Chapter IV

Small Borrowers and Informal Credit Market in India: Outlining Relevant Literatures and Data Sources

4.01. **The Trend of Informal Credit Market in India**: The informal credit market have always played an important role in the financial system of India to channelize the credit to small and poor borrowers, the unprivileged section of the country residing in rural and urban areas. Sometimes it helps the 'in need people', when all other sources of getting formal credit were closed for them. But traditionally the 'informal credit' has been shown as an exploitative, anti developmental instrument which is normally used for consumption purpose rather than investment in development. This traditional view of informal credit market was challenged by the good performance of providing credit to the needy sector with simple procedural applications , instant supply of credit to 'in need' people and providing credit considering the reputation of the client instead of the collateral value. The providers of credit of informal credit markets knew their client personally and their socio-economic conditions very well. As they know the condition of the client in almost all respect, it becomes easier for them to fix the terms and conditions of providing credit to a particular client.

The credit market of India is divided into two main sectors - the formal and informal sectors and at the same time a coexistence of two sectors is seen in the same market place or area. The banking system was very much in operation in ancient India but due to the British rule, the monopoly of Indian banking was disturbed and the control of the market went to the hands of the European bankers and slowly the indigenous systems were pushed out from the urban sectors but in rural area, indigenous banking always maintained their position.

The definition of Informal credit market can be given as 'the credit market which is not regulated by the authority of banking system, which account for much business credit in developing countries'. Informal credit markets are important both in their own right, as a part of each country's financial system and because of their reciprocal relation with growing enterprises and the regulated financial sectors (Timberg & Aiyer, 1984). According to them, it is very hard to estimate exactly; but, approximately 20 percent of the commercial credit outstanding in the various markets was for the informal sources.

The study conducted on informal credit market by Timberg and Aiyar may be termed as one of the first one on this issue. They studied Gujarati in Gujarat adjoining Bombay, the Shikarpuris or Multanis (originally self service banking of Sind), the Chettiars in South India, the Rostogis in Uttar Pradesh and the Marwaris in Eastern India and found the following three important functional categories in the informal credit markets:

i) Full service indigenous bankers who took deposits and made loans.

ii) Commercial Financers who lent primarily their own resources.

iii) Brokers who connected potential lenders and borrowers.

They pointed out the characteristics of intermediaries which are reasons of lower transaction cost in informal credit markets as:

i) The intermediary keeps intimate knowledge about their client

ii) The absence of the control of government on the lending and borrowing rates

iii) The absence of charge on the informal intermediaries in the form of idle or low interest reserves, which were imposed on regulated intermediaries.

The second and the third characteristics result from the lack of regulation of the informal credit markets.

4.02. Relation between lender and borrowers:

The borrowers and the lenders of the informal credit markets are known to each other and borrowers were under continuous scrutiny in the Indian credit markets. The relation of lenders and borrowers had been running generation after generations. Instead of pen and paper or written documents, the word of mouth played the crucial role which was the reverse of the credit extending process of banks. Banks lend on the basis of cash flow and the financial position of the borrowers, whereas, in the informal markets, the intermediaries watch closely the business activities of the borrowers in all possible ways. The lenders watch the borrowers' personal expenditure and they talk with the persons who know the borrowers closely while collecting information about the borrowers from the competitors of the borrowers. The lender also watches the payment records of the borrowers to see his capacity of meeting obligations on failure of the market. Depending upon the net worth of the borrower, the lender extended the credit. The lenders cautiously avoid to come under the purview of state money lending act and so they avoid to lend to agriculturists, who are normally protected under money lending acts. In informal credit markets, moneylenders normally provide credit for working capital arrangement to prosperous traders/ clients for avoiding the risk of loss. They extend credit only to those who have strong roots in the community.

4.03. Rate of interest in Informal Credit Market:

The major part of informal lending by Gujerati lenders were for trade and especially for wholesale trade in agriculture and in craft work commodities. Small traders and artisans were financially supported by the Rastogis and Chettiars. The rate of interest was approximately 14% plus 1.2% to 2.4% brokerage in case of short term financing (badla financing) on the security of share with no margin requirement. The charges of interest which were charged by the informal moneylenders in India and the volume of credit extended to the borrowers as cited by Timberg and Aiyer (1984) were as follows:

Table 4.01: The Indigenous Credit System and Volume of Credit Extended

Type of firm	Number of firms	Credit extended (in million Rs.)	Rates (% per annum)
Shikarpuri Financers:			
Member of Local Association	550	600	21-37
Non Members	650	650	21-120
Brokers	550	1250	21-120
Shikarpuri Sub Markets:			
Bomaby Members	238	240	Max 30
Bombay Non Members	350	330	NA
Madras members	126	150	Max 37
Madras non members	200	160	NA

Madurai Members	20	30	21-25
Madurai non members	10	Na	Na
Trichy members	30	8	21-25
Trichi Non members	12	Na	Na
Tanjore	4	6	21-25
Salem	40	50	21-25
Calicut	20	10	27
Coimbatore members	35	40	Na
Bangalore Members	NA	45	NA
Bangalore Non members	NA	55	NA
Hyderabad members	Na	30	Na
Hyderabad non members	Na	45	Na
Vijayawada	Na	10	NA
Marwaris in Madras doing similar work	100	104	NA
Gujerati Indigenous style bankers			
Pure bankers	2000	7460	18
Bankers and commission agents	NA	NA	18
Chettiars Bankers:			
Chettiars Bankers	2500	3800	18-30
Chettiars Pawnbrokers	25000	12500	18- 30+
Rastogi bankers	500	1000	18-24

Source: Data Collected by C.V. Aiyar, 1979 as cited in T.A. Timberg & C.V. Aiyar- 1984

From the above estimates, it was found that brokers and indigenous bankers extended credit at a rate of 18-24 percent per annum to the large borrowers mainly to established traders with 18 percent as the norm rate and to the small borrowers (artisan) and traders at a rate of 24-36 percent per annum which was higher than the rate of extending credit to large borrowers. The cheques and bills were discounted at 18-24 percent per annum interest rate. The cheaper rate of interest was charged if the credit was extended out of black money and that was normally available at a interest rate of 12-15 percent per annum in Bombay and at 24 percent per annum at Madras. In the informal credit market the interest rate of extending credit was found to be higher in South India. The rate charged by the Shikarpuri bankers was also found higher than the other lenders. The names of finance companies, the brokers and the interest rates charged as provided by Timberg & Aiyar (78-79) are as follows:

Table 4.02: Finance Companies, Brokers and their Interest Rates

	Rate (%)
Intra-market and inter-market lending through Brokers:	
Lending to cloth commission agents in Amritsar	9-18
Lending to cloth commission agents in Delhi	15
Lending to cloth commission agents in Kanpur	13-16
Yarn traders, advance to powerlooms, - Kanpur	18
Yarn traders, advance to powerlooms – Amritsar	14-22
Bombay :	
Lending to Bombay rice gram traders	15
Lending to Bombay dried fruit traders	18
Lending to Bombay jute traders	18
Lending to Bombay iron & steel traders	18
Lending to Bombay share traders (Badla)	15-16
Calcutta:	
Lending to Calcutta cloth commission Agents	16.2
Lending to yarn traders	15
Lending to Calcutta grain traders	15.2
Lending to Calcutta oil seeds traders	15-18

Lending to Calcutta gunny dealers	18
Deposits with small pharmaceuticals firms	14.5-15
Finance Companies:	
There are 60 in Trichy, 40 in Kothamangalam and 100 in Kanpur. Twenty firms in Trichy had assets of Rs.440 millions. They pay 7% to 15% in deposit and charged 21% to 24%	

Source: T.A. Timberg & C.V. Aiyar (1978-1979)

Almost in all studies on informal credit markets agree on the issue that informal credit markets charged high rate of interest from the borrowers. The reasons for charging high rate of interest can be identified as the liquidity premium, monopolistic character of lenders (if there is no competitive second option for borrowers), opportunity cost of finance, premium for risks (as it sometimes without collateral), less or no collateral security, demand and supply variation, purpose of borrowing, duration of borrowing, status of borrowers, and combination of lending and trading activities. The All India Debt and Investment Survey (AIDIS), 2002 and 2012 had given a picture of interest rates that were charged in Indian credit markets as follows:

Table 4.03: Distribution of amount of cash loans (in Rs) outstanding as on 30.06.2012 by rate of interest for Institutional and non institutional agencies

Rate of interest	Rural		Urban	
	Institutional	Non institutional	Institutional	Non institutional
Nil	0.9	**18.4**	2.9	**32.9**
Less than 6	2	2.4	3.8	1.3
6-10	3.9	0.7	12.1	0.7
10-12	8.8	0.5	24.5	1.0
12-15	**47.8**	1.3	31.9	3.7
15-20	34.3	2.8	21.9	9.2
20-25	1.4	**33.3**	1.3	**17.5**
25-30	0	0.3	0.1	1.1

30 and above	.3	**40.1**	0.5	**32.3**
n. r	.6	0.2	1.0	0.3
All	100	100	100	100

Source: Generated from AIDIS- 59th Round- April -2006

It was found that in rural and urban sectors, non-institutional loans were also provided without interest. These were normally taken from family members, friends, relatives etc.

On 30.06.2002, the major loans, above 97% extended by the institutional agencies to both the rural and urban sectors was under "less than 20%" rate of interest categories, whereas, 'above 20%' categories loans were at 2.3% and 2.9% respectively in the rural and urban institutional agencies.

In case of non institutional agencies, 40% of the rural loans and around 32% of urban loans was at '30% and above' rate of interest category. Another range of rate of interest which was mostly prevalent for both rural and urban non-institutional loans was '20%-25%' rate of interest category. Thus, more than 70% of the non-institutional loans were charged between 20% to 25% and '30% and above' rate of interest category. In case of institutional credit, more than 80% of the loans were charged between '10% to 20%' rate of interest which is much lower than what was charged against rural non-institutional loans. The interesting findings was that the almost one third (32.9%) loans of non institutional agencies was without interest categories in urban areas, i.e., taking loan from family members, friends, relatives with no interest was very high in comparison to non institutional areas of rural areas.

Whether the same trend of loans on the basis of rate of interests was continuing or not can be observed from the table below:

Table 4.04: Percentage Distribution of Outstanding Cash Debt on the basis of Rate of Interest

Rate of interest	Percentage distribution of outstanding cash debt					
	Rural			Urban		
	Institutional	Non Institutional	All	Institutional	Non Institutional	All
Nil	0.8	18.3	8.5	0.4	**27.0**	4.5

Less than 6	7.1	2.3	5.0	1.5	1.1	1.4
6-10	26.0	0.4	14.7	14.5	0.9	12.4
10-12	12.9	0.7	7.5	**41.6**	1.2	**35.3**
12-15	**42.6**	4.1	**25.7**	34.1	7.7	30.0
15-20	7.3	5.6	6.6	6.2	4.3	5.9
20-25	2.1	33.9	16.1	1.2	27.3	5.3
25-30	0.1	0.6	0.3	0.2	0.3	0.2
30 and above	1.0	**34.1**	15.6	0.4	**30.2**	5.0
All	100	100	100	100	100	100

Source: GOI, Key Indicator of Debt and Investment in India, December 2014

It is clear from the above table that, for institutional sectors, both in rural and urban areas, the percentage of outstanding cash debts declined with the increase in rate of interests. For ‘20% and above’ categories, the total percentage of outstanding cash debts were only 3.2% in rural institutional sectors and 1.8% in urban institutional sectors. The categories ‘less than 20%’ cover 96.7% and 98.3% respectively for rural and urban institutional cash debt outstanding. The major share of outstanding debts in rural and urban institutional sectors 42.6% and 41.6% respectively were under 15% to 20% and 10% to 12% rate of interest categories respectively. The lowest share was observed in the interest rate category 25% to 30% category for both rural and urban institutional agencies.

On the other hand, the non institutional agencies provided 68.6% and 57.8% respectively for rural and urban sector in respect of total outstanding cash debt in the interest rate ‘more than 20%’ categories. In case of non institutional credit, both in rural and urban sector, the highest percentages were found 34.1% and 30.2% respectively and both were of same rate of interest range, i.e. ‘greater than 30%’.

4.04. The volume of informal credit:

Another way to examine the distribution of credit by institutional and non institutional agencies is by observing the volume of credit they have extended to rural and urban poor. This can be observed from the following table as given by All India Debt and Investment Survey (AIDIS), 1981-82.

Table 4.05: The volume of Credit extended to Rural & Urban Poor

All India household asset holding (Rs. 000)	Rural %		Urban %	
	Institutional	Non Institutional	Institutional	Non Institutional
Upto 1	8.92	91.08	5.43	94.57
1-5	28.6	71.40	24.79	45.21
5-10	32.55	67.45	40.44	59.56
10-20	45.69	54.31	44.10	55.90
20-50	55.06	44.94	48.89	51.11
50-100	57.99	42.01	62.10	37.90
100-500	76.93	23.17	76.62	23.38
Above 500	94.90	5.10	66.87	33.13
All Groups	61.21	38.79	59.95	40.05

Source: All India Debt and Investment Survey 1981-82.

From the above table, it is clear that in both the areas, rural and urban, debt from the institutional sectors was the priority of rural and urban people. In both the cases, the overall percentages of institutional debts for rural and urban areas, for all groups were around 61% and 60% approximately. The share of non institutional debt holding for rural and urban areas, for all groups were around 39% and 40% but in the case of small amount of debt ranging from Rs. 1000 to Rs. 20000, the major share for rural areas as well as for urban areas were held by non institutional agencies. The decline in percentage of holding is observed with the increase in amount of credit for non institutional sector in both the rural and urban areas. In case of the holding of household assets ranging from Rs. 1 lakh to Rs. 5 lakh, the lowest percentage of share of 23.38% and 23.17% were observed for urban and rural areas.

4.05. Dominance of Credit:

The dominance of institutional and non institutional credits in rural areas can be observed from the table as cited by Pradhan (2013) which has shown the break- up of institutional and non institutional rural credit since 1951 to 2002 and 2012 (AIDIS) by credit agency wise.

Table 4.06: Institutional and non institutional rural credit since 1951 to 2002 and 2012 (AIDIS) by credit agency wise

Break up of Institutional and Non Institutional Rural Credit							
Credit Agency	Percent						
	1951	1961	1971	1981	1991	2002	2012
Institutional Agencies	**7.2**	**14.8**	**29.2**	**61.2**	**64.8**	**57.1**	**56.0**
Government	3.3	5.3	6.7	4.0	5.7	2.3	1.2
Cooperative society/Bank	3.1	9.1	20.1	28.6	18.6	27.3	24.8
Commercial Bank and RRBs	0.8	0.4	2.2	28.0	29.0	24.5	25.1
Insurance	-	-	0.1	0.3	0.5	0.3	0.2
Provident Fund	-	-	0.1	0.3	0.9	0.3	0.1
Other Institutional Agencies	-	-	-	-	9.3	2.4	4.6
Non institutional agencies	**92.8**	**85.2**	**70.8**	**38.8**	**36.0**	**42.9**	**44.0**
Land lord	1.5	0.9	8.6	4.0	4.0	1.0	0.7
Agricultural Moneylenders	24.9	45.9	23.1	8.6	6.3	10.0	5.0

Professional Moneylenders	44.8	14.9	13.8	8.3	9.4	19.6	28.2
Traders and Commission agents	5.5	7.7	8.7	3.4	7.1	2.6	0.1
Relatives and Friends	14.2	6.8	13.8	9.0	6.7	7.1	8.0
Others	1.9	8.9	2.8	4.9	2.5	2.6	1.9
Total	100	100	100	100	100	100	100

Source: Pradhan (2013) and All India Debt and Investment Survey, Various issues.

From the above table it is clearly found that during 1951, the non institutional source had the domination over rural credit and the professional moneylenders dominated the informal credit sectors of rural areas in a monopolized manner and their share of rural credit was 45% approximately.

In 1961, the share of rural credit of non institutional sector was above 85% and the institutional sector was at 15% approximately. As is evident, the non institutional agencies dominated the rural credit market of India till 1971. In those years, non institutional agencies i.e., professional moneylenders and agricultural moneylenders were found as the major role taking agencies for providing credit in rural credit scenario. During 1951, 1961 and 1971, the loan from relatives and friends were hovered around 14% which were almost interest free. The loans from traders and commission agents increased from 5.5% in 1951 to 8.7% in 1971. During the periods of 1951-1971, the rural credits of India were dominated by moneylenders through, not only with their effectiveness in providing rural credit but also for the ineffectiveness of institutional agencies.

In 1961, the share of rural credit of non institutional agencies came down by 7.6% and the share of professional money lenders declined by 29.9% from their share of credit in rural areas in 1951. Those declining trends were also observed in 1971, when the share of rural credit of non institutional sector came down to 70.8% from 85.2% in 1961, losing a share of 14.4% from 1961. In the non institutional sector, the professional money lender lost their major share of rural credit during 1951 to 1971. In 1971, the share of rural credit of professional moneylenders came down to only 13.8% and within those two decades the share of non institutional sectors came down by 22% though they had 70.8% share of rural credit.

In 1969, the nationalization of 14 commercial banks, the extension of bank counter in unbanked regions, setting up the sectors under priority etc., affected the credit scenario of Indian rural sectors. The steady decline of shares of non institutional sector was observed during 1971 to 1981. In 1981, the share of rural credit of non institutional agencies came down to 38.8% by losing 32% from 1971. That might be due to the steady progress of institutional agencies in rural sectors, the monopoly of non institutional agencies in rural credit was broken and their share fell down from 92.8% in 1951 to only 38.8% in 1981. During those phase, from 1951 to 1981, the institutional credit in rural sectors had gone up from 7.2% in 1951 to 61.2% in 1981.

Since 1981 to 1991 the share of rural credit of non institutional agencies further reduced by 2.8% and came to 36.0%, but the share of professional moneylenders increased to 9.4% in 1991 from 8.3% in 1981. The share of traders and commission agents also increased to 7.1% in 1991 from 3.4% in 1981. The reason of the increase was due to the advance for purchasing of product of cultivators and the advance to other traders and moneylenders (Pradhan 2013). During 1991 to 2002, the share of non institutional agencies increased to 42.9% from 36.0% in 1991, a gain in rural credit share by 6.9% and the professional moneylenders also gained their lost share of rural credit by 10.2% and increased their share to 19.6%.

In 2012, the share of rural credit for all institutional agencies experienced a marginal decline by 1% from 2002 and the non-institutional agencies filled the gap with an 1% increased share of rural credit over the decade. The professional moneylenders increased their share by 8% approximately, but agricultural moneylenders lost their share by 5% between 2002 to 2012. It must be mentioned here that the ‘other institutional agencies’, as shown in the table, included the share of rural credit of: i) financial corporation/institution, ii) financial company in 2002 and 2012, another two agencies i) Self Help Group Bank Linked and ii) Self Help Group – NBFC were included. The share of rural credit of financial company in 2002 and in 2012 was 0.6% and 1.1% respectively and the share of outstanding debt of financial corporations was at 1.1% in 2002 and 0.6% in 2012. The share of Self Help Group - Bank Linked and Self Help Group – NBFCs in 2012 were 1.9% and 0.3% respectively in outstanding rural debt, which in itself was much lower than the other non-institutional and institutional credit flows.

4.06. The Share of Urban Credit:

The share of urban credit has been shown in the following table for the understanding of the share of urban credit market in terms of institutional and non institutional agencies.

Table 4.07: Amount of Cash Loan Outstanding by Credit Agency in Urban India

Credit agency	2002	2012
Government.	7.6	1.8
Cooperative Society/ Bank	20.5	18.0
Commercial Bank including RRBs	**29.7**	**57.1**
Insurance	3.5	1.6
Provident Fund	2.0	0.3
Financial Corp/ Institutions	7.0	2.3
Financial Company	2.0	1.9
Self Help Group- Bank linked	-	0.6
Self Help Group- NBFC	-	0.2
Other Financial agencies	2.9	0.8
All Institutional Agencies	**75.1**	**84.5**
Landlord	0.2	0.1
Agricultural moneylenders	**0.9**	**0.1**
Professional moneylenders	**13.2**	**10.5**
Input Suppliers	1.0	0
Relatives and friends	7.6	4.2
Doctors, lawyers and other prof.	0.1	0.1

Others	1.8	0.5
All non institutional Agencies	**24.9**	**15.5**
All Agencies	100	100

Source: Generated from NSS – 59th round and 70th round

From the above table it is found that the share of credit in urban area is under control of institutional agencies in both the years. In 2002, the total share of non-institutional agencies in urban credit was 24.9% and the same came down to only 15.5% in 2012. Among the non institutional agencies, the share of professional moneylenders was highest for both the years, although the share had declined in 2012. The professional moneylenders, in Urban sector was followed by the flow of credit from ‘relative and friends’ which had a share of 7.6% and 4.2% in the year 2002 and 2012 respectively and a similar declining trend was observed. This type of credit is virtually from interest free but still it was declining while the institutional credit gained importance probably because of reluctance to provide interest free loans over the years.

4.07. Incidence of indebtedness [IOI]: The incidence of indebtedness has been defined as number of households with any loan (from respective sources) divided by all households in that population segment. The dominance by the credit agencies in rural and urban sectors of India in respect to incidence of indebtedness can be observed from the following table:

Table 4.08: Incidence of Indebtedness (IOI) to institutional and non institutional credit agencies by household assets holding class (2014)

Decile class of assets holding	**Incidence of Indebtedness (%)**		
	Rural		
	Institutional	**Non institutional**	**All**
1	7.9	14.0	19.6
2	7.4	17.1	22.3
3	10.8	19.1	27.1

4	12.4	18.2	27.5
5	13.0	21.9	30.9
6	16.9	21.6	33.0
7	19.1	19.3	32.7
8	22.2	21.6	37.3
9	29.2	22.1	42.6
10	32.6	15.3	41.3
All	17.2	19.0	31.4

Source: GOI, Key Indicator of Debt and Investment in India, December 2014

From the above table, it is found that a major role for providing credits to rural segments of India had been taken by the non institutional agencies. In 19% of rural households, the non institutional credit providers had extended credit while the institutional credit agencies extended credit to 17.2% of rural households of India. The percentage of credit extension to urban sectors can be observed from the following table.

Table 4.09: Incidence of indebtedness in urban India (2014)

Decile class of assets holding	Incidence of Indebtedness (%)		
	Urban		
	Institutional	Non institutional	All
1	3.4	6.5	9.3
2	6.2	10.1	14.6
3	10.6	11.9	20.2
4	12.5	14.4	24.2
5	12.1	12.6	21.7
6	14.0	12.7	23.4
7	15.7	11.6	23.8
8	18.9	10.1	25.4
9	25.6	7.1	29.4

10	29.1	5.7	31.7
All	14.8	10.3	22.4

Source: GOI, Key Indicator of Debt and Investment in India, December 2014

From the above data it was found that in urban sector of India, the institutional agencies predominantly provided credit to urban households. However, non-institutional agencies also had their present in a significant manner. From the above two tables, it was also observed that in both rural and urban areas the percentage of households indebted to institutional agencies increased with increase in assets holding except in second decile in rural and 5thdecile in urban households. It is also observed that in rural sector, in the top decile class (10), 32.6% households were indebted to institutional agencies while in the urban sector, in the top decile class (10), 29.1% households were indebted to institutional agencies signifying that economic class had an important bearing on the credit accessed, asset holding being one of the major criterion for institutional credit. An important study by Deshpande and Prabhu (2005) found that the indebtedness and distress were quite significant among the SC families. Indebtedness hurts SC families more than those belonging to any other castes. Landlessness and marginalization of SC families were found in increasing trend in recent years and one of the reasons of this indebtedness, as they stated, was that these castes prefer to take credit from moneylenders for various reasons. Their survey pointed out that out of the one thousand borrowers, the borrowers from bank was 356 and the borrowers borrowing from moneylender and traders were 309 which implied that SC families preferred to go to moneylenders for their credit need than to formal source like Banks or Cooperatives to avoid the harassment involved in borrowing from formal sources, like paper work, collateral, etc.

4.08. Preference of credit source of rural & urban borrowers:

All India Debt and Investment Survey has shown the choice of taking credit for each social group and nature of credit agency and found that formal sectors played the major role than informal sectors for providing credit to ST, SC, OBC and other social groups in the rural and urban areas of India as a whole. The two tables that have been given below display the picture of institutional choice of some social groups in rural and urban India.

Table 4.10: Percentage of share of cash borrowing in rural India during 2002 to 2003 for each social group and nature of credit agency; All India

Credit Agency	Social Groups				
	ST	SC	OBC	Others	All
Institutional	2	**9**	**44**	44	100
Non Institutional	2	**16**	**51**	31	100
All	2	12	**47**	38	100

Source: All India Debt and Investment Survey – 59thRound, GOI, April 2006

Table 4.11: Percentage of share of cash borrowing in urban India during 2002 to 2003 for each social group and nature of credit agency; All India

Credit Agency	Social Groups				
	ST	SC	OBC	Others	All
Institutional	2	**8**	**27**	63	100
Non Institutional	1	**14**	**50**	35	100
All	2	9	33	56	100

Source: All India Debt and Investment Survey – 59th Round, GOI, April 2006 (Statement No. 25, Report No.503(59) /18.2/4)

In rural India, Schedule caste and other backward class social groups had shown their interest of taking loan from informal sector than formal sector. The share of outstanding cash borrowing of informal sector for the SC and the OBC social groups were at the highest in comparison to the share of the formal sector. But in case of the social group – 'others', the share of outstanding cash borrowing was 44% from formal sector and 31% from non institutional , i.e., from informal sectors. The same trend, almost, have been observed in urban India. The share of cash borrowing from non institutional (informal) sectors for SC and OBC social groups were higher in comparison to institutional (formal) sectors. In case of 'others' social groups, the share of formal sector was 63% and the share of informal sector stood at 35% which was below the overall percentage of 56% for 'others' social groups.

The average cash borrowings per household from institutional and non institutional sectors can also be observed from the following tables:

Table 4.12: Cash Borrowings per household (AOB) during 2002 -2003 from Institutional and Non-institutional agencies by social group in rural India

Credit Agency	Social Groups				
	ST	SC	OBC	Others	All
Institutional	503	**891**	2297	3516	2130
Non Institutional	385	**1138**	1976	1849	1596
All	888	2030	4273	5365	3726

Source: All India Debt and Investment Survey – 59thround, GOI, April 2006

Table 4.13: Cash Borrowings per household (AOB) during 2002 -2003 from institutional and non institutional agencies by social group in urban India

Credit Agency	Social Groups				
	ST	SC	OBC	Others	All
Institutional	**2762**	**2446**	**3692**	**6169**	**4668**
Non Institutional	656	1450	2150	1085	1494
All	3418	3896	5843	7253	6162

Source: All India Debt and Investment Survey – 59thround, GOI, April 2006

The overall average amount of borrowing, in rural India, from institutional (formal) sectors was Rs. 2130 including the average borrowing of ST- Rs. 503,SC – Rs. 891, OBC – Rs. 2297 and Others – Rs. 3516. The average borrowing of 'OBC' and 'Others' social group were Rs. 2297 and Rs.3516 respectively were more, than the overall average borrowing of institutional sectors.

In case of non institutional agencies of rural sector , the overall average was Rs. 1546, taking into account the average borrowing of ST- Rs. 385, SC- Rs. 1138, OBC- Rs.

1976 and Others- Rs. 1843. The same trend was also observed in case of average borrowing per household of ‘OBC’ and ‘Others’ group as they were also standing at Rs. 1976 and Rs 1849 respectively which were more than the overall average of Rs 1596 of non institutional (informal) agencies.

In urban sector, the overall average of cash borrowing of all social groups was Rs. 4668 for institutional agencies and Rs. 1494 was for non institutional agencies. Like rural sector’s trends, the same has been observed here also. The OBC and Others groups average cash borrowing were higher than the overall average of both institutional and non institutional agencies. The average amount of cash borrowing from institutional agencies by ST group was Rs. 2762 which was more than the average of Rs. 2446 of S.C. group.

Pallavi Chavan in her ‘The access of Dalit Borrowers in India’s Rural areas to Bank Credit’ has cited the data of NSSO (1998 & 2006) for showing the percentage of rural dalit and non-dalit and non-adivasi households reporting at least one cash borrowing from formal and/ or informal sources in India, for 1991-92, and 2002-2003 as per the following table:

Table 4.14: Percentage of rural dalit and non-dalit and non-adivasi households reporting at least one cash borrowing from formal and/ or informal sources in India, for 1991-92, and 2002-2003

Type of source	Dalit households		Non Dalit households		All households	
	1991-92	2002-2003	1991-92	2002-2003	1991-92	2002-2003
Formal sources	7.6	4.7	9.5	9.5	8.7	7.9
Informal sources	**12.6**	**16.5**	**11.8**	**14.3**	**11.5**	**14.1**
Any source	19.8	20.5	20.9	22.3	19.9	20.8

Source: Chavan (2007)

The table shows that in 1991-1992, the percentage of dalit households who took loans from informal sources was at 12.6% and the number of dalit households who took loans from formal sources was at 7.6%. Within a decade, and in 2002, the percentage share of who took loans from informal sources increased by 4 percentage points and there was a sharp fall in the percentage of loans from formal sources in respect of dalit households over that period. According to Chavan, that fall in the share of debt of formal sources among dalit households between 1992 to 2002 was attributable to a sharp fall in debt outstanding to commercial bank rather than from formal sources. She further cited the NSSO (1998 & 2006) data to show that the total debt of rural dalit households between 1992 to 2002 occurred in every state of India except Maharashtra and Himachal Pradesh. The reason of rise of formal sources in Maharashtra was for the active role of commercial banks and cooperatives. The table below has been given to show the share of debt of formal sources in total debt of rural dalit and non dalit and non adivasi households, State wise for 1992 & 2002:

Table 4.15: Share of Debt of Formal Sources in Total Debt of Rural Dalit and Non-Dalit and Non-Adivasi households, State wise for 1992 & 2002:

State	Dalit HH		Non Dalit HH		Non dalit Non Adivasi HH		All households	
	1992	2002	1992	2002	1992	2002	1992	2002
Andhra Pradesh	36	16	26	29	31	29	31	27
Assam	78	31	61	61	60	60	64	58
Bihar	65	25	74	54	73	53	72	37
Gujarat	96	80	72	66	71	67	74	67
Haryana	55	41	74	52	74	52	72	50
Himachal Pradesh	69	76	56	73	56	73	59	74
Jammu & Kashmir	81	79	75	72	74	72	76	73
Karnataka	73	53	73	68	73	69	73	67
Kerala	84	75	91	82	92	82	91	81
Madhya Pradesh	70	50	71	72	70	69	71	59
Maharashtra	72	90	81	84	81	84	80	85
Manipur	-	-	55	-	57	-	55	-
Meghalaya	-	-	91	-	100	-	91	-

Nagaland	-	-	55	-	-	-	55	-
Orissa	85	61	72	76	71	73	74	74
Punjab	73	28	81	61	81	61	79	56
Rajasthan	27	24	40	36	40	32	37	34
Tamil Nadu	62	31	56	78	56	78	57	47
Tripura	95	-	88	-	85	-	89	-
Uttar Pradesh	73	47	66	61	65	61	67	56
West Bengal	87	70	80	67	81	67	82	68
India	61	45	65	59	65	59	64	57

Source: Chavan, Economic & political Weekly, August 4, 2007,

4.09. Repayment of Debt: The households of the developing countries suffer from the inadequate supply of credit they actually need. The financial supports, by providing credit to poor is done by formal institutions like commercial banks etc., in a formal way and by the informal moneylenders, traders, relatives etc., by applying their own method of supplying credits. Both the formal and informal institutions are also facing the problem of non- repayment of loans by the borrowers whom they helped by providing credit. The wilful non- repayments of loans by the borrowers create a relational hazard between lenders and borrowers. Sometimes non-repayment is the effect of failure of anything or any setback like crop failure etc.

In formal sectors, the penalty for non repayment of loans in the form of transfer of property rights has almost been stopped due to political intervention though the penal actions for non-repayment of loans was in ancient India also. In the pre-colonial setting, the dispute of non repayment was adjudicated by the panchayat or village council. The practice of limited liability was evident in pre-colonial India. There was a ceiling on the amount of penalty. The maximum amount that the defaulter borrowers had to pay to the creditors was twice the outstanding principal, irrespective of how much interest had accumulated. This rule was called ‘Damdupat’. There was one rule which was in favour of creditor, which was ‘Pious Obligation’– which made the sons and even grandsons liable for their ancestor’s loans even beyond what they (son, grandson) got from their inheritance. The lenders and their officials were allowed to enforce the decree that was given by panchayat for collecting their dues. That was equivalent to a debt bondage.

The new judicial system, modelled on the Bengal/ Mughal judicial administration set up by the Company differed from the panchayat based adjudication in several ways. The court relied more on documentary evidence. The dispute resolution of non repayment did not take place in villages. The borrower had to appear before the district court which was several days travel for him. The contract was enforced by the state itself. Though the regulations of 1827 placed limit on what assets could be seized in lieu of debt repayment, imposed an interest ceiling of 12% and retained damdupat, while imprisonment was one possible punishment which diluted the impact of protections of the borrowers. The adjudication was not done by the peers rather a judge was there to act depending heavily upon the written word (Swamy & Roy, 2016).

M. Bhattacherjee & M. Rajeev (2011) established that more unfavourable the terms of credit from a moneylenders compared to formal lending agency, better is the chance of timely repayment by borrowers. While higher interest rates reduces repayment in formal sectors, but the same improves the repayment in informal sectors. This occurred due to undervaluation of collateral which transfers the risk from the lender to borrowers. Based on NSSO data (59^{th} round) they analyzed the repayment pattern across the different types of lending agencies by taking two indicators as (i) the ratio of incidence of repayment and (ii) incidence of borrowing. Incidence of repayment on a given year is defined by percentage of households who have partially or fully repaid loans. The incidence of borrowing is defined as percentage of households who have availed loans in the year. The observation was that the repayment figure of non professional moneylenders, relatives and friends were worse than the figure of professional moneylenders and formal lending agencies.

Table 4.16: Ratio of incidence of repayment to incidence of borrowings during 2002-2003

Region	RURAL			
	Formal	Professional	Non professional	Relatives

Developed	54.1	38.4	35.5	23.2
Middle developed	54.7	83	41.7	27.3
Less developed	37.2	35.3	33.2	31.4
URBAN				
Developed	88.9	55.4	56.6	39.6
Middle developed	102.1	92.5	44.7	44.4
Less developed	137.5	61	53.2	48

Source: Bhattacharjee & Rajeev (2011)

Due to the personal relational factors, between lenders and borrowers and the existence of market linkages, the repayment figures were low for non professional moneylenders, relatives and friends because of late repayment. The repayment is better in the developed and middle performing states than to less developed regions. The pattern of incidence of repayment to incidence of borrowing during 2002-2003 for short loans can be seen from the table below:

Table 4.17: Pattern of Incidence of Repayment to Incidence of Borrowing during 2002-2003

Region	Rural				Urban			
	Full repayment of Principal	Partial repayment of Principal	Only interest payment	Total	Full repayment of Principal	Partial repayment of Principal	Only interest payment	Total
FORMAL								
Developed	2.2	47.5	50.3	100	1	67.2	31.8	100
Middle developed	0.2	48.9	50.9	100	1.1	83.6	15.3	100
Less developed	0.4	73	26.6	100	2.4	83.3	14.3	100
PROFESSIONAL								

Developed	0.2	42.7	57.1	100	0.2	37.5	62.3	100
Middle developed	0.1	22.8	77.1	100	0	45.6	54.4	100
Less developed	0	55.5	44.5	100	5.6	59.8	34.6	100
NON PROFESSIONAL								
Developed	1.3	58.5	40.2	100	0	77.5	22.5	100
Middle developed	0.7	45.9	53.4	100	0	61.7	38.3	100
Less developed	3.6	50.1	46.3	100	0.4	58.1	41.5	100

Source: Bhattacharjee & Rajeev (2011)

From the above table, it was observed that in case of formal sectors, 26% borrowers of rural less developed region had paid only interest. This percentage was 44.5% when the loan was taken from professional moneylenders and it was 46.3% when the loan was taken from the non professional moneylenders which implied that the borrowers of less developed region were paying more interest and were keeping themselves indebted for a longer time when they borrowed from the informal moneylenders. The same trend was also found in case of less developed urban area. This can be the effect of high rate of interest which was charged by the informal credit providers.

The NSSO (2006) has provided the average amount (Rs) of repayment per households during 2002-2003 from institutional and non institutional agencies by social groups for all India, which is as follows:

Table. 4.18: Average amount of Repayment per household during 2002-2003 (in Rs.)

Credit agency	SOCIAL GROUP				
	ST	SC	OBC	Others	All
RURAL					
Institutional	326	405	961	1869	1016

Non institutional	207	480	850	710	**666**
All	534	885	1811	2579	1682
URBAN					
Institutional	2053	1698	1993	3088	2475
Non institutional	602	890	1168	619	**848**
All	2657	2588	3161	3711	3326

Source: NSSO 2006

From the above table it is observed that the average amount of repayment for institutional loans, in both the rural and urban area is more than the non institutional sources. This is also supporting that the repayment of informal loan takes longer time to be paid off and this is because of the personal relational factors between non institutional moneylenders and the borrowers. The loans from the relatives, friends are also included in non institutional sectors and it takes longer time to be paid off.

4.10. State-wise comparison of formal and informal outstanding debt in rural labour household:

State-wise comparison of formal and informal outstanding debt by source of borrowing for 2004-05 and 2009-10 for rural labour households can be observed from the following table (No. 4.19):

Table 4.19: State-wise Outstanding Debt by Source of Borrowing

State	2004-05				2009-10			
	Formal	**Money lender**	**Other non-Institutional**	**Total**	**Formal**	**Money lender**	**Other non-institutional**	**Total**
Jammu & Kashmir	0	0	14	14	4	5	33	42
	0	0	100	100	9	13	79	100
	0.00	0.00	0.19	0.05	0.03	0.04	0.30	0.12
	26	5	44	75	101	10	21	132

Himachal Pradesh	35	6	59	100	77	7	16	100
	0.34	0.04	0.61	0.28	0.76	0.08	0.19	0.36
Punjab	161	326	381	868	531	245	738	1515
	19	38	44	100	35	16	49	100
	2.08	2.75	5.31	3.24	3.99	2.04	6.69	4.16
Uttaranchal	10	23	13	47	14	82	120	216
	23	50	27	100	7	38	56	100
	0.14	0.20	0.18	0.17	0.11	0.68	1.08	0.59
Haryana	217	330	286	833	153	512	573	1238
	26	40	34	100	12	41	46	100
	2.81	2.79	3.99	3.12	1.15	4.26	5.19	3.40
Rajasthan	62	581	415	1058	252	1102	475	1828
	6	55	39	100	14	60	26	100
	0.81	4.91	5.78	3.96	1.89	9.16	4.30	5.03
Uttar Pradesh	650	978	626	2254	736	973	1023	2733
	29	43	28	100	27	36	37	100
	8.41	8.27	8.73	8.43	5.53	8.09	9.27	7.51
Bihar	43	222	154	420	19	138	193	349
	10	53	37	100	5	39	55	100
	0.56	1.88	2.15	1.57	0.14	1.14	1.74	0.96
Assam	0	20	40	61	22	11	72	106
	0	33	66	100	21	11	68	100
	0.00	0.17	0.56	0.23	0.17	0.09	0.65	0.29
West Bengal	136	264	522	922	341	410	897	1648
	15	29	57	100	21	25	54	100

	1.76	2.23	7.27	3.45	2.56	3.41	8.13	4.53
Jharkhand	7	10	43	59	11	13	28	52
	11	17	72	100	21	25	53	100
	0.09	0.08	0.60	0.22	0.08	0.11	0.25	0.14
Orissa	106	113	84	303	170	56	220	446
	35	37	28	100	38	13	49	100
	1.37	0.96	1.17	1.13	1.28	0.47	2.00	1.23
Chattisgarh	132	141	165	438	45	49	58	153
	30	32	38	100	30	32	38	100
	1.71	1.19	2.30	1.64	0.34	0.41	0.53	0.42
Madhya Pradesh	148	298	348	793	175	188	470	833
	19	38	44	100	21	23	56	100
	1.91	2.52	4.84	2.97	1.31	1.56	4.26	2.29
Gujarat	125	177	545	847	275	129	556	960
	15	21	64	100	29	13	58	100
	1.61	1.50	7.58	3.17	2.07	1.08	5.04	2.64
Maharashtra	1241	331	816	2388	1346	208	803	2356
	52	14	34	100	57	9	34	100
	16.06	2.80	11.36	8.93	10.11	1.73	7.27	6.48
Andhra Pradesh	847	3703	958	5508	1660	4031	2506	8196
	15	67	17	100	20	49	31	100
	10.96	31.31	13.34	20.60	12.47	33.52	22.71	22.53
Karnataka	344	340	262	946	791	599	752	2141
	36	36	28	100	37	28	35	100
	4.45	2.87	3.65	3.54	5.94	4.98	6.81	5.89

Kerala	2837	2100	1011	5948	5908	937	603	7449
	48	35	17	100	79	13	8	100
	36.71	17.75	14.09	22.25	44.39	7.79	5.47	20.48
Tamil Nadu	589	1804	411	2804	702	2314	814	3830
	21	64	15	100	18	60	21	100
	7.62	15.26	5.72	10.49	5.27	19.24	7.38	10.53
Other States	46	62	42	151	56	13	81	151
	31	41	28	100	37	9	54	100
	0.60	0.52	0.59	0.56	0.42	0.11	0.74	0.41
Total	7728	11827	7180	26735	13311	12026	11035	36372
	29	44	27	100	37	33	30	100
	100	100	100	100	100	100	100	100

Source: Cited by Chandrasekhar- 2014

Note: 1. For each state the first row is the quantum of outstanding debt in Rs. Crore, the second row is the row percentage and the third row is the column percentage.

2. Formal includes Government, Cooperative Society, Bank

3. Other non-institutional: All non-institutional sources except moneylender

The total outstanding debt of rural labour households in 2004-05 was Rs. 26735 crore in which the part of credit as taken from formal sources was 7728 crore and the non-institutional sources except moneylenders provided Rs.7180 crore. The share of money lenders was Rs, 11827 crore. In 2009-2010, the scenario of total outstanding debt moved to Rs.36372 crore in which the credit from the formal source was Rs. 13311 crore, a considerable enhancement was observed in case of share of debt of formal source. In those five years debt from formal sources increased by Rs. 5583 crore, i.e. a rise of 72.24% from 2004-05 was observed though the rate of increase of total outstanding debt was 36.05%.

The total share of non-institutional source of credit including credit from moneylender was Rs.19007 crore in the total outstanding debt of Rs. 26735 crore in 2004-09 in which the share of moneylender was Rs.11827 crore and in the year 2009-10, the total share of non-institutional source of credit including credit from moneylender was Rs.23061 crore in the total outstanding debt of Rs. 36372 crore in 2009-10 in which the share of money lender was Rs. 12026 crore in 2009-10. An increase of only Rs.199 crore in case of share of moneylenders was seen during those five years, i.e., the rate of increase over 2004-2005 was 1.68% only.

The state-wise changes in the scenario of total outstanding debt by moneylender and other non-institutional sources in terms of increase or decrease in credit amounts and percentages of the rural labour households during the year 2004-05 to 2009-10 can be shown as in the following table:

Table 4.20: State-wise Increase or Decrease in the Share of Moneylender and other Non-institutional Sources during 2004-05 to 2009-10

States	Money Lender 2004-05	Money lender 2009-10	Increase /Decrease		Other non-Institutional 2004-05	Other non-institutional	Increase /Decrease
Jammu & Kashmir	0	5	5		14	33	19
	0	13	13		100	79	21
	0.00	0.04	0.04		0.19	0.30	.11
Himachal Pradesh	5	10	5		44	21	-23
	6	7	1		59	16	-43
	0.04	0.08	0.04		0.61	0.19	-0.42
Punjab	326	245	-81		381	738	-357
	38	16	-22		44	49	5
	2.75	2.04	-0.71		5.31	6.69	1.38
Uttaranchal	23	82	59		13	120	107
	50	38	-12		27	56	29
	0.20	0.68	0.48		0.18	1.08	-0.9

Haryana	330	512	182		286	573	287
	40	41	1		34	46	12
	2.79	4.26	1.47		3.99	5.19	1.2
Rajasthan	581	1102	521		415	475	60
	55	60	5		39	26	-13
	4.91	9.16	-4.25		5.78	4.30	-1.48
Uttar Pradesh	978	973	-5		626	1023	397
	43	36	-7		28	37	9
	8.27	8.09	-0.18		8.73	9.27	0.54
Bihar	222	138	-84		154	193	39
	53	39	-14		37	55	22
	1.88	1.14	-0.74		2.15	1.74	-0.41
Assam	20	11	-9		40	72	32
	33	11	-22		66	68	2
	0.17	0.09	0.08		0.56	0.65	.09
West Bengal	264	410	146		522	897	375
	29	25	-4		57	54	-3
	2.23	3.41	1.18		7.27	8.13	0.86
Jharkhand	10	13	3		43	28	-17
	17	25	8		72	53	-19
	0.08	0.11	0.03		0.60	0.25	- .35
Orissa	113	56	-57		84	220	136
	37	13	-24		28	49	21
	0.96	0.47	0.49		1.17	2.00	0.83
	141	49	92		165	58	-107

Chattisgarh	32	32	0		38	38	0
	1.19	0.41	-0.78		2.30	0.53	1.77
Madhya Pradesh	298	188	-110		348	470	122
	38	23	-15		44	56	12
	2.52	1.56	-0.96		4.84	4.26	-0.58
Gujarat	177	129	-48		545	556	11
	21	13	8		64	58	-6
	1.50	1.08	-0.42		7.58	5.04	-2.54
Maharashtra	331	208	-123		816	803	-13
	14	9	5		34	34	0
	2.80	1.73	-1.07		11.36	7.27	-4.09
Andhra Pradesh	3703	4031	328		958	2506	1548
	67	49	-18		17	31	14
	31.31	33.52	-2.21		13.34	22.71	9.37
Karnataka	340	599	259		262	752	490
	36	28	-8		28	35	7
	2.87	4.98	2.11		3.65	6.81	-3.16
Kerala	2100	937	-1163		1011	603	-408
	35	13	-22		17	8	-9
	17.75	7.79	-9.96		14.09	5.47	-8.62
Tamil Nadu	1804	2314	510		411	814	403
	64	60	-4		15	21	6
	15.26	19.24	3.98		5.72	7.38	1.66
Other States	62	13	-49		42	81	39
	41	9	32		28	54	26

	0.52	0.11	0.41		0.59	0.74	0.15
Total	11827	12026	199		7180	11035	3855
	44	33	11		27	30	3
	100	100	-------		100	100	--------

Source: Generated from the citing of Chandrasekhar- 2014

Note : 1. For each state the first row is the quantum of outstanding debt in Rs. Crore, the second row is the row percentage and the third row is the column percentage.

2. (-) refers to decrease

It is visible from the above table (No. 4.20) that during 2004-2005 to 2009-10, some of the states were able to cut down both the share of moneylender and other non-institutional sources in terms of quantum of amount in rural labour households. In Kerala, it was found that the share of moneylenders in rural labour households were heavily brought down by Rs.1163 crore from 2004-05 to 2009-10 along with the reduction in other non-institutional sources by Rs.408 crores though the total share of moneylender in terms of quantum of money during those periods was accelerated with a slight increase of Rs. 199 crore i.e. an increase of 1.68 percent over 2004-05, an average increase of 0.084 percent was observed. The total share of moneylenders had come down from 44 percent to 33 percent i.e. by 11 percent during those periods. The states which were able to cut down the share of moneylenders during 2004-05 to 2009-10 , in terms of quantum of money, were: Punjab- by Rs. 81 crore, Uttar Pradesh – by Rs. 5 crore, Bihar- by Rs. 84 corer, Madhya Pradesh – by Rs. 110 crore.

The major increase in the share of moneylenders and other non-institutional sources in rural labour households, in terms of amount of money during 2004-05 to 2009-10 was observed in Uttaranchal – by Rs.59 crore & 107 crore, Hariyana –by Rs. 182 crore & Rs. 287 crore, Rajasthan- by Rs. 521 crore & Rs. 60 crore, West Bengal – by Rs. 146 crore & Rs. 375 crore, Andhra Pradesh – by Rs. 328 crore & Rs. 1548 crore, Karnataka- By Rs. 259 crore& Rs. 490 crore and Tamil Nadu- by Rs. 510 crore & Rs. 403 crore respectively. But it was also found that in states like West Bangal, Chattisgarh, Andhra Pradesh, Tamil Nadu, though the share of moneylenders increased in terms of quantum of money but the percentage share in terms of sources i.e., formal, moneylender and other non-institutional sources, had come down from their position in 2004-2005 and in 2009-10 which implied that an increase in quantum of money does not necessarily mean that the percentage of share in all sources will increase.

4.11. Redemption of Informal Credit (Debt Waiver & Debt Swapping): The Union Finance Minister in his budget announcement in the year 2008-2009 said "*Banks will be encouraged to embrace the concept of 'Total Financial Inclusion'. Government request all scheduled commercial banks to follow the example set by some public sector banks and meet the entire credit requirements of SHG members, namely (A) Income generation activities (b) Social needs like housing , education, marriage etc. and (c) debt swapping*". The Committee on comprehensive financial service for small business and low income households opined that the relief to small farmers for benefitting them, in any form, should directly given to their bank account and not through the mechanism of interest subvention or debt waivers to ensure the ability of banking system to price loans in a sustainable manner and to maintain the credit discipline amongst the borrowers by making a mandatory requirement of reporting of all defaults to the credit bureaus which keep data of credit history of borrowers. They cited the report of Canara Bank which stated that by using CIBIL data Canara Bank was able to reduce the NPA levels of their retail assets portfolio (More, 2014).

Measures were taken by the commercial banks and RRBs and they offered the scheme to finance the poor farmers for paying off their debts which were taken from the informal sources such as moneylenders, pawnbrokers, dealers of fertilizers, and dealers of farm inputs. This debt swapping scheme was taken for swapping the loans taken from the moneylender, for redemption of debt from informal / private moneylenders and for making the village moneylenders free. In this regard, NABARD developed Krishak Sathi Scheme, a debt refinance product, in order to encourage bankers. But it was found that the scheme of debt swapping had a limited success as the borrowers were not in a position to disclose the names of informal credit providers for various reasons and the borrows were hesitant to make payment of their existing debt to their lenders. Instead of taking benefits of debt swapping scheme, some borrowers had paid their debt which he took from informal sources by using their Kishan Credit Card limit.

The task force on credit related issue of farmers observed that the farmer had accessed debt relief schemes of government but not in relation to free them from their debts to moneylenders. The reason of this attitude of borrows could be the lack of adequate recorded proof of the debt and the unwillingness of borrowers to report about the debt taken from the moneylenders and due to that these channels had become chocked. Debt Swapping Scheme had helped few farmers but banks expressed their difficulties in identifying such borrowers and scaling up the scheme. No one knows whether the benefitted borrowers again had knocked the door of informal moneylenders or not (U.C. Sarangi, 2010).

4.12: Conclusion: The above literature sources and the data cited to illustrate the extent of formal and informal loan disbursement to rural and urban population of India. Disaggregating at the level of social and backward classes has also been shown and the observations based on the tables are interesting:

1. Indian credit market is divided into two main sectors, i.e., i) credit issues by formal institutions and ii) credit issued in informal way by other than formal institution which is known as informal credit providers. The co-existence of both formal and informal credit has been observed in the same market. The estimation of exact involvement of informal credit is very hard to determine but approximately 20% of the commercial credit outstanding in various market are from informal sources of credit.

2. The dominant Indian informal credit providers were: Shikarpuries or Multanies (self service bank of Sind) in South India, Rostogies in Uttar Pradesh, Marwaris in Eastern India. The main three functions of these informal credit providers were: i) taking deposit and extending credit, ii) using own reserves for providing credit, iii) brokers were used as intermediary between provider and borrowers. The small borrowers, always, had to pay high rate of interest on their loans than the large borrowers in informal credit market.

3. The maximum loans in institutional sector i.e., in formal sector were found ‘below the rate of interest 20% per annum’ category where as ‘no interest’ loans found dominant in non-institutional, i.e., informal sector in urban India. The main sources of these ‘no interest’ loans are the loans taken from relatives and friends. But, in case of rural India, the dominant rate of interest in informal sector was found ‘30% and above per annum’

category implies that the rural Indian people who depend up on the informal credit sources pay higher rate of interest for their loans.

4. Considering the volume of credit it was observed that the institutional credit i.e., formal credit is the priority of Indian poor irrespective of urban and rural area and as the holding of household assets increases, the volume of non-institutional, i.e., informal credit decreases in rural India which leads to the conclusion that in rural an inverse relation exists between the household asset holding and the volume of informal or non-institutional credit.

5. Considering the agency-wise loans to small borrowers, it was observed that informal sector i.e., non-institutional agencies dominated the Indian credit market till 1971 and the positive effect of Nationalisation of scheduled commercial banks in 1969 had been observed through the domination of institutional sector in the Indian credit market during 1971 to 2012. But, in no case the, the share of non-institutional sector (informal sector) was reduced less than 36% implies that Indian poor depends heavily on the non-institutional credit and the role of moneylender had always been effective for providing loans to Indian poor.

6. In case of share of credit of the urban India the institutional agencies found dominating the credit market in both the years i.e., in 2002 and 2012 than non-institutional agencies. The share of informal agencies decreased during 2002 to 2012 by more than 9% (24.9-15.5) and the reduction in share of moneylender as well as the relatives & friends was also found during 2002 to 2012 by nearly 3%. The Incidence of indebtedness in rural India was dominated by non-institutional sector than institutional sector. The same (IOI), in case of urban India, was dominated by institutional sector than informal sector. In both rural and urban India, Scheduled Castes and other backward class communities found more interested in taking loans from informal sectors, and the other communities than SC, ST and OBC found to be more interested in taking loans from institutional i.e., formal sector. The average amount of cash borrowing per household was found more in case of formal agencies for both rural and urban India. The percentage of credit in dalit’s households found dominated by the informal sources of credit in both the years 1991-92 and 2002-03.

7. The repayment of debt is always an important issue in relationship between lender and borrowers. The conflict between lenders and borrowers on repayment was observed in pre-

colonial periods also, when that conflicts was adjudicated by the panchayat or village council. The practice of limited liability was also found in pre-colonial setting with the ceiling of the amount of penalty for non-repayment. Two ancient rule : i) Damdupat and ii) Pious obligation were applied for the settlement of recovery of debt. It was also observed that more the unfavourable terms of credit from informal lender than the formal lending agency, better is the chance of timely repayment. The higher rate of interest reduces repayment in formal sector but the same improves the repayment in informal sector. It was also found that the average amount of repayment is more in case of formal sector than informal sector for both rural and urban India.

8. While considering the redemption of informal credit it was observed that the scheme which was offered by the commercial banks and the RRBs for swapping the loans taken from moneylenders, pawnbrokers, dealers of fertilizers, dealers of farm inputs etc. to make the village moneylenders free, was found with limited success due to the attitudes of the borrowers as they did not want to disclose the names of informal borrowers for various reasons. It was also evident that some borrowers had paid their informal loans by using Kishan Credit Card instead of taking the benefits of debt swapping.

In previous two chapters the discussions and conclusions were based on the formal and Informal Credit markets of India. But before observing the socio-economic condition of small borrowers in the study area, it is better to discuss the conditions of small borrowers in West Bengal. Next chapter (V) ‘Small Borrowers and the Credit Market in West Bengal’ has been given for better understanding of the formal as well as informal credit activities in West Bengal in which the study area is located.