus from the tenant. He has a similar interest in restricting technological development because that too could allow his tenant to accumulate and seek independence.

Similar arguments may be applied to other sets of arrangements within the hierarchy. Bhaduri notes that it may be in the interest of the prosperous (resident) farmer to encourage default and accumulate land in the process (this could be what is happening in the case of the grocer we describe in section 4.2.3). The interest of the trader may primarily be to ensure a steady supply of paddy, with the potential to obtain a low price a secondary benefit of the hierarchy. In the case of the moneylender, his concern may be to sustain a high rate of interest and to avoid default. These are pertinent points about the diverse private interests of different parties in the hierarchy and thus the different 'contractual' conditions they may enforce.

What these parties may hold in common is a need to sustain the weakness and poverty of the growers under their control. Thus Bharadwaj (1985) points out that a hierarchy of interlinked

markets may allow conventional social limits on the exploitation of the weaker party, such as the 50:50 share convention in tenancy contracts, to be transcended. The interlinkage between markets allows the dominant party to 'control the entire livelihood of the weaker party' and thus to circumvent social constraints.

This provides a rationale for reproducing technological stagnation and poverty, and an explanation for the apparently ruinous rates of repayment demanded by the conjoint markets of the backward area. The diversity of private interests of different parties suggested by Bhaduri could provide explanation for some diversity of contractual conditions (the *dhaner upore* rates for example) and the potential diversity of outcomes - dispossession in some cases, reproduction of backward agriculture in others. We can see why some dominant parties (notably those who are resident cultivators) may seek default and others not. There remains the task of showing how the sets of individual private 'enforcement conditions' and extraction arrangements add up to a self-sustaining social structure. That task we must leave for future papers (though Bhaduri 1981 provides some thoughtful theoretical possibilities which assist work on this question).

A second set of questions is implied by the contrast between the advanced and backward areas. Did the advanced area once exhibit the social relations now found in the backward area? If so, how was the transition made from backward to advanced agriculture?

A simple hypothesis would be that the two areas represent the conditions before and after the introduction of green revolution technologies. This is too simple. It ignores the ecological and historical differences between the two areas. The historical process which established free labour, money rents and individual proprietorship as the dominant relations of production in the advanced area preceded and paved the way for the introduction of green revolution technologies. Whilst tied financial relations within trade and between trade and agriculture are clearly important, they are only one element in the structure of backward agriculture.

Whilst it is incorrect to see the social relations of the backward area as the situation which once prevailed in the advanced area, it is possible to identify some of the processes of change which threaten the continuity of the backward area hierarchy. These processes represent possible routes to development:

- market competition

Traders from other areas may find the margins of the backward area sufficiently attractive that they institute ways of trading with the area. This would entail providing alternative arrangements for transport, adequate security to undertake trade, and breaking the hold of the merchant moneylenders on that part of the marketed grain sold through them.

- accumulation amongst resident intermediaries

We have seen that some of the resident intermediaries (shopkeepers and subordinate beparis) are able to accumulate and do use that opportunity to

invest in assets for production (land and draught animals). They are able to take the benefit of the large margins left in their hands (for *dhaner upore* payments) and also to appropriate the assets of defaulting *dhaner upore* borrowers.

- expansion of the supply of credit

One important element in the reproduction of the hierarchy is the maintenance of poverty and debt for the major segment of the producers. One part of the control exerted by the ruling order is their control of the supply of credit. To the extent that bank credit is available, much of it is channeled into the financing of the hierarchy. If alternative sources of credit became available through for example the extension of bank branches to the area, then that essential element of reproduction could be jeopardised.

- provision of infrastructure

The provision of a network of adequate road communications could undermine the transport monopoly. At present the policing of the monopoly is made easy by the pattern of roads which funnels almost all road transport through the dominant market town. If direct communications could be established with alternative centres, then the monopoly would be more expensive to maintain.

Provision of draining, irrigation and cheap inputs would be another, though less direct, challenge to the continuation of the hierarchy.

8.2 Summary

This paper has covered five areas:

1. It has described forms of trade and agricultural finance which have not been documented previously.
2. It has shown that there are contrasts between the organisation of trade in a backward, deficit area and an advanced, surplus area. Those contrasts include contrasts between the forms of trade finance and the dominant forms of foodgrain exchange for the households but they also involve contrasts in the circuits of trade.
3. It has suggested that those contrasts in trade finance and trade circuits are associated with structures of forced and free trade. The extra intermediaries and unusual forms of credit to be found in the backward area are there to generate the distress surplus of the area. In the advanced area, there is less need to generate a forced surplus because expanded production from new technology generates a 'free' surplus. It has documented the wider social hierarchy of relations in land, money, commodities and labour which sustains the forced commerce of the backward area.
4. It has shown that forms of tied trade finance are not confined to this particular backward area of Noakhali but are widespread in the largest urban markets of the country, and can be documented in many rural areas. The paper has also noted instances where tied forms of trade may come into competition with independent traders.
5. It has suggested that prices are determined by different processes in the advanced and backward areas. In the backward area, the hierarchy of intermediaries and interlinked relationships depresses the price received by the peasant at the same time as it increases the supply (it is thus, inconsistent

with usual supply and demand relationships).

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GLOSSARY OF TERMS

Types of Trader

ARATDAR - broker or commission agent who may also be a wholesaler and financier.

BEPARI - itinerant trader

FARIA - small scale itinerant trader

BHARKIWALA - petty processor using family labour to process paddy into rice (also known as *Kutial* or *Cycle Bepari*)

CHATAL - Medium scale processor owning a rice drying area (*chatal*), but not a mill and operating will hired labour. (Advanced area only).

MUDI DOKAN - village grocery shop

Types of Finance

DADON - working capital loan from large trader to smaller procurement trader, which contracts the smaller trader to supply all his paddy to the lending trader.

DHANER UPORE - cash loan repaid in paddy after the harvest. The price of the paddy is fixed at the time the loan is given.

Bengali Months

	APRIL
BAISHAK	MAY
JYOSTO	JUNE
ASSAR	JULY
SRABON	AUGUST
BHADRO	SEPTEMBER
ASSIN	OCTOBER
KARTIK	NOVEMBER
AGRAHAN	DECEMBER
POUSH	JANUARY
MAGH	FEBRUARY
PHALGUN	MARCH
COYTRO	

Weights, Measures and Currency

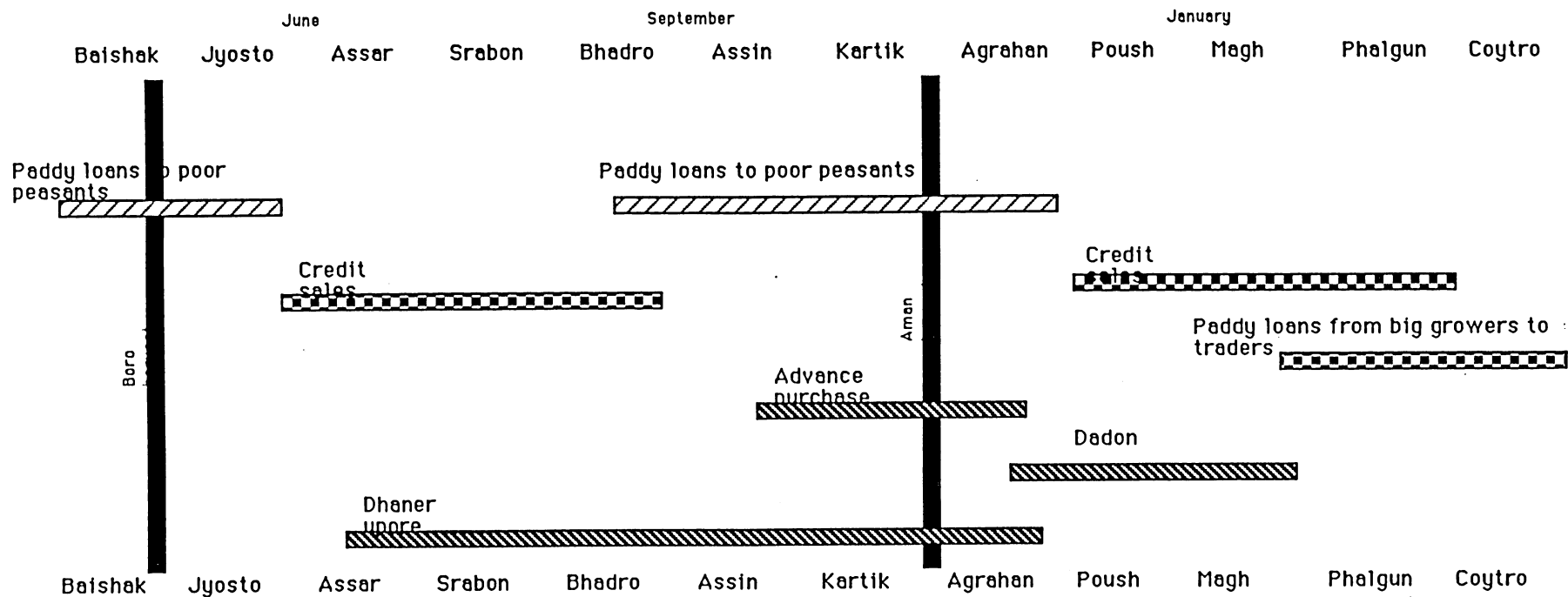
1 Maund (Md)	82lb or 37 kg
1 Seer	2lb (40 Seer = 1 Maund)
50-60 Taka	£1 (1987-89)

Other terms

Paddy - the unprocessed rice grain

Char - lands recently created by river deposition

Figure 1: Seasonal distribution of main types of trading capital



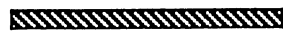


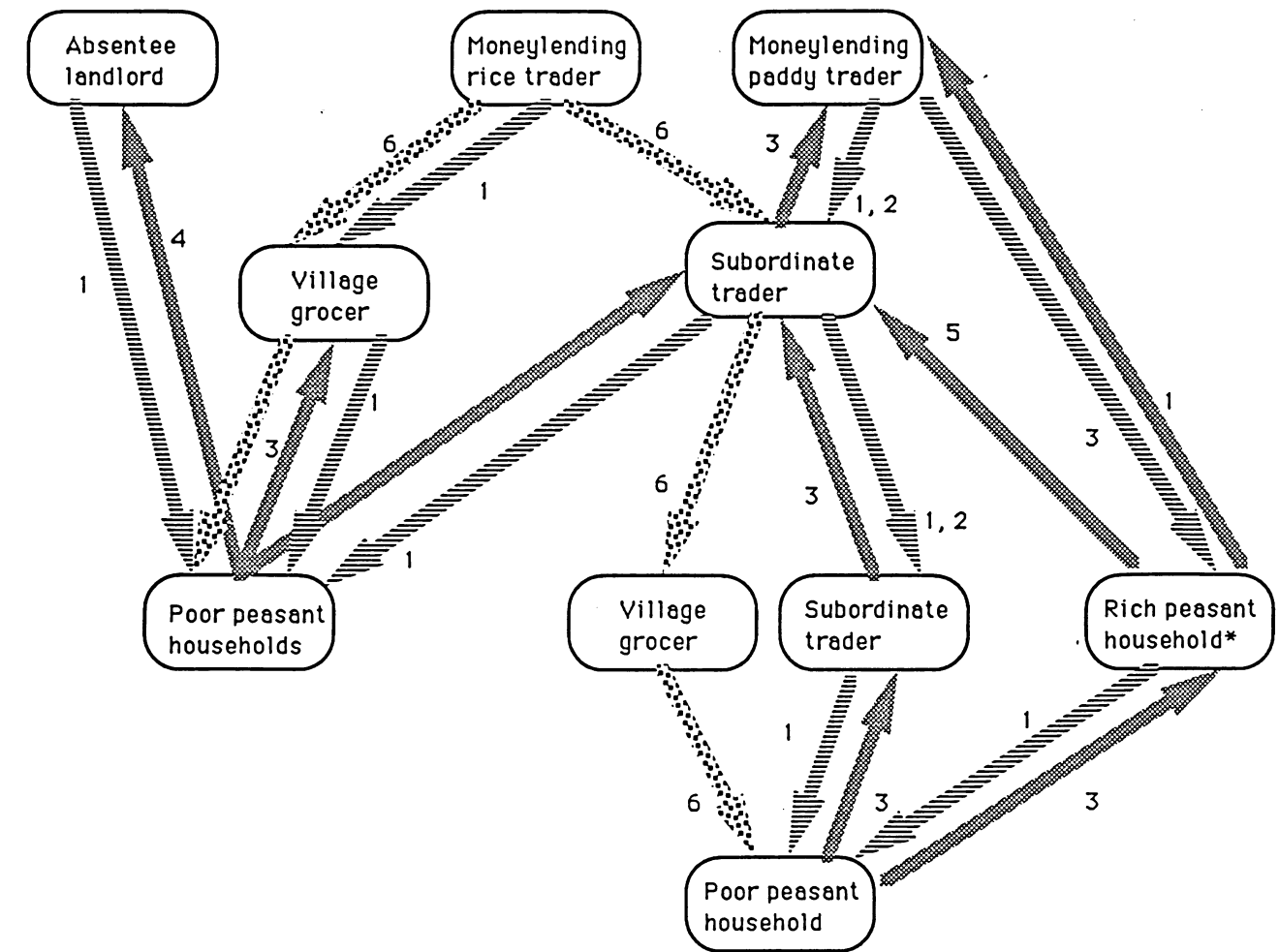
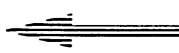

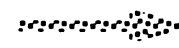
-  Capital found mostly in backward area
-  Capital found in all areas
-  Capital found mostly in advanced areas

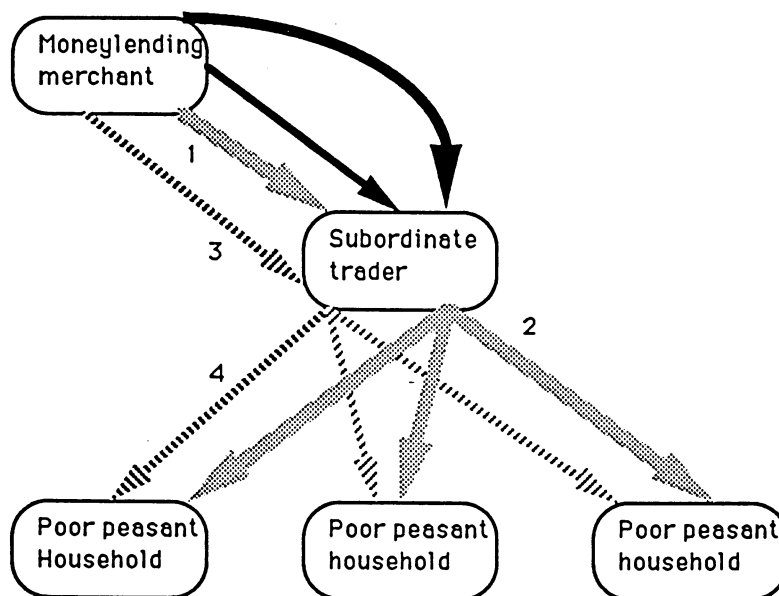
Figure 2 (a): Hierarchy collecting paddy from the backward area



-  Cash loans
 1 Dhaner Upore - to be repaid in paddy
 2 Dadon - bonding loan
-  Paddy payments
 3 Payment for less than market price
 4 Payment for use of land
 5 Payment at above market price (loan)
-  Rice loans
 6 at risk of usury
 7 on favourable terms

*Rich peasant households may act as agents for absentee landowners or merchant moneylenders in the operation of dhaner upore. In the rural area described, there is a 'samiti' or club of influential members in the area, including rich peasants, grocers, traders, which makes dhaner upore and other loans. This samiti has links to traders' club in the dominant market.

Figure 2 (b)
Four different capitals in one relation: the
finance of one subordinate trader




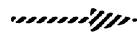

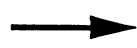
-  Dhane upore
 - 1 Tk 13 500 borrowed 3- 5 months before harvest at 7 Md/ Tk 1 000
 - 2 Relent to growers at 8 Md / Tk 1 000
-  Advance purchase
 - 3 Tk 10 000 borrowed, to be repaid in paddy at extra Tk 3 commission
 - 4 Loans to growers 2 weeks before harvest to be repaid in paddy at Tk 140/Md
-  Personal loan for land purchase and own cultivation, Tk 8 000 to be repaid in cash plus 2 maund paddy per Tk 1 000 as interest
-  Dadon Tk 18 000 - revolving loan obliging trader to supply paddy during post harvest months

Figure 3 (a) Trade circuit in backward area after main harvest

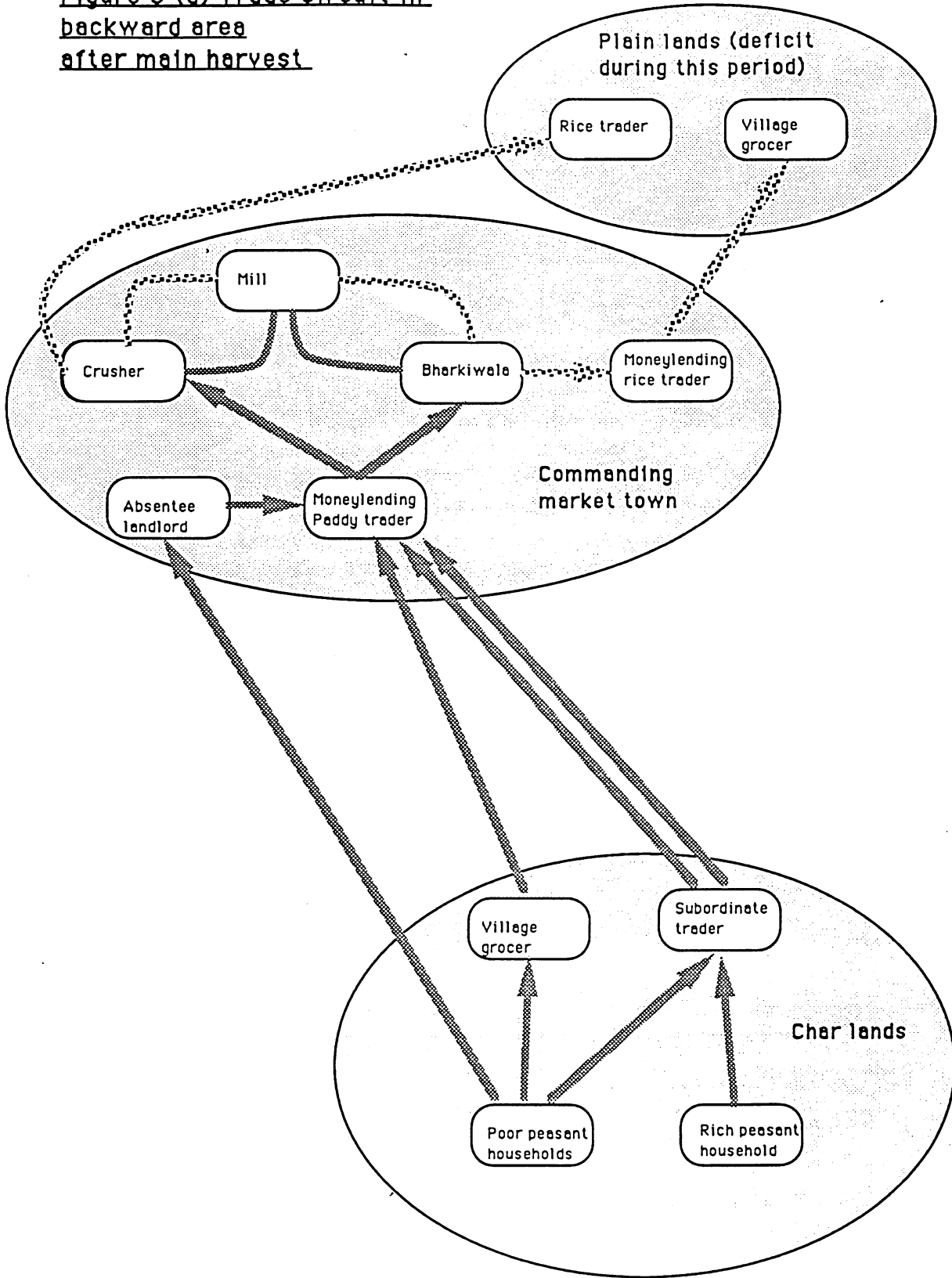


Figure 3 (b) Trade circuit in backward area after boro harvest (ie deficit period)

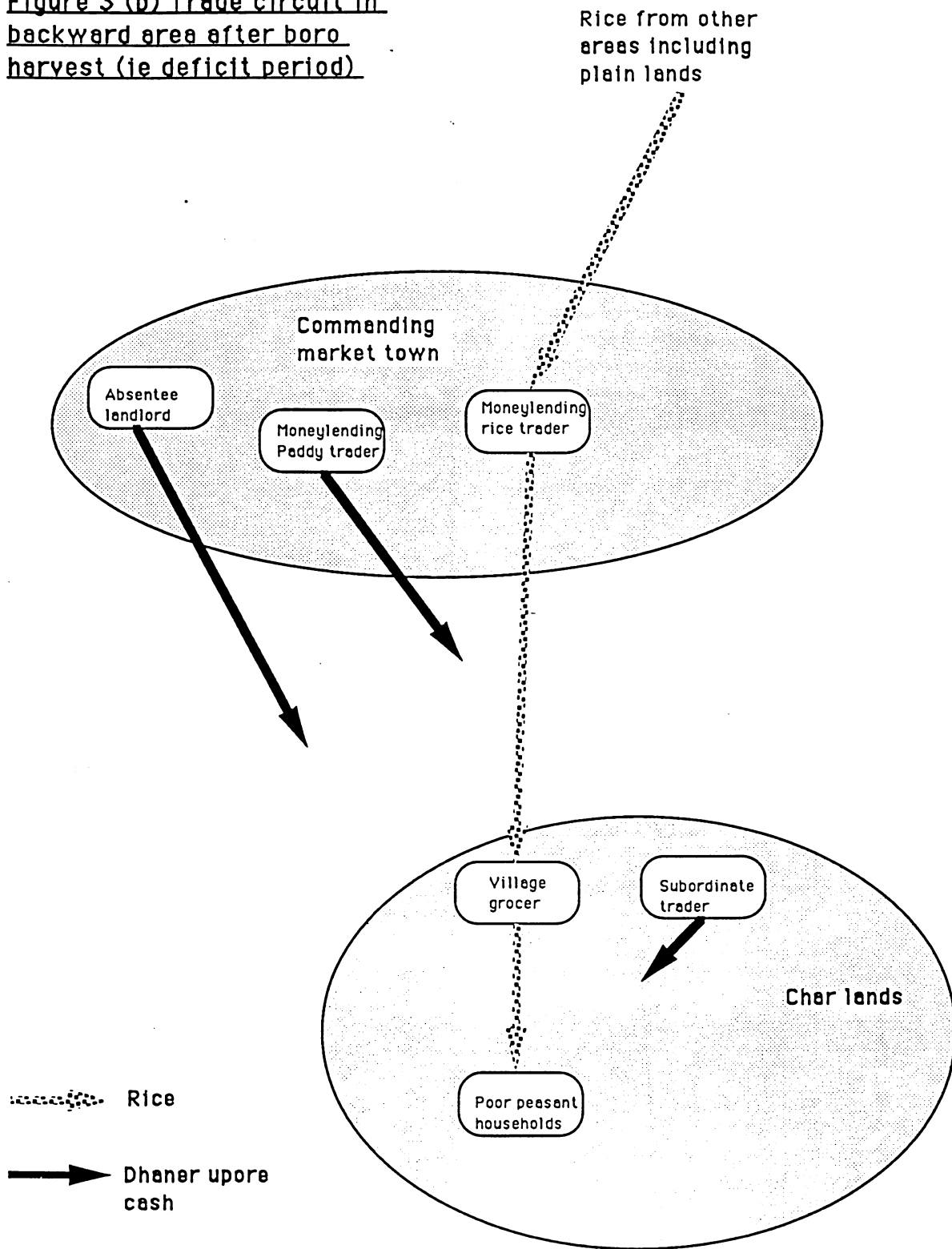


Figure 4 (a) Loans from moneylending trader to subordinate trader

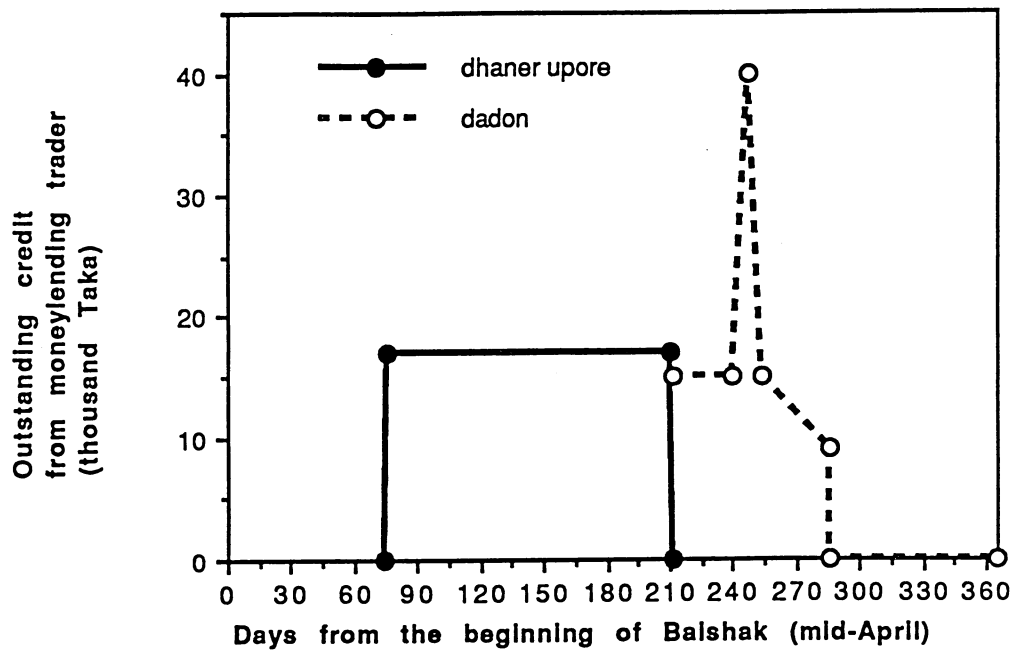


Figure 4 (b) Subordinate trader's loans to poor peasants

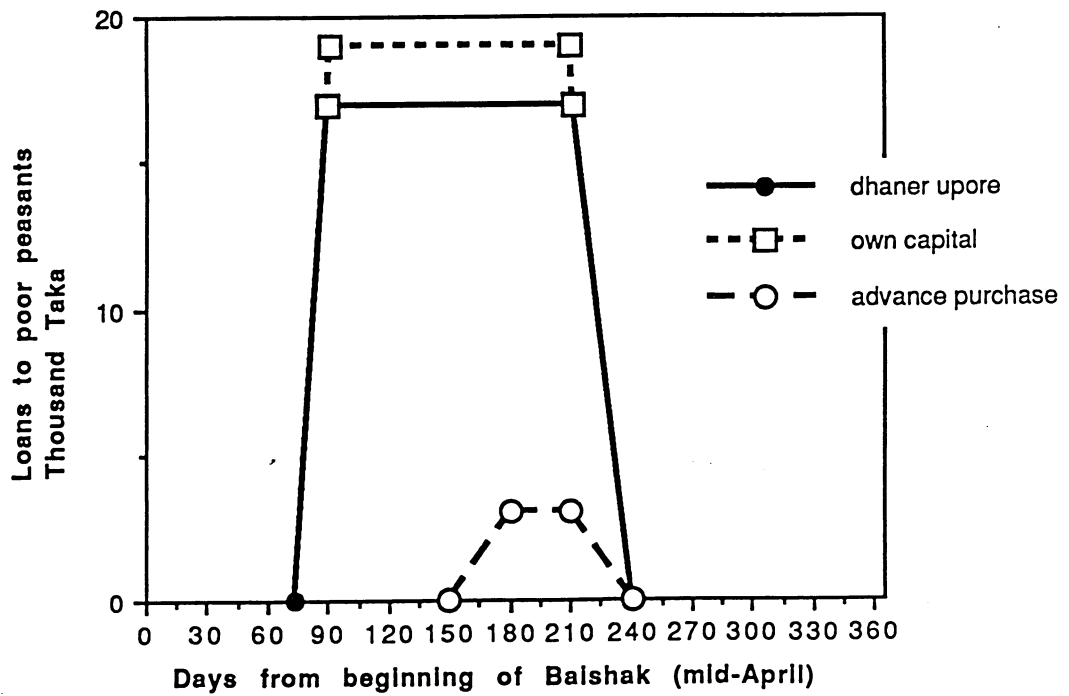


Figure 5 (a) Debts of three peasants to the village grocery store

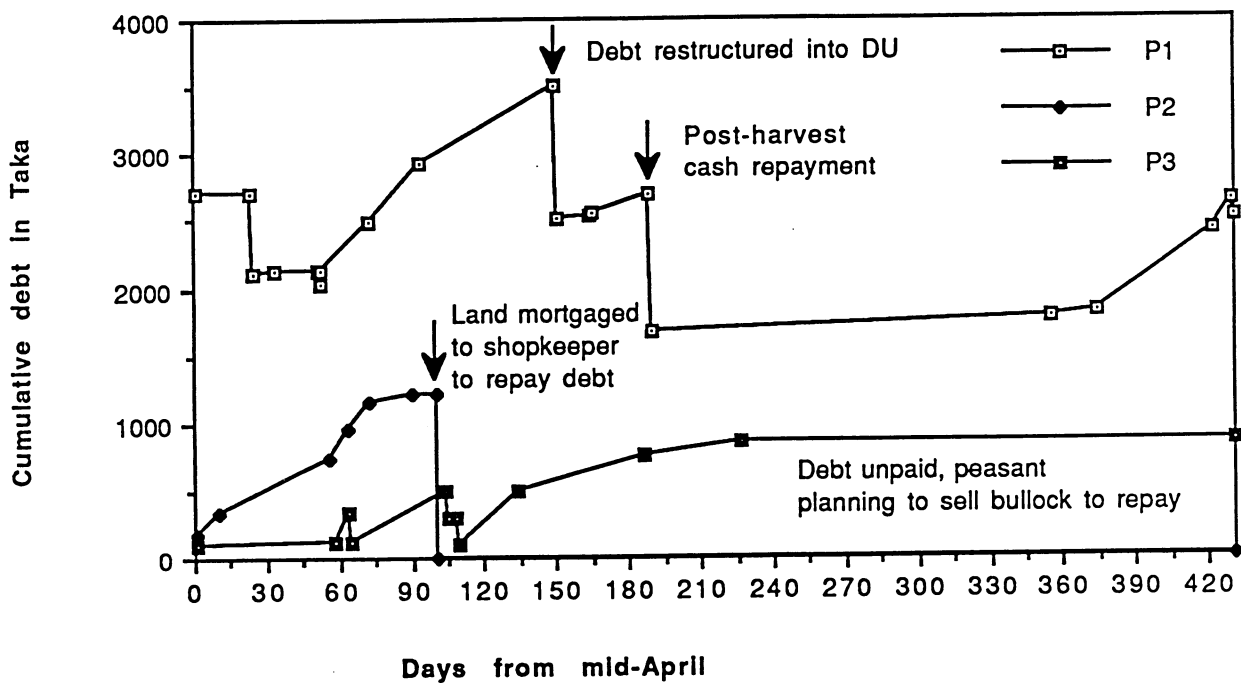


Figure 5 (b): Rice suppliers credit to village grocery shop

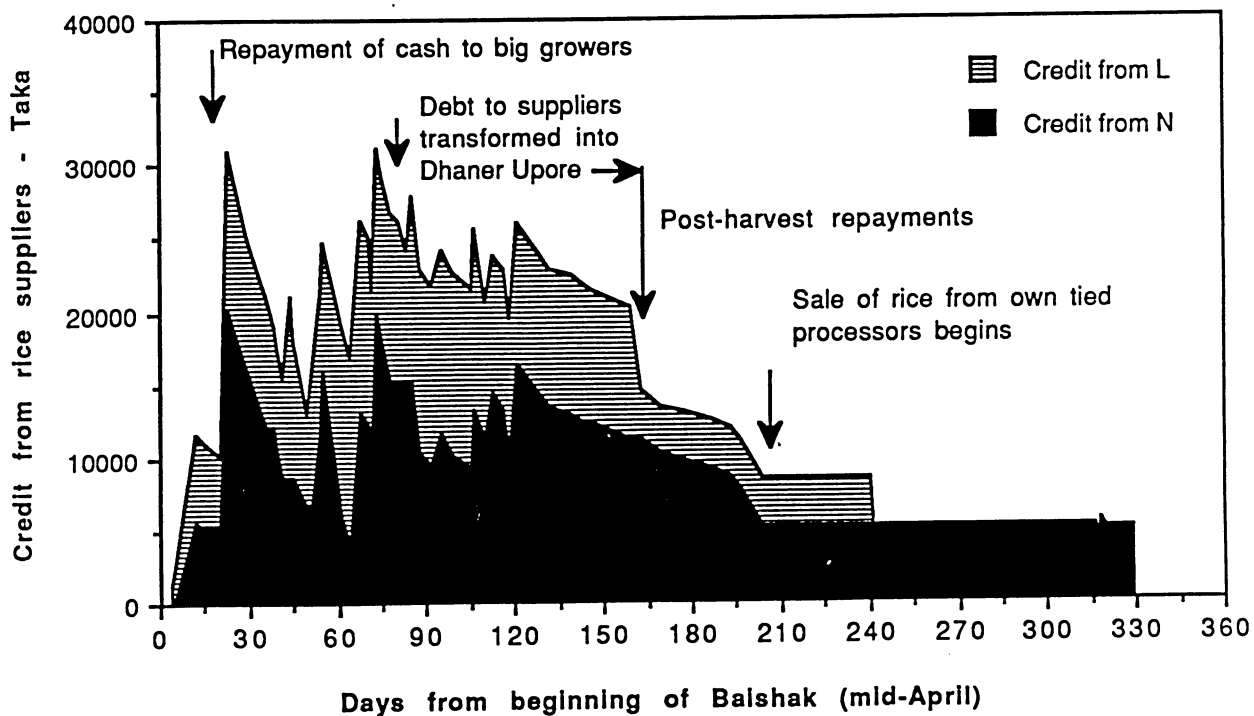


Figure 6: Moneylending merchant seasonal capital utilisation

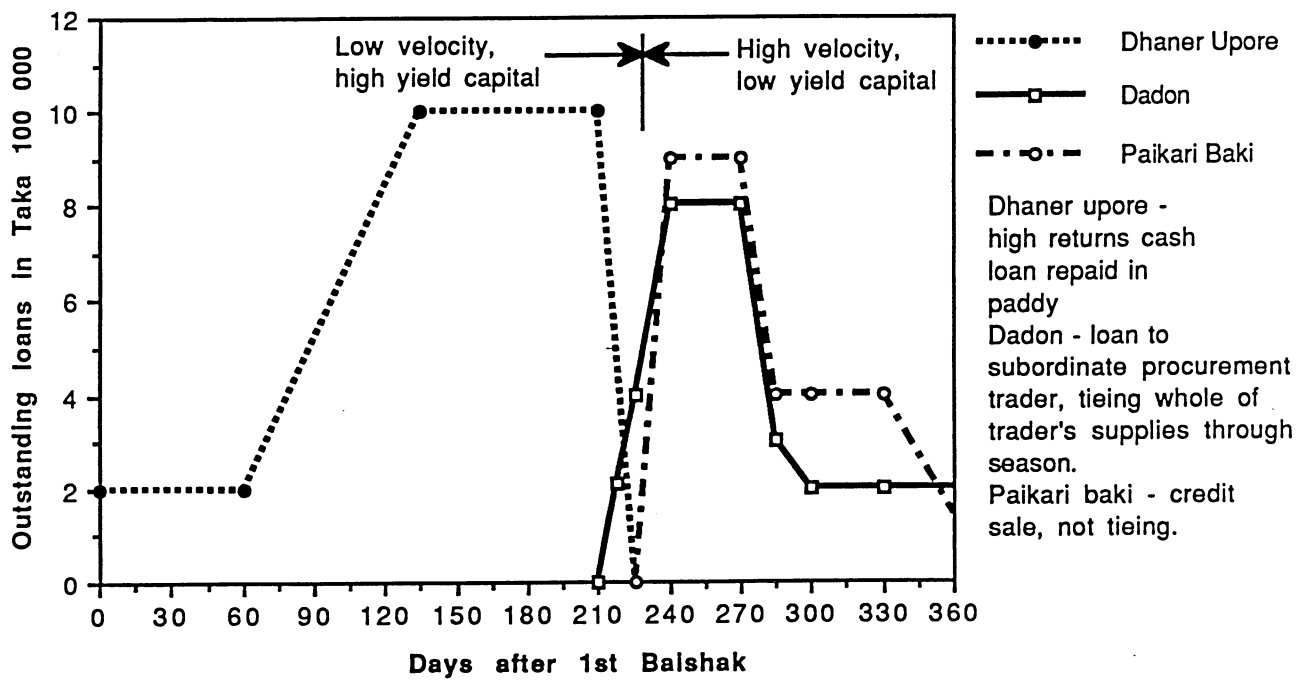


Figure 7: Financial arrangements tying the small processor

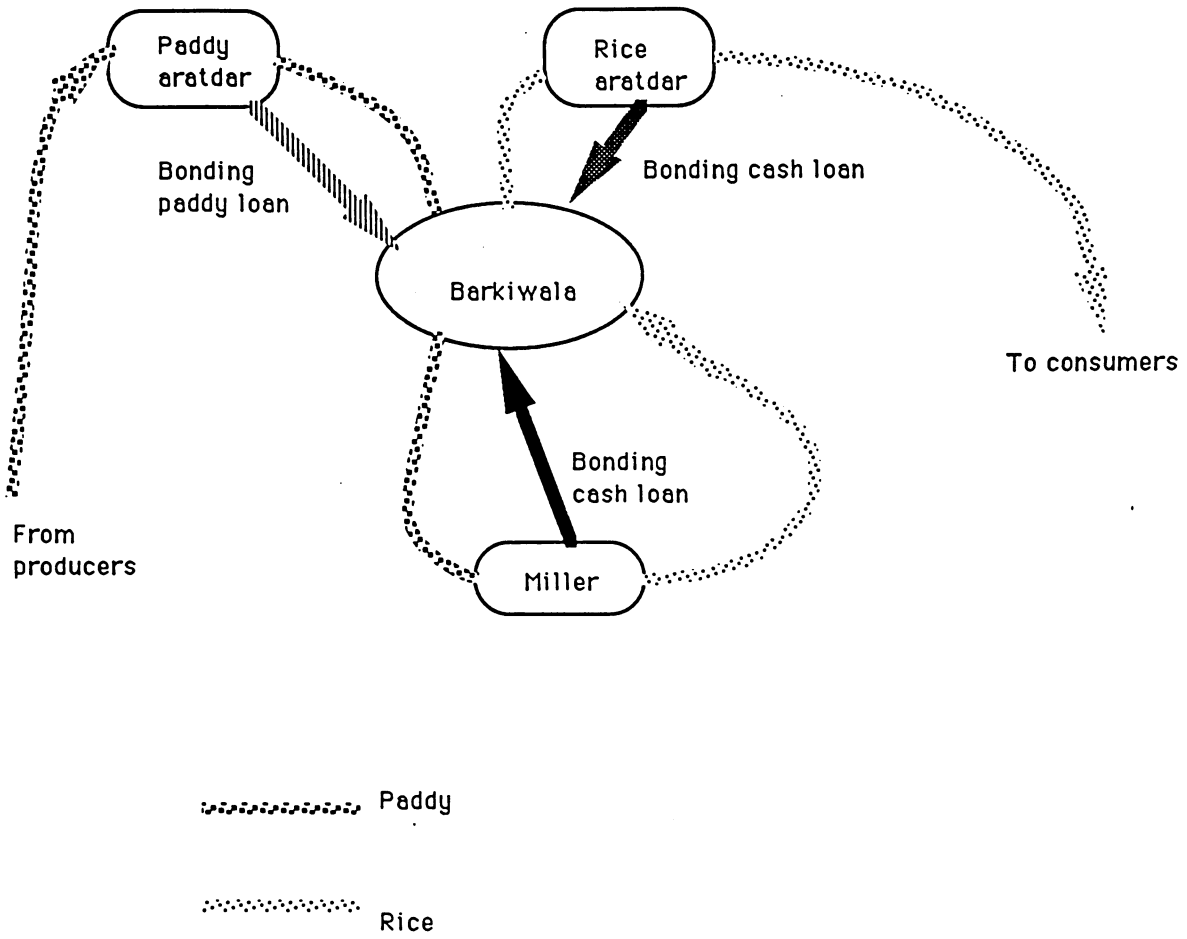


Figure 8: Trade circuits in advanced area

To deficit areas in the South West and Dhaka

To Bogra

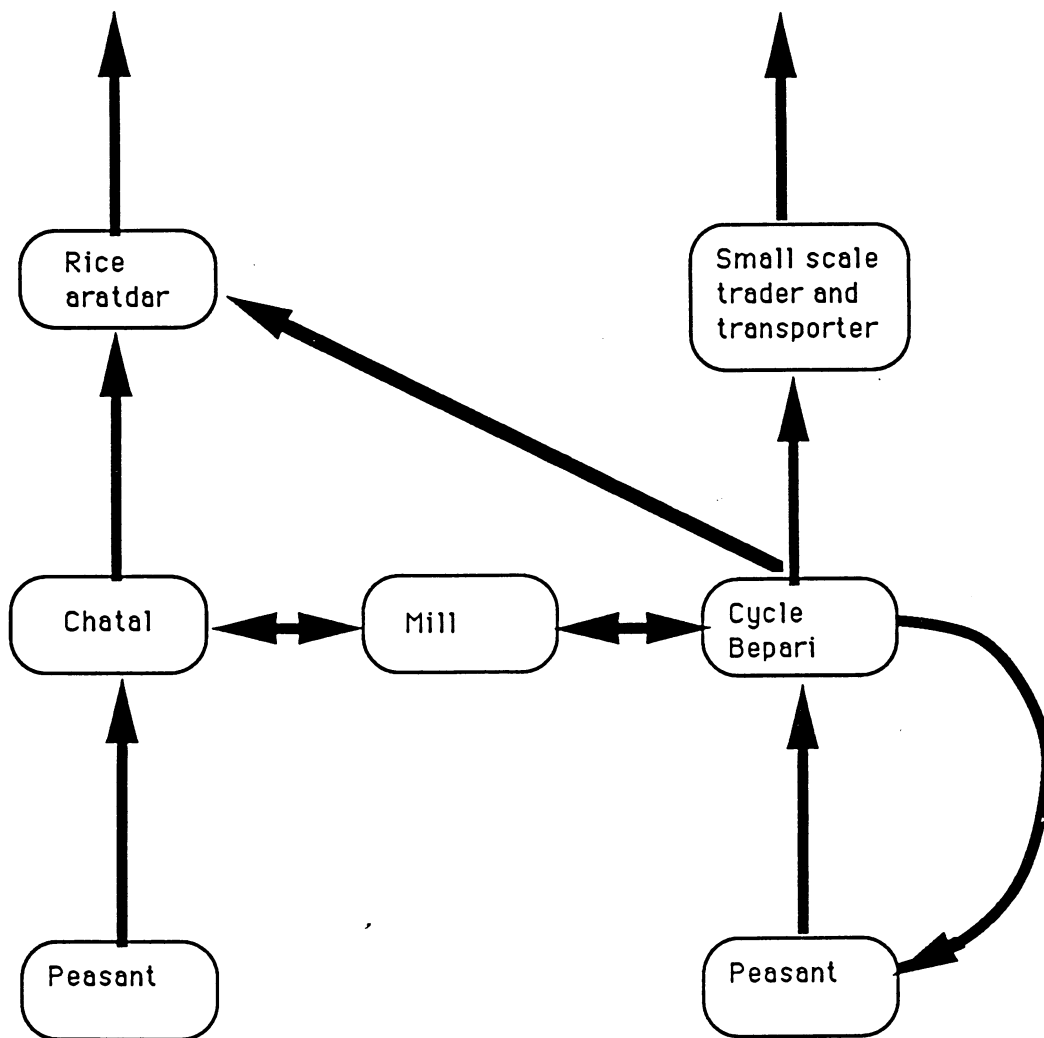
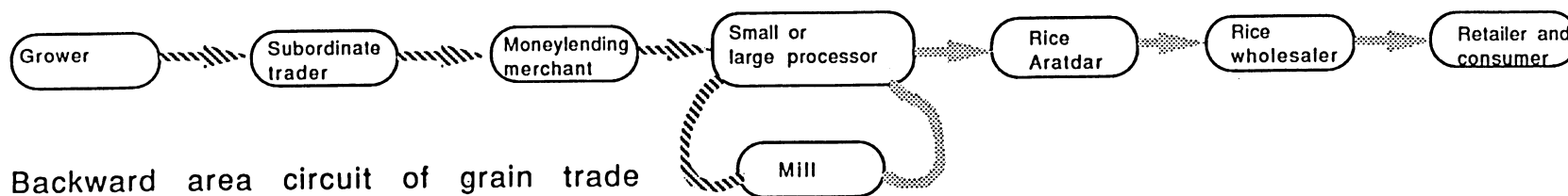
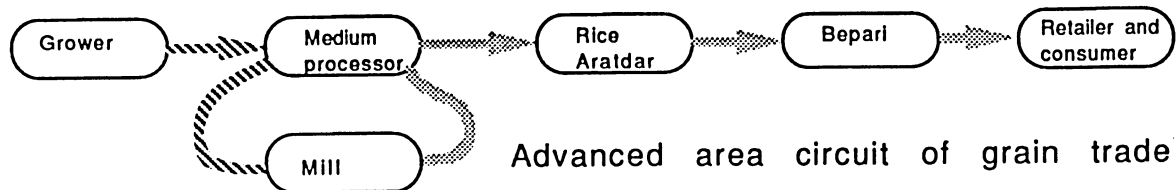


Figure 9: Comparison of circuits of trade in backward and advanced area



////// Paddy
..... Rice

Figure 10: Grain outflow from 2 advanced and 2 backward villages

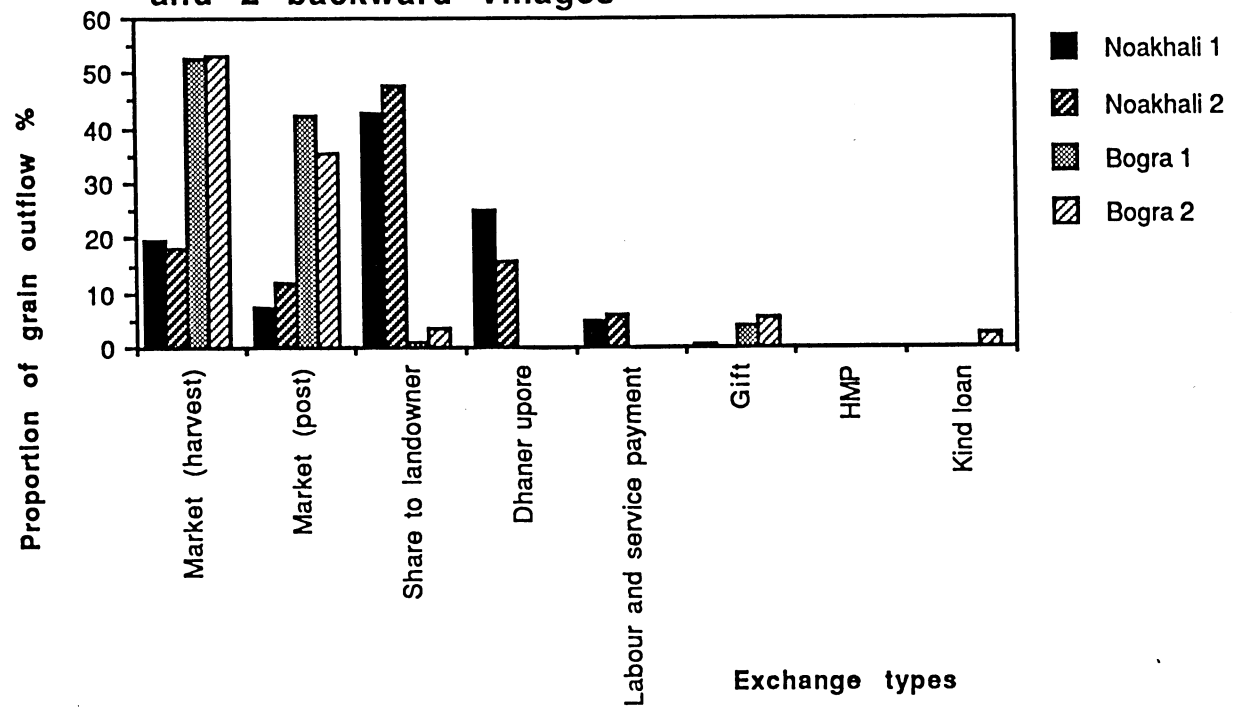


Figure 11: Dadon to long distance beparis from Madanganj Aratdar

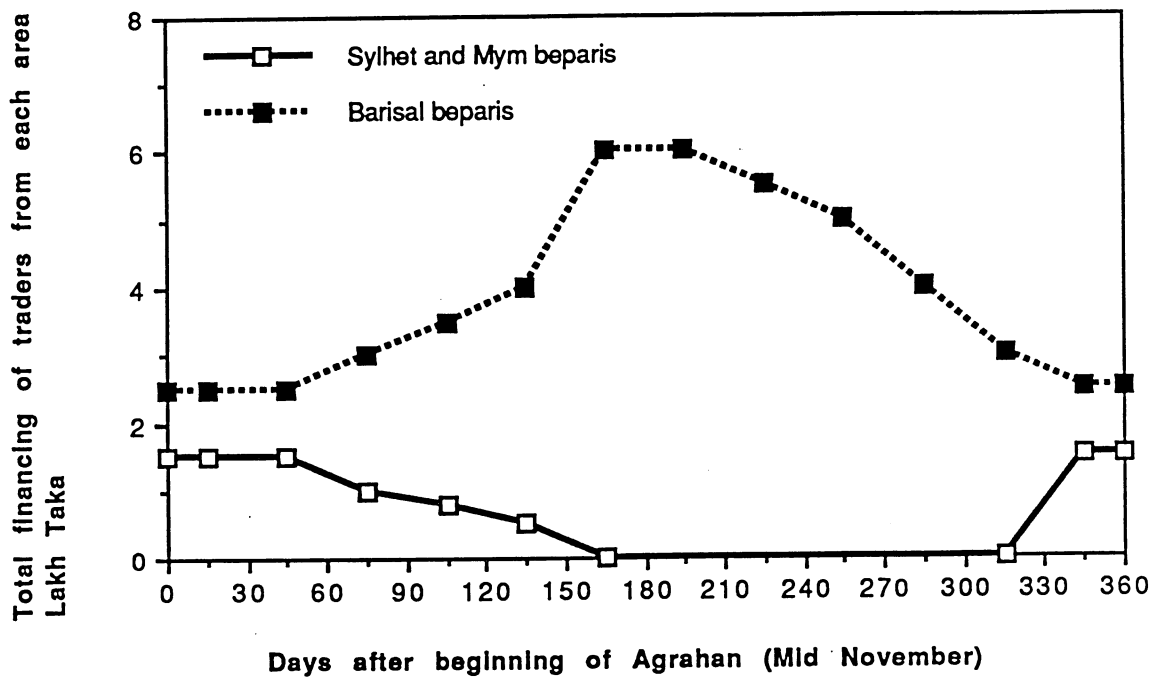
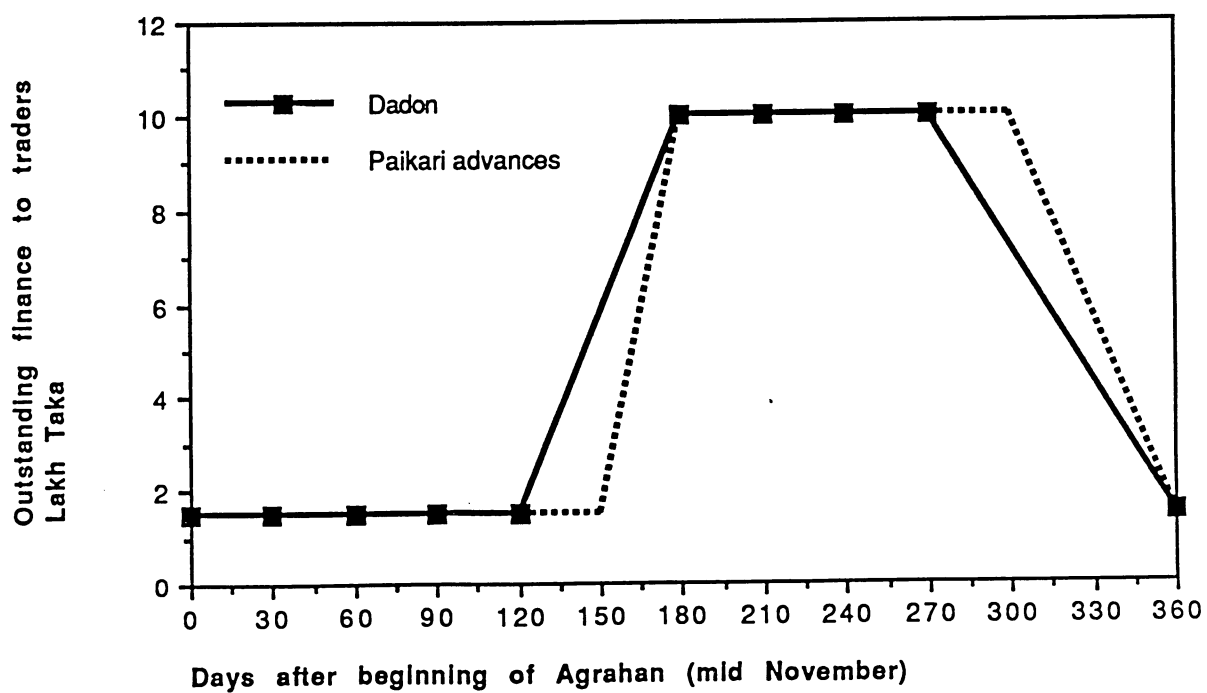


Figure 12: Seasonality of Badamtoli aratdar's financing



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