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MONEY LENDERS IN RURAL ECONOMY OF ODISHA: A REFLECTIVE DISCOURSE

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Abstract: *One of the oldest and important institutions in money lending that has played a crucial role in rural economy of the country and maintained its resilient existence right from the ancient times to the present day is the village moneylender. The perception often built on the institution as 'good or a necessary evil', the image of the moneylender as exploiter or real credit provider, and a balanced judgment on this discourse is to be sought not in the functioning of the institution but in getting rid of the abuses and malpractices in the business of money lending. The paper basically intends to review a few aspects connected with the money lending activities of the moneylender viz., history of the institution, measures to regulate their business and the share of the institution in the credit market in Odisha in post-independence period.*

Key Words: *Moneylender, Money Lending, Credit Market, Odisha.*

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INTRODUCTION

One of the oldest and important institutions in money lending that has played a crucial role in rural economy of the country and maintained its resilient existence right from the ancient times to the present day is the village moneylender. The institution often seen as not conducive to the development of rural economy[1] continues to render substantive function in the rural credit market. The utility of the institution as 'good or a necessary evil', the perceived image of the moneylender as exploiter or real credit provider that characterizes the nature of the class of people in business activities and have found reflection in different periods of history is to be sought not in the functioning of the institution but the abuses and malpractices in the system that attach stigma to the business activities of the money lender.

The paper basically intends to review a few aspects connected with the money lending activities of the moneylender viz., history, law, and share in the credit market in the context of Odisha. The paper is organized into three sections. The first part reviews the role of moneylenders in village economy as an important source of credit in historical context in India. The second part examines the legislative measures enacted to regulate their business activities and to check the usurious interest rates in colonial and post-colonial period. The last part examines the share of various credit agencies in credit market in Odisha in post-independence period and the state of their business in the credit market.

MONEYLENDERS IN RURAL ECONOMY: HISTORICAL PERSPECTIVE

Historical records points to the existence of a class of people carrying out the business of money lending in many ancient civilizations of the world. In the ancient civilization of Rome, the struggle between the Patrician class and the Plebian (debtor) class has been well reflected in historical literature. In fact, in ancient Greek and Roman empires, the class of people and their business was not held in high esteem and owing to their involvement in usury, great thinkers like Aristotle and Cicero too disapproved their activities.

The earliest reference to money lending in Indian context is found in the manusmriti which provides laws and regulations with regard to the practice of money lending. Further, it specifies the varna for which the business of money lending suits and the limit within which usury is to be practised. In fact, literary records show that the moneylenders had a respectable place in Indian society before the establishment of Muslim rule as the profession was basically pursued by Hindu caste of traders and businessmen[2] and as a class it performed its characteristic functional role in society. Another ancient Indian treatise on economy, the 'Arthasashtra' clearly prescribed the rules for both the lender and the borrower in the business of money-lending. However, during the Muslim rule in India the perceived notion and image on the moneylender formed during the earlier period underwent a change and their business and economic condition suffered because of the religious sanction against usury in the Mughal court.

However, the class that existed in India from early times and rendered service by providing credit to cultivators in times of need, with the establishment of colonial rule came to acquire a dominant position in the village economy.[3] The British land revenue policy, the British judicial system and the very character of the organization of the police force in combination facilitated a situation in which the moneylender gained a dominant position in the village. Moreover, the advantage they enjoyed in the business in the absence of alternative agencies, the fraudulent practices and manipulations to which they were quite adept, enabled them to exploit the loan seekers and to trap them into debt. In fact, the method of exploitation and the vicious circle of debt from which the debtors were unable to extricate themselves have been well reflected in many official reports of the colonial period. The most notable examples in this regard are the Central Banking Enquiry Committee Report, 1929 and the Madras Provincial Banking Enquiry Committee Report, 1930.

In Odisha, the village moneylenders generally included the village *sahukars*, *mahajan*s, and *sarbarakar*s, and they mainly provided to the agriculturists two kinds of loans viz., cash loan and grain loan. Apart from indigenous money lenders, some alien creditor groups such as Kabulis, Karwaris, Gossains and Punjabis were involved in the business of money lending in Odisha during the colonial period. Their share in the credit market was extremely meager but they were notable for lending money to the cultivators in the off season and realizing it after the harvest.[4] In subsistence type of farming, the one followed largely in Odisha, the agriculturists' usually borrow money in times of scarcity. However, the burden of ancestral debt, litigation and cattle mortality often induce the agriculturists to incur loans from the moneylenders. In addition to these, frequent crop failures on account of flood or drought, expenses in social ceremonies are other factors which force the poor agriculturists to fall into the clutches of the moneylenders. Besides these general factors, the land revenue system followed by the British in the earlier stages of their rule had contributed to the impoverishment and consequent indebtedness of the Indian agriculturists. It may be pointed out here that the British devised a fixed revenue assessment for a thirty years period which was convenient for revenue collectors of the alien government but it played havoc for the cultivators especially in the years of bad harvest and in turn forced them to borrow from the moneylenders.[5]

Giving the picture of the extent of rural indebtedness in Odisha, S. L. Maddox in the Final Report on the Survey and Settlement of the Province of Orissa 1890-1900, stated that 80 per cent of the rural population in Odisha were more or less permanently indebted to the *mahajans* and zamindars.[6] Further, Maddox observed that due to excessive indebtedness the agriculturists were under compulsion to sell their landed properties to the zamindars. As a result, a large part of their land and asset had been passed into the hands of the non-cultivating moneylenders. The moneylenders too charged high rate of interests and though the rate of interest varied from province to province it ranged from a minimum of 12 per cent to a maximum of 200 or 300 per cent in certain cases. Besides extracting usurious rates of interest, they often resorted to deceitful means such as taking signature from the agriculturists in a bond paper for a sum greater than what was actually advanced to them.[7] In fact, the exploitation of peasantry by the moneylender, adoption of fraudulent practices and the confiscation of the property of the debtor consequently added to the burden of indebtedness of the peasantry.

LEGISLATIVE MEASURES TO CHECK USURIOUS MONEY LENDING

The Usurious Loans Act of 1918 which controlled certain aspects of the transaction of moneylenders had failed to give adequate relief to the debtors. After the formation of the Province of Orissa in 1936, the Congress Ministry under Biswanath Das devised certain measures to give relief to the agriculturist debtors of the province. It amended Section-4 of the Agriculturists' Loans Act, 1884 by Orissa Act VI of 1937. The amendment provided that indebtedness of the agriculturists would be considered as a valid ground for obtaining loans from the government in order to pay off old debts. But the amendment failed to benefit the agriculturists to an appreciable extent as they could not understand the new provisions properly.[8] Of course, during the period certain legislators realized the necessity of controlling the activities of the moneylenders and in 1937, Ramdas Pantulu in the Council of States (New Delhi) urged the necessity of adopting stringent legislation to control and regulate their unfair activities by way of providing provisions in the law to maintain proper accounts and to inspect them periodically.[9]

To regulate the mischievous activities of the moneylenders, the Orissa Moneylenders' Bill, 1938 was introduced in the Odisha Legislative Assembly by the Premier Biswanath Das on 31 August, 1938. The objective of the bill as the Premier pointed out was to provide protection to the debtors particularly the agricultural debtors who were affected by the economic depression in the late 30's. In fact, the main intent of the bill was to ensure that the moneylenders register themselves, maintain proper account and charge only reasonable rate of interest. Besides, the principle of *Damdupat* (interest not exceeding the amount of principal) was to be applicable on all kinds of loans in Odisha. The measure represented the first attempt to regulate the business of the money lenders in the newly created province but it was opposed in the assembly by some members of the Opposition who admitted that the moneylenders were drones and parasites on the society but defended the class and desired its existence as "…a necessary evil".[10] It is pertinent to note that Odisha was not a pioneering state with regard to the adoption of this measure but prior to it legislative measures for regulating and controlling the activities of the money lenders had been enacted in few states viz. Assam and Madhya Pradesh.

The Orissa Money-Lenders' Act 1939 was extended to the 'partially excluded areas' of the state with effect from 6 April, 1940. But certain clauses of the Act that generally provided for the registration of the moneylender, maintenance of loan register and issue of stamped receipt to the debtor for repayment of loan were not made applicable to the areas.[11] Owing to the non-applicability of the aforementioned provisions, the Act virtually remained inoperative in the partially excluded areas. Consequently, the money lending activities by the moneylenders continued unhindered on routine lines without any restraint and this was reportedly one of the prime reasons for land alienation among the tribals.[12] The excluded provisions were, however, made applicable in the 'partially excluded areas' under the Money-Lenders' Regulation, 1951. Certain new provisions were also provided in the Regulation in order to safeguard the interests of the people of the areas.

The Orissa Money-Lenders' Act was amended in certain aspect in 1947. The original Act provided that usufructuary mortgage executed after the enforcement of the Act would be liquidated automatically after a lapse of 15 years. But generally it did not cover the usufructuary mortgages that were executed prior to the enforcement of the law. However, the amended provision provided that any mortgage executed on any day would be liquidated automatically after a lapse of 15 years and a suit could be brought to that effect by the aggrieved party generally the mortgagor.[13]

The All-India Rural Credit Survey Committee appointed by the RBI in its report submitted in 1954 shockingly revealed that a large share of the credit requirement of the rural poor came from the traditional sources such as relatives, landlords, traders, and moneylenders especially the professional moneylenders. The professional moneylenders supplied about 45 per cent and the agriculturist moneylenders nearly 25 per cent of the total amount borrowed by the peasants. An Economic Survey conducted by the Government of Odisha in 1954-55, also revealed that the moneylenders had remained the pivotal source of rural credit in the state. On the basis of the outstanding debts, the survey revealed that 39 per cent of the rural families were in debt and 87. 35 percent of the total debt was obtained from the moneylenders. It brought out the fact that of the total debt, 8.49 per cent carried 50 per cent and above rate of interest and in the state as a whole 53.37 per cent of total debt carried interest of 25 per cent and more.[14] The survey brought out the fact that the money lenders still held sway in the rural credit market and this despite the enactment and enforcement of laws restraining their unlawful activities in several provinces.

However, in post-independence period the government in order to get rid of the menace of this exploitative institution devised a two pronged strategy that included putting restriction on the usurious money lending and boosting the institutional sources of credit in the countryside. The under lying objective was that the institutional sources would replace the moneylenders in the credit market with easy and accessible credit, and consequently this would reduce the dependence of the cultivators on moneylenders and break their monopoly. It is pertinent to note that the Kerala Moneylenders Act, 1958, the Tamilnadu Moneylenders Act, 1958 and Karnataka Moneylenders Act, 1961, and subsequently similar legislations in few other states were enacted to check the malpractice of the moneylenders.

The Orissa (Scheduled Areas) Money-Lenders' Regulation, 1967, meant for the Scheduled Areas of the State came into force with effect from 1 November, 1969. The Regulation contained provisions similar to the Orissa Money-Lenders' Act, 1939. The Orissa Money-Lenders' Act, as amended in 1975 provided that no moneylender could charge interest at a rate exceeding 9 per cent on secured loan and 12 per cent on unsecured loan and in no case the interest on any loan in excess of the principal was to be recovered. Further, all possessory mortgages were to be discharged after the expiry of a period of seven years from the date of mortgage and the moneylender had to return the mortgaged land along with all relevant documents free from all encumbrances within a period of three years from the date of expiry of the period of seven years. These provisions were extended to the Scheduled Areas of the State by the Orissa (Scheduled Areas) Money-Lenders' (Amendment) Regulation, 1976. Besides these provisions, under the amended Regulation a moratorium was imposed for a period of two years on execution of a decree against debtors who possessed less than two and half acres of agricultural land with agriculture as the main source of income, or landless agricultural labourer.[15]

The Government of Odisha has amended the Orissa (Scheduled Areas) Money-Lenders' Regulation, 1967 in 2000 (Regulation I of 2001). Under the amended regulation the Gram Panchayat has been authorized to exercise control over money lending in the Scheduled Areas. It provides that a money lender could advance loan to a Scheduled Tribe only with the approval of the Gram Panchayat and the concurrence of Gram Sasan.

SHARE OF CREDIT AGENCIES: POST-INDEPENDENCE SCENARIO

In post-independence period, the cooperative movement which had its beginning in the province since the opening of the century came to be refurbished and the commercial banks came into the field of financing agricultural credit with the objective of reducing the dependence of the cultivator on the moneylenders. In fact, making a oblique reference as to why the cooperative movement was given impetus, the All-India Rural Credit Survey, 1951-52 observed "… the whole object of attempting to develop and strengthen that (co-operative credit) structure is to provide a positive institutional alternative to the moneylender himself, something which will compete with him, remove him from the forefront and put him in his place".[16] However, the institutions have not been able to make inroads in the credit market, to reach out to the poor and the needy, and thus the age-old institution, the moneylender continues to persist in the country side. In this connection, the NSS data available on various rounds indicate the trend on reliance of the cultivators on various types of credit agency in the state.

Share of Rural household Debt by Source, Odisha, 1961-62 to 2001-02

(Per cent)

Credit Agency	1961-62	1971-72	1981-82	1991-92	2001-02
Government	12.0	8.9	7.7	7.1	1.4
Cooperatives	14.4	20.1	46.7	21.5	29.3
Commercial Banks	-	0.7	27.5	44.2	31.8
Landlords	1.0		0.9	0.3	0.1
Agriculturist moneylenders	22.4		1.2		4.4
Professional moneylenders	37.3		1.2		18.2
Agri & prof. moneylenders		39.1		12.6	
Traders & commission agent	3.8	11.9	3.5	1.6	0.1
Relatives	2.8	13.0	2.0	3.6	2.4
Others	6.5	6.3	4.6	9.1	0.7

Source: All India Debt and Investment Survey, 1961-62, 1971-72, 1981-82, 1991-92 & 2001-02.

However, the most visible change in the credit market scenario in the state has been the decline of the non-institutional agencies in the decades after independence. Noticeable reduction in the hold of the money lenders both agriculturist and professional has taken place in the state though the data for 2001-02 clearly illustrate their resurgence presence in the credit market in the state. No doubt, the institutional sources have increasingly made their presence felt in the credit market in the state as well as in the country after independence but this have not driven out the money lender completely from the field of competition. A study conducted by Sarap in six villages in Sambalpur district of Odisha in 1981-82 found that in a good number of cases the borrowers borrowed money for medical purposes and meeting expenses relating to social ceremonies.[17]This partly explains the reason for the presence of the moneylenders in village economy as the borrowers requires credit for meeting urgent and unpredictable needs, which is generally provided by the money lenders and not by the formal sources of credit.

CONCLUSION

Thus in the decades following independence, the government policy was marked by substantive effort at building of and entrenching the formal sources of credit in credit market in the countryside especially with the objective of freeing the cultivator from the exploitative grip of the moneylenders. The result achieved in this context has been noticeable with cooperatives and commercial banks along with Regional Rural Banks making their phenomenal presence in the credit sector and the displacement of moneylenders to the level of playing second fiddle to in the rural credit market. Nevertheless, the money lending laws have remained innocuous in nature and substantiating to this, the Technical Group to Review Legislation on Money lending, RBI, 2007 has observed "in spite of there being a legislation, a large number of moneylenders continue to operate without license, and even the registered moneylenders charge interest rates much higher than permitted by the legislation apart from not complying with other provisions of legislation. Signs of effective enforcement are absent".[18]

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