

# Livestock and Land Share Contracts in a Hindu Society

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## Summary

For farm households in rural Nepal, livestock is an important asset as it provides multiple services and commodities and acts as a major source of income. In fact, land and livestock are complementary inputs in the farming system. While livestock sales markets work better than land sales markets, land rental markets are more common and work better than livestock rental markets that do not even exist in most cases. The major reasons behind this are the moral hazard problem and fragility of animals, and the short season for the demand for plowing services of such livestock in rain-fed agriculture. Nevertheless, livestock renting through livestock share contracts was common in our study area in Nepal. Therefore, we try to explain the logic behind this institutional anomaly.

The question is why households choose to participate in livestock share contracts and how this relates to inequalities in asset distribution and the

functioning of other input and output markets. We also relate livestock renting to the discriminatory caste system, which is of primary importance for asset distribution and market access in Nepal. This is relevant because traditionally, low-caste households provided all sorts of manual labor required for farming, including caring for livestock and plowing. Furthermore, low-caste households tend to have little education and poor access to non-agricultural employment; simultaneously they are asset-poor with no or very little land and livestock endowments.



Figure 1. Oxen are important for land management in Nepal.

The major findings of the empirical analyses are the followings: i) land- and livestock-rich high-caste households are more likely to rent out land and/or livestock, while land- and livestock-poor and credit constrained low-caste

households are more likely to rent livestock and land from others. The livestock and land rental markets serve as a means to overcome the capital and credit constraints of poor low-caste tenant households who also face entry barriers in the labor market, ii) there is a strong positive correlation for participation on the same side of these two markets, indicating a synergistic relationship. Of the sample tenant households that rented livestock from others, 60 percent have also rented land. Under such a contract, the landlord can monitor the use of livestock as well as the use of land in the same visit. In many cases, not only landlords but also their close relatives can engage in these monitoring activities. This reduces the transaction costs of landlords who face moral hazard problems, and search, monitoring, and enforcement costs when renting out their resources. This may explain the otherwise rare institutional phenomenon that livestock renting is.

Low-caste households were also having higher land productivity than high-caste households. Therefore, policies that can enhance the allocative efficiency of livestock and land rental markets can improve equity as well as efficiency of land use in Nepal. Land-to-the-tiller policies in Nepal have created tenure insecurity on behalf of the landlords and they have responded by only giving very short-term land rental contracts to tenants. Efficient land use is dependent on access to livestock for plowing and poor low-caste households face access constraints in credit- and land rental markets. Provision of livestock credit to land-poor low-caste households is also crucially dependent on their access to more long term contracts for land. The land-to-the-tiller policies should therefore be replaced with policies

such as a system with land banks that provide low-caste households loans for purchase of land and oxen.

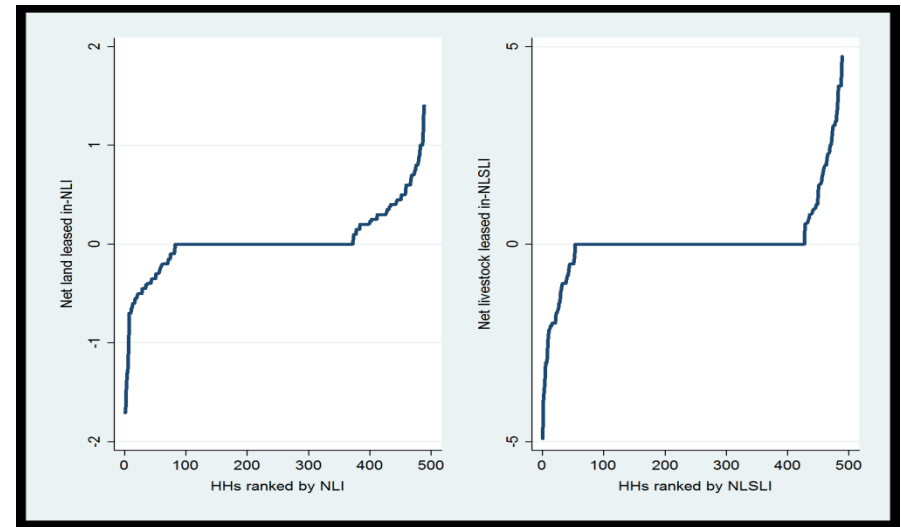


Figure 2. Share of households renting out and renting in land and livestock, ranked by amounts of land and livestock rented out/in.