

CHAPTER – I

Introduction & Thematic Representation

1.01. Introduction:

The banking policy in India had gone through a substantial reorientation after the nationalization of commercial banks in 1969. The policy included the social orientation of banking and the administrative control in respect of stipulation of target, credit guaranty, and facilities for financing the preferred sectors of the economy which is known as priority sectors in which agriculture, small industries, small business and transport operators, retail traders etc were given priority status.

Small borrowers were in priority sector since 1969. There were various schemes of commercial banks and other lending institutions for lending to small borrowers before the reform of banking policy. As the time elapsed the banking sectors started releasing loans to small borrowers in a tight way, almost amounting to neglecting extending loans to small borrowers where risk is a bit high due to lack of knowledge about the borrowers or for other reasons. Though banks started to show reluctance in extending loans to small borrowers but had shown their interest to release large amount to the non-governmental organisations (NGOs) and non banking financial corporations (NBFCs) which play the role of Mahajans of small borrowers to avoid transaction costs. The result of refusal from getting loan from formal institution like commercial banks, small borrowers are more inclined towards the informal money lenders or private money lenders.

Small borrowers can borrow the money required by them from the formal sector such as commercial banks, non banking financial corporations, various licensed money lenders, depending upon their financial stability and the urgency. The procedure of taking loan from these formal institutions is a bit complicated. The application form is not too simple and it becomes tough to fill it if the borrower is not an educated person. The documents that have to be attached with the application forms are high in numbers and the cost of taking loan also becomes high. To avoid all these hassles for getting a loan of a small amount, the borrower avoids taking loan from these commercial banks. They fear to go to non-banking financial institutions for taking loans as without collateral security these institutions do not provide loans and the borrowers may not have the required collateral security. After being refused repeatedly from commercial banks and NBFCs, the small borrowers do not have any other option of taking loan except to knock the door of micro

credit institutions which provide loans to the small borrowers and to the marginal section of the society without taking collateral security while the rate of interest charged by them is very high.

The demand for loan from the formal sector is too high and the demand met by the formal sector is not at par with the application received by them, thus resulting in a unmet demand gap. The informal credit market players take the opportunity and extend loans to the small borrowers at a high rate of interest. The private money lenders, usually, know the persons to whom they have extended the loan. The cost of providing and taking loan, in this case is almost nil but the risk premium is very high. As the rate of interest is comparatively low in case of taking loan from the formal market, the borrower always keep the option open for getting loans from formal institutions and if such situation occurs, borrowers shift his loan from informal sector to formal sector which implies that a process of shifting of preference of loan source operates between the formal credit market and the informal credit market.

This research has focused on study of the activities and needs of small borrowers, credit markets for small borrowers and the process of shifting of preference of source of loan between the formal and informal credit market, within formal credit market (intra) and within informal credit market (intra) in the District of Darjeeling.

1.02. Statement of the Problem:

Credit is a contractual agreement between borrowers and the lenders in which borrowers receive something of value at present and agrees to repay the same value with some increments in the value (interest) at some date in the future. In this study we refer credit as loan of money which borrower takes and repays in future with some amount of interest. In this open market situation, we have a market for every item which may exist in a place or may exist virtually. For purchasing of vegetable, fish etc., we go to the specific market where all these are available at a competitive price and for purchasing a residential flat we contact promoters of flats for the prices separately or we sit before the computer and through internet we try to get the price of flats in the preferred region i.e., we find the competitive price of flat from the open market for flats. For taking credit the similar situation exists, either we go to the credit institutions or the agents from the institution come to us with their variety of products with competitive rate of interest i.e., we take loan from the open credit market. The players of the market are banks, money lending

institutions, money lenders etc. The study, would like to identify the credit providers for the poor and marginalized section of the society who takes small amount of loan/ credit with or without collateral security (Small Borrowers) from the different Institutions such as bank, other money lending institutions, MFIs or from money lenders (Mahajan) and for the various reasons.

The study is based on two sets of players in the credit market, namely, the credit institutions in the district of Darjeeling and secondly the Small borrowers in the same District, representing the supply and demand respectively in the credit market.

In almost all countries as well as in advanced countries, the credit market has played a vital role in sustaining growth. The most important function of the credit market is to bridge the gap between the server and the investor by providing intermediate funds and also to improve the effective allocation of resources. In providing various credit service and products, banks, the key player of credit market, play an important role. A predominant role has been played by Indian credit market from its inception in meeting the financing needs of various economic segments. Credit Institutions range from well developed and large sized banks to Development Finance Institution (DFIs) to localized Cooperatives. They provide variety of credit facilities such as short term working loans to corporate, medium and long term loans for financing large infrastructure projects and retail loans for various purpose. The credit market that differs significantly from other financial markets has been serving maximum number of the population throughout the country. There was tight regulation in Indian credit market prior to financial reforms in 1990. Monetary policy under Credit Planning approach adopted in 1967-68 focussed mainly on Bank credit. The credit market was characterized by credit control and direct lending. The sectoral limit on lending, limit on borrowings by individuals, stipulation of margin requirement, need for prior approval of Reserve Bank of India if borrowing exceeds a specific limit, come under the credit control and selective credit control was for selective commodities. Lending rates were governed for all institutions that dealt with credit. Due to limited competition in the credit market there were several inefficiencies. The regulatory reforms that were introduced in 1990 did the necessary structural transformations of credit market which ultimately led to the development of a highly competitive market.

To improve the efficiency of the credit market, regulatory reforms were introduced in 1990 and through which the credit market of India underwent a structural

transformation and the credit market became highly competitive. Credit Institutions, now can offer a wide range of products and can price their products freely depending upon their risk perception.

Sudarshan Lal (1976) pointed out various types of small borrowers such as:

1. Artisan and craftsmen
2. Small borrowers and self employed persons
3. Transport Operators
4. Agriculturist and person engaged in allied activities
5. Person belonging to low income groups.

He defined small borrowers as the persons engaged in retail trade of commodities, cloths, plastic goods, utensils , medicines, footwear, fruits, books and periodicals, and other consumer goods or durables or in such other vocations as tailoring , haircutting, catering, books binding, watch repairing, were known as small borrowers and sometimes they were also termed as small businessman.

These small borrowers were granted loans for financial assistance by the commercial banks. Manufacturing unit owners could obtain loans from State Industries Department or State Financial Corporation after examining their proposal and margin.

Sriram (2016) pointed out the definition of small borrowal accounts as per the Reserve Bank of India. Now a days, the account that has a sanction limit up to rupees two lakh is a small borrowal account and in this study it is considered that borrowers who have taken loans up to rupees two lakh in one account has been considered small borrowers.

This study has taken into account all these above mentioned types of small borrowers and also will include the street vendors, small retail shop keepers etc., in the district of Darjeeling in West Bengal as the need of these borrowers still exists. Small borrowers take loans for their business/ small units for requirement of working capital, for establishing any new unit etc., and for many other reasons such as i) subsistence ii) marriage iii) education of children iv) meeting emergent needs such as medical and health purpose, obsequies of family members and v) for meeting the payment of instalment of any other previous loan. This study will try to investigate whether the amount of loan has served any specific purpose for which the loan was applied for or the reason of taking the loan was other than the purpose mentioned.

As mentioned earlier, there are many players in the credit market for small borrowers. The players of credit markets may be organized i.e., institutional such as bank, public and

private money lending institute, microfinance institutions etc., or unorganised i.e., non-institutional such as private moneylender, money lending committees, etc. This can be seen as formal institutions for money lending and informal ways of extending loans by charging interest depending upon the urgency of loans, quantum of loans, risk associated with the loan, availability of fund for providing loans, etc. The study has looked into these matters and has tried to depict a picture on these issues.

All the players of credit market extend loan to the small borrowers according to their terms and conditions. But for taking loans from the formalized sector i.e., institutional sector, borrower has to justify his needs and has to do lots of paper works. The process usually takes days to sanction their loan amount, where as the private money lender extends loan to the small borrowers by observing the capacity of repayment of borrowers, and hardly takes any time to release credit to the borrowers if the lender is convinced about the repayment of loan within the stipulated time as fixed by the lender. The lender also depends upon his self-capacity of collection of the loan amount with interest, as per the agreement between lender and borrower, within the time period either with his power or through personal relation. This study also attempted to explore the dependency of borrowers on the unorganised sector or the informal moneylenders and the reasons behind such dependence.

1.03. Study Region and Area:

Darjeeling District has been selected as the study region. As per the Census – 2011 (provisional) the district of Darjeeling has a population of 1842034 of which male and female are 937259 and 909564 respectively. In 2001 the population was 1609172 of which males were 830644 and rest were female. The average literacy rate as per Census – 2011 (provisional) was 79.92%; male and female literacy rate were 85.61% and 73.33% respectively. Sex ratio of the district is 971 female per 1000 male. There were twelve blocks and four sub-divisions. The per capita income of the district in 2003 – 2004 was Rs. 23967.49, which was higher than the then average of the state of West Bengal which was Rs. 20895.

So far as small loans are concerned, the report of Microfinance of India 2011 – 2012, issued by NABARD, states that bank loan outstanding against SHG as on 31.03.2012 (by Cooperative Bank) for the district of Darjeeling was Rs. 6,99,2000 and the number of SHG was 127. Out of these 127 numbers of SHGs, 112 SHGs were exclusively for women and the outstanding loan amount was Rs. 62000. Excluding this, there are so

many Microfinance Institutions which have extended their activities in the district for providing micro-credit support to a large number of clients. Some of the institutions are SKS Microfinance Ltd, Bandhan etc. and other NGOs which have extended their activities in all corners of the district by extending credit to the poor and marginalized section and have got a good clientele base from domestic helps to small vendors etc. To find out the outreach and the activities of these institutions in the district of Darjeeling, the four blocks in the plains of Darjeeling district, namely: Matigara, Naxalbari, Khoribari and Phansidewa Community Development blocks and the Wards of Siliguri Municipal Corporation under the jurisdiction of Darjeeling district have been considered as study area. (Socio-economic condition of small borrowers in study area has been outlined in chapter No. 6).

1.04. Objective of the Research:

The main objective of the study is to explore the effect of using the credit facilities from the credit providers by the small borrowers' i.e., marginalised section of the society of the District of Darjeeling. The overall emphasis of this study is to identify how the use of credit by the small borrowers of the district has helped them to grow and whether the credit taken by the borrowers have been utilised properly for the purpose they have shown while taking credit and to find out the key players who dominate the credit market for small borrowers in the district of Darjeeling so that a proper policy on these issues can be developed to help the small borrowers. The objective of this research has been outlined in the following manner:

1. To study the trend of loan to small borrowers by various credit institutions including commercial banks, micro finance institutions, NBFCs in the study area.
2. To evaluate the purpose and utilisation of loans by the borrowers in the study regions.
3. To find out the repayment aspects of loans by the small borrowers.
4. To assess the rate of interest of loan charged by the credit providers from the small borrowers in the study region.
5. To evaluate the shifting preference of loan source from one provider to another provider or from one source to another source by the small borrowers in the study area.

1.05. Research Questions:

The following research questions have been addressed in the study:

1. What are the types of different credit institutions operating in the district which provide loans to small borrowers?
2. Which players of the credit market dominate the small borrowers' credit market?
3. How does the credit market fulfil the basic credit demand of the small borrowers?
4. What is the impact of the presence of multiple credit institutions on the small borrowers?
5. What are the inter and intra forms of shifting preference of loan source from one provider to another provider or from one source to another source?

1.06. Research Hypotheses:

The following hypotheses have been framed in relation to the small borrowers' needs and the credit market:

1. There exists difference in interest rate in the credit market for small borrowers in the study area.
2. The shifting of preference of loan source from one provider to another provider or from one source to another source in the credit market for small borrowers is due to existence of differential rates of interest.
3. The shifting of preference of source of loan from one provider to another provider or from one source to another source in the credit market for small borrowers is due to differential procedural aspect of receiving loans
4. Informal credit market plays a vital role by extending high risk loan to small borrowers.
5. The small borrowers utilised the formal loans for the stated purpose.

1.07. Research Methodology:

The study is based on existing literature and a survey through a structured questionnaire that has been filled in by the small borrowers residing in all the four blocks of plains and Siliguri Municipal Corporation area of the district of Darjeeling which has been considered as primary data and at the same time various reports published by various credit Institutions and Governmental organizations and other bodies have also been taken into account as secondary data. The Report on Small Borrowers accounts, published by the Reserve Bank of India is one of the main sources of the secondary data.

The following have been considered as a part of Research Methodology:

i) **Area of the Study:**

The Study Region is the District of Darjeeling. The blocks of Darjeeling district are divided in to two regions, the hill regions and the plains. Due to the political unrest observed during the year 2017 in the hilly regions of the district of Darjeeling, four blocks in the plains and the area of the Siliguri Municipal Corporation under the jurisdiction of the authority of Darjeeling district have been selected as the area of study.

ii) **Universe and the Sample of the Study:**

The Universe of the study is all the small borrowers residing in the district of Darjeeling who have taken their loan from any credit provider. The borrowers who have taken loan of small amount (up to Rs. 2,00,000/- from one provider) have been chosen as samples from the study area. Respondents have been asked whether or not they have taken loan from any informal lender also for getting the samples of small borrower who has taken loan from informal provider.

Data Collection:

Both secondary and primary data were collected for the study. The primary data were collected by conducting field survey. During November 2017 to May 2018, a field survey was conducted in four blocks and one corporation area under Darjeeling district, namely: Matigara block, Naxalbari block, Khoribari block, Phansidewa block and in the different wards of Siliguri Municipal Corporation (SMC). The data were collected in the form of a structure questionnaire from the borrowers by conducting interviews of the borrowers who had taken small amount of loans (up to Rs. 200,000 from one provider) from different sources. The places of collection of data were the block offices, Ward Offices under SMC and from the other places like Sabala Mela-2018, organised in Siliguri by the Government of West Bengal. In the aggregate, 244 households of borrowers belonging to different social communities were surveyed and the total number of loans taken by the borrowers was 442. Table 1.1 provides the demographic status of the respondent small borrowers. The method of purposive sampling was used to collect samples and only the borrowers were interviewed.

Table 1.1: Demographic Status of respondent Small borrowers

Blocks	No. of Household Surveyed	SC	ST	Others	Total no. of loans
Matigara block	47	20	0	27	68
Naxalbari Block	41	16	0	25	79
Khoribari Block	51	42	3	06	97
Phansidewa Block	50	34	0	16	93
Siliguri Municipal Corporation	55	06	0	49	105
Total	244	118	3	123	442

Source: Field Survey

The Sources of secondary data on small borrowers were collected from various journals, various reports published by NABARD, Reserve Bank of India, Government of West Bengal and Economic Survey report published every year by Government of India were taken for consideration.

iii) **Data Processing:**

After collection of data, these were processed in tabular format. Simple statistical tools have been used to present the data and a comparative analysis have been attempted the later chapters. The thesis is descriptive in nature.

1.08. Chapterization:

The study includes the following chapters. The chapters have been divided into various sections and sub-sections. A broad outline of each of the chapter is given below:

Chapter I: Introduction & Thematic Representation

The first chapter will provide the conceptual framework and background of the study, introduction and the topic of research. The Chapter contains Statement of Problems, objective and the hypotheses of the study and methodology,

Chapter II: Issues Relating to Non-institutional and Institutional Credit

This chapter is a literature review on the issues relating to Non-institutional and Institutional credit, such as, definition and characteristic of non-institutional credit, Institutional credit, non-institutional credit in India, Institutional credit, Difference between formal and informal financial sector, Interaction between formal and informal credit, Credit on virtual system and the critic on lending policy.

Chapter III: Small Borrowers and Formal Credit Market in India

This chapter includes various reports of the formal credit institutions on the small borrowers in Indian context such as : Introduction of the Indian financial system, changing priorities, credit in India for small borrowers, credit in late colonial periods, financial system including Cooperatives, nationalisation of commercial banks, priority sector lending, weaker section and small borrowal accounts in priority sector, profile of small borrowal account, weaker section NPAs, Distribution of Small borrowal account by type of account, Distribution of Small borrowal accounts by rate of interest, Distribution of Small borrowal accounts by Social group, Distribution of small borrowal accounts by Population Group, Distribution of small borrowal accounts by Loan Scheme, Interest cost of small borrowal accounts, Distribution of small borrowal accounts by size of amount outstanding, Introduction of NBFC-MFI and Bank loan to MFI on lending.

Chapter IV: Small Borrowers and Informal Credit market in India: Outlining Relevant Literature and Data Sources

This chapter shows the position of the small borrowers in India. This chapters contains topic such as: The trend of informal credit market in India, The relation between lender and the borrower, Rate of Interest in informal credit market, Volume of informal credit, Dominance of credit by credit agency-wise, Share of Urban credit market, Incidence of indebtedness (IOI), Preference of credit source of rural and urban borrowers, Repayment of debt, State-wise comparison of formal and informal debt by source of borrowing, Redemption of informal credit.

Chapter V: Small Borrowers and Credit Market in West Bengal

The chapter shows the position of the small borrowers in the formal and informal credit market of West Bengal. It includes the backdrop of the credit system of West

Bengal, the Bengal moneylenders Act-1940, the position of priority sector advance in West Bengal. Distribution of Banking Centre in West Bengal, Expansion of Bank Branch in West Bengal, Comparison of Small Borrowal Accounts in West Bengal with India, Population group-wise classification of SB Accounts in West Bengal, Comparative Analysis of bank Group-wise deposit and credit, Comparative analysis of Population group-wise deposit and credit, Comparative Statement between West Bengal & other State showing the State-wise & population Group-wise classification of Small Borrowal Accounts, Position of other States in respect to West Bengal in regard to small borrowal accounts and the position of informal credit in West Bengal and Outreach of microfinance in West Bengal.

Chapter VI: Socio-economic Condition of Small Borrowers in the District of Darjeeling: Findings & Analysis (based on Primary survey)

This chapter includes the profile of the Darjeeling District, the study area of the research. It includes History of Darjeeling District, Population Dynamics of Darjeeling District, Socio Demographic Profile of Darjeeling District, Distribution of Workers/ Non Workers based on categories of Workers in Darjeeling District, Profile of the Study Area, Household information of Small borrowers, Economic Information of the respondent small borrowers, Distribution on the basis of Mode of Savings, Information of Indebtedness which includes: Distribution of the basis of sources of formal and informal credit, Distribution on the basis of amount borrowed by the respondent households of small borrower, Distribution on the basis of purpose of credit as shown while taking credit, Distribution on the basis of Utilisation of credit, Distribution on the basis of purpose of taking credit and actual utilisation of credit, Distribution on the basis of repayment of loans, Distribution on the basis of period of repayment of instalment of loans, Distribution showing the Sources of Repayment of Loans

Chapter VII: Assessment of Interest rate, Preference of Source of Loan, Preference Shifting of source of loan and Utilisation of informal credit in Study Area (based on Primary survey)

This chapter includes the Distribution on the basis of rate of interest paid by the small borrowers, Information of income using loan, Nature of shifting of preference of loan source in different blocks and Siliguri Municipal Corporation area , Reason of

shifting preference of loan source from one source to another source (Inter and intra source), Distribution showing preference of sources of loan, Distribution on the basis of sources of loan (on the basis of number of loans), Purpose of taking Informal Loans, Source-wise Utilisation of loans.

Chapter VIII: Summary of Major Findings, Conclusions and Way forward

This chapter includes a summary of major findings, conclusions and some suggestions based on the study.