

CHAPTER VI

ROLE OF INFORMAL FINANCE WITH SPECIAL REFERENCE TO MONEY LENDERS

6.1 The Importance of Informal Lenders (Money lenders)

The business of money lending to the farmers by individuals has sometimes been accused of charging usurious rate of interest on the credit given to the farmers. However, sometimes money lenders' activities has been regarded as activities conducive to the development process of rural areas. Whatever be the actual role of the moneylenders in the sphere of socio-economic advancement of rural India, it can not simply be inferred that moneylenders have always played a negative role in development process.

The negative image of moneylenders has developed over the ages in different cultural contexts under the influence of social, economic and political factors. Moneylenders in India have both negative and positive image which has been simply accepted in the development field. Here we make an attempt only to take a quick look at the socio-economic construction of the moneylenders in India from a historical perspective in order to trace out the positive image and its survival upto the present rural credit market with due importance.

In Europe and West Asia, the money lender was regarded as abominable by Christian and Muslim societies which had support of religious sanction on usury. Though Mughal ruler Akbar did not have an unfavourable disposition towards moneylending. Religion was, thus, very important in making the negative image of moneylenders. Bouman (1990) entwined Hinduism with other major religions, i.e. Christianity, Muslim and Buddhism in the religiously

'stigmatising of moneylenders' in the case of India during the Hindu rule (Pre-Islam period i.e. pre-12th century, AD), moneylenders were accorded due respect as a part of the Hindu caste of traders/businessmen, and as a class carrying out its assigned social role.

Traditionally the moneylenders had an important position in the village economic and social structure. As Seth (EPW, April 26, 2003, page 1714) points out : "The moneylenders occupied an important 'niche' in the structure of ancient Indian society. He was rather an indispensable constituent in the social set-up, in as much as it had been laid down in Niti 'Laws' that a person, ought not to take his residence at a place where the 'five essentials' i.e. raja, 'king', dhanika, 'moneylenders', shrotiya, 'scholar of Vedas', vaidya, 'physicians' and nadi 'river' did not exist. The place of moneylenders was thus next only to that of the king by no means an unenviable position".

Gandhi's assessment of the moneylenders was also positive. As Catanach (1970 : 129) notes, by 1917 Gandhi had gained practical experience of conditions in rural areas and his experience in Champaran had made him question the 'accepted opinion' of the moneylenders.

'I have found him to be not always relentless not exacting of the last pie. He sometimes serves his client in many ways or even comes to the rescue in the hour of their distress. My observation is so limited that I dare not draw any conclusions from it, but I respectfully enquire whether it is not possible to make a serious effort to draw out the good in the *mahajan* (moneylenders) and help him or induce him to throw out the evil in him. May not he be induced to join the army of co-operation or has experience proved that he is past praying for ? (Catanach Ibid). This questioning of the 'accepted opinion' by Gandhi subsequently became a part of Gandhian thought wherein this culturally bound traditional institution was regarded as a necessity for the rural economy.

The moneylender was not universally perceived as negative and the positive image that existed under the surface, was never reflected in policy while most administrators and economists in British India held negative attitudes towards moneylenders. There is also some record of dissenting attitudes, one observer precedes the current thought of the Ohio school in his assessment that the moneylender carries out an important economic function and moreover, can not be considered usurious – the high rate of interest understandable because of his high risks.

The simple village economy is entirely based upon the dealings of the village *mahajan* (moneylenders), whom it is sometimes the fashion to decry as a usurer but also who is often the only thrifty person among an improvident population. If his rate of interest is high, it is only proportionate to the risks of his business (Hunter 1871 Quoted in Krishetha, 174-75).

Even Sir Darling admits that financing the village marketing, its produce and supplying its necessities, the moneylender in India frequently stood between the cultivator and death; and, as Sir William Hunter remarks, he represents the one thrifty person among an improvident population”, without whose help the cultivator would have had nothing to depend upon but the harvest of a simple year”. Whenever, therefore, we are tempted to revile him, we should remember that by his assistance to agriculture for 2500 years he has made life possible for millions who must otherwise have perished or never been born (Darling 1938 ; 200).

So, for centuries there is a great controversy over the image of moneylender in the socio-economic development process. But there is no consensus that moneylender is completely a parasite in the rural economy. It is true that during the post-Independence period the Government has adopted so many policies to institutionalize the rural credit market to liberate the rural poor,

particularly, the poor farming population from the exploitative clutches of moneylender. The moneylenders' share of contribution to the total rural credit market is still remarkable.

The establishment of various institutional credit agencies has, to some extent, curbed the dominance of moneylender in rural credit market. Though the influence of moneylender is declining, yet they are dominant and important in the development process of rural India and their role in rural economy, particularly, agriculture economy, can not be negated.

6.2 Causes of Presence of Informal Lenders

Since pre-nationalization period government has made efforts to drive out the informal moneylenders from rural credit market, but still today the existence of informal moneylenders in our rural credit market is very much felt and their role appears to be very important from the point of view of supply of rural credit. The conventional notion about rural credit market has drastically been changed, now it is widely accepted that "credit transacted outside the banking circuit is quantitatively huge and qualitatively critical, especially in developing countries." (Floro and Potopoulos, 199; XV).

A lot of reasons may be attributed to the existence of informal lending in our agricultural credit market. Some prominent ones are furnished below.

- 1) The systems and procedures of institutional credit are very rigid and complicated. Since a large portion of our farmers are still poor and illiterate, they dare not approach for institutional lenders.
- 2) The lending formalities of institutional credit are time consuming. As a result, it increases the transaction cost of the rural borrowers, viz. cost of repeated visits to the branch of bank, cost of obtaining quotation for loan, cost of getting land ownership certificates from the competent authority and so on.

- 3) It is a fact that 70.82 percent of the farming population of the district of Uttar Dinajpur belongs to marginal and small category of farmers. They do not have sufficient marketable collateral for obtaining formal loan as additional security. In such cases the bankers have negative attitude towards lending to the poor farmers. They think that lending to agriculture is not profitable, rather it is a very risky venture. It is noteworthy that though the attention of collateral upto an amount of Rs. 50,000 has been exempted, the bankers do not want to deliver credit without collateral.
- 4) Since most of the staff of institutional credit houses do not reside at the place where the branch is located, no personalistic relations between the borrower-farmers and the formal lenders is built up. But moneylenders live in the village of borrower-farmers and have a personalistic relations with borrower-farmers and in some cases it is seen that the informal moneylenders have been in close touch with the farmers over generations. For the personalistic relation over generations the borrower-farmers can not think but to approach for credit to the informal lenders.
- 5) As approaching for loan to the moneylenders requires no formal procedures, the borrower-farmers have easy accessibility to moneylenders.
- 6) Informal lending is still influential in rural credit market as it delivers credit for both productive and non-productive purposes. No loan for non-productive purpose is delivered by the formal sector.
- 7) A farmer, whose agricultural expenses are not covered by the formal sources due to the rationing of credit and strict requirements of collateral against credit, can easily borrow from informal sources.

Here, he is not asked any question regarding the purpose of loan. Besides, he is not required to pledge any marketable collateral like land. The only thing he has to do in this regard is to pledge his crop. Such type of informal sources interlocks credit with output, and the borrower is benefited in two ways:

- a) He gets ready market for his crop and
 - b) He requires no place for storage or buyer to find out.
- 8) Timely delivery of credit is not always available in formal sector. Sometimes it is so delayed that the purpose for which loan is sought becomes fruitless when the loan is due to be disbursed.
- 9) Every branch of commercial banks in the district of Uttar dinajpur has to work with a geographical area of 3140 sq.km. and a population of 49832 people as per the census in 2001. Under such circumstances, it stands quite impossible to a branch to search the persons who are in search of credit. Most of the branches of commercial banks in rural areas are two-staff branch. But as the moneylenders confine their lending activities to a limited number of people, they can get the information who are in need of credit. Whenever they get the information, they rush to the door of the needy farmers and give credit instantly. Such type of work banks can not do. Banks have to maintain heap of papers before issuing any loan. Naturally banks trail behind the moneylenders.

- 10) The rigidity of the repayment schedule of loan of formal sector sometimes discourages the farming people to obtain loan from the formal sector.
- 11) In many cases the so-called prominent persons of the locality discourages or insist on the borrower-farmers not to obtain loan from institutional sources. Such type of persons are the agents of the moneylenders. So, according to Lipton (1976), “urban interests conspire against the rural poor and deny them access to significant amounts of formal credit.”
- 12) Our investigation revealed that the price of land is not valued as per present market price by formal sector. So, it is undervalued. Only Rs. 10,000 is given as loan for crop per acre of land. It is too meagre for the farmers. But informal lenders give much more amount per acre of land. This is why, informal lenders are preferred by the borrower-farmers.

6.3 Nature of Informal Finance

In respect of our discussion about the nature of informal credit in rural areas under our study we should specifically find out who the informal lenders are and who borrow from what type of informal lenders. The nature of informal lenders need to be clearly mentioned. Informal credit in rural credit market still has a strong base as per our observation while conducting survey in the study area. In our study it is found that still 31 percent of the total loan cases come from informal sources of credit.

The players in the informal credit market in the rural area of our study are many. They are the village moneylenders, traders, input-sellers, friends, relatives and neighbours, and big cultivators.

Village Moneylenders : Village moneylenders lend money to the farmers at high rate of interest and their primary source of income is lending. Generally moneylenders' loan is repaid in cash. As per our survey (Table 6.1) 10.72 percent of players in the informal credit market belong to the cases of village money lenders.

Traders : They meet the financial requirements of the farmers for productive purposes much before the crops mature. They generally force the farmers to sell their product to them and they also charge high rate of interest.

Input-sellers: 38.39 percent Input-sellers supply credit to the farmers in kind, particularly in the form of seeds, fertilizers, pesticides etc. The borrower-farmers repay their credit either in cash or in kind.

Big cultivators : They give loan to the marginal and small farmers mainly. Generally they interlink their credit with labour services. The big cultivators give credit to the marginal and small farmers who have greater number of family members. They advance credit to such group of farmers from whom they are assured of the supply of labour during the busy agricultural seasons. They also charge interest on credit. Primarily they are interested in farming but they carry on moneylending as a side business.

Friends, Relatives and Neighbours: Farmers generally borrow from their friends, relatives and neighbours in cash or kind in order to tide over temporary difficulties. Generally they charge low interest or no interest, but such loan is repaid just after the harvest.

Now let us see how the players in the informal rural credit market are playing their role in the village of our survey.

Table 6.1 :Distribution of Informal Credit Cases by Borrower-Lender Types (in %)

Type of Borrowers	Type of Lenders					Total
	Village money lenders	Traders	Input sellers	Friends, relatives & neighbours	Big cultivators	
Marginal farmers	12.50	3.57	12.50	3.57	67.86	100 (56)
Small farmers	7.31	12.19	65.85	4.88	9.77	100 (41)
Large farmers	13.39	20.00	60.00	6.67	0.00	100 (15)
All	10.72	8.93	38.39	4.46	37.50	100(112)

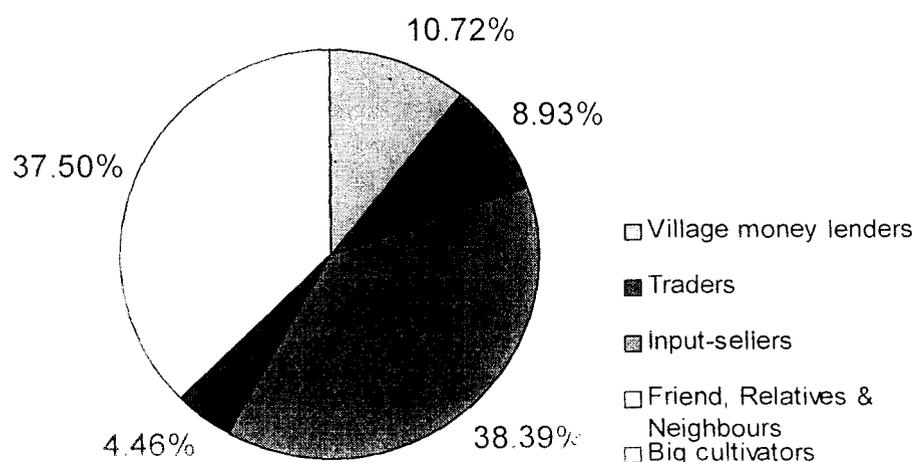
Source : Field Survey

Note : Figures in the parentheses indicate total informal loan cases.

It is evident from Table 6.1 that input-sellers as informal lenders assume the first position in terms of lending in the villages of our survey. Out of 112 borrower-farmers 43 borrower-farmers take loan from input-sellers. So, they supply 38.39 percent of the total borrower-farmers of the surveyed villages of our study. Next to input-sellers it is big cultivators who supply credit to 42 borrower-farmers which is 37.5 percent of the total borrower-farmers of the surveyed villages. Village money lenders supply credit to 12 borrower-farmers. They provide credit to 10.72 percent of the total loanee-farmers of the surveyed villages. Traders also meet the credit need of the farmers. They serve 10 borrower-farmers out of 112 borrower-farmers. It is 8.93 percent of the total loanee-farmers. Friends, relatives and neighbours also meet credit-need of the farmers. They serve only 4.46 percent of the total loanee-farmers of the surveyed villages. So far we have analysed the Table 6.1 according to the role

of different players in the informal rural credit market of the surveyed villages. A pie-chart (chart 6.1) is drawn below to show the share of different informal lenders in the informal rural credit market in the surveyed villages.

Chart 6.1 : Lending Profile in the Survey Area



Now, we would like to proceed to analyse how the borrower-farmers in different surveyed villages are responding to different categories of informal lenders in terms of having credit.

Table 6.2 : Village-wise Break-up of the Households taking Credit from Different Categories of Informal Lenders

Sl.no	Name of Villages	Village Money Lenders	Traders	Input-sellers	Friends, Relatives & Neighbours	Big Cultivators	Total
1.	Bindole	0 (-)	2 (18.18)	5 (45.45)	0 (-)	4 (36.37)	11
2	Gouri	2 (22.23)	0 (-)	4 (44.44)	0 (-)	3 (33.33)	9
3	Anantapur	1 (12.5)	0 (-)	3 (37.5)	0 (-)	4 (50.00)	8
4	Bochadnaga	1 (8.33)	2 (16.67)	2 (16.67)	2 (16.67)	5 (41.66)	12
5	Gobindapur	3 (37.5)	1 (12.5)	2 (25.00)	0 (-)	2 (25.00)	8

6	Kamalagaon-Sujali	1 (12.5)	0 (-)	3 (37.5)	1 (12.5)	3 (37.5)	8
7	Bazargaon	0 (-)	2 (22.23)	4 (44.44)	0 (-)	3 (33.33)	9
8	Gopalganj	0 (-)	1 (14.29)	4 (57.14)	0 (-)	2 (28.57)	7
9	Daspara	0 (-)	0 (-)	3 (42.86)	0 (-)	4 (57.14)	7
10	Laxmipur	2 (20.00)	0 (-)	3 (30.00)	0 (-)	5 (50.00)	10
11	Bhandabari	1 (8.33)	0 (-)	6 (50.00)	1 (8.33)	4 (33.34)	12
12	Jaingaon	1 (9.09)	2 (18.18)	4 (36.37)	1 (9.09)	3 (27.27)	11
	Total	12(10.72)	10(8.93)	43(38.39)	5 (4.46)	42 (37.5)	112

Source : Field Survey

Figures in the parentheses indicate percentage

It can be seen from Table 6.2 that **Bindole** – a village under Raiganj Block which is categorized as developed block in the district of Uttar Dinajpur, has 11 borrower-farmers taking loan from different informal lenders. It is 9.82 percent of the total borrower-farmers. As informal lender input-sellers have the strongest base in this area. They supply credit to the 45.45 percent of the total borrowers-farmers of the village. Next to input-sellers, it is big cultivators who supply 36.37 percent of the total informal credit of the village. Traders as informal lenders are not very significant in the village. They supply on 18.18 percent of the total borrowers farmers of the village. Village money lenders, and friends, relatives and neighbours as informal lenders do not have any existence in the village

Gouri - a village under Raiganj block which has been categorized as developed block in the district of Uttar Dinajpur, has only 9 borrower-farmers taking loan from informal lenders. It is 8.04 percent of the total borrowers farmers. As informal lender, input sellers are most powerful serving 44.44 percent of the total borrower farmers of the village, whereas, big cultivators serve only 33.33 percent of the total borrower farmers despite being a village in

the developed block, there are village money lenders in the village. They supply credit to the 22.23 percent of the total borrower farmers. Traders and friends, relatives and neighbours do not have any existence in the informal lending in this village.

Anantapur - a village under Kalyaganj block which is categorized as developed block in the district of Uttar Dinajpur, has 8 borrower farmers taking loan from informal lenders. It is 7.14 percent of the total informal loan cases. As informal lender, big cultivators have the strongest dominance in informal lending in this village. 50 percent of the total borrower farmers of the village are served by them. Next to big cultivators, it is input sellers who supply 37.50 percent of the total borrower farmers of the village. Village money lenders do not have strong base in the village. They supply only 12.5 percent of the total loan cases of this village. Traders, and friends, relatives and neighbours do not have any existence in informal lending in this village.

Bochadanga is also a village under Kaliyaganj block of the district of Uttar Dinajpur. It has 12 borrower farmers who have taken loan from informal lenders. It is 10.71 percent of the total informal loan cases of the village. As informal lenders big cultivators are most powerful in lending loan to the farmers. They supply 41.66 percent of the total loan cases of the village. It is noteworthy that traders, input sellers and friends, relatives and neighbours have equal dominance in the informal lending market in this village. Village money lenders are not very significant here. They supply only 8.33 percent of the total loan cases of the village.

Govindapur - a village under Islampur block which is categorised as moderately developed block in the district of Uttar Dinajpur, has 8 borrower farmers who have obtained loan from informal lenders. It is 7.14 percent of the total informal loan cases. As informal lender, village money lenders have the strongest dominance in informal lending in this village. They meet 37.5

percent of the total loan cases of the village. Next to them, input sellers and big cultivators have equal dominance in informal lending markets in the village. Each of them dominates 25 percent of the total loan cases of the village. Traders supply only 12.5 percent of the total informal loan cases of the village. But there is no existence of friends, relatives and neighbours as informal lender in this village.

Kamalagaon- Sujali - a village under Islampur block which has been categorized as moderately developed block in the district of Uttar Dinajpur, has also 8 borrower farmers who have taken loan from informal lenders. It is 7.14 percent of the total informal loan cases. As informal lender, input sellers and big cultivators are equally dominant in the informal lending in the village. They supply 37.5 percent of the total loan cases each. Again, village money lenders and friends, relatives and neighbours are also equally strong in lending in the village. They supply 12.5 percent each. But traders as informal lenders in the village are absent.

Bazargaon - a village under Karandighi block which is categorized as moderately developed block in the district of Uttar Dinajpur, has 9 borrower farmers who have obtained loan from informal lenders. It is 8.04 percent of the total informal loan cases of the village. Input sellers are most powerful as informal lenders in this village. They supply 44.44 percent of the total loan cases of the village. Next to input sellers, it is big cultivators who meet 33.33 percent of the total loan cases of the village. Traders are not less significant. They also meet 22.23 percent of the total loan cases of the village. But village money lenders and friends, relatives and neighbours do not exist here.

Gopalganj is also a village under Karandighi block, categorized as moderately developed block in the district of Uttar Dinajpur. Only 7 borrower farmers have taken loan from different informal lenders in this village. 7.25 percent of the total informal loan cases (112 cases) goes to this village. Input

sellers are the most dominant lenders in this village. They meet 57.14 percent of the total loan cases of the village. Next to them, it is big cultivator who meet 28.57 percent of the loan cases of the village. Traders supply only 14.29 percent of the total loan cases of the village, whereas, village money lenders and friends, relatives and neighbours do not have any existence in informal lending in this village.

Daspara - a village under Chopra block which has been categorized as less developed block in the district of Uttar Dinajpur, has 7 borrower farmers who have taken loan from different informal lenders of the village. It is 7.25 percent of the total informal loan cases. 57.14 percent of the total loan cases of the village is met by big cultivators. Next to them, it is input sellers who meet 42.86 percent of the total loan cases of the village. Village money lenders, traders and friends, relatives and neighbours as informal lenders do not have any existence in the informal lending market in this village.

Laxmipur - a village under Chopra block categorised as less developed block in the district of Uttar Dinajpur, has 10 borrower farmers who have taken loan from different informal lenders. It is 8.93 percent of the total loan cases of the village. Big cultivators as informal lenders meet 50 percent of the total loan cases of this village. Next to them, it is input sellers who supply 42.86 percent of the total loan cases of the village. Village money lenders are here. They supply 20 percent of the total loan cases of the village. But traders and friends, relatives and neighbours do not have any existence in the informal lending market in this village.

Bhandabari - a village under Goalpokar Block I which has been categorized as less developed block in the district, has 12 borrowers farmers, who have taken loan from different informal lenders. It is 10.71 percent of the total loan cases of the village. 50 percent of the total loan cases is satisfied by input sellers. Big cultivators meet 33.34 percent of the total loan cases of the

village. Friends, relatives and neighbours and village money lenders meet the borrowers equally. They supply 8.33 percent credit of the total loan cases of the village each, whereas traders, as informal lenders do not have any existence in this village.

Jaingaon - a village under Goalpokar Block I which has been categorized as less developed block in the district of Uttar Dinajpur, has 11 borrower farmers who have taken loan from different informal lenders of this village. It is 9.82 percent of the total informal loan cases of the 12 surveyed villages in the district. Here also input sellers are the most powerful in terms of informal lending in this village. They meet the credit need of 36.37 percent borrower farmers of this village. Next to input sellers, it is big cultivators who meet credit need of 27.27 percent borrower farmers of this village. Village money lenders and friends, relatives and neighbours have equal share in the informal lending market of this village. They meet 9.09 percent of the total loan cases of this village each. Traders as informal lenders are also present here. They meet 18.18 percent of the total loan cases of this village.

It can be generalized from the above discussion that big cultivators and input sellers are the most dominant factors as informal lenders in the surveyed villages and the dominance of the village money lenders as informal lenders in the surveyed villages of this district is not as significant as big cultivators and input sellers. It may be due to the fact that people engaged in professional money lending as village money lenders are not feeling at home in this profession. Besides, new avenues for earning income are coming up day by day and the people engaged in this profession are feeling better to invest their money therein.

It is understandable from Table 6.1 that big cultivators supply 37.5 percent of the total informal loan. This Table shows that big cultivators supply

67.86 percent of their credit to the marginal farmers. The marginal farmers are generally supposed to have large number of family members, who also work as agricultural labours. The big cultivators give credit to the marginal farmers to ensure the flow of agricultural labour in their agricultural field during the peak agricultural seasons. In most cases, big cultivators interlock their credit with labour service of the marginal borrower-farmers. These borrower-households generally repay their loan by giving labour services to the cultivator-lenders.

The input-sellers have also much dominance in the informal agricultural credit. They are seen to be the most important source of informal farm lending. They provide 38.39 percent of the total informal farm credit and it is the highest among the informal lenders. It is evident from Table 6.1 that the small farmers take 65.85 percent of their informal farm credit from input-sellers and the large farmers also obtain 60 percent of their informal farm credit from the same source. The main advantages of credit from input-sellers is that such credit may be repaid either in cash or kind.

According to the figures presented in Table 6.1, as far as lending is concerned, the moneylenders are now far behind the big cultivators and input-sellers. The moneylenders are supposed to charge exorbitant rate of interest and their credit is to be repaid only in cash. Generally they do not want to have their credit repaid in kind. The moneylenders are found to have advanced only 10.78 percent of the total informal credit while the traders have a share of 8.93 percent of the total informal credit. The friends, relatives and neighbours are not much important in the informal credit market as their share is only 4.46 percent. It appears from Table 6.1 that the big cultivators have a preference to supply fund to the marginal farmers while the input-sellers have a tendency to serve all categories of farmers, but their target is small and large farmers.

As per the specification of the government the farmers in the district of Uttar Dinajpur are categorized into five and they are -

- i) Marginal farmers : Farmers having an amount of land below 1.0 acre (most of the marginal farmers work as agricultural labour).
- ii) Small farmers : Farmers having an amount of land from 1.0 acre and above, but less than 2.0 acres.
- iii) Semi-medium farmers : Farmers having an amount of land of 2.0 acres and above but less than 4.0 acres.
- iv) Medium farmers : Farmers having an amount of land of 4.0 acre but less than 10.0 acres.
- v) Large farmers : Farmers having an amount of land of 10.0 acres & above.

But, for convenience we have categorized them into three :

- i) Marginal farmers : Farmers having an amount of land upto 2.0 acres :
- ii) Small farmers : Farmers having an amount of land upto 5.0 acres;
- iii) Large farmers : Farmers having an amount of land above 5.0 acres.

For the purpose of our discussion on informal lending we have tried to find out the answer to the question whether there is any relationship between the type of informal lenders and the purposes for which loan is taken.

Table 6.3 : Lender Types and Purposes for Informal Loans (percentage of loan cases)

Category of Households	Purpose of Loan	Type of Lenders					Total
		Village Moneylenders	Traders	Input-sellers	Friends, relatives & Neighbours	Big cultivators	
Marginal farmers	Production	20.52	7.69	38.46	7.69	25.64	100(39)
	Generalised consumption	29.41	5.88	-	17.65	47.06	100(17)
Small Farmers	Production	12.50	9.38	59.38	15.63	3.13	100(32)
	Generalised Consumption	55.55	11.11	-	22.23	1.11	100(9)
Large Farmers	Production	9.09	18.18	63.64	9.09	-	100(11)
	Generalised Consumption	25.00	25.00	-	50.00	-	100(4)

Note : i) Figures in the parentheses indicate total amount of loan cases.

- ii) Generalised consumption includes expenditure for consumption, health, social & religious ceremonies and, construction and repairs of houses.

Source : Field Survey

It is evident from Table 6.3 that the village moneylenders provide credit to the farmers both for production and consumption purposes, but they have a tendency of providing more loan for consumption purpose. This Table reveals that all categories of farmers are attended by input-sellers but they provide fund only for production purpose while the big cultivators prefer marginal farmers to provide them consumption loan. They do so for the purpose of getting labour services from the family members of the marginal farmers to their own agricultural field during the busy agricultural seasons. It is could be seen from Table 3 that friends and relatives also provide informal credit to all categories of farmers, but in large number of cases, they supply credit for consumption purpose

In respect of collateral on informal lending we should see what type of collateral is preferred by what type of informal lenders. It is notable that informal lenders take both marketable and non-marketable collateral from the borrower-farmers.

Table 6.4 below shows the performance of types of collateral by different types of informal lenders.

Table 6.4: Type of Lenders and Collateral Preference Irrespective of the Category of Households (Farmers)

Type of Lenders	Total no. of loan cases	Percent of Distribution of collateral based loans according to Collateral				Total
		Land	Silver & Gold	Product	Labour	
Village Moneylenders	12	-	83.33	16.67	-	100
Traders	10	-	30.00	70.00	-	100
Input-sellers	43	11.63	-	88.37	-	100
Friends, Relatives and Neighbours	5	80.00	20.00	-	-	100
Big cultivators	42	19.05	-	-	80.95	100
Total	112	15.18(17)	12.50(14)	41.96(47)	30.36(34)	100

Source : Field Survey

Figures in the parentheses indicate number of loan cases.

According to the nature of collateral this Table reveals that the traders and big cultivators are more interested to accept non-marketable collateral like product and labour while advancing loans to the farmers. It emerges from the Table 6.4 that village moneylenders and friends, relatives & neighbours have a tendency to advance loan to the farmers against deposit of marketable collateral like land and gold. It is experienced while conducting the field survey that in most cases friends, relatives and neighbours do not seek any collateral from the borrower, but if they seek any collateral, land is most preferred by them. In these cases it is observed that the portion of land which is mortgaged as collateral by borrower-farmers is retained by the lender until the repayment of loans is completely made. Under such cases crops of the mortgaged land are taken away by the lenders.

6.4 Impact of Informal Lending on Production, Productivity and Per Capita Income of the Farming Households in the District of Uttar Dinajpur

Now, let us proceed to see how much the informal lending is impacting on production, productivity and per capita income of the farming households in the district of our study.

Table 6.5 : Production of Principal Crops in Uttar Dinajpur

(in '000 tonnes)

Name of Crops	Years					
	1996-97	'97-98	'98-99	'99-00	2000-01	2001-02
Rice						
Aman	318.9	312.67	313.2	237.5	293.1	287.6
Boro	N.A.	171.10	338.5	273.5	290.5	266.5
Wheat	59.00	65.00	60.9	87.5	86.2	81.4
Oil seeds	22.1	16.0	16.9	17.1	27.0	24.0
Jute	478.5	476.6	477.5	530.1	473.7	642.2
Potato	63.11	70.3	98.2	102.2	133.4	116.3

Source :i) Directorate of Agriculture, Government of West Bengal

ii) Bureau of Applied Economics & Statistics, Government of W. Bengal

Table 6.6 :Productivity of Principal Crops in the District of Uttar Dinajpur (in quintal per acre)

Name of crops	Years				
	1971	1981	1991	2001	2005*
Rice					
Aman	8	9	10	10.88	12.00
Boro	N.A.	N.A.	N.A.	25.30	24.00
Wheat	6	8	8	8.12	12.00
Jute	5	7	7	9.70	10.50
Oil seeds (Rapeseed & mustard)	4.5	5	5	7.67	9.0
Potato	N.A.	N.A.	68.9	79.6	84.0

Notes : i) The yield rate of crops in 2005 is collected from field-survey in 2005.

ii) The yield-rates of crops of 1971, 1981 & 1991 are the combined figure from the erstwhile West Dinajpur

Source : a) Field – Survey
 b) Census Reports of 1971, 1981 & 1991 & 2001.
 c) Bureau of Applied Economics & Statistics, Government of W.Bengal.

Table 6.7 : Cost-Benefit Analysis of Principal Agricultural Crops in Uttar Dinajpur in 2005.

Name of Crops	Elements of Cost of Production of Principal Agricultural Crops in rupees													Profit
	Ploughing & dressing	Seeds	Weeding	Watering	Pesticides	Fertilizers	Other incidental Exp.	Thrashing & reaping	Interest		Total cost	Product/acre in quintal	Market Price/ quintal	
									F.C	IFC				
Rice (Aman)	600	30kg x Rs.10=300	600	400	200	120kg x Rs.5 = 600	135	600	94	305	3740	12	12 x Rs.550 = 6600	1960
Rice (Boro)	1200	336	500	3600	100	210kg x Rs.5 = Rs. 1050	60	2250	250	716	9812	24	24 x Rs.500 =Rs.12000	2188
Wheat	1440	60kg x Rs.8/kg = 480	360	270	-	120 kg x Rs.5/kg = 600	50	750	110	360	4310	12	12 x Rs.550/kg = 6600	2290
Jute	1200	3 kg x Rs.60/kg = 180	600	360	100	150xRs.5/kg =750	70	2100	96	400	5760	10.5	10.5xRs.1200/kg =12600	6840
Oilseeds (Rapeseed & mustard)	1440	6 x Rs.25/kg =150	320	300	300	300kg x Rs.5/kg =1500	110	600	130	424	5144	9.0	9 x Rs.1500 =13500	8356
Potato	1200	750kg x Rs.7 = 5250	1000	720	400	1800	588	600	424	1590	13148	7852	84 x 250 =Rs. 21000	7852

Notes : i) FC means 'formal credit' and IFC means informal credit. The interest on formal credit has not been included in total cost one interest on IFC has been included.

ii) 'Other incidental expenses' include transportation cost of crop, rates on land, depreciation on agricultural machines like pump set, spray machine etc.

Source : Field Survey

Notes :

Only 1.55 percent [Sources – i. Irrigation and Waterways Directorate, 2002; ii. Asstt. Engineers, Agri-Mech. & Agri.-Irrigation, 2002 (Raiganj, Uttar Dinajpur)] of the total cropped area is covered by government irrigation facility. Farmers, who take government irrigation facility, have to pay only Rs. 120 per acre of land for boro (HYV) cultivation (Source – Office of the Raiganj Panchayat Sammitti), but farmers, who have to hire pumpset from outside for watering paddy-field, have to pay Rs. 3600 per acre of land. So, if Boro is cultivated through government irrigation facility, the surplus or profit stands at Rs. 5668 [2188 + (3600 – 120)] instead of Rs. 2188 per acre of land.

$$\begin{aligned} \text{Total Cost} &= \text{Rs. } 9812 - (3600 - 120) \\ &= 9812 - 3480 \\ &= \text{Rs. } 3632 \end{aligned}$$

So, the profit in percentage is 89.51

Thus, cultivation is profitable , but it is very risky because of its too much dependence on nature. If nature betrays , crops are hampered and if nature goes well throughout the year, all crops in a year, grow good. The Table 6.6 of cost benefit analysis of principal agricultural crops in the district is based on the assumption that nature is favourable throughout the year.

**Table 6.8 : Area under Principal Crops in Uttar Dinajpur
(in '000 hectares)**

Crops	Years					
	1996-97	1997-98	1998-99	1999-2000	2000-2001	2001-002
Paddy	248.3	252.4	266.5	284.4	286.2	279.6
Wheat	27.0	29.0	30.5	33.8	37.5	40.1
Jute	60.0	61.7	63.4	60.2	61.5	66.8
Oil seeds	38.9	38.9	37.1	39.3	45.4	46.5
Potato	-	4.1	6.0	5.05	6.7	6.3

Source : Bureau of Applied Economics & Statistics, Government of West Bengal

It emerges from Table 6.6 that the principal agricultural crops of the district are paddy, wheat, oilseeds, potato and jute. All categories of farmers grow paddy (both Aman & Boro) as it is staple food for villagers. Besides, the paddy-straw is widely used for cattle food. The Table 6.8 shows that next to paddy, jute is grown because it fetches good amount of profit, nearly 118.78 percent profit is earned from jute as revealed in Table 6.7, due to good amount of surplus farmers have been interested to expand the area to grow jute rapidly. The production of jute in 1996-97 was 478.5 thousand tones and it came to 642.2 thousand tones in 2001-2002 as shown in Table 6.5, i.e. above 34 percent of the production of jute increased in 5(five) years. As per Table 6.5 the production of oilseeds is most profitable, nearly 162.44 percent profit is earned. The farmers have been interested to grow oilseeds for its high profitability. In 1996-97 the production of oil-seeds was 22.1 thousand tones and in 2001-2002 it stood at 24.1 thousand tones. This Table also shows that production in 2001-

2002 fell, to a great extent, as compared to the year 2000-2001. It was because of the fact that there was heavy fog during crop-period in the latter year that hampered the productivity.

In respect of cultivation of potato it can be observed from Table 6.5 that the cultivation of potato has been popular to the farmers and it has been expanding very fast. The production of potato in 1996-97 was 63.11 thousand tones and it stood at 116.3 thousand tones in 2001-2002, i.e., in 5 years the percentage of increase of potato production has been 84.28. In respect of profitability it is not discouraging. It is 57.72 percent as revealed in Table 6.7. The Table 6.5 and 6.7 clearly indicate that the production and the profitability of principal agricultural crops are encouraging. Gradual increase in the production of crops has been possible due to the awareness among the farmers about modern method of cultivation.

Financial sectors, both formal and informal, play a decisive role in the growth of agriculture in a backward region like Uttar Dinajpur. It has already been mentioned earlier that credit is a must for our agricultural advancement as most of our farmers belong to marginal and small category. If fund from outside, whether it is from formal sector or from informal sector, is not provided to the needy farmers, they will not be able to continue their agricultural operations with the adoption of modern agricultural technologies. Table 6.7 shows that in spite of high rate of interest on loan from informal sector, there lies much scope to reap profit from cultivation of crops. It is true that if the loan from formal sector would have been available the farmers could have earned more surplus than what they have earned with loan from informal sector. Since the number of institutional credit houses in the district of Uttar Dinajpur is not satisfactory, a large portion of farmers, particularly marginal and small farmers, have to obtain credit from informal lenders. In respect of productivity of agricultural crops it can be observed from Table 6.5 that the yield rate of

almost all the crops have a tendency to increase except Boro rice which has slightly decreased from 25.3 in 2001 to 24.0 in 2005, i.e. 3.95 percent. The increase in the production and productivity of agricultural crops depends heavily on cash outlays which are provided by both formal and informal lenders. So informal lenders deserve to claim much contribution to the growth of agriculture, in spite of having a lot of allegations against them regarding their exploitative tendency.

In respect of per capita income of the people of Uttar Dinajpur we may proceed with a Table stating the change in the per capita income of the people of the district.

**Table 6.9 : Per Capita Income of the People of Uttar Dinajpur
(at current prices)**

Year	Rs.
1980-81	1090
1981-82	1179
1982-83	1324
1983-84	1598
1984-85	1340
1985-86	1848
1986-87	2011
1987-88	2099
1988-89	2455
2000-2001	11182.86

Note : From 1980-81 to 1988-89 the figures indicate the combined figure of Uttar & Dakshin Dinajpur.

Source : Bureau of Applied Economics & Statistics, Government of West Bengal.

Table 6.10 : Per Capita Income of North Bengal District-wise

Year	Uttar Dinajpur	Dakshin Dinajpur	Malda	Darjeeling	Jalpaiguri	Coochbehar
2001	11182.86	14,579.15	14,777.20	18,529.18	16,749.07	13,855.35

Source : Bureau of Applied Economics & Statistics, Government of West Bengal.

It is evident from Table 6.9 that the per capita income of the people of Uttar Dinajpur has increased to a considerable extent. In 1980-81 it was only Rs. 1090 and it stood at Rs. 11,182.86 in 2000-2001, i.e. during the last 20 years the per capita income of the people of Uttar Dinajpur has increased by 10.26 times. But it is a fact that though the per capita income of the district over last 20 years has gone up with the increase of both production and productivity of agricultural crops, yet it is the lowest in North Bengal as revealed in Table 6.10. The per capita income of the people of Uttar Dinajpur is much lower than those of State and National level which are Rs. 16072 and Rs. 18,225 respectively. (Source : CSO, 2003)

6.5 Exploitative Nature of Moneylenders

The well-known saying in the country – “The Indian farmer is born in debt, lives in debt and dies in debt”, indirectly depicts the exploitative picture of moneylenders as nearly 93 percent of the total rural credit requirements in 1951-52 was from the source of moneylenders, according to the All India Rural Credit Survey (1954).

It is believed in Marxian economics that moneylenders enter into lending transactions interlocked with other factor markets. These interlocked transactions are devices of the dominant party to subjugate the poor and to increase their political and economic power in the village economy. So, they lend money to consolidate their class position in the rural credit market.

Money lenders are associated with so many malpractices which exploit the borrower farmers extremely, some of the malpractices have transpired to us in course of our interview with the borrowers are noted below. :

- i) Moneylenders deliver credit to the needy farmers and obtain bonds or promissory notes or sometimes they get a blank paper signed by the loanee-farmers and enter in the blank paper an amount of loan larger than actually delivered. Not only that they also charge the rate of interest much higher than the rate settled verbally at the time of delivering credit. If the cultivation goes well the loan is repaid though with tremendous miseries, and if crops fails or the loanee-farmers fall in any financial trouble, the loan is not repaid in time. By this time the amount of loan along with interest becomes so huge that the loanee-farmer can not afford to repay. As a result, the farmers have to sell their land to the landlord. Thus, the moneylenders grab the land of the loanee-farmers by ill-tricks.
- ii) The moneylenders give no money receipts to the loanee-farmers on the repayment of loan and often the moneylenders deny the receipt of repayment of loan by the loanee-farmers. Such malpractice keeps the loan amount intact in spite of repayment. Thus, in practice, the loanee-farmer can rarely pay-off his dues. Even after his death the loan-amount is carried forward to his next generation who does not know anything about the burden of loan he has to shoulder. Thus, the popular saying, the Indian farmer is "born in debt lives in debt and dies in debt", has emerged.
- iii) Moneylenders give loan against standing crops. They interlink credit with output. In this way, they exploit the loanee-farmers by two ways :
 - a) Charging exorbitant rate of interest on the amount of loan given to the farmers .

- b) Making profit from the crops of the farmers as the moneylenders, before delivering credit, give condition to the farmers to sell their crop to them (moneylenders) at the price lesser than the prevailing market price.
- iv) Sometimes, moneylenders exploit the loanee-farmers by taking loan with the land of the loanee. Here the moneylenders take possession of the land of the loanee for cultivation, and until the entire amount of loan is paid off by the farmer, the moneylender will continue to cultivate the land of the loanee. So the loanee-farmers' land remains mortgaged to the moneylender, and as a result, the farmer finds no way but to work as agricultural worker or otherwise. In many cases the loanee-farmers can not take back their land by paying-off their dues, and his land is cultivated by the moneylender year after year. He falls in deep poverty which leaves him with little surplus to pay-off his old debts. Ultimately he has to sell the land to the moneylender. In this way, he becomes a landless labour.
- v) Moneylender's credit is available for both productive and unproductive purposes. In many cases it is observed that moneylenders exploit loanee-farmers by delivering them credit on the condition that they have to supply labour during peak agricultural operations at a lower wage rate than what prevails in the labour-market. If any able member of the loanee-farmer's family is found to hesitate to work as labour in the moneylender's land or work elsewhere in spite of the demand by the moneylenders; the moneylender tortures the loanee-farmer both mentally and physically to force him to pay-off his dues even before stipulated time.
- vi) Sometimes, while delivering credit to the farmers, the moneylenders compel the borrower-farmers to buy agricultural inputs from them at a price higher than the market price and give them (borrowers) condition that they will

have to sell their output at a lower price. Thus, the moneylenders, exploit the borrower-farmers both through selling of input and buying of output.

6.6 Remedial Measures

On the basis of our experience of field investigation, we suggest the following remedial measures in order to free the credit-needy farmers from the clutches of informal sector lenders.

- i) The number of institutional credit agencies should be increased to such a level that the institutional credit houses reach to the door-step of every farming household to meet the credit-need.
- ii) The nature of collateral should be diversified. The institutional credit agencies give loan to the borrower-farmers only on the basis of marketable securities, i.e. land, gold, silver etc. But the village-moneylenders deliver credit on the basis of both marketable and non-marketable collateral like crop, labour, utensil, cattle etc. It is a fact that still a large number of farmers in our study area do not have any legal title deed of their own land. In our study area in some cases land is bought and sold on the basis of verbal agreement. They do not care to get their land registered by the competent authority. The farmers possess land orally in terms of actual possession but it is not legally possessed by them. So, they are deprived of getting loan from any institutional credit houses on the basis of the legal possession of land. This is why, the institutional credit houses should deliver credit on the basis of both marketable and non-marketable collaterals against loan like the village moneylenders.
- iii) The amount of loan per acre of land should be increased. As mentioned earlier, only Rs. 10000 is given to the borrower-farmers as loan

per acre of land. It is too meagre an amount. This amount should be increased

- iv) Institutional credit agencies deliver loan only for productive purposes. But the borrower-farmers need loan not only for production of crops, but also for consumption and other non-productive purposes. The non-institutional credit agencies give loan to the borrower-farmers for any purpose they seek. To make control over diversion of fund (taken as loan) the institutional credit agencies should specify the category of credit for both production and non-production purpose with some specific rules regarding the rate of interest, mode of payment etc. In some cases we found that the farmers take loan from moneylenders for an emergent need at a high rate of interest and at last fails to repay the loan along with huge amount of interest and until and unless the whole amount of loan is repaid, the borrower-farmer is debarred from loan from other sources. Thus, the moneylenders bind him in a chain of debt for a long time or till his death.
- v) The area of operation of the branch of a bank should be limited. As per the figure in 2002 every branch of a bank, on an average, has to operate with 49,332 people in the district of Uttar Dinajpur,¹ as compared to 15,000 people at our national level. Practically it is very difficult for the rural branch of a bank to look after the credit need of this huge number of people in a situation when the number of staff per branch in our rural area does not exceed four.
- vi) The moneylender gives credit to them who are in close contact with the moneylender and whom he needs almost everyday for the privilege of being resident of the same village or of an adjacent village. Generally, the staff of the rural branch of a bank does not reside in rural areas, they come from urban area and do not have any

opportunity to meet the villagers beyond their office hours. So, no social relation is built-up between the bankers and the borrower-farmers. Under such circumstances the farmers hesitate to approach for loan to the bank staff. So, the staff of a bank should reside near the branch in the same village so that a scope of building up social contact with the farmers is possible. If it is successfully done, the farmers will not hesitate to approach for loan to the bank in times of need.

- vii) There should be strict follow-up of the existing rules regarding the unauthorized or unlicensed moneylenders operating in the rural credit circuit to curb their dominance in the rural credit market.

6.7 Summary

1. Though the dominance of the moneylenders in the rural credit circuit is declining in the district of Uttar Dinajpur, yet their role in the rural, particularly agricultural economy, can not be neglected.
2. The informal lenders in rural area of the district are seen in different forms. They are village moneylenders, traders, input-sellers, friends, relatives, and big cultivators.
3. Big cultivators act as moneylender particularly to the marginal farmer and the former interlink their credit with the labour services of the latter at peak agricultural season .
4. Input sellers act as moneylender to all categories of farmers. However, input sellers are more interested to give credit for production purposes.
5. Village moneylenders are more interested in providing general consumption loan to the borrowers.

6. In respect of collateral, village moneylender prefers traditional or marketable collateral like gold, silver etc. But traders and input-sellers prefer non-marketable collateral like product/output. Big cultivators prefer labour service as collateral and friends, relatives and neighbours prefer land as collateral (as revealed in Table 6.4).
7. The production of rice in the district (both Aman and Boro) is fluctuating. The production of wheat is more or less increasing. The production of oilseeds and jute is also increasing. The production of potato is increasing.
8. The productivity of principal crops of the district is increasing.
9. The area of the production of principal crops in the district is expanding (Table 6.8).
10. Though the per capital income of the people of Uttar Dinajpur district is increasing, yet it is the lowest amongst the districts in North Bengal (Table nos. 6.9 and 6.10).
11. Money lenders exploit the borrower-farmers by the way of not giving any receipt copy for the repayment of loan. Thus the loan amount is manipulated. Besides, sometimes money lenders take the title-deed to the land as collateral against loan, and as the money lenders do not give any receipt copy of the repayment of loan, the amount of loan does not decrease. Thus, the loan amount goes upto the value of land through accumulated interest and the borrower-farmers have to sell their land to the money lenders.
12. The exploitation of money lenders can be reduced by way of increasing number of institutional credit houses, holding of Awareness Camp, simplifying the loaning procedure, imposing strict follow-up of loan etc.