

Chapter –VII

Assessment of Interest Rate, Preference of Source of Loan, Preference Shifting of Source of Loan and Utilisation of Informal Credit in the Study Area

7.01: Segregation of small borrowers on the basis of rate of interest: There are various rates of interest in the market which are charged by the lenders to the borrowers. The rate of interest on loan varies from lender to lender and borrower to borrower depending on various criterion framed by the loan providers. According to Table (No. 7.01) below, it was found that 244 number of small borrowers had taken 442 number of loans from formal and informal sources. In all cases, the interest was charged on loans in reducing balance method. In case of Commercial Banks, Co-operatives, and non-banking Financial Institutions and Micro Finance Institutions charged interests on per annum basis and in case of SHGs, the fixed rate of interest is charged on monthly balances. The same method like SHGs is also applied by the informal lenders. The findings below have been derived block-wise and interest rate wise (Table No. 7.01).

i). Matigara block:

- a). It was found that 47 respondents had taken 68 number of loans on which '0%' interest was paid for 5 numbers of loans. Out of these 5 loans, 1 loan was taken from office (trade Union which has been considered as loan from friends in this study) and all 4 loans were taken from relatives.
- b). There were 13 number of loans on which more than 36% p.a. interest was paid by the borrowers. All these loans were informal loans. Out of these 13 informal loans, 11 loans were taken from moneylenders and 2 loans were taken from Local Organising Committee.
- c). There were 15 number of loans for which the interest rate was 'more than 6% p.a. but less than or equal to 12% p.a.', of these 15 loans, 12 loans were taken from SHGs, 2 loans were taken from Cooperative Societies and only 1 loan was taken from Commercial Bank.
- d). It was found that 17 number of loans were taken against the rate of interest which was 'more than 12% p.a. but less than or equal to 18% p.a.' Only 1 loan out of these 17 loans

was taken from Co-operative society and all other 16 loans were taken from Regional Rural Banks and Commercial banks.

e). In case of the rate of interest of ‘more than 18% p.a. but less than or equal to 24% p.a.’ there were 16 number of loans. Out of these 16 loans - 4 loans were taken from informal sources of which 3 loans were taken from Local Organising Committees and 1 loan was taken from moneylender (who is also a relative of borrower). All other 12 loans were taken from formal sources. Out these 12 formal loans, 8 loans were taken from commercial banks, 2 loans were taken from MFIs and 2 loans were SHG loans.

f) It was found that in between the interest rate ‘more than 24% but less than or equal to 36% p.a.’ there were 2 number of loans. Out of these 2 loans, 1 was taken from SHG and another was taken from moneylender.

Here, it must be mentioned that the highest rate of interest on loan found in this block was 2% per day (included in the table in more the 36% p.a. interest category) which was charged by one moneylender to a borrower who was by profession a Fish Seller in Shivmandir Market area in Matigara block. This confirms the finding of Chakraborty (2015) in the area of Kolkata and North 24 Paraganas where he found that the day basis rate of interest charged by informal lenders at the rate of 10% per day from the borrowers.

In case of Matigara block the maximum number of loans, i.e., 17 loans were in between ‘more than 12% p.a. but less than or equal to 18% per annum’.

ii) NaxalbariBlock:

a). It was found that 41 respondents had taken 79 number of loans on which ‘no interest’ was paid for 9 numbers of loans. Out of these 9 loans, 8 loans were informal loans and were taken from relatives and friends and they charged no interest on these loans, and only single loan was taken from Provident Fund of the borrower. For taking loan from the Provident Fund, the borrower has no need to pay interest, but, as the loan is extended from borrower’s own accumulation in provident Fund, the borrower has to face the loss of the amount of interest which he would get if the loan amount would not have been withdrawn from his provident fund account.

b). There were 8 number of loans on which more than 36% p.a. interest was paid by the borrowers. All these loans were informal loans. Out of these 8 informal loans, 7 loans were taken from moneylenders and 1 loan was taken from Local Organising Committee.

c). There was only 1 number of loan in between rate of interest 'more than 6% p.a. but less than or equal to 12% p.a.' which was taken from SHG.

d). It was found that 17 number loans were taken in between the rate of interest 'more than 12% p.a. but less than or equal to 18% per annum'. Only 1 loan, out of these 17 loans was taken from Cooperatives Society and all other 16 loans were taken from RRB & Commercial Banks.

e). In case of the rate of interest in between 'more than 18% p.a. but less than or equal to 24% per annum', there were 35 loans. Out of these 35 loans, 1 loan was taken from informal source-Local Organising Committee, and all other 34 loans were taken from formal sources. Out these 34 numbers of formal loans, 15 loans were taken from commercial banks, 6 loans were taken from MFIs and 13 loans were taken SHGs.

f) It was found that in between the interest rate 'more than 24% but less than or equal to 36% per annum', there were 9 number of loans. Out of these 9 loans, 2 number of loans were taken from SHGs and 7 number of loans were taken from MFIs.

In case of Naxalbari block, the maximum number of loans i.e., 35 numbers loans were in the category of 'more than 18% p.a. but less than or equal to 24% per annum' rate of interest which was primarily charged by formal sources.

iii). Khoribari Block:

a). It was found that 51 respondents had taken 97 numbers of loans on which '0%' interest was paid for 4 loans. Out of these 4 loans, 3 loans were taken from informal sources, i.e. friend and relatives and 1 loan was taken from Provident Fund.

b). There were 13 number of loans on which more than 36% p.a. interest was paid by the borrowers. All these loans were taken from informal sources. Out of these 13 informal loans, 7 loans were loans were taken from moneylenders and 6 loans were taken from Local Organising Committees.

c). There were only 2 number of loans in between rate of interest 'more than 6% p.a. but less than or equal to 12% p.a.' of which one loan was taken from SHG and the other one was from MFI.

d). It was found that 3 number loans were taken in between the rate of interest 'more than 12% p.a. but less than or equal to 18% p.a.' of which 1 loan each was taken from RRB, Insurance Company and Commercial Bank.

e). In case of the rate of interest in between' more than 18% p.a. but less than or equal to 24% per annum', there were 62 number of loans which were taken from formal sources. Out these 62 number of formal loans, 16 loans were taken from Commercial Banks and 46 loans were taken from SHGs.

f) It was found that in between the interest rate 'more than 24% but less than or equal to 36% p.a.' there were 13 number of loans. Out of these 13 loans, 6 loans were taken from informal sources. Out of the 6 informal loans, 5 loans were taken from Local Organising Committees and 1 loan was taken from moneylender. Other 7 loans were taken from formal sources. Out of these 7 formal loans 6 numbers of loans were taken from MFIs and 1 loan was taken from Commercial Bank.

In case of Khoribari block the maximum number of loans, i.e., 62 number of loans were in between 'more than 18% p.a. but less than or equal to 24% p.a.' rate of interest category and maximum number of loans were taken from SHGs.

iv). Phansidewa block:

a). It was found that 50 respondents had taken 93 number of loans on which '0%' interest was paid for 10 number of loans. Out of these 10 loans, 9 number of loans were taken from informal sources. Out of these 9 number of informal loans, 7 loans were taken from relatives and friends and 2 loans were taken from neighbour by providing them the right of using land. For taking the right of use of the land the lender did not give any money to the borrower but extended the loan with 0 % interest which the borrower must return after the specific time schedule. The only 1 formal loan was taken from Provident Fund.

b). There were 6 number of loans on which more than 36% p.a. interest was paid by the borrowers. Out of these 6 loans, 5 loans were taken from moneylenders and 1 loan was taken from Local Organising Committee.

c). There were 9 number of loans in between rate of interest ‘more than 6% p.a. but less than or equal to 12% p.a.’ and all these loans were taken from SHGs.

d). It was found that 3 number loans were taken in between the rate of interest ‘more than 12% p.a. but less than or equal to 18% per annum’, of which 1 loan was taken from Commercial Bank and other 2 loans were taken from MFIs.

e). In case of the rate of interest in between’ more than 18% p.a. but less than or equal to 24% p.a.’, there were 57 numbers of loans which were taken from formal sources. Out these 57 numbers of formal loans, 27 loans were taken from Commercial Banks, 24 numbers of loans were taken from SHGs and 6 numbers of loans were taken from MFIs.

f) It was found that in between the interest rate ‘more than 24% but less than or equal to 36% p.a.’, there were 8 number of loans. All these 8 loans were taken from the formal sources, 5 loans were taken from MFIs and 3 loans were taken from RRBs and Commercial Banks.

In case of Phansidewa block the maximum number of loans, i.e., 57 number loans were in between ‘more than 18% p.a. but less than or equal to 24% p.a.’ rate of interest category and maximum number of loans were taken from SHGs, similar to Khoribari block.

iv) Siliguri Municipal Corporation:

a). It was found that 55 respondents had taken 105 number of loans on which ‘0%’ interest was paid for 12 number of loans. All of these 12 loans were taken from informal sources. Out of these 12 number of informal loans, 3 loans were taken from relatives and friends and 9 loans were taken from the employers of the borrowers.

b). There were 4 number of loans on which more than 36% p.a. interest was paid by the borrowers. All these loans were informal loans. Out of these 4 informal loans, 3 loans were taken from moneylenders and 1 loan was taken from Local Organising Committee.

c). There were 34 number of loans in between rate of interest ‘ more than 6% p.a. but less than or equal to 12% p.a.’ and out of these 34 number of formal loans, 33 number of loans were taken SHGs and only 1 loan was taken from Commercial bank.

d). It was found that 6 number loans were taken in between the rate of interest 'more than 12% p.a. but less than or equal to 18% per annum'. All of these 6 loans were taken from RRBs and Commercial Banks.

e). In case of the rate of interest in between' more than 18% p.a. but less than or equal to 24% p.a.', there were 34 number of loans, of which 33 number of loans were taken from formal sources and 1 loan was taken from informal source - Local Organising Committee. Out of 33 number of formal loans, 23 loans were taken from RRBs and Commercial Banks, 7 number of loans were taken from SHGs and 3 number of loans were taken from MFIs.

f) It was found that in between the interest rate 'more than 24% but less than or equal to 36% p.a.' there were 4 number of informal loans. Out of these 4 informal loans, 3 loans were taken from moneylenders and 1 loan was taken from Local Organising Committee.

In case of the area under Siliguri Municipal Corporation, the maximum number of loans, i.e., 34 number of loans were found in between 'more than 6% p.a. but less than or equal to 12% p.a.' and 'more than 18% p.a. but less than or equal to 24% p.a.' rate of interest category and maximum number of loans were taken from SHGs.

Thus, aggregating over all the blocks, it was found that the maximum loans were taken under the modal range of rate of interest - 'more than 18% p.a. but less than or equal to 24%p.a.' In this category there were 204 number of loans, i.e., 46.16% of the total 442 loans which were taken by the 244 respondent small borrowers. Loans under all other categories except 'more than 6% p.a. but less than or equal to 12% p.a.' were less than 11% of the total loans, individually. Therefore, it can be pertinently said that the concentration of rate of interest of taking loan by the small borrowers stay in between **'more than 12% per annum but less than or equal to 24% per annum' category.**

Table 7.01: Rate of Interest Paid by the small borrowers (Considering number of loans)

	HH surveyed	0% p.a. to less than or equal to 6%	More than 6% p.a. to less than or equal to 12%	More than 12% p.a. to less than or equal to 18%	More than 18% p.a. to less than or equal to 24%	More than 24% p.a. to less than or equal to 36%	More than 36%	Total No of loans
Blocks	Number of Loans							
Matigara Block		5	15	17	16	2	13	68
Lender-wise breakup: Total No. of Formal loan : 45 Total No of Informal loan : 23	47	RF- 5;	SHG- 12; Co-op- 2; RRB & CB- 1	Coop- 1 RRB & CB- 16	ML- 1; LOC-3 MFI- 2; SHG-2 RRB & CB- 8	SHG-1 ML- 1	ML-11 LOC-2	LOC-5 ML- 13; RF-6; CB-25; MFI-2; SHG-15; Co-op- 3
Naxalbari Block		09	01	17	35	9	8	79
Lender-wise breakup: Total No. of Formal loan : 62 Total No of Informal loan : 17	41	RF-8 PF- 1	SGH-1	RRB & CB-16 Coop-1	LOC-1; MFI-6; SHG-13 RRB & CB-15	MFI-7 SHG-2	ML-7 LOC-1	LOC-2; ML-7;RF-8; PF-1; SHG-16; Coop- 1 RRB & CB-31; MFI-13
Khoribari Block		4	2	3	62	13	13	97
Lender-wise breakup: Total No. of Formal loan : 75 Total No of Informal loan : 22	51	RF-3 PF-1	MFI-1 SHG-1	RRB & CB-2 INSU-1	SHG-46 RRB & CB-16	LOC-5 ML-1 MFI-6 RRB &CB-1	LOC-6 ML-7	LOC-11; ML-8; RF-3 RRB & CB-19; MFI-7 SHG-47; PF-1; INSUR-1
Phansidewablock		10	9	3	57	8	6	93
Lender-wise breakup: Total No. of Formal loan : 78 Total No of Informal loan : 15	50	RF-7 NBR-2 PF-1	SHG-9	MFI-2 RRB &CB-1	SHG-24 MFI-6 RRB & CB 27	MFI-5 RRB & CB-3	ML-5 LOC-1	RF-7; ML-5; LOC-1; NBR-2; MFI-13; RRB & CB- 31 SHG-33; PF-1
Siliguri Municipal Corporation		12	34	6	34	15	4	105
Lender-wise breakup: Total No. of Formal loan : 88 Total No of Informal loan : 17	55	EMP-9 RF-3	SHG-33 RRB & CB-1	RRB & CB- 6	LOC-1 MFI-3 SHG-7; RRB & CB- 23	MFI-11 RRB & CB -4	LOC-1 ML-3	EMP-9; RF-3; LOC-2 ML-3; MFI-14 RRB & CB- 34 SHG-40

Total		40 (9.05%)	61 (13.80%)	46 (10.41%)	204 (46.155%)	47 10.63%	44 9.955%	442 (100%)
Lender-wise breakup: Total No. of Formal loan : 348 Total No of Informal loan : 94	244	RF-26; NBR-02; PF-3; EMP-9	SHG-56; COOP-2; RRB & CB-2 MFI-1	COOP-1 RRB & CB-41 INSU-1; Coop-1 MFI-2	ML-1; LOC-5 MFI-17; SHG-92; RRB & CB-89,	LOC-5; ML-2; SHG-3; MFI-29; RRB & CB- 8	LOC-11; ML-33	ML-36; LOC-21; RF-26; EMP-9; NBR-02; PF-3; SHG-151; COOP-4; RRB & CB-140; MFI-49; INSU-1

Source: Survey data. Note: ML- Moneylender; LOC- Locally Organised Committee; RF- Relative and Friends; TU- Trade Union; NBR- Neighbour; EMP- Employer; PF- Provident Fund; SHG- Self Help Group; Coop- Cooperative Society/ Bank; RRB & CB- Regional Rural Bank and Commercial Banks; MFI- Micro finance Institutions; INSU- Insurance Company.

7.02: Income generation through loan utilisation: The generation of income using the loan amount by the small borrowers were analysed by taking two indicators in this study: i) The responses of the borrowers were recorded by asking them a question that whether they were able to generate income by using the loan amount or not? ii) What was the quantum of generation of income per month by utilising the loan amount? Some interesting results were obtained and that can be observed from the tables (No.7.02 and No. 7.03) below:

Table 7.02: Response of income generation by using loan amount

Blocks	HH Surveyed	Responses		
		Positive	Negative	No response
Matigara Block	47	28	11	8
Naxalbari Block	41	32	9	0
Khoribari Block	51	41	10	0
Phansidewa Block	50	31	19	0
Siliguri Municipal Corporation Area	55	44	11	0
Total	244	176	60	8
% on total	100%	72.13%	24.59%	3.28%

Source: Survey data.

7.02.01: Response of respondent on income generation by using loan amount: From the above table (No. 7.02) it was found that 72.13% of the total respondent borrowers responded positively that they utilised the loan amount for income generation purpose and 24.59% of the total borrowers responded negatively that these borrowers did not use the amount of loans to generate income. Only 8 borrowers out of total 244 respondent small borrowers did not give any response on this matter. It was also observed that there were few borrowers who invested their loan amount for income generation purpose but due to loss in business, loss in cultivation etc., they were, sometimes, unable to generate steady monthly income every month. Further, that the majority of the borrowers took loans for

generating income and they increased their monthly family income by utilising the loan amount in some activity of income generation. The quantum of generation of income per month which was generated by the small borrowers by utilising loan amount can be observed as explained below:

7.02.02: Quantum of Income generation per month by utilising loan: Quantum of income generation by utilising the loan amount was observed by categorising the monthly incomes of the small borrowers in five categories, viz. i) no generation of income, ii) generation of income per month at the level of less than Rs. 1000/-, iii) generation of income per month at the level of more than or equal to Rs 1000 but less than Rs. 5000/-, iv) generation of income per month at the level of more than or equal to Rs 5000 but less than Rs.10,000/-, and v) generation of income per month at the level of more than Rs. 10,000/-. It was found (table No. 7.03) that:

i). Out of 244 respondent small borrowers 74 borrowers were unable to generate any monthly income by using the loan amount and out of these 74 borrowers, 60 borrowers did not use their loans in income generation activities (table No. 7.09.01) and the rest 14 borrowers invested their loans in income generation activities but were unable to earn any income due to loss in business, loss in cultivation etc. This 'no generation of monthly income' claims 30.33% of the total respondents (table No. 7.03).

ii). It was noticed that maximum number of borrowers (99 borrowers) belonged to the income generation group 'more than Rs. 1000/- but less than Rs. 5000/-'. This group claimed 40.57% of the total 244 small respondent borrowers. In 'more than Rs. 10000/- income generation per month' category, only 17 borrowers were found which was only 6.97% of the total borrowers.

The interesting observation from the above table (No. 7.03) was:

In case of 'no generation of income', there were 74 number of borrowers and out of these 74 borrowers, 44 belong to SC category, 1 borrower belongs to ST category and rest 29 borrowers belong to 'other categories'. It was observed that in case of 'no generation of income' by using loan amount, SC, ST borrowers were more than other category of borrowers but the scenario was completely reverse in the category of income 'more than Rs. 10,000/-' per month group. In this group, there were 17 borrowers and out of these 17 borrowers only 2 borrowers belonged to SC category and other 15 borrowers belonged to

‘others’ category. But the observation in case of income generation group –‘more than Rs. 1000 but less than Rs. 5000/-’ per month was that, out of total 244 borrowers, 47 borrowers were included in this income generation group, of which 50 borrowers belonged to SC category, 1 borrower belonged to ST category and 48 borrowers belonged to ‘other’ category.

Table 7.03: The quantum of Income generation per month by utilising loan

Range of generation of monthly Income	No generation of Income			Less than Rs. 1000			Rs. 1000 to Rs. 5000			Rs. 5000 to Rs. 10000			More than Rs.10000			Total
	SC	ST	Others	SC	ST	Others	SC	ST	Others	SC	ST	Others	SC	ST	Others	
Blocks:																
Matigara Block	9	0	8	0	0	1	6	0	8	4	0	7	1	0	3	47
Naxalbari Block	8	0	4	0	0	1	6	0	11	1	0	3	1	0	6	41
Khoribari Block	10	1	1	2	0	0	20	1	3	10	1	1	0	0	1	51
Phansidewa Block	15	0	7	1	0	0	14	0	7	4	0	2	0	0	0	50
Siliguri Municipal Corporation	2	0	9	0	0	2	4	0	19	0	0	14	0	0	5	55
Sub-total	44	1	29	3	0	4	50	1	48	19	1	27	2	0	15	244
Total	74			7			99			47			17			244
% on Total (244=100%)	30.33%			2.87%			40.57%			19.26%			6.97%			100%

Source: Survey data

7.03: Preference Shifting of source of loan: Borrowers take loans for their need and after taking loan they utilised it for the purpose for which they had the need, i.e., loan amount helps to satisfy their needs. The borrowers satisfy their various needs by taking loans from different sources, different concerns. Taking of loans by the borrowers from a source or concern and providing of loans to borrowers depend upon various factors. Borrowers calculate the advantage of taking loan from any source or provider and on the basis of their calculation they go for taking loan from a concern. In this study, the reason for shifting loans from one source to another source and one concern to another concern has been considered by taking the following parameters: frequency of loans taken by respondent, using of sources of taking loans whether single source has been used for or loan has been taken from multiple sources, nature of shifting preference of loan between different sources, and, the reason of shifting preference of source of loan from one source to another.

7.03.01. Frequency of loan taken: The number of loans, taken by the borrowers, was found by taking two parameters: borrowers who had taken single loan and the borrowers who were habitual borrowers and had taken multiple loans. It was observed that (table 7.04) only 35 borrowers out of 244 borrowers, took loans for the first time and rest 209 borrowers took loans frequently. It was found that around 86% of the total respondents took loans multiple times. The interesting result that have come out from the table (No. 7.04) is that in all blocks ‘multiple loan taker’ was found to be more than 85% and ‘single loan taker’ was found to be less than 15% in all other blocks except Naxalbari Block, where it was found to be 19.51%.

Table 7.04: Frequency of loans taken by respondents:

Frequency of Loans taken	Matigara Block		Naxalbari-Block		Khoribari Block		Phansidewa Block		Siliguri Municipal Corporation Area		Total	
	Respondents											
	No	%	No	%	No	%	No	%	No	%	No	%
	6	12.77	8	19.51	7	13.73	9	18	5	9.09	35	14.34

Single												
Multiple	41	87.23	33	80.49	44	86.27	41	82	50	90.91	209	85.66
Total	47	100	41	100	51	100	50	100	55	100	244	100

Source: Survey data.

7.03.02. Frequency of using of source of credit: It was found (table No 7.05) that 98 borrowers out of 244 respondent borrowers took loans from only single source, i.e. 40.16% of the total borrowers use single source for their loans. In this study, single source does not imply that the borrower took loans from only one loan provider rather the borrower could have taken loans from different loan providers under the sources. For example, one borrower who borrowed only from micro finance implied that the borrower used only one source for taking loans i.e. microfinance, but the borrower could have taken loans from different microfinance companies. In the table (No. 7.05), the data of using ‘source of credit’ had been shown and not the data of credit ‘provider’. Here ‘source of credit’ has been taken as broad one and in the source there may be numerous providers of credit. It was also observed that 146 out of 244 respondent borrowers took loans from different sources, i.e. approximately 60% of the total borrowers used different sources for getting their loans.

Table 7.05: Distributions of loans considering different sources

Frequency of Loans taken	Matigara Block		Naxalbari-Block		Khoribari Block		Phansidewa Block		Siliguri Municipal Corporation Area		Total	
	Respondents											
	No	%	No	%	No	%	No	%	No	%	No	%
Taken only from single source	30	63.83	11	26.83	16	31.37	19	38	22	40	98	40.16
Taken from different sources	17	36.17	30	73.17	35	68.63	31	62	33	60	146	59.84
Total	47	100	41	100	51	100	50	100	55	100	244	100

Source: survey data

7.03.03: Nature of shifting preference of source of loan: The nature of shifting preference of loan can be in between the sources like shifting of preference of loans from formal sources to informal source or informal source to formal source. When the shifting preference of loan is in between different sources it can be named as inter source shifting preference of loan. When the shifting preference of loans takes place in between the credit providers of a single source, like shifting from formal to formal or informal to informal, this shifting has been termed as intra source shifting preference of loan. In this case, the borrowers of a provider under a formal source shift preference of their next loans to another provider of credit under formal sources or the borrowers of informal source shift preference of their loans to another provider of informal source loan. In this case, the borrower can shift his next loan from one provider to another provider of loans under the same source. In a simple way it can be said that when the shifting preference of loans takes place between formal source to informal source or informal source to formal source, then this shifting preference is inter source shifting and when the shifting of loans occur under the same source but in between different provider of the source then it is intra-source shifting preference.

It was observed that there were four types of shifting preference:

1. Shifting preference of loans from one formal source to another formal source
2. Shifting preference of loans from one formal source to one informal source
3. Shifting preference of loans from one informal sources to another informal source
4. Shifting preference of loans from one informal source to one formal source.

Here in this study, the following has been considered as the formal source of credit providers: Banks, Co-operatives, LIC, PF, MFI, SHG and any other sources which have a specific regulation of operation from the part of government. MFIs are also considered as formal credit provider as after Malegam Committee report (2011), the leisure faire of MFIs in India have been restricted by imposing certain specific regulation on their various activities. The informal providers who have been considered here are: the landlords/ employers, moneylenders, local organising committee for loans, friends and relatives and other sources which are purely of informal nature, i.e. no regulation is required in their formation and activities. These providers of credit of informal sources work as per their whims and there are no bindings on any of their activity at all.

Here it must be mentioned that, while finding the shifting preference of loan sources, the new loan that the borrower had taken by shifting the source or the provider of the loan, only that had been considered. The borrower, who took further loan from the same provider, did not participate in the process of shifting preference and the preference shifting had been observed only on the basis of number of borrowers who shifted their loans preference from one source to another source or one provider to another provider irrespective of the number of loans that the borrower had taken.

The following table (No. 7.06) has been given to observe the factual data of four blocks and the area under Siliguri Municipal Corporation under the jurisdiction of Darjeeling district on this issue:

Table 7.06: The nature of Shifting Preference of source of loan between different sources

Shifting Preference of sources	Matigara Bloak		Naxalbari-Block		Khoribari Block		Phansidewa Block		Siliguri Municipal Corporation Area		Total	
	Respondents											
	No	%	No	%	No	%	No	%	No	%	No	%
One formal source to another formal source	8	17.02	14	34.15	15	29.41	28	56	28	50.91	93	38.11
One informal sources to another informal sources	2	4.26	0	--	0	---	0	----	0	----	2	0.82
One formal sources to one Informal source	5	10.64	11	26.83	3	5.88	8	16	14	25.45	41	16.81
One informal source to another formal source.	16	34.04	5	12.19	18	35.30	4	8	0	---	43	17.62
No Shifting of	16	34.04	11	26.83	15	29.41	10	20	13	23.64	65	26.64

Preference												
Total	47	100	41	100	51	100	50	100	55	100	244	100

Source: Survey Data

7.03.03.01. Nature of shifting preference of source of loan in Matigara block: It was observed (table No. 7.06) that out of 47 respondent small borrowers 16 borrowers did not participate in preference shifting process, they were either the first time borrowers or the brand loyal type borrowers of any specific loan provider.

It was also observed that 31 number of respondent borrowers participated in preference shifting process of loans sources i.e. the shifting of loans from one source to another source and one provider to another provider. It was found that 16 out of 47 borrowers shifted their previous loans taken under any informal source to any of the above mentioned formal sources, i.e. 34.04% of the total respondent borrower of this block shifted their preference of loans to formal sources from informal sources. There were 8 borrowers i.e. 17.02% of the total respondent of the block, who shifted their preference of loans from one formal source to another formal source, i.e. shifting of preference of loan providers under the formal source and the percentage of shifting of preference of loans from one formal source to another informal source was 10.64% while the percentage for shifting of preference of loans from one informal source to another informal source was 4.26% only. **In this block, major preference shifting of loan was in between one informal source to another formal source.**

7.03.03.02. Nature of shifting preference of loan sources in Naxalbari block: It was observed (table No. 7.06) that out of 41 respondent small borrowers 11 borrowers did not participate in preference shifting of source of loan, i.e. 26.83% of the total respondent of the block did not participate in the preference shifting of loans source. Therefore, the participation percentage in preference shifting of loan sources, in this block, was at 73.17% of the total 41 respondent.

It was also observed that out of this 73.17% of the borrowers who participated in the preference shifting of loan sources, 34.15% of the borrowers shifted their preference of loans from one formal source to another formal source. The percentage of borrowers who shifted their preference of loans from one formal source to one informal source was

26.83% and the percentage of borrowers who shifted their preference of loans from one informal source to another formal source was 12.19%. In this block, no respondent borrower shifted his loan preference to informal source from formal source. **In this block also, the major shifting preference of loan source was in between one formal source to another formal source.**

7.03.03.03. Nature of shifting preference of source of loan in Khoribari block: It was observed (table No. 7.06) that out of 51 respondent small borrowers 15 borrowers did not participate in preference shifting process of sources of loan, i.e. 29.41% of the total respondents of the block did not participate in the preference shifting of source of loan. Therefore, the participation percentage in preference shifting of source of loan, in this block, was at 70.59% of the total 51 respondents.

It was also observed that the percentage of the borrowers who shifted their preference of loans from one informal source to one formal source was 35.30% of the total respondent borrowers of the block. The percentage of borrowers who shifted their preference of loans from one formal source to another formal source was 29.41% of the total 51 respondent. Only 3 borrowers shifted their preference of source of loans from one formal source to one informal source, i.e. 5.88% of the total 51 respondent borrowers and there was no borrower who shifted his/her preference of loan source from one informal loan provider to another informal loan provider. **In this block, the major preference shifting of loan source was in between informal source to formal source.**

7.03.03.04. Nature of preference shifting of source of loan in Phansidewa block: It was observed (table No. 7.06) that out of 50 respondent small borrowers 10 borrowers did not participate in the process of preference shifting of source of loan, i.e. 20% of the total respondent of the block did not participate in the preference shifting process. Therefore, the participation percentage in the process of preference shifting of loan sources, in this block, was at 80% of the total 50 respondent.

It was observed that the percentage of the borrowers who shifted their preference of loans from one formal source to another formal source was 56% of the total respondents while the percentage of borrowers who shifted their preference loans from formal source to informal source was 16% and the percentage of borrowers who shifted their loans to formal source from one informal source was found at 8% only. In this block also, no

borrower was found who shifted preference of loan from one informal source to another informal source. **In this block, the major preference shifting of loan source was found in between formal sources, i.e., one formal source to another formal source.**

7.03.03.05. Nature of preference shifting of source of loan in Siliguri Municipal Corporation area: Out of total 55 respondents, it was found that 13 respondent did not participate in the process of preference shifting of source of loan, i.e. 23.64% of the total respondent of SMC area. The percentage of participation in the process of preference shifting of source of loan in this area was 76.36% of the total respondent borrowers (table No. 7.06).

In the SMC area, there was no borrower who shifted his preference of source of loans from one informal source to another informal source or one informal source to another formal source. Out of 76.36% of the borrowers who participated in shifting of preference of loans from one source to another source or one provider to another provider, 50.91% of the borrowers shifted their preference of source of loan from one formal source to another formal source and 25.25% of the borrowers shifted their preference of sources of loan from one formal source to one informal source. **In this block also, like Naxalbari block and Phansidewa block, the major preference shifting of loan source was in between one formal source to another formal source.**

7.03.03.06. Nature of preference shifting of loan source in the District: As a whole, considering the four mentioned blocks and the area under SMC, it was found that out of 244 respondent borrowers, 65 borrowers did not participate in the process of shifting preference of their loan sources from one source to another source or one provider to another provider. The percentage of the borrowers who shifted preference of their loans: from one formal source to another formal source was 38.11%, from one informal source to another informal source was 0.82%, from one formal source to one informal source was 16.81% and from one informal source to another informal source was 17.62%.

As a whole, the major preference shifting of source of loan was in between one formal source to another formal source (table No. 7.06).

7.03.04. Reason of preference shifting of loan source from one source to another source: The borrowers shift their loans from one source to another source or one provider to another provider due to various reasons which have been discussed below:

i). **The application for loans may not be entertained by the desired source due to some reason or the other which s borrower was incapable of meeting.**

ii). **The process of present loan taking can be less complicated than the process of previous loans.** Through the survey, it was found that the process of obtaining loan from MFIs and SHGs were easier than the process of obtaining loans of commercial banks. This is because in case of MFIs, their staff takes the pain to work out the processing of providing loans. The borrower's duty is to sign only in the loan application form and to provide his/ her 'Aadhar Card'. In case of loan from SHGs, after the formation of group, the borrower has to write one application in the white paper and it is observed that the loan application is also written by the group secretary and the borrower is to put his / her signature only in the application paper.

iii). **The cost of taking loan is also a factor of Preference shifting of source of loans.** The loan provider charges cost of forms, photos of borrower, loan processing fee etc., apart from the interest rate charged from the borrowers. Sometimes, due to these, the effective cost of borrowing from a lender become high, though the rate of interest that the lender charged was low or competitive in the market, but due to other costs, the effective cost of borrowing becomes high and the borrower shifts his loan from the lender to another lender.

iv). **Distance of the borrower and lender is also a factor of the preference shifting of source of loans from one lender to another lender.** Door-step lenders are required by the borrowers in order to save their time and cost of travelling for loan taking. Keeping these reasons in consideration, MFIs have managed to organise their offices in the villages and borrowers meet the staff of the MFIs before and after their work, in a specific centre, to get their loans and to repay their loans. The SHG members are required to call a meeting for getting or providing loans. Normally, every month a meeting is called for issuing loans but in emergent situation the meeting is called any time for providing loans. The distance of the meeting centre plays an important role on presence and absence of the group members but no way has that affected the sanction of loans to the borrower members. Taking the verbal consent of the members over phone and loan is sanctioned by the Secretary of SHG and the members sign on the resolution later. But this process cannot happen in case of taking loans from Commercial Banks, Cooperative etc. In case of taking

loans from these formal institutions, borrowers must visit the institution several times which increase their cost of travelling and thereby the effective cost of taking loans. If the loan providing office, collection centre etc., are at a distant location from where the borrowers reside, they are affected and they are to bear an additional cost of travelling for getting the desired loan, and due to this, the distance between the lenders and borrowers has become one of the reasons of shifting preference of loan from one provider to another provider.

v). **One of the most important reasons of preference shifting of loans from one source to another source or from one provider to another provider is the ‘difference in rate of interest’.** Generally, borrowers are in search of lenders who provide loans at low interest rate. Sometimes, loans in ‘zero rate of interest’ can be availed by the borrowers when it is taken from their relatives and friends. The borrowers after taking loan from one provider, if they find another provider who provides loan at a lower rate of interest than the previous lender, then, they shift to that provider. This shifting of loan is due to the lower rate of interest. There are various interest rates on loans in the market charged by the different loan providers. The borrowers want to get his loan at a lower interest rate, and for this, they shift their loans to the provider who provides loan at lower interest rate than the rate of interest of his previous loan. But, interestingly, it is observed that the shifting of preference of source of loans is not always towards the lower interest rate. In case of SHG member, it is observed that members like to get loans from the Self Help Group in spite of the high rate of interest charged by SHG (2% -3% per month), initially, is higher than their previous lender (17% - 24% Per annum). Here, the factor governing this behaviour is the fact that higher interest will increase their savings in group fund. The word ‘initially’ has been used on the consideration that though the initial rate of interest charged by SHG is higher but the interest that the borrower provides to the group is also a part of the accumulation of group fund in which borrower is also a party (member), i.e., the borrower will get a part of his paid interest back when the fund will be dissolved.

vi). **Collateral security is another factor of taking loans.** For formal loans, from commercial banks, borrower has to deposit collateral security. Now a day, taking loans have become easier for small borrowers who are the SHG members and the clients of MFIs as these providers are providing loans without collateral security. In case of loans from SHGs, a group savings of the borrowers lie with the bank which itself works as

security to the bank and after forwarding the loan amount to the group by the bank, the group distributes the same to its members as loan without taking any further collateral security. In case of loans from the MFIs, the condition of RBI is that no collateral security can be taken by the MFIs from the borrowers for micro loans (Mallegam Committee report-2011).

vii). **Requirement of higher quantum of loans:** Sometimes borrower needs more amount of loans which he receives from one lender, and, for this, the borrower needs to borrow from multiple lenders as one lender is unable to provide the desired loan amount the borrower requires. The MFIs start giving loans to a borrower with a very small amount and gradually increase the amount of loan. In case of the SHGs, the commercial banks also forward less amount of loan to the group in starting days of SHGs and gradually commercial banks provide 'Cash Credit' facility to SHGs and the amount of loan also increases gradually. To get the required amount of loan, borrower may receive loans from multiple loan providers and / or may arrange his/her previous loans, keeping one and stopping one etc. by participating in the process of shifting of loans as loans cannot be taken from more than two MFIs at a time.

viii). **Emergent reason is also one factor of preference shifting loan from one source to another and one provider to another provider.** When emergent reason of taking loans arises, then the borrower thinks only about the money he/she requires, other things like cost of loans, rate of interest of loans etc., do not get any consideration or priority. The emergent reasons are like money required for immediate treatment, obsequies in the family, marriage in the family etc., all such emergent reasons lead the borrower to take loan on an urgent basis without considering the other factors, viz. source of loans, rate of interest on loans, effective cost of loans, etc. The target of the borrower, in emergent situation, is only to get the required amount of money to fulfil the desired emergent purpose.

The reasons mentioned above are not exhaustive. There might be other reasons of shifting preference of loans from one source to another source and one provider to provider. These reasons have been included as 'other reasons' in the tables (No. 7.07 to 7.10) as shown below:

Table 7.07: Reasons of Shifting Preference of Loans from one Formal Source to another Formal Source

Reason of shifting preference of loan source	Matigara Block		Naxalbari Block		Khoribari Block		Phansidewa Block		Siliguri Municipal Corporation Area		Total	
	Respondent											
	No	%	No	%	No	%	No	%	No	%	No	%
Application not entertained by the desired formal source	0	---	2	14.29	2	13.33	0	--	0	---	4	4.30
Less complicated process than previous source	2	25	0	---	0	--	4	14.29	0	---	6	6.45
Less cost of receiving loans	0	---	0	---	0	--	0	--	0	---	0	---
Distance from Home	0	---	0	---	0	--	0	--	0	---	0	---
Difference in rate of Interest (less than previous)	2	25	1	7.14	0	--	10	35.71	23	82.14	36	38.71
Unable to provide collateral security)	0	---	0	---	0	--	0	--	0	---	0	---
Inadequate loan size	4	50	11	78.57	13	86.67	14	50	4	14.29	46	49.46
other reasons	0	--	0	---	0	--	0	--	0	---	0	---
Emergent in nature	0	--	0	---	0	--	0	--	1	3.57	1	1.08
Total	8	100	14	100	15	100	28	100	28	100	93	100

Source: Survey Data

7.03.04.01. The reasons for shifting preference of loan from one Formal source to another Formal source: The reason of shifting preference of loans from one formal source to another formal source can be observed from the above table (No. 7.07). It was found that the total number of borrowers who shifted their loan preferences from one formal source to another formal source was 93, and out of these 93 borrowers, 46 borrowers i.e., around 50% shifted their preference of source of loans due to the reason of ‘inadequate loan size’ than their actual need. 36 borrowers i.e., around 39% shifted preference of source of loan due to ‘difference in interest rate’ and shifted towards the lower rate of interest of loan. Six borrowers shifted their preference of source of loans due to less complicated process of present loan than their previous loan process and 4 borrowers shifted their loans as their applications were not considered by the desired source where they had applied for the loans. It was found that in case of shifting preference of loans from one formal source to another formal source, the main reason was the ‘inadequate loan size’ and for this reason, 50% of the 93 borrowers shifted preference of their source of loans from one formal source to another.

7.03.04.02. The reasons for shifting preference of loan from one Informal source to another Informal source: It was found (table No. 7.08) that the shifting of preference of source of loan from one informal source to another informal source was due to ‘difference in rate of interest’. Only 2 borrowers of Matigara block shifted preference of their loans from one informal source to another informal source and the reason of their shifting was ‘Difference in rate of interest’ (less than previous one).

Table 7.08: The reasons of shifting preference of loans from one Informal source to another Informal source

Reason of shifting preference of loan source	Matigara Block		Naxalbari Block		Khoribari Block		Phansidewa Block		Siliguri Municipal Corporation Area		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Application not entertained by the desired formal source	0	---	0	---	0	---	0	---	0	---	0	---

Less complicated process than previous source	0	---	0	---	0	---	0	---	0	---	0	---
Less cost of receiving loans	0	---	0	---	0	---	0	---	0	---	0	---
Distance from Home	0	---	0	---	0	---	0	---	0	---	0	---
Difference in rate of Interest (less than previous)	2	100	0	---	0	---	0	---	0	---	2	100
Unable to provide collateral security)	0	---	0	---	0	---	0	---	0	---	0	---
Inadequate loan size	0	---	0	---	0	---	0	---	0	---	0	---
Emergent in nature	0	---	0	---	0	---	0	---	0	---	0	---
other reasons	0	---	0	---	0	---	0	---	0	---	0	---
Total	2	100	0	---	0	---	0	---	0	---	2	100

Source: Survey Data

7.03.04.03. The reason of shifting the loan from one Formal source to one Informal source: It was found (table No. 7.09) that a total of 41 respondent borrowers shifted preference of their source of loan from one formal source to one informal source due to various reasons as mentioned in the table. Out of these 41 borrowers, 11 borrowers, i.e., 27% shifted their loan preference to informal source due to the emergent need of loans and 9 borrowers, i.e., 22% shifted their preference of source of loan as they were in need of more money as loans, and for that they took the loan from informal source. Five borrowers, i.e., around 12% shifted their preference of source of loans due to the reason of ‘difference in rate of interest’. They shifted their loan preference towards lower rate of interest. Only 6 borrowers, i.e., around 15% shifted their preference to informal source as

they found the process of getting informal loan was less complicated than the process of getting formal loans. Only 3 respondents stated that they shifted their preference of source of loan to informal source as their applications were not entertained by the desired formal source.

Table 7.09 : Reasons of shifting preference of loan from one formal source to one informal source.

Reason of shifting preference of loan source	Matigara Bloak		Naxalbari-Block		Khoribari-Block		Phansidewa-Block		Siliguri Municipal Corporation Area		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Application not entertained by the desired formal source	2	40	0	---	0	---	1	12.5	0	---	3	7.32
Less complicated process than previous source	0	---	0	---	0	---	6	75	0	---	6	14.63
Less cost of receiving loans	0	---	0	---	0	---	0	---	0	---	0	---
Distance from Home	0	---	0	---	0	---	0	---	0	---	0	---
Difference in rate of Interest (less than previous)	0	---	0	---	1	33.33	1	12.5	3	21.43	5	12.20
Unable to provide collateral security)	0	---	0	---	0	---	0	---	0	---	0	---
Inadequate loan size	2	40	3	27.27	1	33.33	0	---	3	21.43	9	21.95
Emergent in nature	0	--	4	36.37	1	33.33	0	---	6	42.86	11	26.83
Other reason	1	20	4	36.36	0	----	0	--	2	14.28	7	17.07
Self contribution for formal loan	0	---	0	---	0	----	0	---	0	----	0	---
Total	5	100	11	100	3	100	8	100	14	100	41	100

Source: Survey data

The main reason of shifting of preference of source of loans from formal source to informal source was the emergent need of the loan (Table No. 7.09).

Table 7.10: Reason of shifting preference of loan source from one Informal source to one Formal source

Reasons of shifting preference of loan source	Matigara Block		Naxalbari Block		Khoribari Block		Phansidewa Block		Siliguri Municipal Corporation Area		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Application not entertained by the desired formal source	0	----	0	---	0	-----	0	-----	0	-----	0	-----
Less complicated process than previous source	0	----	0	----	0	-----	0	-----	0	-----	0	-----
Less cost of receiving loans	0	----	0	----	0	-----	0	-----	0	-----	0	-----
Distance from Home	0		0	----	0	-----	0	-----	0	-----	0	-----
Difference in rate of Interest (less than previous)	15	93.75	4	80	16	88.89	3	75	0	-----	38	88.37
Unable to provide collateral security)	0	----	0	----	0	-----	0	-----	0	-----	0	-----
Inadequate loan size	0	----	1	20	0	-----	0	-----	0	-----	1	2.33

Emergent in nature	0	----	0	-----	0	----	0	-----	0	-----	0	-----
No specific reason	1	6.25	0	----	2	11.11	1	25	0	-----	4	9.30
Total	16	100	5	100	18	100	4	100	0	-----	43	-----
% on total (43 = 100%)	37.21		11.63		41.86		9.30		0		100	

Source: Survey Data

7.03.04.04. The reason for shifting preference of loan source from one Informal source to a Formal source: It was found (table No. 7.10) that 43 respondent out of 244 shifted their preference of loans to formal source from informal source. Out of these 43 borrowers, 38 borrowers, i.e., around 85% shifted their preference to formal source from informal source due to the reason of difference in rate of interest which was less than the rate of interest of loan charged in informal source for the loan they were having there. 4 number of borrowers shifted their preference of source of loans to formal source due to ‘other reasons’, and due to ‘inadequate size of loan’, only 1(one) borrower shifted his preference of source of loan to formal sector loan provider. Here also, it was found that the main reason of shifting preference of source of loans was ‘difference in rate of interest’ (less than previous one).

7.03.04.05. Analysis of the Process of shifting preference of source of loan: Consolidating the above factual matrix in a single table (Table No. 7.11) to observe the factors determining the shifting preference of source of loan between the sources, i.e., the preference shifting occurs between one formal source to another formal source, one informal source to another informal source, one formal source to one informal source and one informal source to one formal sources. It was found that out of total 244 respondents, 179 respondents participated in the process of preference shifting of loans to the other sources of loans in both intra and inter sources. Out of this 179 respondents, 93 respondents (i.e., around 52%), in total, shifted their preference of source of loan from one formal loan provider to another formal loan provider. Only 2 respondents (i.e., around 1%) shifted their preference of source of loan from one informal loan provider to another informal loan provider. Total 41 respondents (i.e., around 23%) shifted their preference of loans from one formal source to another informal source and total 43 respondents (i.e.,

around 24%) shifted their preference of source of loan from one informal source to another formal source. The maximum preference shifting was occurring between formal sources (providers) followed by informal sources to formal sources, and then, formal sources to informal sources. The preference shifting of source / provider of loans within the informal sources / providers was found to be negligible.

The primary reason of shifting preference of source of loan after considering the intra and inter source shifting between all the sources it was found that 81 out of 179, i.e., around 45% of the respondents shifted their preference of source of loans from one provider/ source to another provider/ source due to the difference of interest rates. The borrowers are inclined towards the provider of lower interest rates and if they find that any provider is providing the credit at a lower rate of interest which the borrower has been bearing, they shifted their preference towards the provider of lesser interest rates for the next loan. In fact, loyalty towards one source or provider cannot be expected from the borrowers since the borrowers will always would like to minimise their burden of taking loan. With improvement in information transfer or rather the information asymmetry in the credit market, it is expected that the choice of source on the part of borrowers will be wider and awareness building among borrowers becoming stronger.

The next reason stated by the small borrowers was the 'Inadequate Loan Size'. It was found that out of 179 respondent who participated in the preference shifting process, 56 respondents, i.e., around 31% of the respondents, showed their reason for shifting preference of loan source as inadequate loans size from one source.

It was found that that due to the complicated process of getting loans few borrows shifted their preference of loan source from one source to another source. Only around 7% of the borrowers who participated in process of shifting preference of their loan source were for this reason. They shifted their source of loans from one formal credit provider to another formal credit provider or from one formal source to another informal source where the complicacy of getting loans was less than what they faced in getting their previous loans.

For emergent purpose, only 12 out of 179 borrowers, i.e., around 7%, shifted their preference of source of loans. This preference shifting mainly occurred from formal to informal sources. Out of 12 respondents who shifted their preference of source of loan

showing the reason that their loans were ‘Emergent in nature’, 11 of them shifted from one formal source to one informal source.

It was further found that out of 179 respondents, only 4% shifted their source of loan showing the reason that their loan applications were rejected by their desired source / provider. In this case also, the shifting of loan source/provider occurred from among formal sources/ providers and from one formal source to informal source.

No borrower showed the reasons ‘Less Cost of Receiving of Loans’, ‘Distance from home’ and ‘Collateral’ for their shifting of loans from one sources to another source. These reasons were not seen by the small borrowers as important reasons of getting and shifting of their source of loan. This is because of the reason that MFIs and SHGs provide loans without collateral security after forming a group of members of women normally from the same locality and the distribution of loans of SHGs were done in a meeting conducted in the member’s house. The Agents and officials of MFIs hand over the cheques of loan in the member’s house and collect the money of instalment of loans from the house of the group members. Due to such activities these reasons were not given due importance by the small borrowers.

Table 7.11: Reason of Shifting Preference of Loan Source

Reason of Shifting of Preference	Nature of shifting preference of source				Total	Percentage of reason on total no. of Preference Shifting
	Formal to Formal	Informal to Informal	Formal to Informal	Informal to Formal		
Application not entertained by the desired formal source	4	-	3	-	7	3.91
Less complicated process than previous source	6	-	6	-	12	6.70
Less cost of receiving loans	-	-	-	-	-	-
	Procedural aspect of loans					

Inadequate loan size		46	-	9	1	56	31.29
Unable to provide collateral security)		-	-	-	-	-	----
Total		56	-	18	1	75	41.90
Distance from Home		-	-	-	-	-	-
Difference in rate of Interest (less than previous)		36	2	5	38	81	45.25
Emergent in nature		1	-	11	-	12	6.70
No specific reason		-	-	7	4	11	6.15
Total		93	2	41	43	179	100
Percentage of a source on total No. of Preference Shifting		51.96	1.11	22.91	24.02	100	-----

Source: Survey data.

From the above table (7.11) it is clear that procedural aspects of issuing loans by the lender includes the reasons such as: application not entertained by the formal sources, the process of filling up applications of loan issued by formal sources are complicated and that becomes difficult for the less educated borrowers to fill in, the charges for issuing loan apart from the charge of interest of loan, the collateral security required for the issue of loan and the limit of prefixed quantum of loans. The total number of small borrowers affected by these reasons is 75, who shifted their preference of source of loan to another source or provider due to this procedural aspect. The percentage of this is found around 42% as a whole considering all the above mentioned reasons (table 7.11). This preference shifting of source of is for the procedural aspect of receiving loans and this has been mainly found in the formal sources.

7.04. Distribution showing preference of sources of loan: It was found from the table below that out of 244 respondent small borrowers, 235 small borrowers preferred loans from formal sources, i.e., more than 96% borrowers choice is for formal loans and only 2.87% of the respondents showed their interest for the loans from informal sources(table

No. 7.12). Though the loans from informal sources are not preferred by the borrowers but still they borrow from the informal source due to various reasons.

Table 7.12: Distribution on the basis of preference of sources of loan (on the basis of number of respondent)

Preferred source	Matigara Block		Naxalbari-Block		Khoribari Block		Phansidewa Block		Siliguri Municipal Corporation Area		Total	
	No	%	No	%	No	%	No	%	No	%	No	%
Formal	42	89.36	41	100	48	94.12	49	98	55	100	235	96.31
Informal	5	10.64	0	0	1	1.96	1	2	0	0	7	2.87
No preference	0	0	0	0	2	3.92	0	0	0	0	2	0.82
Total	47	100	41	100	51	100	50	100	55	100	244	100

Source: Survey Data

7.05. Distribution on the basis of sources of loan (on the basis of number of loans):

The actual status of sources, on the basis of number of loans, can be observed from the table shown below (Table No. 7.13A). It was found from the table that 244 respondents had taken 442 number of loans out of which 94 number of loans (i.e., 21.27% of total loans) were taken from informal sources and 348 number of loans (78.73% of the total loans) were taken from formal sources. Though the percentage of preference shown by the respondent for informal loans was only around 3% of the total respondents (table No. 7.12), due to various reasons (discussed in point No.7.3.04) borrowers had depend on loans from informal sources. One loan from informal source is taken by the borrowers in every (4.70 loans, i.e., 442/94) five loans in the study regions and hence it can be said that informal credit still play an important role in credit market of the district of Darjeeling (table 7.13A).

Table 7.13 A: Distribution on the basis of sources of loan (on the basis of number of loans)

Block	No. of respondent	Total No. of loans	Total Loan from formal source		Total Loan taken from Informal sources	
			No.	%	No.	%
Matigara Block	47	68 (= 100%)	45	66.18	23	33.82
Naxalbari Block	41	79(= 100%)	62	78.48	17	27.42
Khoribari Block	51	97(= 100%)	75	77.32	22	22.68
Phansidewa Block	50	93 (= 100%)	78	83.87	15	16.13
Siliguri Municipal Corporation Area	55	105(= 100%)	88	83.81	17	16.19
Total	244	442 (= 100%)	348	78.73	94	21.27

Source: Survey data

This can again be observed on the basis of number of respondent along with the number of loans they have taken loans from: only formal source, only informal sources and jointly formal and informal sources (table No. 7.13 B):

Table 7.13B: Distribution on the basis of sources of loans considering the number of respondent along with the number of loans

Block	Sources of loans									
	Only Formal		Only Informal		Both Formal & Informal		Total of Formal		Total of Informal	
	No of borrowers	No of loans	No of borrowers	No of loans	No of borrowers	No of loans	No of borrowers	No of loans	No of borrowers	No of loans
Matigara Block	27	32	8	9	12	27	39	45	20	23
Naxalbari Block	24	46	1	1	16	32	40	62	17	17

Khoribari Block	29	49	2	2	20	46	49	75	22	22
Phansidewa Block	35	58	3	3	12	32	46	78	15	15
Siliguri Municipal Corporation Area	38	65	3	3	14	37	51	88	17	17
Total	153	250	17	18	74	174	225	348	91	94
Average loans per person (total loans/ no of borrowers)	1.634		1.059		2.35		1.55		1.032	

Source: Survey data

It was found from the table (7.13 B) as shown above that the average loan per person, 2.35 is highest in case when loans were taken from both the formal and informal source at the same time. Average loan per person, in case of loans from only formal sources found to be higher than the average loan per person taken from informal sources. Similar results were also found in case of total loans from formal sources and total loans taken from informal sources as the average loan per person is higher in case of total loans taken from formal sources. These results imply that people are more inclined toward taking loans from the formal sources.

7.06. Purpose of taking Informal Loans: Small borrowers take money as loan and pay interest on loans (if the loan is not taken on interest free term), only if the borrowers do not find any other option of meeting their financial need. If the borrower decides to take loans, then the borrower has to take decision keeping in view certain points, that from where to take loan, who will be the lender, whether to take it from the formal sources or the need can be mitigated by taking money informally from the informal lender. The choosing of informal lenders, sometimes, becomes beneficial for the borrowers when the lender does not charge any interest on the loan amount. It was found that 27 borrowers out of 244 respondent borrowers in the study region had taken loans from friends and relatives who did not charge any interest on the loans from the borrowers (Table No. 6.16).

For meeting the various needs like subsistence, business, recreation, education of the children etc., the borrower takes the loans from informal lenders. It was found that 21.27% of the total numbers of loans were taken by the borrowers from the informal lenders for meeting their various purposes (Table: 7.14). It was found that the borrowers in the study region had taken loans from the informal sources for the following purposes:

- i) The maximum informal loans were taken for the business purpose. It was found that the 52.12% of the total informal loans were taken for the business purpose. It was also found that the business loans were always maximum in number irrespective of the sources of loan, i.e., formal or informal (read with table 6.20).
- ii) Emergent loans and loans for 'repayment of old loans' both were at 16% each of the total number loans from the informal sources, whereas, the percentage of emergent loans in total number of loans from formal and informal sources was 5% only and the percentage of number of loans for 'Repayment of old Loans' was at 3.39% of the total loans (table 6.20).

It was also observed that the number of borrowers from SHGs and MFIs pay their balance of loan amount, on the scheduled date, to their respective lenders by taking loans from informal sources and after paying off SHG/ MFI loans, from the informal loan amount, they apply for another loan to their lender, MFI/SHG, with a higher quantum of loan. After getting the desired amount of loan from SHG/ MFI, they pay off the loans which were taken from informal sources mainly from 'Relatives & friends' and moneylenders. Thus, an interesting cycle, in between, loan taken of MFI/SHG members, 'Relative & Friends' and 'Moneylender' was observed.

It thus becomes vivid from the study that the role of informal loan was very much vital and important for mitigating the urgent purpose of borrowers such as treatment, obsequies etc., and for the repayment of old loans.

- iii) It was found only around 9% of the informal loans (table 7.14) was taken for subsistence purposes, but, interestingly, the percentage of subsistence loans in total loans from formal and informal sources was found at around 3% only (Table No. 6.20). This implies that the borrowers use informal sources more

than the formal source of loans for mitigating their subsistence purposes. Out of a total of 13 number of subsistence loans, 8 loans were taken from informal sources, i.e., around 62% [i.e., $8/13 \times 100$] of the total loans taken for subsistence purpose were taken from informal sources.

- iv) In case of the purpose of 'Recreation', it was found that out of a total of 6 loans (table 6.20), 4 loans (table 7.14) were taken from informal sources, i.e., 67% of the total number of loans taken for recreation purpose was taken from informal sources. Further, it was observed that the percentage of number of loans, taken for recreation purpose was found to be 4.26% of the total number of informal loans.

Table 7.14 : The purpose of informal credit

Blocks	HHs surveyed	Purpose of Credit							Total no. of Informal loans
		Subsistence	Business	Recreation	Education	Emergent need (treatment, obsequies etc)	Repayment of old loans	For taking land on lease	
		No. of informal loans							
Matigara Block	47	2	14	1	0	4	2	0	23
Naxalbari Block	41	1	12	0	1	2	1	0	17
Khoribari Block	51	2	9	1	0	1	8	1	22
Phansidewa Block	50	1	5	2	0	5	2	0	15
Siliguri Municipal Corporation Area	55	2	9	0	1	3	2	0	17
Total		8	49	4	2	15	15	1	94
Percentage on total informal loans (94=100%)	244	8.51	52.12	4.26	2.13	15.96	15.96	1.06	100%

Source: Survey data

7.07: Source-wise Utilisation of loans: Loan is always taken for specific purpose that may be shown or may not be shown while taking loans. Sometimes, the actual purpose of

taking loan is kept hidden by the borrowers because of the fear of not getting the loan by disclosing the original purpose. It was found in case of subsistence purposes, the borrowers used 42 loans for subsistence purposes which were actually taken by showing the business need. These 42 loans, completely or were partially utilised beyond the purpose shown while taking the loan. The deviation of utilisation of loans from its shown purpose was found to be maximum in case of business loans. It was found that 364 loans which were taken for business need of the borrowers were utilised in 388 number of ways of which 285 number of loans were utilised as per the stated purpose which were shown while taking loans (table 6.20). The deviation from the shown purpose while utilisation of loan was found in both the sources – formal and informal, but eventually, it was found that the maximum loans were utilised as per their stated purpose. The block-wise, source-wise and utilisation purpose-wise breakup can be observed from the table (7.15) and analysed below:

i) In case of Matigara Block, it was found that out of a total of 68 number of loans, taken by 47 respondent borrowers, 45 loans were from the formal sources and out of these 45 formal loans, 41 loans were utilised as per the stated purpose. Only 4 loans, taken from formal sources were utilised beyond the purpose which were shown while taking loans. The percentage of utilisation of formal loans as per their stated purpose was 91% of the total formal loans of the block and the percentage of utilisation of loans which were used in some other purpose than the shown purpose was around 9% of the total formal loans taken by the borrowers in the block.

In case of loans from informal sources, it was found that there were 23 loans taken from informal sources among the 47 respondent small borrowers, of which 21 number of loans were used as per their stated purpose and only 2 loans were utilised not as per the purpose stated while taking loans. The percentage of utilisation of informal loans as per their stated purpose was 91% of the total informal loans in the block and deviation of utilisation of loans was observed only for 9% of the total informal loans taken in the block.

As a whole, in the Matigara block, it was found that the utilisation of loans as per the stated purpose, considering both formal and informal sources, was 91% and the deviation of utilisation from the shown purpose was only 9% of the total number of loans in the block.

ii). In case of Naxalbari block, it was found that 41 respondent borrowers took 79 number of loans, of which 62 number of loans were from formal sources and 17 loans were from informal sources. Out of 62 number of formal loans, 51 number of loans were utilised as per the purpose shown while taking loans and only 11 loans were not utilised as per the stated purpose. In case of formal loans, the percentage of utilisation of loans as per the stated purpose was 82.26% and loans not utilised as per stated purpose 17.74%. In case of loans from informal sources, it was found that all the 17 loans, i.e. 100% of the loans were utilised as per the stated purpose.

As a whole, in the block of Naxalbari, it was observed that the percentage of utilisation of loans as per the stated purpose, considering both the sources of loans, was 86% and the percentage of loans which were utilised not as per the purpose stated while taking loans was 14% of the total number of loans in the block.

Table 7.15: The Source-wise utilisation of loans (considering number of loans)

Blocks	HH Surveyed	Sources of loans	Total no. of loans	Utilized as per stated purpose	Utilized as per not stated purpose	Percentage of utilisation on total loans	
						As per Stated purpose	Not as per stated purpose
Matigara Block	47	Formal	45	41	4	91.11	8.89
		Informal	23	21	2	91.30	8.70
		Total	68	62	6	91.18	8.82
Naxalbari Block	41	Formal	62	51	11	82.26	17.74
		Informal	17	17	0	100	0
		Total	79	68	11	86.08	13.92
Khoribari Block	51	Formal	75	50	25	66.67	33.33
		Informal	22	22	0	100	0
		Total	97	72	25	74.23	25.77

Phansidewa Block	50	Formal	78	50	28	64.10	35.90
		Informal	15	15	0	100	0
		Total	93	65	28	69.89	30.11
Siliguri Municipal Corporation Area	55	Formal	88	72	16	81.82	18.18
		Informal	17	17	0	100	0
		Total	105	89	16	84.76	15.24
Total	244	Formal	348	264	84	75.86	24.14
		Informal	94	92	2	97.87	2.13
		Total	442	356	86	80.54	19.46

Source: primary Survey data

iii). In case of Khoribari block, it was observed that 51 respondent borrowers took 97 number of loans, of which 75 number of loans were from formal sources and 22 loans were from informal sources. Out of 75 number of formal loans, 50 number of loans were utilised as per the purpose shown while taking loans and 25 number of loans were not utilised as per the stated purpose. In case of formal loans, the percentage of utilisation of loans as per the stated purpose was 67% and loans not utilised as per stated purpose 33%. In case of loans from informal sources, it was found that all 22 number of loans, i.e. 100% of the loans were utilised as per the stated purpose.

As a whole, in the block of Khoribari block, it was observed that the percentage of utilisation of loans as per the stated purpose, considering both the sources of loans, was 74% and the percentage of loans which were utilised not as per the purpose stated while taking loans was 26% of the total number of loans in the block.

iv). In case of Phansidewa block, it was observed that 50 respondent borrowers took 93 number of loans, of which 78 number of loans were from formal sources and 15 loans were from informal sources. Out of 78 number of formal loans, 50 number of loans were utilised as per the purpose shown while taking loans and 28 number of loans were not utilised as per the stated purpose. In case of formal loans, the percentage of utilisation of loans as per the stated purpose was 64% and loans not utilised as per stated purpose was

36%. In case of loans from informal sources, it was found that all 15 numbers of loans, i.e. 100% of the loans were utilised as per the stated purpose.

As a whole, in the Phansidewa block, it was observed that the percentage of utilisation of loans as per the stated purpose, considering both the sources of loans, was 70% and the percentage of loans which were utilised not as per the purpose stated while taking loans was 30% of the total number of loans in the block.

v). In case of the area under Siliguri Municipal Corporation, it was observed that 55 respondent borrowers took 105 number of loans, of which 88 number of loans were from formal sources and 17 loans were from informal sources. Out of these 88 number of formal loans, 72 number of loans were utilised as per the purpose shown while taking loans and 16 number of loans were not utilised as per the stated purpose. In case of formal loans, the percentage of utilisation of loans as per the stated purpose was around 82% and loans not utilised as per stated purpose found to be 18%. In case of loans from informal sources, in case of informal loans, it was found that all 17 numbers of loans, i.e. 100% of the loans were utilised as per the stated purpose.

As a whole, in the area under Siliguri Municipal Corporation, it was observed that the percentage of utilisation of loans as per the stated purpose, considering both the sources of loans, was 85% and the percentage of loans which were utilised not as per the purpose stated while taking loans was 15% of the total number of loans in the area of Siliguri Municipal Corporation.

Thus, aggregating over all the four blocks and Siliguri Municipal Corporation, it was observed that 244 number of small borrowers took 442 number of loans, of which 348 number of loans were from formal sources and 94 number of loans were taken from informal sources. Out of the total 348 number of formal loans, 264 number of loans were utilised as per their stated purpose and 84 number of loans were utilised not as per the stated purpose which was mentioned while taking loans. The percentage of utilisation of the loans taken from formal sources, as per their stated purpose was 76% while utilisation of loans not as per the purpose stated while taking loans was 24%. In case of loans from formal sources, it can be stated that the maximum loans were utilised as per their stated purpose as more than 75% of the total number of loans had been utilised as per the purpose which the borrowers had shown while taking the loans from their lenders. In the

case of loans from informal sources, the scenario was a little different than the case of formal sources loans. It was found that out of total 94 number of loans from informal sources, 92 loans were utilised as per their stated purpose and only 2 loans were not utilised as per their stated purpose. The percentage of utilising the informal loans, as per the stated purpose was 98% and utilisation of loans not as per the purpose shown while taking credit was found at 2.13%, of the total informal loans.

Considering the above inferences drawn, it was found that out of 442 number of total loans, 356 number of loans were utilised as per the stated purpose, i.e. 81% of the total number of loans and 86 number of loans were utilised not as per the purpose which was shown while taking credit, i.e. 19% of the total loans were not utilised as per their stated purpose. It has become clear from the above discussion and the conclusion can be drawn in the way, that, in study area, the utilisation of the loans, taken from formal and informal sources, are done as per the purpose the borrowers show while taking credit from the lenders of different sources. In case of informal sources, the percentage of deviation is much less since the purpose of providing the loan on the part of the lender is primary to extract as much rate of interest as possible for the lender's personal gains. Another reason is because, the lender and the borrower in most cases well known to each other and therefore the lender lends out to the borrowers to meet his needs, on a personal basis. In the case of formal loans, no such personal criteria are applicable and loans are primarily given against productive purpose.

7.08. Conclusion: From the cited tables and discussion, the following conclusions can be drawn:

1. Maximum number of loans was taken from the range of the rate of interest that comes in between 'more than 18% p.a. but to less than or equal to 24% p.a.' (around 46% of the total loans) and around 80% of the total loans taken by the small borrowers had rate of interest of 'less than 24% p.a.'. Only in case of 20% of the total loans 'more than 24% p.a. rate of interest found applicable. The majority of lenders who charge more than 24% p.a. rate interest are moneylenders and microfinance institutions, and, the majority of lenders who charge less than 24% p.a. rate of interest are SHGs and Private, Public and scheduled Commercial banks. It is noticeable that around 10% of these loans were given at 'more

than 36% p.a.' rate of interest by the moneylenders and the local loan committees. But, small borrowers paid maximum of these high rated loans on a regular basis and due to that the percentage of defaulter of loans in these area is negligible. The rate of interests that have been charged by the microfinance institutions in these blocks is found to be in between the range '18%p.a. to 36% p.a.', and SHGs loans charged a rate of interest at either 12%p.a. or 24% p.a. The dependence on 'friend & relatives' for repayment of old loans is thus found to be heavy. It is observed that around 54% of the total loans taken from friends & relatives were utilised for repayment of old loans.

2. The four types of preference shifting of source of loan have been found active in the study region. These are: i) shifting preference of source of loans from one formal source to another formal source, ii) shifting preference of source of loan from formal source to informal source, iii) shifting preference of source of loans from one informal source to another informal source and iv) shifting preference of source of loans from informal source to formal source, in case of borrower who desires to take second loan.

Maximum preference shifting of sources of loan found in between formal sources (38.11%), and then from informal sources to formal sources was found to be around 18%, the shifting of preference of the source of loan from formal to informal sources was found to be around 17% and shifting of source of loan in between informal sources was found to be very low, around 1%. The implication of the above result shows the interest of small borrowers is towards getting the formal loans (table 7.06).

In Matigara and Khoribari blocks, the major preference shifting of source of loan was from informal sources to formal sources. That is inter-source preference shifting was found in these two blocks. But, in Naxalbari and Phansidewablock and in the area of Siliguri Municipal Corporation, the shifting of preference of source of loan was found in between formal sources, i.e., intra-source preference shifting was found.

The major reason of these preference shifting in case of formal source to formal source are inadequate loan size (around 49%) and difference in rate of interest (around 39%). In case of informal sources, the dominant reason found is rate of interest (100%). Small borrowers tend towards lower rate of interest. The emergent nature of loans (around 27%) and inadequate loan size (22%) are the dominant reasons of shifting of loan from formal sources to informal sources. In case of shifting of preference of loan from informal

sources to formal sources, difference in rate of interest found as dominant reason. Around 88% of the loans were shifted from informal sources to formal sources for this reason.

The major two reasons that penetrate the shifting of preference of source of loan between intra-source and inter-sources are ‘difference in rates of interest’ (around 45%) and ‘inadequate loan size’ (31%). The preference shifting due to the procedural aspect of issuing / receiving loans is found to be around 42%. The above finding implies that the preference shifting of source of loan from one provider to another provider or from one source to another source occurs due to the existence of differential rate of interest of loans and the differential procedural aspect of issuing/receiving of loans.

3. It was found that 244 respondents had taken 442 numbers of loans out of which 94 number of loans (i.e. 21.27% of total loans) were taken from informal sources though the percentage of preference shown by the respondent for informal loans was only from 2.87% of the total respondents (table 7.12) but due to various reasons borrowers become bound to take the loans from informal sources. **One loan from informal source is taken by the borrower in every five loans taken (4.70 loans, i.e., 442/94) in the study regions. It is also found that out of 244 number of small borrowers, 91 borrowers had taken informal loans, i.e., around 37% ($91 / 244 \times 100$) of the borrowers had taken informal loans signifies the importance of informal loans the study region. Thus above facts lead to the conclusion that informal credit has been playing the important role in credit market of the district of Darjeeling.**

4. While considering the purpose wise utilisation of loans, it is observed that in the Matigara block, the utilisation of loans as per the stated purpose, considering both formal and informal sources, was around 91%. In the Naxalbari block, it was observed that the percentage of utilisation of loans as per the stated purpose, considering the both sources of loans, was 86% and the percentage of loans which were utilised not as per the purpose stated. In case of Khoribari block, the percentage of utilisation of loans as per the stated purpose, considering the both sources of loans, was around 74%. In the Phansidewa block, the percentage of utilisation of loans as per the stated purpose, considering the both sources of loans, was 69.89% and in the area under Siliguri Municipal Corporation, it was observed that the percentage of utilisation of loans as per the stated purpose, considering

the both sources of loans, was 84.76%. After considering all, it was found that out of 442 number of total loans, 356 number of loans were utilised as per the stated purpose, i.e., 80.54% of the total number of loans and 86 number of loans were utilised not as per the purpose which was shown while taking credit, i.e. 19.46% of the total loans were not utilised as per their stated purpose. It has become clear from the above discussion and the conclusion can be drawn in the way, that, in study area, the utilisation of the loans, taken from formal and informal sources, are done as per the purpose the borrowers show while taking credit from the lenders of different sources. **It is further observed that out of 348 numbers of formal loans, 264 numbers of loans, i.e., around 76% of the formal loans were utilised as per the stated purpose. This leads to the conclusion that the formal loans are utilised as per the purpose they stated while taking loans.**