Chapter VIII

Summary of Major Findings, Conclusions and Way Forward

8.01. Small Borrowers and formal credit market in India:

The formal credit market in India is run by following multi agency approach and the sector was dominated by the Co-operatives till 1971. After the Nationalisation of Commercial banks in India, the Scheduled Commercial Banks (SCBs), became the dominant provider of formal credit in Indian credit market. As the share of institutional credit increased, the share of non-institutional credit declined and in 1991, around 59% of the total share of debt of rural households was met by Co-operatives and Commercial banks by fixing the priorities of supplying formal credit.

After 1969, the National Credit Council guided the expansion programme of Commercial Banks to reach the unreached location and people and gradually opened large number of bank branches in the country that reached the figure of 1,38,059 number of branches by 2017 from 24,802 in 1977.

The limit of Small Borrowal Account, now in India, is Rs. 200,000/-per account which was increased gradually from Rs. 10000/- in 1975. In the year 1975, the percentage of small borrowal account to all accounts was about 91 percent, and, which further increased to more than 97 percent in the year 2000. The new millennium experienced a declining trend and was 79% in 2014, though the limit of small borrowal account, per account, gradually increased from Rs. 10000/- in 1971 to Rs. 25000/- after June 1983 and then settled at Rs. 200000/- since April 1998. The steady declining trend of percentage of small borrowal accounts to all accounts in respect of number of accounts and amount outstanding was observed over the period 2000-2014.

The non-performing asset, in case of loan to weaker section by the public sector banks, has some interesting findings. In the year 2001, the amount of loan to weaker section was Rs. 24,899 crore when the NPA of weaker section loan was Rs. 5,606 crore. The advance to weaker section reached Rs. 2,20,250 crore but the NPA of this section grew only to Rs. 7,929 crore, which implies that loan to small borrowers do not necessarily increase NPA of banks in significant way.

In case of interest of loans, it was found that majority of small borrowers borrowed by paying less than 13% p.a. interest from all scheduled commercial banks (i.e.

from formal sector) during 2001, 2004, 2006, 2008 and 2014 as per the RBI reports (various RBI bulletin).

In case of small borrowers of backward sections of society (i.e. SC, ST borrowers), a downward trend of share of their account was observed over the period 1997 to 2008. Their share came down to only 5 percent in the year 2008 from around 27 percent in 1997. A reluctance of providing loans to this section by the Scheduled Commercial Banks (SCBs) or a reluctance of obtaining loans by this section from Scheduled Commercial Banks (SCBs) was found during this period. During this phase, just the opposite picture of increasing trend of obtaining loans from Scheduled Commercial Banks was observed in case of loans to other categories of small borrowers as a whole. In 1997, the share of account for all other social categories was 72 percent which increased to 95 percent by the year 2008. The discussion leads to the conclusion that during this phase major loans from Scheduled Commercial Banks were availed by the other social categories rather than SC & ST small borrowers.

In case of share of small borrowal account on the basis of population segments, it was found that there was a declining trend (in respect of the share of account) of obtaining loans from Scheduled Commercial Banks by the rural small borrowers over the period 2001 to 2014. For semi urban small borrowers, with minor ups and downs during this period, it was found that it was around 29 percent of total accounts in the year 2014, which was the same as in 1997. The share of small borrowal account of urban population was found to be stable within 11 - 12 percent during this period except for the year 2008 when the share increased to 14 percent of total number of small borrowal account. The share of small borrowal account of metropolitan population showed an increasing trend of obtaining loans from Scheduled Commercial Banks (SCBs) during 1997 to 2008 by registering an increase of 28% (5 percent in 1997 to around 33percent in the year 2008) but during 2008 - 2014, the share of this population reduced by11percent (33% in 2008 and 22% in 2014) over this period. In population-wise study of small borrowal account, it can be said that during the year 1997 to 2014, the urban and metropolitan population of small borrowers obtained more loans from Scheduled Commercial Banks than the population group residing in rural or semi-urban areas.

In case of loans under various schemes during the year 1997 to 2008, a steady declining growth of small borrowal account under Integrated Rural Development Programme (IRDP) was observed. Small borrowal account under PMRY scheme was within 1.4 percent to 2.5 percent of the total small borrowal account under various schemes. The percentage range of number of small borrowal accounts under various schemes during the year 1997 to 2008 was found to be 40 - 56 percent except in the year 2004 when percentage of number of small borrowal accounts under various schemes came down to around 28 percent. It was found that there was a fall of 10 percent of number of accounts under Integrated Rural Development Programme (IRDP) scheme during the year 2001 to 2004 which was the major reason of the overall fall of number of small borrowal account under the various scheme.

While analysing the rate of interest paid by the small borrowers and large borrowers, it was found that in the year 2001, small borrowers under various occupations had the privilege of enjoying a lower rate of interest than the large borrowers. A positive rate differential for small borrowers was observed in every case. But gradually the scenario changed and in the year 2008 it was found that the small borrowers had been suffering a consequence of negative interest rate differential and in case of loans under small borrowal accounts, for industry, transport and other support service, personal loans except for loan for housing, the small borrowers were paying more than the large borrowers. The highest interest rate differential was observed in case of loans by the small borrowers for consumable durables.

The quantum of loan extended under small borrowal account was limited to Rs. 10,000/- per account over the years 1975 to June 1983, and thereafter the limit increased to Rs. 25,000/- per account and continued up to the year 1998 (March). Thereafter it was extended to Rs. 2,00,000/- per account and is still continuing. The interesting finding is that though the limit of loan per account was extended to Rs. 25,000/- after June, 1983 but in the year 1993, the majority of small borrowers accounts, around 81%, were found to have availed loan of nominal amount of Rs. 7500/- . In the year 1998, the limit of loans of small borrowers was increased to Rs. 2,00,000/- per account but it was observed that more than 76 percent of the SB accounts were under Rs. 25000/- in the year 2001. Gradually there has been a decline in the proportion of small borrowal accounts under Rs. 25000, although there has been a substantial increase in absolute numbers between 2001 to 2008 (from 5,04,56,000 in March 2001 to 9,41,32,000 in March 2008).From this discussion, it is clear that though the amount limit of loans under small borrowal account was extended but the majority of borrowers did not take the opportunity of getting full amount of loans or they did not possess the requisite collaterals etc., to avail the upper limit of the loan.

8.02. Small Borrowers and Informal Credit market in India:

Credit market in India is divided into two main sectors: i) Formal sector and ii) Informal sector, and the coexistence of both formal and informal can be observed in the market.

The dominant informal moneylenders in India were the Shikarpuris, or the Multanis (originally Self Service bank of Sind), the Chettiars, in South India, the Rostogis in Uttar Pradesh and Marwaris in eastern India. The three main functions of these moneylenders were: i) These borrowers took deposits and extended credits, ii) loan was provided from the own reserves of these moneylenders and iii) the connectivity of these moneylenders and borrowers were maintained by the brokers. Generally, the large borrowers were extended loans at a rate of 18% to 24% per annum whereas the small borrowers had to pay rate of interest at the rate of 24% to 36% per annum. The small borrowers, always, in informal credit market, paid high rate of interest for their loan than formal credit market, if, however, the loans were not taken from relatives and friends. In formal credit market also, the small borrowers faced high rate of interest for their loans than the large borrowers. This is possibly because of the fear of large number of defaulters among small borrowers and thus accumulation of non-performing assets in Scheduled Commercial Banks.

The maximum loans of institutional sectors were found to be below 20% p.a. rate of interest category whereas ‘no interest’ loans are dominant in non-institutional sector in urban sectors of India. In rural sector of India, the dominant ‘rate of interest’ category for non-institutional sector was found at ‘30% per annum and above’ for the rural borrowers. This implies that the borrowers of rural India who depend upon the informal moneylenders pay a high rate of interest for their loans.

While considering the agency-wise loans, it was found that the shares of non-institutional agencies were dominant till 1971, and after that, the institutional agencies had taken over the Indian credit market. The domination of the institutional agencies after 1971 was the effect of nationalisation of Commercial Banks in 1969 and the decision of spreading bank branches to unbanked regions. A major fall in the share of non-institutional agencies was observed over the period, 1971 to 1981. The total share of rural credit of institutional agencies during 1981 to 2012 was found in between 55% to 65% and the total share of rural credit of non-institutional agencies was found in between 35% to 45%.

8.03. **Small Borrowers and Credit Market in West Bengal:**

The moneylenders' activity in West Bengal in the pre-independence period was very much present and the existing Act prohibition money lending was passed in the year 1940. Before the West Bengal Moneylenders Act-1940, there were other acts like: i) the Usury Laws Repeal Act-1855, ii) the Usury Loans Act 1918, and iii) the Bengal Moneylenders Act- 1933 were operative in West Bengal.

On 14th December 1967, when Sri Morarji Desai was the Deputy Prime Minister and the Finance Minister of Government of India, then, he made a statement in Parliament that 'Priority Sectors' like agriculture, small scale industries and exports were not getting their required share of bank credit. The term 'Priority Sector' was first used by him. While observing the 'Priority Sector' credit in West Bengal, it was found that during the year 2000-2001 to 2009- 2010, in these ten years, the number of total accounts of 'weaker section' in Scheduled Commercial banks was only 1000 for five years and the total number of accounts never crossed 8000 in West Bengal over the period 2000 to 2010.

The expansion of branches of Scheduled Commercial Banks in West Bengal has shown an increase of 4259 branches during 1980 to 2013. However, the growth rate of bank branches was much lower than the expansion rate of bank branch at the all India level.

While comparing the position of small borrowal accounts in West Bengal with all India level, it was found that there was a declining trend in percentage share of small borrowal accounts to all accounts, with respect to the number of accounts and amount outstanding during the year 2004 to 2008.

While considering the small borrowal accounts in West Bengal on the basis of population group-wise classification, it was found that in rural region of West Bengal, 96% of the small borrowal accounts under agricultural head was directly financed by Scheduled Commercial Banks. This shows the dependence of agricultural small borrowers of West Bengal on Scheduled Commercial Banks for their loans. It was also found that small borrowers of urban and metropolitan regions of West Bengal depend heavily on personal loans from Scheduled Commercial Banks. It was also evident that the borrowers of seventy two and half percent of the personal loan accounts of Scheduled Commercial Banks resided in the urban and metropolitan areas of West Bengal. In case of trade related small borrowal accounts in the Scheduled Commercial Banks of West Bengal, it was found that more than sixty percent of the accounts were opened in the rural regions of West Bengal which indicates that inclination to open small businesses or petty trade or continuing the business with the help of bank loans was of more importance in the rural regions than that of other regions of West Bengal. This is one of the very significant observations in case of small borrowal accounts in rural areas of West Bengal.

While comparing the small borrowal accounts of West Bengal with other states of India, it is found that the states of Uttar Pradesh, Maharashtra , Andhra Pradesh, Tamil Nadu and Telangana are well ahead than West Bengal in all rural, semi urban, urban / metropolitan regions in respect of number of small borrowal accounts and the amount outstanding. The state of Bihar is also ahead in rural and semi urban regions and Kerala is ahead in semi urban and urban / metropolitan regions than West Bengal in respect of number of small borrowal accounts and the amount outstanding.

Informal Credit in West Bengal: To consider the relevance of informal credit in West Bengal, data have been collected from the work of various researchers and after the analysis of these data, the following observations are delineated:

a) Increased need of credit of the borrowers compelled them to obtain loans from the informal credit market. The borrowings from the informal lender are in the form of cash, or /and kind. The repayment of credit is also made in cash or/and kind or in exchange of labour on the part of the borrowers in favour of lenders.

b) There are two types of credit agreement found in West Bengal which acts as collateral: i) Khai khalasi system and ii) leasing of land.

c) In Burdwan District, it was found that about fifty three percent of the borrowers depended on informal credit whereas only sixteen percent of the borrowers depended on formal sources of credit and thirty one percent of the borrowers used both the sources.

d) It was found that in potato cultivation in various districts of West Bengal a considerable quantum of informal credit is involved. The districts where a significant proportion of informal loans are involved for potato cultivation are:

Jalpaiguri District	**: 30%**
Burdwan District	**: 25%**
Hoogly District	**: 14.29%**
PaschimMedinipur District	**: 14.75%**

As a whole in West Bengal, for potato cultivation, the percentage of informal credit involved is found to be at 26 percent.

e) A very high dependence on informal credit was found in Murshidabad District. It was found that out of the borrowing households, around 80 percent of borrowers took loans from informal sources and it was observed that cent percent of the weaving households obtained loans from informal sources. Ninety percent of the population of this district who are engaged in silk spinning have shown their dependence on informal credit. In this district two main sources of informal credit are: i) moneylenders and ii) friends and relatives.

f) In Howrah District, it was found that about 92% of embroidery workers and tailors were dependent on informal credit source.

g) In Kolkata, it was found that around 53% of the unorganised sector workers depended on informal credit sources and the majority of the borrowers had taken loans from their relative and friends.

h) In rural West Bengal, the input creditor is one of the major informal lenders who supply credit to the small borrowers in kind without any collateral security.

i) While looking onward from the year 1971, it was found that as an effect of nationalisation of Scheduled Commercial Banks and for taking the policy of reaching the unreached region by the Scheduled Commercial Banks, the percentage of non-institutional credit including the share of professional moneylenders declined drastically during the year 1971to 1991 and the dependence on the formal credit increased. However, over the period 1971 to 2003, loans taken from 'relative and friend' emerged as a major source of informal credit in West Bengal.

j) The following five forms of informal credit were found to be dominant in the informal credit market of West Bengal: i) Trade Credit arrangement, ii) Unregistered chit fund, iii) Individual money lending system, iv) Traders association and v) Hundi.

k) The role of individual money lending system, i.e., activities of moneylenders were found dominant in Kolkata and North 24 Paraganas. The rate of interest charged by the lender was found to be very high and sometimes at a rate of 10percent per day basis.

l) While considering the share of moneylenders in respect of quantum of money loaned out, the following states were found to be ahead of West Bengal : i) Rajasthan, ii) Madhya Pradesh, iii) Kerala, iv) Haryana, v) Andhra Pradesh, vi) Uttar Pradesh, vii) Karnataka and vii) Tamil Nadu. This implies that the involvement of moneylenders in credit market of West Bengal is very high in respect of All India Level. The share of non-institutional sources other than money lenders, the following states have been found ahead, up to the year 2009-2010, than West Bengal: i) Uttar Pradesh and ii) Andhra Pradesh. Therefore, it is also evident that except moneylenders, the other non-institutional sources are also very much involved in providing credit to the small borrowers in West Bengal.

Microfinance in West Bengal: While considering the progress of microfinance in West Bengal, it is observed that the microfinance penetration index (MPI) value for West Bengal in 2014 was at 1.54 (Tankha & Nair, 2014), which showed that a good progress of microfinance had already been there in West Bengal in 2014. In West Bengal, the activity of microfinance has been through the bank by forming SHGs or directly by the MFIs. In case of number of formation of SHGs, the Co-operative Banks are playing a vital role and has formed 3,72,436 SHGs involving 35,09,050 members and the amount of loan disbursement is found to be Rs. 80790.74 lakh. Among the 18 Co-operative banks in West Bengal, the West Bengal State Cooperative Bank Ltd has formed highest number of SHGs and the quantum of loan outstanding is also highest in this bank. In case of progress of microfinance through the microfinance institutions in West Bengal, it is found that SKS Microfinance (now Bharat Financial Inclusion Ltd) has been working in highest number of districts in West Bengal. The highest number of MFI activity (22 nos. of MFIs) has been observed in North 24 Paraganas. In West Bengal, it is observed that the MFIs with their loan portfolio of ‘less than 50 crore’ prefer the legal status ‘Society’ and the MFIs with their loan portfolio of ‘above 50 crore’, all are in the legal status of NBFC-MFI category.

8.04. Socio-economic Condition of Small Borrowers in the District of Darjeeling:

The family of the small borrowers in the blocks of Matigara, Naxalbari, Phansidewa, Khoribari and the area of Siliguri Municipal Corporation under the jurisdiction of Darjeeling district were found to be male dominated unitary family with five to ten members in the family, though maximum number of small borrowers are married women with education level varying from class five to class ten. One of the reasons for maximum number of women as loan holders is that SHGs and MFIs provide loans to women only. It was observed that women of the family take loans in their name and gives the loan amount to the working member of the family, and in maximum cases it was found that the amount was handed over to the husband. The repayment of loans, in maximum cases, was made by taking money from their husbands if the generation of income by using loan amount was not sufficient to pay the instalment. The concept of ‘Swarojgari’- the self-dependent women, is materializing gradually. In these blocks and Siliguri Municipal Corporation area, over 68% of the families were found to be with joint earners in the family.

The range of the monthly income of the small borrowers’ family in blocks of Matigara, Naxalbari, Phansidewa, Khoribari and the area of Siliguri Municipal

Corporation under the jurisdiction of Darjeeling district were found to be between ‘Rs. 10000 to Rs. 20000’ category which sometimes do not comply with the Reserve Bank of India guideline of getting microfinance loans as the amount of annual household income in rural area should be under Rs. 1,00,000 and in semi-urban area it should be under Rs. 1,60,000 (master circular, NBFC-MFI Direction, issued by RBI dated 20.04.2016). In reality, the observation is just the opposite. While providing loans through MFIs, their personnel first check the income status of the small borrowers’ family and the economic viability of repayment of loans by the family, and only then, they show their interest to provide loans to families having the capacity of payment of instalment of loan repayment to minimise the risk of defaulting. An interesting observation can be made from the survey, which is that the MFI personnel write an imaginary figure of income of the small borrowers’ family which is below the annual income limit prescribed by the RBI, but actually the MFI loans are extended to families having income more than the limit prescribed by the RBI.

In case of savings accumulation of the small borrowers, it is found that almost all the borrowers are inclined towards saving from their income. The preference of saving is in formal sources and only few households have shown their interest in the informal sources of savings. The first choice of maximum household for saving is Scheduled Commercial Banks, and after the SCBs, the second choice of savings is with the SHGs and then savings in LIC come as third choice. The maximum number of small borrowers saves in two to four sources (around 80%) with the modal group of households saving in two sources (around 37%). These ordering have been made on the basis of choice of the households.

In case of indebtedness of small borrowers’ family, it is found that more than 85% of the families have their loans in the loan category range ‘more than Rs. 10000 but up to Rs. 2,00,000’ and only below 5% of households have taken loans less than Rs. 10000. It is also found that, maximum households (around 85%) prefer to take loans from one to two sources, at a time, in which the preference of households for formal sources of loans is found to be around 79% and for informal sources of loans is found at 21% of the households. Among the formal sources, the most preferable source of taking loans by the small borrowers is the SHG and then the second preference is from Scheduled Commercial Banks. The easy process of getting SHG loans attracts the small borrowers towards the formation of these groups. The most interesting observation is that the activity of MFIs has been marginalised in the areas where SHGs are found active. In case of informal sources, the role of moneylenders dominated all the other sources. After the moneylender, small borrowers prefer to take loans from their 'relatives and friends' which has emerged as a major source of informal credit in the market in these blocks and is found in parity with the credit market of India where the 'relatives and friend' is the dominated source of informal credit after moneylenders (Pradhan-2013).

While considering the purpose and utilisation of loans of the small borrowers, it is observed that over 66% of the families have utilised their loans as per the purpose stated while taking loans and around 15% of the respondent's families have not utilised their loans as per the purpose stated while taking loans. Around 20% of the small borrowers have used the loan amount for both stated and not stated reasons. While concluding on the issue of purpose shown and utilisation of loans taken by the small borrowers, a more in-depth observation has been made and on the basis of the number of total loans taken by the small borrowers instead of only number of households. The actual purposes of all the loans which are shown while taking loans and the actual utilisation of these loans have been considered. The result of this observation is that the loans taken form informal sources are used as per the stated purpose more than the loans taken from formal sources. The deviation from the shown purpose while utilising the loan amount are found more in case of loans taken from formal sources. But, in both the cases, maximum loans are utilised as per the stated purpose and only around 19% of the total loans from formal and informal sources are used beyond their stated purpose. From the above discussion, it can be conclusively stated that maximum loans taken by the small borrowers from both, formal sources and informal sources, are utilised as per the stated purpose and the deviation from the stated purpose are found more in case of loans taken from the formal sources.

8.05. Assessment of Interest rate, Preference of Source of Loan, Preference Shifting of Source of Loan and Utilisation of Informal Credit in the Study Area:

It is found that above 46% of the loans have been issued in the range of interest 'more than 18% p.a. but less than or equal to 24% p.a.' category which consists of one loan from moneylender, 5 loans from local organising committee, 17 loans from MFIs, 92 loans from SHGs and 89 loans from RRB & CB. In this category of rate of interest, over 88% of the loans are from SHGs & CB. It is found that the minimum interest charged by the moneylenders and the Local organising Committees, in these blocks, have been found to be 18% p.a. onwards, but the maximum loans that have been issued by these two sources are concentrated in the rate of interest category of 'more than 36% p.a.', which is too high for the small borrowers to bear.

The minimum interest rate of microfinance loans in these blocks have been observed to be at 6% p.a. A single loan had been observed at this rate of interest and the reason found was that the loan was given to a mother of an employee of that MFI which can be treated as an exception, but the majority of MFI loans have been issued between the range of rate of interest '18% p.a. but less than or equal to 36% p.a.'.

Like all other studies on credit market, here also, almost all the loans which are taken from the friends and relatives or from the employers are at zero percent rate of interest. Other sources which are at this rate of interest are loans from neighbours by providing the land-use right to the lender. For loans from Provident Fund, no interest has to be given, but interest on accumulation will have to forgo. The dependence on 'friends and relatives' is found heavily in case of repayment of old loans. Here in this study, it is observed that around 54% of the loans which are taken from 'friend and relatives' have been utilised for repayment of old loans.

Shifting preference of source of loan: In the blocks of Matigara, Naxalbari, Khoribari, Phansidewa and the area of Siliguri Municipal Corporation under the jurisdiction of district of Darjeeling, all the following four types of shifting preferences of source of loan have been found to be active: i) Shifting preference from one formal source to another formal source, ii) shifting preference from one formal source to another informal source, iii) shifting preference from one informal source to another informal source, and iv) shifting preference from one informal source to another formal source. In Matigara block and Khoribari block, the major preference shifting process is observed between informal source to formal source, i.e. inter-source shifting has been observed. But, in Naxalbari, Phansidewa block and in the area of Siliguri Municipal Corporation, the preference shifting has been noticed among formal sources, i.e., intra-source preference shifting was found. People of these blocks are found to be more interested in taking loans from formal sources and whenever they get the chance of taking formal loans they shift their preference from informal sources to formal sources for their next loan. From the above observation, it can be stated conclusively that the primary shifting preference of source of loan, in these blocks, have been found to be intra-source among formal sources. The two reasons of this intra-source preference shift (formal to formal) have been also observed and these are- i) inadequate loan size and ii) difference in rate of interest. The main reason of shifting of preference in between informal source is also the 'rate of interest'. The small borrowers inclined towards lower rate of interest on their loan. The main reasons of shifting preference from one formal source to one informal source are- i) emergent need of loans as the first reason and ii) inadequate loan size as the second reason. It implies that when emergent need arises, for taking loans, borrowers do not consider any other matters related with the loan, except to get the amount of loan in their hands. As the informal lenders provide easy loan at the doorstep of the small borrowers, the latter go to informal lenders to avoid complication of getting loans. The main reason of shifting of preference from one informal source to one formal source is found as 'the difference in rate of interest'.

After considering all the four forms of preference shift in sources to obtain the loans, the following are the conclusive results:

Table 8.01: Nature of shifting preference of loan source

Shifting preference of loan source	Number of respondents	Percentage	Rank
Formal to Formal	93	51.96	1
Informal to Formal	43	24.02	2
Formal to Informal	41	22.91	3
Informal to Informal	02	1.11	4
Total respondents	179	100	------------------

Source: Field Survey

Reason behind preference shift:

Table 8.02: Reasons of preference shift

Reason of preference shift	No. of respondents	Percentage	Rank
Difference in rate of interest (towards lower interest rate)	81	42.25	1
Inadequate loan size	56	31.28	2
Less complicated source than	12	6.70	3.5

previous loan source			
Emergent in nature	12	6.70	3.5
Other reasons	11	6.15	5
Application not entertained by the desired source	7	3.91	6
Total	179	100	------------

Source: Field survey

While considering the preference of source of loan by the small borrowers, it is found that the first choice for around 96% of the total respondent borrowers is loan from formal source and only 3% of the borrowers stated that they prefer taking loans from informal sources due to the flexible nature of getting loans. The reason for choosing of formal source for loan as their first choice is the rate of interest which is less than the costly informal loans. But, the actual situation that has been found in this study is different. Though 96% of the borrowers first choice is formal source loan but it is found in the study that the percentage of formal loans taken by the borrowers is only 78.73% which implies that there is a vast gap in the demand and supply of formal loans, and, due to this less supply of formal loans, small borrowers become bound to go to the informal lenders and it is found that a large number of borrowers, above 21%, have taken loans from informal sources. The policy makers should address this part so that the needy borrowers can get easy loans from formal sources with affordable rate of interest.

It is also found that the average loan per borrower, in case of loans from formal sources is 1.55 loans and in case of informal source loan, it is 1.032 loans per borrower. It can be concluded that borrowers prefer to get formal loans and they are having formal loans more than the informal loans in the above mentioned blocks and the area of Siliguri Municipal Corporation under the jurisdiction of the district of Darjeeling.

8.06. Way Forward:

The thesis “Small Borrowers’ Need and the Credit market: A study of Formal and Informal Borrowing in the District of Darjeeling” is based completely on loans taken in cash and repaid in cash. The loan, taken in cash and repaid in kind or loan taken in kind but repaid in cash /kind/ labour has not been considered in this study. A further research can be done on these various forms of loans and repayment, as at the time of survey in the surveyed blocks and area of Siliguri Municipal Corporation, the existence of these forms of loans were found in good number. This study is based on a survey of 244 small borrowers in the region. They were interviewed on the basis of a structured questionnaire and what the respondents stated was recorded. As much as was possible, cross checking of the given statement of respondents were done, but, still, the possibility of providing bias information by the respondents cannot be ruled out completely.

As per the guidelines of the RBI, the loan account having an amount up to Rs. 2,00,000/- is considered as small borrowal account and the amount of Rs. 2,00,000/ was fixed in the year 1998 (April) by increasing the amount from Rs. 25000. Prior to this extension, twice the limit of small borrowal account was increased by RBI. In the year 1983, the limit of small borrowal account was increased to Rs. 25000/- from Rs. 10,000. Since 1998 to 2019, the limit of small borrowal account has remained unchanged at Rs. 2 lakh though the Consumer Price Index (CPI) over the period has registered an increasing trend. The policy makers, therefore, need to address this and to increase the loan limit.

It is observed that there has been a 'rate differential' for small and large borrowers. In case of agricultural credit, small borrowers always enjoy a positive rate differential, i.e., they pay less interest than the large borrowers. This process of providing agricultural loan should continue at a lesser rate. In case of industry, it is observed that small borrowers were enjoying a positive interest differential of 1.7% in the year 2001 which was increased to 2.9% by the year 2004 and from then it declined to a negative differential of 0.6% by the year 2008 which implies that the small borrowers have to pay more rate of interest than the large borrowers for taking loans up to Rs. 2,00,000/-. For growing small business, small scale industry units, the government needs to encourage small borrowers by providing facilities of less rate of interest etc. It is, therefore recommended, that the process of charging less interest for the small industry should continue. It was observed that the rate of interest charged to small borrowers engaged in transport operating and the small borrowers who had taken personal loans, except for home loans, had the privilege to enjoy lower rate of interest than the large borrowers of these sectors in the year 2001 but by the year 2008 the scenario of all these sectors changed and small borrowers under these categories were paying more interest rate than the large borrowers. It is therefore recommended that the rate of interest for small and large borrowers should be balanced so that the burden of high interest rate can be avoided by the small borrowers just like it is maintained for the small loans under trade.

In case of microfinance and SHGs, the recommendation of Malegam Committee (2011) needs to be enforced strictly in case of membership of borrowers in MFIs along with coercive recovery, pricing of interest (cap of 24% on individual loans), transparency in interest charged, multiple lending, over-borrowing and ghost borrowers, customer protection code, and the credit information bureau. It is observed that these restrictions are not maintained to the fullest by the MFIs in the region. Though it is recommended that on failing to comply with the provisions laid down in the report of Malegam Committee-2011 and in the corresponding circular issued by the RBI, the institutions will have to face penalties but the enforcement of penalty needs more attention to stop unethical microfinance business.

It is found that banks do not encourage the Self Help Groups to withdraw money for giving loans to members from their own saving accounts, rather, officials of banks always try to provide loans from the Cash Credit accounts of the SHGs for gaining a part of interest in favour of banks. But due to this activity, the SHG has to pay some interest to the bank which, otherwise, would not be required. This activity of bank officials needs to be checked so that the SHG members can withdraw from their own accumulated money, keeping in spirit of the role of SHGs to empower the disadvantaged.

All information and accounts related to SHGs at the block levels are still maintained manually and it requires the digitisation of these data. The persons involved in maintaining the SHGs at block level should be trained to digitise the entire data relating to SHGs from group formation to withdrawal of money for giving loans etc., on a regular basis, and the infrastructure required for digitisation should be established at the block level in the line with NABARD's initiatives to streamline the credit information collection and reporting of SHG members in the E-Shakti or Digitization of SHGs. The E-Shakti initiative will bring all the data related to SHGs on a common web based platform which will be implemented in 100 districts throughout the country. The data should include information of all members, transactional data, as well as SHG level data. As this initiative aims to bring all the social and financial information of SHG members on a common platform, it will help in channelizing the credit information with greater transparency.