

**SMALL BORROWERS' NEED AND THE CREDIT MARKET: A STUDY OF
FORMAL AND INFORMAL MARKET BORROWING IN THE DISTRICT
OF DARJEELING, WEST BENGAL**

A thesis submitted to the University of North Bengal

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Doctor of Philosophy

in

Department of Economics

By

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Under the guidance of

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DECLARATION

I declare that the thesis entitled '**SMALL BORROWERS' NEED AND THE CREDIT MARKET: A STUDY OF FORMAL AND INFORMAL MARKET BORROWING IN THE DISTRICT OF DARJEELING, WEST BENGAL**' has been prepared by me under the guidance of Prof. Sanchari Roy Mukherjee, Professor, Department of Economics, & Dean, Faculty Council for P.G. Studies in Arts, Commerce and Law, University of North Bengal. No part of this thesis formed the basis for the award of any degree or fellowship previously.

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ABSTRACT

This thesis is concerned with the need of the small borrowers. It has been attempted to describe the actual need of the small borrowers after analysing the available secondary and primary data and an attempt has been made to bring out the actual need of the small borrowers in the District of Darjeeling, West Bengal.

According to the Reserve Bank of India, an account that has a sanction limit of Rs. 2,00,000/- is a small borrowal account (Sriram, 2016). Prior to this the limit of this small borrowal account in India was Rs. 10,000/- up to June, 1983, Rs. 25,000/- during 1983 to March, 1998, and after March 1998, the limit of this account stand still at Rs. 2,00,000. The percentage of small borrowal account to all account, during 1975 to 2000, reached to more than 97%, but, a steady declining trend observed after the year of 2000. The same scenario was also observed for the percentage of amount outstanding in small borrowal account (RBI Bulletins), though, through the branch expansion of scheduled commercial bank, the number of bank branches reached to 1,38,059 in 2017, from 24,802 in 1977 (RBI, Sept 2017). The difference of the rate of interest between large borrowers and small borrowers are not only marginalised (except certain cases) but also small borrowers had to pay more average rate of interest than the large borrowers (RBI Bulletin, May 2011).

The small borrowers were in priority sector since 1969 and were enjoying various schemes of commercial banks and other lending institutions before the reform of banking policy. As the time elapsed, the banking sector started extending loan to small borrowers vary cautiously and tightly, and almost neglect the release of loan if they assumed that the risk is a bit high. The reverse scenario was observed in case of large borrowers, non-governmental organisation, NBFCs etc. The result of refusal of getting loans from formal sector by the small borrower insists them to knock the door of informal moneylenders, and, the share of non-institutional agencies (including moneylenders) rise up to 44% in 2012 from 36% (Pradhan, 2013).

All these issues have impact on the small borrowers which have been tried to address in this research. A brief overview of the chapters of this thesis is given below.

The first chapter introduces the research topic; statement of the problem; objective of research; research questions and hypothesis; and states the research methodology.

The second chapter is based on review of available literature relevant to the study. It is intended to discuss the issues relating to non-institutional and institutional credit.

The third chapter is intended to describe the position of small borrowers in the formal credit market of India.

The fourth chapter is also based on secondary data and discussed the issues of small borrowers in the informal credit market of India.

The fifth chapter describes and outlines the issues of small borrowers in the credit market of West Bengal from the relevant literature. Both the formal and informal credit markets of small borrowers have been discussed. The outreach of microfinance in West Bengal has also been discussed in the chapter.

The sixth chapter states the socio-economic condition of small borrowers in the district of Darjeeling. This chapter is based on primary data. The data was collected through a survey of 244 households in the blocks of Matigara, Naxalbari, Khoribari, Phansidewa and in the wards of Siliguri Municipal Corporation. The samples of this study are the small borrowers of above mentioned blocks and wards.

The seventh chapter assessed the major issues of small borrowers like rate of interest, Generation of income, the preference of source of loan, Preference shifting of source of loan etc. This chapter is also based on primary data collected through survey.

The final chapter (eighth) summarizes the specific findings of the chapters (one to seventh) of the thesis.

Preface

After nationalisation of commercial bank in 1969, in India, a supply led approach has been followed to ensure the flow of credit to all sectors which were previously un-served by the banking system. The expansion of bank branches in the unbanked regions was made to serve the un-served areas by adaptation of social banking approach. But, through the economic reforms, a direct shift has been made in the banking policy of India for improving the operating efficiency and profitability. This efficiency and profitability approach was completely neglected in the phase of social banking.

It is difficult to define the term 'small' in the 'Small Borrower' precisely (Chavan, 2014-15). According to Reserve Bank of India, presently an account which has credit limit of up to Rs. 2,00,000/- is a small borrowal account. The limit of this small borrowal account was up to Rs.25,000/- till 1998 (March) and up to Rs. 10,000/- , till June 1983 . Since 1998 April, the credit limit of small borrowal account extended to Rs.2,00,0000/-. Again, through the Master Circular on Priority Sector Lending-Target and Classification, Reserve Bank of India stated about loans to weaker section. Loans to weaker come under priority sector lending. Weaker section includes various socially and economically unprivileged sections, like small and marginal farmers, village artisans, backward social groups, individuals and women and person belonging to minority community.

Since 2005, another initiative in the name of 'financial inclusion' was undertaken for extending the banking service to the un-served sections. This ' financial inclusion' can be seen as a *'process of ensuring access to appropriate financial products and service need by all section of the society in general, and vulnerable groups in particular, at an affordable cost in a fair and transparent manner by regulated, mainstream institutional players'* (Chakraborty, 2013). But, in 2009, the report of the Task Force on Credit Related Issue of Farmers stated with a great concern that very large number of small and marginal farmers, especially tenant farmers, oral lessees, sharecroppers and among them women, continue to have difficulty in assessing agricultural credit from formal sources. The dependence of these sections on moneylenders has disturbingly been increased.

In Priority sector lending, the weaker section borrowers are small borrowers as the credit limit of this weaker sections is less than the credit limit of small borrowal account. As the time elapsed, following the efficiency and profitability approach, the banking sectors of the country started to release credit to the small borrowers very tightly and cautiously, and, almost neglect to release credit if the risk perception associated with the release of credit is high. As a result, the dependence of these sections on informal borrowers increased.

All these issues mentioned above have impact on the small borrowers of the country.

In the research work “Small Borrowers’ Need and the Credit Market: A Study of Formal and Informal Market Borrowing in the District of Darjeeling, West Bengal”, it is intended to address all the above mentioned issues along with other issues of small borrowers, like, rate interest, income generation by utilising loan amount, the repayment of loans etc., have been addressed focussing specially on the small borrowers of the district of Darjeeling.

I hope, this research work will serve its purpose.

Sumon Chatterjee

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Appendix I

Abbreviation

Short form	Full form
AAAY	Antyodaya Anna Yojana
ACCION	Americans for Community Cooperation In Other Nation
AIDIS	All India Debt and Investment Surveys
AIRCS	All India Rural Credit Survey
AMFI-WB	Association of Microfinance institution- West Bengal
ANBC	Adjusted Net Banking Credit
ASSOCHEM	The Associated Chambers of Commerce and Industry of India
BLP	Bank Linked Programme
BPLR	Benchmark Prime Lending Rate (BPLR)
BRI	Bank Rakyat Indonesia
CARE	Credit Analysis & Research
CGAP	Consultative Group to Assist the Poor
CRISIL	Credit Rating Information Services of India Limited
DFI	Development Finance Institution
DPAP	Drought Prone Areas Program
DDP	Desert Development Program
DRI	Differential Rate of Interest
EAS	Employment Assurance Scheme
EY	Ernst & Young
FWWB	Friends of Women World Banking

GOI	Government of India
HDFC	Housing Development Financial Corporation
HUDCO	Housing and Urban Development Corporation Limited
IAY	Indira Awas Yojana (IAY)
ICDS	Integrated Child Development Services Scheme
IOI	Incidence of indebtedness
IRD P	Integrated Rural Development Program
IWDP	Integrated Wastelands Development Program
JGSY	Jawahar Gram Samridhi Yojana
JLG	Joint Liability Group
KGFS	Kshetriya Grameen Financial Services
KVIC	Khadi and Village Industries Commission
LIC	Life Insurance Corporation
MFI	Microfinance Institutions
MFIN	Microfinance Institutions Network (MFIN)
MIX	Micro Finance Information Exchange
MPI	Microfinance Penetration Index
MPI	Micro Finance Profitability Index
MUDRA	Micro Units Development and Refinance Agency
MYRADA	Mysore Resettlement and Development Agency
NABARD	National Bank for Agriculture & Rural Development
NBFC	Non Banking Financial company/ Corporation

NFE	Non Formal Education
NGO	Non Governmental Organisations
NPA	Non-performing Assets
NRLM	National Rural Livelihood Mission
NSAP	National Social Assistance Program
NSSO	National Sample Survey Office
NULM	National Urban Livelihoods Mission
OBC	Other backward class
Ph.D.	Doctor of Philosophy
PMIUPEP	Prime Minister's Integrated Urban Poverty Eradication Program
PMJDY	Pradhan Mantri Jan- Dhan Yojana
PMRY	Prime Minister's Rojgar Yojana
PRwl	Price Rationed With Loans
PRwol	Price Rationed Without Loans
PSB	Public Sector Bank
QR	Quantity Rationed
RBI	Reserve Bank of India
REGP	Rural Employment Generation Program
RFAS	Rural Finance Access Survey
RGVN	Rashtriya Garmin Vikash Nidhi
RIDF	The Rural Infrastructure Development Fund
RMK	Rashtriya Mahila Kosh

ROSCA	rotating saving and credit associations
RPS	Retention Pricing Scheme (RPS)
RR	Risk Rationed
RRB	Regional Rural Bank
SB	Small Borrowal
SBA	Small Borrowal Account
SC	Scheduled Casts
SEWA	Self Employed Women's Association
SGRY	Sampoorna Grameen Rozgar Yojana
SGSY	Swarn Jayanti Gram Swarozgar Yojana
SHG	Self Helf Group
SIDBI	The Small Industries Development Bank of India
SJSRY	Swarna Jayanti Shahari Rozgar Yojana
SKS	Swayam Krishi Sangam
SMC	Siliguri Municipal Corporation
SRMS	Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
SRO	Self Regulatory Organisation
ST	Scheduled Tribes
SUME	Scheme of Urban Micro Enterprise
TCR	Transaction Cost Rationed
TPDS	Targeted Public Distribution System

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CHAPTER – I

Introduction & Thematic Representation

1.01. Introduction:

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

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

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

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

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

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

1.02. Statement of the Problem:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.03. Study Region and Area:

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

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

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

1.04. Objective of the Research:

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

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

1.05. Research Questions:

The following research questions have been addressed in the study:

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

1.06. Research Hypotheses:

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

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

1.07. Research Methodology:

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

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

i) **Area of the Study:**

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

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

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

Data Collection:

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

Table 1.1: Demographic Status of respondent Small borrowers

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

Source: Field Survey

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

iii) **Data Processing:**

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

1.08. Chapterization:

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

Chapter I: Introduction & Thematic Representation

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

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

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

Chapter III: Small Borrowers and Formal Credit Market in India

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

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

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

Chapter V: Small Borrowers and Credit Market in West Bengal

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

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

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

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

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

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

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

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

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

Chapter II

Issues Relating to Non-institutional and Institutional Credit

2.01: Definition and Characteristic of non-institutional Credit:

The non-institutional credit sources comprise of professional and non-professional moneylenders, agricultural money lenders, friends, relatives, traders/shopkeepers, employers, landlord etc. (A. Kumar *et. al.* 2017). Generally, the non-institutional credit providers refer to the two main constituents of our financial system and they are Private Moneylenders and Indigenous Bankers. The private moneylenders are the individuals who provide credit to the people on their requirement and charge interest. While the indigenous bankers are the individuals having the licence of money lending and who not only provide credit and charge interest but also provide the facility of hundi and also accept deposits from people. These moneylenders can be broadly subdivided into two categories:

i) Professional moneylenders – They are the people for whom money lending is the main activity and source of income generation for their livelihood. In our country, some communities like – Baniyas, Vysyas, Mahajans, Shahukars, Seths, Chettiars can be found who have been in the business of money lending from generation to generation, with or without holding the licence of money lending.

ii) Non Professional moneylenders are those individuals who lend but money lending is not their main activity for income generation. This category includes people like landlords, farmers, merchants, goldsmiths, contractors, etc.

2.01.01. Role of moneylender: Vyas (2007) stated that a significant role had been played by the moneylenders in meeting the credit needs of rural regions in India. He quoted the data of AIDIS and stated that the share of moneylenders in the total dues of rural households rose from 17.5% in 1991 to 29.6% in 2002. The share of credit of the non-institutional category (mainly moneylenders) had actually risen in the rural areas between 1981 to 2002, and about 45% of the credit lending in rural areas was by moneylenders and 25% of the urban indebtedness was because of moneylenders. In rural areas, the dependence of non-cultivators on moneylenders was found to be nearly 54% in 2002 and of the self employed in urban areas, it was found to be 33%. The interest rate that moneylenders charged was higher and that, about 40% of the total lending by

moneylenders found at 'above the interest rate of 30% per annum' in the rural regions in 2002. The reason was that the bank could not match moneylenders in getting information about the borrower's creditworthiness and the timely payment of credit. Moneylenders collect information on borrowers, monitoring the action of borrowers and ensure the timely repayment of their dues. The timely credit is too important for borrowers than the associated cost. The moneylenders reach the borrowers better than banks. To reduce the role of moneylenders, Vyas advocated for incorporating some factors such as flexibility, easy accessibility, better information and monitoring in the banking system.

The credit / loans extended vary between regions and countries based on the degree of institutional and non-institutional credit. Anand G. Chandavarkar (1985) described the nature and characteristic of the non-institutional financial sector in developing countries in two different segments: i) organisational, and ii) functional and operational. According to him, measuring the size of the non-institutional financial sector in any country was difficult and it would be better to find out the significant characteristic of non-institutional financial sector in developing countries. While discussing the organisational characteristics he stated that, the ownership of the non institutional financial bodies were divided into three categories : i) proprietary, which included moneylenders, pawn brokers and indigenous bankers etc., ii) mutual, i.e. like the rotating savings and credit associations prevailing in the countries of Africa, Asia and Caribbean where the average scale of operation was smaller than the institutional sector and the overheads, i.e., staff, premise and equipment were also low and minimum, and iii) the formal requirement of registration was minimum, nonexistent or was evaded. As there was no resistance to the entry in the market or exit from the market and the process was of complete ease with the lenders and the borrowers enjoying complete freedom and due to this, the market of non-institutional financial market has the nature of 'perfectly contestable market'. The functional and operational characteristics of non-institutional sector had been pointed out by Chandavarkar as the following:

- i) The cost of transaction and information was low due to the informality of transactions and the personal knowledge of borrowers on the part of lenders. He also emphasised on the 'trust' and firsthand knowledge of customer.

- ii) Loan transactions are more dominant than deposit transactions and most lenders work with their own savings and capital.
- iii) Freedom from the policy and control of the Central Bank in respect to liquidity ratio, cash reserve ratio, interest rates etc.
- iv) The effective rates of interest in informal sector are higher than the interest rates charged by the formal sector and sometimes it crossed the limit of usury laws but identifying of the same and monitoring and implementation of usury laws in the informal sector is difficult.
- v) The informal sector escapes from the tax burden of the institutional sector.
- vi) The end uses of informal credit are the mixture of consumption and investment in which the consumption is predominant than the use of credit taken from the formal institutions.

Some of these above factors remove a large part of the so called financial dominance of the institutional sector and give rise to elements of perfect competition and provide a competitive advantage to the non institutional sector. Conversely, there is a considerable degree of oligopoly, oligopsony among lenders due to their grouping of money lending and trading functions, which also detracts from otherwise powerfully competitive nature of the market. The informal financial sector presents a contradictory combination of both highly competitive, as well as oligopolistic elements.

Again, as Chandavarkar points out that, too much regulation of informal sector would be more likely to result in its disappearance without having the adequate alternative of formal sector. The proper strategy for the formal financial sector should be to adopt the desirable feature of the informal sector specifically for the small savers and small borrowers. The author suggested some of the elements of such features:

- i) Creation of panel of guarantee brokers who would be drawn from the rank of non-institutional lenders to work in formal institutions on salary and commission basis. Their main job would be to guarantee loans to small and risky borrowers.
- ii) Credit risk insurance system for the institutional sector to be created so that insurance of the loans to small and risky borrowers can be done.

- iii) Provisions of rediscount or refinance facility to be made by the Central Bank for informal sector's credit instruments by taking guaranty from authorised brokers.
- iv) Institutional lenders like rural cooperatives should keep aside a portion of credit for their indispensable consumption purposes.
- v) The procedure of lending along with the working time of the institutional lenders should have to be more flexible and informal and the attitudes of the bank employees should have to be more in tune with the local environment and the needs of the local community.

To monitor the borrowers' activity, 'peer monitoring system' can be utilised efficiently (J.E. Stiglitz- 1990) for the formal sector so that the likelihood of repayment of loan by the borrower can be enhanced. Local informal moneylenders have the information regarding the borrowers as well as about the project where the borrower invests the loan money and through this information the lender can understand the risk of the money lending whether high or low and on the basis of this, the lender fixes the rate of interest which is always at higher rate due to non competitive market situation. He pointed out three reasons of higher rate of interest : i) the high rate of default ii) high correlation among default iii) high cost of screening of application of loan and pursuing delinquent borrowers. Though the lender of the informal sector charges high interest rate and it is thought that they are less efficient so there has been a possibility that the modern institutions would drive out these less efficient money lenders, but in the actual scenario, there is coexistence of the formal and the informal lenders where the formal sector often suffers a huge loss. Nevertheless, local moneylenders have not only survived but also extended their business year after year by lending to borrowers where the formal sector is unable to reach or unable to provide credit. He illustrated that the Grameen Bank of Bangladesh used peer monitoring by exploiting the knowledge of the members of the loan group and that the process of peer monitoring can be an effective way of acquiring information regarding borrowers as interdependence among the member of the borrowing group is created artificially and the members have been involved to share more risk.

Aleem (1990) worked on imperfect information, screening and the other cost of informal lending in rural credit market of Pakistan. According to Aleem, both demand side

and the supply side of informal credits are affected by imperfect information. The lending cost and the product differentiation are both affected by imperfect information. He observed that through the casual observation determination of risk associated with the loans cannot be imagined correctly. The lender offer loans after making critical analysis of the portfolio of the borrower regarding the credit history and the market reputation of the borrower and the project where the borrower will invest the loan money. The lender needs all these information before sanctioning the loan as all informal loans are usually unsecured. To collect this information lender invests much of his time and other resources on screening the loan applications to reduce risk of default by borrowers. The borrower on the other hand, the party of the demand side of informal credit, lacks information regarding the informal credit as the contract of credit, normally, is done informally.

To reduce the risk of default, the lender gives efforts for collecting information about the applicant borrower as the loans generally are collateral free and the borrower does not have anything except the land to surrender before the lender but the land becomes a big issue due to the involvement of its heavy cost of selling and the legal problematic procedure. The author interviewed 14 non-institutional lender of Chamber area in Pakistan and found the following as common:

- i) Lenders did not entertain borrowers who did not have any previous loan history from the same lender.
- ii) Further enquiry was conducted for getting the actual information about the borrower regarding his indebtedness and the reputation of the borrower in the market.
- iii) On obtaining satisfactory information on the above two points, the borrower was extended the first loan of a very small amount.

The sequence of steps used by the non institutional lenders to obtain the information about loan applicants:

Step 1: Assessment of the borrowers was done through his dealing in other activities.

Step 2: Asking the applicant borrower to provide reference of his villagers who are known to the lender or for providing personal surety.

Step 3: Making inquiries of other farmers in applicant's villages and in the market.

Step 4: Visiting the applicant's farm.

If the result of these above points comes positive then lender go for the next step.

Step 5: Testing the borrower by giving small amount of loan initially.

For continuing with all these lengthy processes for issuing credit to borrowers lenders has to incur the associated cost and this cost is included in the charge of credit i.e., interest and the rate of interest became high.

According to Aleem, the interest becomes the cost of taking loan or the income of providing loans. The rate of interest charged by the lenders becomes high as the cost of screening of rejected applications is borne by the successful applicants of loan and they are to bear with the high charges of interest. He further observed that in Chamber area of Pakistan, the rejection of loan application was not due to scarcity of loanable fund as the lenders were very much capable to cope up with the increase demand by taking fund from another lender. He also pointed out that the main risk that was faced by the non institutional lender of Chamber in Pakistan was not arose from non recovery of debt as it was found that only 2.7% of the total loans extended by the lenders, from the inception of his lending business, had not been recovered and according to the author, the process of screening of loan applications applied by the informal lenders helped them in resisting the increment in the quantum of bad debt.

2.02: Non-institutional credit in India:

A. Bhadury (1973) pointed out that the characteristic of semi feudalism existed in production relation in Indian villages as the moneylender took the Kishan's share of harvest as repayment of past loan and interest and the least privileged category of farmers were usually compelled to borrow again for their consumption needs.

Platteau et al. (1980) stated two points of consideration by the borrower regarding the source of preference of borrowing. These points are personal relationship with the lender and quick disbursement of money. The borrower gave high value to the quick disbursement of loan.

In case of informal lending in India, S. Ghatak (1983) worked on the inter-regional variation in rural interest rate in India. He found high inverse correlation between the level of income and the rate of interest in the rural sector. The rate of interest was very high and it varied between 24% to 150% in different districts of West Bengal. He specifically pointed out that in Burdwan district of West Bengal, the average rate of interest in rural areas was between 36% to 84% per annum charged from casual labours, tenants, and agricultural labourers but the rate of interest in Nadia district of West Bengal varied between 72% to 150% per annum though it was a relatively poor district than Burdwan of West Bengal. He stated that there was little activity of moneylenders in Punjab during his survey period (1978) but in West Bengal the activity of moneylenders was enormous and was the major source of rural credit during 1975-76. The author concluded that the growth of income was a major factor in the fall of rural interest rate.

Hemant K. Pradhan and B.L. Dinakar (1990) evaluated the changing pattern of rural credit in India. The evaluation was done after taking into consideration the various aspects of credit demanded by the rural cultivators namely, i) the incidence of rural debt, ii) the supply of credit sources, iii) the demand for credit according to the purpose and iv) interest pattern of debt. They have taken into consideration the reports of the three All India Rural Credit Surveys held on 1961-62, 1971-72 and 1981-82. Out of these three surveys, 1971-72 and 1981-82 surveys were made more comprehensive and included the urban sector also. They opined that the pattern of rural credit in India had undergone significant changes following the adoption of production-oriented lending programme in the early fifties. The institutional agencies stepped up their role in meeting cultivators' demand for production loans up from one fifth to three fifth during 1961-1981 and the Cooperative and the Commercial Banks emerged as the most competitive agencies in this field. The growing state of institutional agencies reduced the interest rates charged by the moneylender. The performance of the institutional agency was not universal always but the cultivators of regions with irrigation facilities mostly took loans from institutional agencies. The region with higher poverty and unemployment where maximum loans were taken for subsistence purpose of the family, were mostly taken from private moneylenders. He pointed out irrespective of that, the institutional credit was concentrated among the cultivators holding higher asset base and the small cultivator borrowers from non institutional agencies at a higher rate of interest.

2.02.01: Informal Credit for subsistence:

K. Basu (1983) stated that informal credit is important in less developed countries as the marginal section depends on informal credit heavily. Large farmers with better conditions were offered loan in better terms and condition than the marginalized farmers. This was also the reason of getting formal loan easily as large borrowers are powerful and influential. Bank workers also help the large farmers for getting a gift or bribe from them. The author pointed out that default in informal lending is less as the lender lends only to those farmers on whom he has control.

Anita Abraham (1985) surveyed the Poovar district, a fishing village in Kerala and enumerated the role of credit among the villagers for their subsistence. She defined this subsistence credit as net activities of informal credit relations among the families of the village, for the purpose of their basic consumption need, the transactions of which involves no interest charges upto a limit of Rs. 100. The specific feature of subsistence credit is that the credit givers and credit takers cannot be separated from one another. At any time, the borrowing households can be a lender. In subsistence credit system, the frequency of lending cash and the amount to be lent depend on the generation of income but not a strict function of higher income or surplus incomes. Further, it was found that money was lent by the households even when they were unable to make ends meet and were forced to borrow. Households, after meeting their day's needs, use to sub-lend the surplus to households which were in need of credit. The system of subsistence credit was not oriented towards making profit and thus no interest was charged from the borrowing households as long as the quantum of loan was small and up to Rs.100/- from one lender and as the amount loan was so little, it was not only interest free but also there was no requirement of collateral security. The author pointed out that a house took loans from close friends in order to help another friend. If the loan requirement amount was large i.e., more than Rs. 100/-, then, respecting the norms of Rs.100/- per lender, loans from several households @ Rs.100/- per household were taken to avoid the payment of interest. The repayment of subsistence loan, for a villager, was the social duty rather than economic obligation as it helped the needy household during their consumption starving days. The chance of defaulting of loans was very less as the debtor could not flee from the village as the social cost of that was much higher than the temporary gains through defaulting. According to the author the subsistence credit is not only a transaction of credit but it is an

example of village solidarity and effective cooperation in facing common problems which did not depend on any ideological belief of cooperation.

Ramachandran and Swaminathan (2002) have described the financial liberalisation as a key component of the globalisation agenda imposed by the developed countries on the developing countries. In financial reforms, the removal of control on interest rate and abolition of directed credits were also included. The authors have analysed the effect of liberalisation in financial sector of India on rural banking and on rural credit with reference to landless labourers in their article 'Rural Banking and landless labour households: Institutional reform and rural credit market in India'.

The exploitation of rural people in the credit market is one of the most common and constant features of Indian rural life. According to the authors, rural people need credit for meeting the requirement of working capital or for investing in agriculture and for other income generating activities. In rural areas, the agricultural and non-agricultural activities are seasonal and credit is required by the rural people for smoothening the seasonal fluctuations in earning and expenditure. Ramachandran and Swaminathan pointed out four major problems associated with the supply of credit to the poor people namely, inadequate credit supply by formal institutions, imperfect and fragmented credit market, and, unequal distribution of formal credit in respect to class, region, gender etc. In particular, the formal credit should reach backward areas, less income generating households, poor people of oppressed caste and tribe and women. Finally, there has been an extensive progress of informal credit to the income poor people with a very high rate of interest. The authors' survey of Gokilapuram village in May 1999 revealed that for the category of 'landless hired labour households with no other sources of income', only 5.8% came from the formal source of credit and 94.2% was from the informal sources. For 'landless hired labour with other sources of income' – 8.8% was from formal sources and 91.2% came from informal sources, and for all landless hired labour households, only 7.7% was from formal credit sources and 92.3% came from informal sources. The important findings from the above is that in case of all the three categories of farmers, the contribution of informal credit source was more than 90% i.e., high rate of interest of informal credit does not act as a barrier to the borrower from loaning from moneylenders. According to the authors, an informal loan is subject to no regulation but the formal loans are allotted on the basis of specific rules and regulations fixed by the institution or

Government. Informal loan is a personalised transaction which depends upon the specific relation of power between the two parties i.e. lender and borrower.

Ramachandran and Swaminathan (2002) further pointed out two trends in money lending as an occupation:

- i) The class whose major occupation is money lending as primary activity.
- ii) Money lending is a part time occupation or the secondary source of income.

In the surveyed village they observed the activities of money lending association which was known as Sangam. It was a group of 5 to 25 subscribers. The members of Sangam, generally, were from the same caste who paid a fixed amount at a regular interval and from the accumulated amount the loan was given to members at 60% rate of interest. The loan was extended only after getting someone who would act as surety.

The exploitation of borrowers who took various types of loan from the informal sources, particularly from the moneylenders has been cited below as example for better understanding:

- i) **Kanthu Loans:** If borrower wanted a loan of Rs. 1000/- , he would have been given Rs. 900/- for his Rs.1000/- loan amount and the borrower would have to repay the loan at a rate of Rs.10/- per day for 100/- days. The starting deduction was in direct proportion with time. If the repayment time would increase, the starting deduction would increase but the instalment per day would decrease. For a Rs. 1000/- loan, if Rs. 800/- was given to borrower then the loan would have been redeemed at Rs.5/- per day for 200 days.
- ii) **Monthly Interest Loans:** These were the loans given to the people whom the moneylender trusted. The rate of interest was fixed on the criterion of trust. The size of loan was also a factor of fixing rate of interest – higher the size of loan amount, lesser was the rate of interest and vice versa. Monthly interest loan was the main form of loan in Gokilapuram village in which the interest rate generally charged was 10% to 12% per month as the lender always wanted to get back his principal amount within a year.
- iii) **Weekly Interest Loans:** It was like Kanthu loans but with a higher rate of interest. The origin of the loan was in the cattle trade where loan was repaid after a week. In this case, the loan repaid along with a part of principal in

weekly basis. If lender lent Rs.1000/- to a borrower, then the borrower would have to pay Rs. 125/- per week for 10 weeks for repaying the loan. Weekly interest loan was observed in Gudalur village by the authors.

- iv) Daily Interest Loan: it was observed in Gudalur village. In case of daily interest loan, the rate of interest was in between 30 paisa to 50 paisa per day per Rs.100/- in 10 days to 1 month, the principal amount of the loan was normally paid back. It was normally used (70%) by the people engaged in illegal activities like smuggling, bootlegging or in any auction etc., 30% of this type of loan was used by people who had the emergent need of credit for medical treatment , obsequies etc.

For every loan given by the lender, the borrower must sign his name on a blank sheet of paper on a revenue stamp. If any surety is accompanied, then that surety had to sign also. In case of married borrower, the lender would make himself sure that the wife of the borrower knew about the incident of taking loan and informed her about the repayment record.

Ramachandran and Swaminathan also analysed the money lending activities from the point of view of the lender and stated that providing loan was an easy matter but collecting the interest on regular basis and getting back the principal amount of loan was a matter of waiting for months and years. There is every possibility of losing the money which has been extended as loan if the lender is unable to keep him in an efficient mode. When a borrower becomes unable to pay back the amount what he has received as loan becomes bad debt for the lender. This bad debt is nothing except the accumulated fund or working capital or any collected money by taking loan from another moneylender if it seen from the point of moneylenders. The bad debt is not very easy thing to digest for the moneylenders. The situations arise from this event are to be dealt by moneylenders with their patience, energy, own money and lastly with the help of power. Money lending is a tough job and the group of moneylenders is also tough. On non-payment of interest and principal, shouting on debtors or borrowers in public places has been a regular observing event. Authors observed in Gokilapuram that there was no occasion of beating for non payment but the event of seizer of debtor's valuable and useful assets was observed. The story of Gudalur was different and the event of collection of interest and principal was full of threats and beatings and

the seizure of borrower's movable properties, useful assets, utensils, furniture by the lenders were observed.

The types of lender in informal sectors which they found in Gokilapuram village in 1977 and 1999 are manufacturers, merchants and millers, landlords, In Gokilapuram village, the share of moneylenders increased from 27% in 1977 to 42% in 1999. The same trend was also observed in the share of miscellaneous part-time lenders. The share of miscellaneous part-time lenders had increased by 13.2% during 1977 to 1999.

2.03: Institutional Credit: The credit which is supplied by the institutional agencies is called Institutional credit. In India, the institutional agencies include Scheduled Commercial Banks, nonbanking financial institutions, cooperatives, Regional Rural Banks, self-help groups, microfinance institutions, and other government agencies (A. Kumar et. al., 2017) through which the credit is supplied throughout the country.

2.03.01: Definition of Small Borrower: Sudarshan Lal (1976) explained elaborately the term small borrowers. He also explained the credit facilities extended to small borrowers. He mentioned the following types of small borrowers:

- i. Artisan and Craftsman
- ii. Small Borrowers and Self Employed Persons
- iii. Transport Operators
- iv. Agriculturist and Person engaged in allied activities
- v. Persons belonging to the low income groups.

Artisan and craftsman were granted loan by the State Industries Department for working capital requirement upto Rs. 1000/- against personal bond, while loan exceeding Rs, 1000/- but not exceeding Rs.5000/- were granted against security. Commercial and Regional Rural Banks extended loans to artisan and craftsman under rural artisan scheme or rural craftsman scheme. Normally these credit institutions granted financial assistance ranging between Rs. 2500/- to Rs 7500/- but for an educated self employed person the maximum amount of admissible assistance was Rs. 20000/- . The rate of interest was a variable one and ranged between 10 percent to 15 percent per annum normally but in case the borrower belonged to low income group the rate of interest was lower and the borrower could get assistance of interest rates which was reduced to 4 percent per annum also. The loan amounting to Rs. 5000/- was extended to the borrowers only after taking

mortgage of borrower's property like land, factory premises, stock machineries, equipment etc.

The author mentioned here that loans were also extended to small borrowers by the commercial banks even when the bank had no such specific scheme for the purpose. Bank treated the borrowers as small borrowers and had made 'small borrowers' as a category of lending small amount of loan. He explained the matter with the example of Bank of Baroda which had an omnibus scheme known as 'Multi Service agency' under which the loan facilities were granted to tailors, launders, vegetable vendors, hair dressers, cobblers, photographers, book binders, etc. The term professional and self-employed persons were applied to trained personnel in art and crafts or who held either a degree or a diploma from any recognised institute including dentist, chartered accountant, surveyor, persons who were technically qualified or skilled in the field in which they were employed. Banks allowed them loan depending on their business profession and charged interest, normally 12 % to 15.5 % per annum and booked their entire stock on hypothecation. These loans were repaid in one to three year period on monthly instalment basis. While disbursing the loans, banks sometimes directly paid the supplier of the equipments etc from whom the borrower wanted to purchase the assets of his business. In all cases, the bank extended the loans only after being satisfied by the proposal of the borrowers in which the margin money was a specific factor.

The definition of small borrowal account as per the RBI is- an account that has a sanction limit of Rs. 2,00,000/-. The limit set for a MFI loan to the customer is the maximum of Rs. 1,00,000 as per the NBFC-MFI master circular issued by RBI in 2014 (Sriram-2015). In 1975, the cut off limit of this small borrowal account was Rs. 10,000/- which was increased to Rs. 25,000 after June 1983 and since April 1998, the cut off had been set to Rs. 2,00,000/-.

The relation between the borrowing cost and the demand of rural credit has been enumerated by Adams and Nehman (1979) in their article 'Borrowing Cost and the demand for Rural Credit'. According to them that in the low income countries the supply of agricultural credit from formal institution increased rapidly. The government of many countries tried to provide additional fund to the rural poor but very little of this additional loanable funds reached to the poor people of rural area. They cited the work of some

authors to explain the reason of lack of formal credit to the poor people of rural areas as: i) conspiracy of urban people against rural people and resisting them from the access of formal credit; ii) widely used concessional interest policy along with their loan transaction cost for serving small borrowers discouraged financial institutions to lend rural poor; iii) due to lack of profitable investment opportunities and lack of awareness of benefits of formal credit rural poor people do not demand formal credit but the authors have proposed a different view on the issue and fixed their point on the borrowing costs charged by the formal institutions. According to them the rural poor people show their unwillingness of borrowing from formal lender due to the differential borrowing costs. They pointed out three kinds of borrowing costs: i) beyond the interest payment on loan, the other charges collected by lender such as application fees, service fees, etc., ii) in many countries rural people were forced to negotiate with agents, leaders etc., before the sanction of their loans and sometimes they had to bear the expense of the person who inspect their business and sometimes they have to settle the loan approvals by offering bribes iii) the cost associated with the travelling expense for getting their application sanctioned. The authors have suggested that for achieving the objective to reach the rural poor with formal credit, transaction cost of borrowers are to be minimised. The travelling cost may be reduced by making easy policy of granting formal credit so that borrowers may not require to visit the institution frequently for getting his/her loan sanctioned and there by the reduction of borrowing cost may be possible.

L. Menkshoff *et al.* (2011) examined the collaterals that were required for extending loans to poor households. Collateral always act as the most important instrument in lending whether it is from formal institution and from informal institutions. The collateral accepted by the lender in an anticipation of that in future it will resist the loss of lenders that may occur from the default in repayment by the borrowers and the incentive of borrowers due to default in repayment can be minimised. The collateral has become a major problem for the poor households for not having it in adequate quantum. The authors have shown the following main findings for solving the puzzle of collateral:

i. Conventional collateral was rarely used and that for receiving loans poor do not always require tangible assets as collateral. The lack of assets (collateral) were not the

only reason of not getting loans by the poor people, the other means of dependence of lenders i.e., substitute of collateral can be used.

ii. The lender can provide collateral free loans if someone gives the guarantee of repayment on behalf of the borrower on his failure to repay. This process is popularly known as third party guarantee. Besides the above two, the relation of borrower with the lender effects the requirement of collateral and sometimes need becomes less or no collateral.

Menkshoff *et. al.* found that the importance of guarantee is high than the lending based on relationship. The importance of third party guarantee is more used in formal institutions.

The incidence of collateral and guarantees in small firms can be understood form the table (No. 2.3) below:

Table 2.1: The incidence of collateral and guarantees in small firms

Sample	Loan type		Percentage of loans secured by collateral and guarantees			Percentage of unsecured loans.
			Business & personal collateral	Personal guarantee	Total	
US NSSBF 1993: 4637 small firms (<500 empl.) (Avery et. Al., 1988)	Total Loans		Without guarantee:49.5	Without collateral: 10.9	90.4	9.6
			With guarantee 30.0	With collateral: 30.0		
	Loans to unincorporated firms:	-Lines of credit	Without guarantee : 10.3	Without Collateral: 31.7	49.4	50.6
		With guarantee: 7.4	With collateral : 7.4			

		Mortgage	Without guaranty: 34.6	Without collateral : 15.9	73.7	26.3
			With guaranty : 23.2	With collateral: 23.2		
		Equipment loans	-----	Without collateral : 31.4	-----	-----
Italy 2005: 300,000 firms	Loans to all customers		42.7	15.7	58.4	41.6
Sole proprietorships, consumer households	Loans to firms		32.2	23.6	55.8	44.2
(Calcagnini et al., 2009)	Loans to sole proprietorship		45.4	28.0	73.4	26.6
	Loans to consumer households (mostly mortgage loans)		72.6	5.4	78.0	22.0
Germany 2002: 230 Professionals (Neuberger and Rathke, 2009)	Investment Loans	Real Estate:	63.0	20.0	84.0	16.0
		Other assets:	20.0			
Belgium: 248 small firms (mean number of empl.: 40) (Voordeckers and Steijvers2006)	Total loans	Business Collateral :	57.206	Personal collateral and guarantees 30.34	87	12.4
Thailand 2006-2007: 2186 Rural Households (Menkhoff L. Et al. 2011)	Total Loans		15.0	71.0	86.0	14.0
	Agricultural Production loans	Land :	14.7			
		Other assets:	0.7			
	Non Agricultural Production loans	Land:	19.8			
		Other assets:				

		4.9			
	Consumption loans	Land : 8.2			
		Other Assets: 2.2			

Source: Menkshoff L. *et al.* 2011

The above table as showed by Menkshoff *et. al.* (2011) to compare the result of others with his study on Thailand. They find that the incidence of collateral is lower, but the probability of pledging personal guarantees is higher for the households in Thailand than for micro or small enterprises in mature markets due to lack of collateral assets or lower cost of using personal guarantees instead.

G. Herath (1994) stated that there is a difference between rural credit markets and classical monopoly and competitive markets. Traditional monopoly or competitive markets unable to express the features of rural credit market in toto as the coexistence of the formal and the informal lending, credit rationing, interlinking etc. are not properly explained. The credit market is unique due to its transaction costs, information costs and risk which are not important in markets for other goods. The credit markets engage two parties for contract to be executed over time and hence these factors are important. While stating about credit liberalization or regulation, the author opined that viability of banks would be affected if the real interest rates are not realized.

The opinion of N.A. Mazumder (1995), is that, “the new banking culture nurtured by the economic reforms is alienating not only the small borrowers but also small sever”. He opined that the new banking culture has changed the profile of public sector banks and profitability has emerged as the single most criterion for judging the operational efficiency. Most public sector banks are attempting to cast themselves in the image of foreign bank and consciously neglecting the priority sector. He also mentioned that this mindset of the public sector bank would be disastrous for the future growth of economy unless Reserve Bank of India takes steps to make the new banking scenario compatible with small borrowers.

H. S. Shylendra (1995) studied the impact of low or cheap interest rate policy on the lender vitality and lender behaviour in a south Indian regional rural bank to test the

proposition that the failure of specialised institutions that extend credit in rural sector must be self sufficient under the cheap interest policy which ultimately deviate the institution from their set up objective of lending to the poor rural people. He stated that in developing countries cheap interest rate policy was based on some assumptions like rural people are poor and they unable to save, rural people lack capital and therefore they need cheap credit. These were wrong assumptions and due to the wrong assumption the result of adverse consequences would have been observed. It was observed that cheap interest rate not only increased the demand for credit but at the same time that also increased the cost of lending to small borrowers. Due to the unrecoverable lending cost, the shift of small borrowers to the government institution for cheap interest credit and deviate from their pre-laid objective of helping poor people of rural sector and concentrate to provide credit to only rich and well off by taking adequate security. The author studied activities of Tungabhadra Gramin Bank and supported the above proposition about the lender behaviour under cheap interest rate policy.

Ben Rogaly (1996) stated that the subsidized credit model was under criticism from mid-seventies as donors and other resource allocators shifted their interest from state based to market based solutions. According to policy makers there is no difference between credit and debt and oversupply of subsidized credit without pragmatic appraisal of people's ability to repay the debt in total could ruin many borrowers.

According to Rawal & Swaminathan (1998) the organisational support to agriculture in the product and the credit market did not show any significant improvement during 1980s. The amount of advance extended from the commercial banks and the cooperative banks were less in amount in 1980s than from 1970s. The authors had shown that the states of eastern India including West Bengal were receiving a lower share of institutional credit but the All India Debt and Investment Survey (AIDIS) data for 1981 showed that the share of institutional credit in total outstanding debt of a household observed in West Bengal was more than the average for India. In West Bengal, the higher proportion of Institutional credit went to the low asset holding class than in rest of India during 1971 to 1981.

He has mentioned about some measures to substantiate the anti poverty image of post 1991 economic reforms. Out of his three, following two relates to the small borrowers:

- i) Concession in the interest structure which was the bedrock of interest rate regime was virtually abolished. Small borrowers had to pay more rate of interest than earlier.
- ii) Provisioning had become essential even for small loans. Banks, considering their transaction costs had become reluctant to extend loan to numerous small borrowers, rather, they had shown their interest to extend the hand to the lenders of the small borrowers. The term that he had used for them is 'New Multanies' i.e., non Banking Financial Corporations which charge more lending rate from the small borrowers or from the marginal section of the society.

According to the author, if banking system has to play a role of catalyst of development , a new credit delivery system has to be forged involving voluntary organisations , NGO and self help group and the banking system should refocus their attention on lending to the priority sectors, small borrowers micro enterprises.

T. Jappelli *et al.* (2005) explained the effect of judicial enforcement on credit market and found that the cost of judicial inefficiencies in credit market is very high. They tried to explain that by analysing the effect of inefficient judicial system on cost of credit. They illustrated that the reduction of credit constraint and the increase of the volume of lending could have been done through the efficient judicial system. The competitive structure of bank determines the increase or decrease of interest rates but the ability of repossession of borrower's collateral by the lender can be eased by improving the judicial system. According to authors 'greater judicial efficiency can open up the credit market to low grade borrowers previously judged not creditworthy'. They observed that in case of large of backlog pending trial, the availability of credit is less wide.

Anjani Kumar *et.al.* (2010) through their studies on institutional credit to agricultural sector for finding the performance and the determinant of credit which was based on secondary data found that, i) the decision maker's age can influence the quantum of credit, ii) female headed households were the less recipient of formal credit than the households headed by male, iii) the higher the level of education, more the chance of getting formal credit. According to them that, through the knowledge of education the borrower can make himself wiser for taking the decision of not to take credit from non-institutional sources at the higher rate of interest. Their study also showed that the flow of

institutional credit had been increasing since the past four decades with different pattern of growths and with some regional disparity in disbursing agricultural credit. Their suggestion was for imparting training for the capacity building of borrowing farmers and for the procedural simplification for providing of institutional credit to less literate weaker section people.

2.04: The difference between Formal and Informal Financial Sector: The difference of the financial sector in respect of formal and informal can be understood from the following:

Table 2.2: The difference of formal and informal financial sector

Sl no	Formal Financial Sector	Informal Financial sector
01	Formal Financial institutions ignore small farmers, Lower- income households and small- scale enterprises. It is in favour of a large scale, well off and literate clientele which can satisfy their stringent loan condition.	The informal financial sector provides savings and credit facilities for small farmers in rural areas and for lower income households and small scale enterprise in urban areas.
02.	Complex administrative procedures are beyond the understanding of the rural mass and small savers.	The procedures for informal schemes are usually simple and straightforward as they emanate from local culture and custom, they are easily understood by the population.
03	Formal financial institutions do not mobilize rural savings or small scale deposits. Commercial banks could contribute to rural and small savings mobilization if they had adequate branch networks and they adopted the relevant procedure.	The informal sector mobilizes rural savings and small savings from low income urban households.

04	The working day and opening hours of formal financial institutions do not take rural work schedule into account; banks are open at the times when farmers are at work in their field.	Informal groups operate at times and on days which are convenient for their members.
05	Formal sector institutions are selective regarding clientele, so as to avoid having clientele who make only small deposits. Their financial technology is not suited to the management of modest sums from large number of saver.	Informal sector associations accept any amount of regular savings, even the most modest sums which a saver can afford to set aside. The financial techniques on which such informal groups are based lend themselves to the management of a large number of small accounts.
06	Loan application procedures are complex and require reading and writing skill so that a file on the borrower may be established	Access to the credit is simple, non bureaucratic and little based on written documents. Literacy is not a requisite.
07.	Processing of loan request is complex, resulting in long delays before final approval or rejection. Even when approval is obtained, loan delivery is slow.	The simple and direct processing of loan requests allows for their prompt approval and a minimum delay in disbursement. Rejections are rare but the level of risk is reflected in the interest rate charged.
08.	Collateral requirements correspond to the situation of relatively well off urban-dwellers: deposit or savings accounts in a commercial bank, property which can be mortgaged.	Collateral requirement on loans are based on local conditions and borrowers capacity. The condition may be based either on regular contributions to ROSCAs or on precise knowledge of farm size and /or crops harvested so as to determine the borrower's capacity to repay a loan.
09.	Transaction costs are high	Transaction costs are low

10.	Repayment rates are low	Repayment rates are high
11.	Formal sector institutions do not have close contact with the environment in which they operate. Sometimes they prosecute defaulters, which can have negative social repercussions.	Because they emanate from local environment, informal groups are aware of the problems that the members may be confronted with, and therefore they can deal with repayment difficulties in a pragmatic manner. Debt rescheduling is possible.
12.	Unfamiliar with the grassroots environment, formal institutions are ill- served by mediocre supervisory and monitoring network and are unable to gain insight into the activities of their clientele.	The informal sector has a dense and effective information network at the grassroots level for close supervision and monitoring of borrower activity- particularly their cash flow – whether they are member of an informal association or not. This contributes to the efficient mobilization of savings and ensures high loan repayment rates.
13.	Formal sector institutions do not have a good network for dissemination of information. In addition, they are out of touch with the rural masses and make little to seek ways of reaching them.	Within the informal sector, information is widely diffused. The regular meeting of informal savings and credit associations serve as a forum for dissemination of information.
14.	Some institutions of the formal sector do not even offer saving facilities. Other apply low or sometimes even negative- real interest rates, thus putting off many a potential saver.	The interest paid on the deposit in the informal sector compares favourably with that paid in the formal sector, thus providing an incentive for rural and small urban households to save.
15.	Public institutions charge very low-	The informal sector charges competitive

	sometimes negative – real interest rates on loans. Commercial banks apply moderate lending rates which are nonetheless considerably higher than the interest paid on savings. The link between deposit and lending rates is weak.	lending rates, though they are sometimes high, this reflects the scarcity of loanable funds. There is little connection between deposit and lending rates.
16.	There are investment opportunities for savings which have been mobilized but which have not been lent	There are no investment opportunities for savings which have been mobilized but which have not been lent
17.	The formal sector keeps written record on the activities of clients, although the information recorded is sometimes irrelevant.	The informal sector usually does not keep a written record on the borrowing and/ or saving activities of its clientele. When it does, the procedures are relatively simple.
18.	The formal sector regularly has loanable funds available.	The volume and the availability of loanable funds are subject fluctuations.
19.	Formal sector institutions are subsidized by the government and may also receive grant or other support from donor agencies.	The informal sector is not subsidized by the government, nor does it receive grants or other forms of support from donor agencies.
20.	A regular supply of funds allows the formal sector to lend at any time of the year. This is not the case with government lending institutions, which are deprived of sufficient because of high default rates on their loans.	Savings and credit mechanism in the informal sector are not geared towards accumulating funds before the peak session when loan request are highest.
21.	Formal sector institutions could reach a widely dispersed rural	Despite the widespread dissemination of information within the informal sector,

	<p>clientele by collaborating with government extension units. In practice, though, they do not resort to such intermediaries and do not provide financial services in rural areas.</p>	<p>informal groups are often unaware of new farming methods, and so members do not learn of new techniques which would allow them to increase production levels and raise their standard of living.</p>
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Source: Germidis *et. al.* (1991)

2.05: Interaction between formal and informal credit:

Sarbajit Chaudhury (2001) has shown in his paper by developing a model of interaction of formal and informal credit market where the author has shown that the bank officials, the formal credit suppliers' agents create constraint of lending by charging of unethical bribes from the borrowers for delivering the loan amount. For getting the bribe they do not disburse the loan amount to the actual potential borrowers and thereby they actually help to create the market of informal credit suppliers. The relation of bank officials and the informal credit suppliers are non cooperative with the borrowers for fixing the amount of bribe and the rate of interest of informal credit supply. The author has shown that an agricultural credit subsidy policy may be counterproductive even when formal and informal credits are substitutes and not complementary to each other. The author took three propositions: (i) the effective price of formal credit (incorporating the bribe) is equal to the price of informal credit in equilibrium. (ii) A price subsidy policy and / or a credit subsidy policy , where the latter is adopted through the reduction in the formal interest rate, raises both the informal interest rate and the bribing rate but lowers the numbers of farmers among whom the formal credit was disbursed. On contrary, a credit subsidy policy, if undertaken via an increase in aggregate supply of formal credit, lowers both the informal interest rate and the bribing rate in the new equilibrium. The effect on the number of farmers receiving the formal credit, however, remains indeterminate. (iii) A credit subsidy policy adopted through a reduction in the interest rate on formal credit, leads to a decrease in the agricultural productivity. The borrowers become worse off while both the formal and informal lenders become better off in the new equilibrium. On the contrary, if a credit subsidy policy is undertaken via an increase in the aggregate supply of

formal credit, the agricultural productivity as well as the welfare of the farmers improves. The moneylenders become worse off. However the welfare of the bank officials may improve. On the other hand, a price subsidy policy makes the bank officials and money lenders obviously better off. The agricultural productivity and the welfare of the farmers may also improve as a consequence.

Rosemary Atieno (2001), while assessing the role of institutional lending policies of formal and informal credit institutions for finding the accessibility and the utilisation of credit facilities by the small business borrowers in Kenya found that among the credit takers, 51% was the first time credit user and out of these 51% , the major part i.e. 67% has taken credit from informal sources and the main reason of non seeking credit was the non availability of proper information of availability of credit in the market and lack of security required for taking credit. When credit availability was seen in terms of rationing behaviour of lenders, both in formal and in informal credit market, they found that 15% had the credit constraints, although , the percentage of borrowers who ever applied for credit was 49% only, and , there was a significant difference in the applied amount of credit and the amount received as loan. The terms and conditions for disbursing loans were significantly different for formal and informal credit market. The rationing of credit in the formal market was dependent on lending terms and conditions while the same was dependent on the resource base of the lender in case of providing informal credit. The limited access of credit is was seen as a constraints of supply side not constraint of demand side as there were households, with higher wealth, who were in need of credit but unable seek that due to the terms and conditions of providing credit of formal sectors and the credit gap. The conclusion that he stated that lack of supply of credit was one of the reasons of lack of demand of credit. He stated that informal credit source provided the easy access of needy credit to small and microenterprises and the main reasons of that were the lending terms and conditions including the collateral, application procedure and the repayment period.

Catherine Guirkinger (2008) illustrated the coexistence of formal and informal credit market in Piura, Peru with econometric analysis of sectoral choice, exploration of sectoral differences in terms of loans and the differences in lending technologies and recovery strategy of loans by the lenders. He pointed out towards a survey which classified the households into the following rationing categories of formal sectors:

- i) Price rationed with loans (PRwl) – user of formal sector loans
- ii) Price rationed without loans (PRwol) - non user of formal sector loans
- iii) Quantity rationed (QR) - Borrowers who applied for formal loans but rejected or would be rejected or obtained less amount of loan than desired.
- iv) Transaction cost rationed (TCR)- borrowers who due to high transaction cost, formal loan was not applied.
- v) Risk Rationed (RR) - Borrowers did not apply for formal loan because of the high risk implied in the contract

The outcome which he has showed is the informal loan used by the formal sector is:

Table 2.3: The formal sector outcome through use of informal loans

Formal sector outcome	Frequency	Percentage using informal loans
PRwl	220	16
PRwol	224	25
QR	292	50
TCR	105	45
RR	157	41
Total	998	35

Source: Guirkinger & Boucher (2008)

The above information was analysed and found that that only 16% of the borrowers in the formal sector and 25% of the borrowers who did not have any formal loan project, applied for informal loan. Other categories like QR, TCR, RR are 41% to 50% who used informal loans which showed that the borrowers who did not have access to formal loans (QR) or the borrowers who were unable to pay transaction cost (TCR) or

unable to take the risk of formal loans were more likely to seek informal loans than price rationed households. The result of survey suggested that “ households who did not have the access to the formal sector because they were denied or did not get their desired amount of loan in the formal sector were 39% more likely to use an informal loan than priced rationed household in the formal sector and the households who did not go for formal loan due to high transaction cost were 27 % more likely to use informal loan while borrowers who did not take formal loan for its risk sharing rule were 33% more likely to be involved in getting informal loan than the household in the base category. The analysis showed a strong positive correlation of the probabilities of using informal loan and the probability of being non price rationed in the formal loan sector.

While analysing the exploration of sectoral differences (Guirkinger & Boucher, 2008) the data on interest rate, cost of application of loan, loan amount and the maturity of the loans were considered. The collateral was also considered as collateral is the indicator of what borrowers can lose on his default of paying it off and found that the difference between formal and informal loans in regard to the amount, interest rate and maturity were large. The maturity (average) of an informal loan was six months and formal loan had a higher maturity.

While analysing the differences in the lending technologies, the selection of loan application, loan monitoring and recovery and the economics of scope, locational advantages and the access of funds have been given due consideration and found that the formal sector was more standardised than informal sector while considering loan applications. For applying formal loan, borrowers should have at least one hector of land in his / her name and there should not be any adverse remark in the borrowers' credit history. But, informal lenders issued loans on the basis of their prior knowledge about the borrowers. In the beginning, the informal lender provides small amount of loan to the borrower and then progressively amount and condition of issuing loan improves in the subsequent loans. Borrowers, who lack any of the conditions of formal loan sector, prefer to obtain loan from informal sectors. The author pointed towards the vast difference of the recovery technique of loan between the formal sector and the informal sector. When the loan from formal sector becomes unpaid after the due date of payment of loan, the judicial process is initiated to seize the collateral of borrowers, if the negotiation fails. But, in case of informal sector, there is variety of recovery practices, but, the lender of the informal

sector get to place his claim on the product first. The informal lender offer loans at a lower risk than the formal sector loans. The borrower, in spite of high interest rate charged by the informal sector, prefers to go with informal sector because of the screening process.

The effect of intermediation between the institutional lender and the informal money lender was discussed by Clive Bell on the terms and condition of loans (Clive Bell, 1990). He stated that a fall in the moneylenders' cost of fund would result in a fall in the interest rate of loans if there was no uncertainty, irrespective of the market situation whether it was competitive or monopolistic. He pointed out that the arbitrage process was operative in the formal and informal segments in the credit markets. Borrowers who obtain loans from the formal sector can relend the money to another borrower at a higher rate of interest and thus the formal borrower can be the informal money lender. The process of arbitrage is restricted by the following factors: i) individual access to the loanable fund is limited, ii) knowledge regarding borrowers' situation is required for relending, and, iii) other activities, like cultivation, might be more attractive at margin than money lending. It was found that the informal money lenders preferred to extend loans only to their longstanding clients and took new clients only after getting desirable information about the new borrowers. The game between a borrower and the moneylender, from whom the borrower took loan, was normally repeated over a good period of time as switching to other lenders became costly for the borrowers. As the lenders and the borrowers in the informal sectors reside in the same region that is why the lender can differentiate between the good and bad performance of the borrowers and this is one of the reasons of mitigating the problem of moral hazard of the lender. The moneylender of the informal sector, on default of the borrowers, exercises his first claim on the proceeds of the borrower if the product is sold through him. If borrower sells his products through a trader other than one from whom the borrower had taken loan, the trader also deduct the amount of principal and interest of the loan and handover the same to the lender from whom the borrower had taken loan.

Some interesting result has been shown in the literature on formal and informal credit in Egypt (Mohieldin, 1994). A survey was conducted on 200 households in an Egyptian village during December 1992 to April 1993. The result of the survey showed that 22.5% households had either deposit or current account in the formal sector bank and 30% have formal sector loans. Only 6% of the households had formal loans and deposits

simultaneously. The most interesting thing that has come from this survey is that the higher proportion of the sample had links with the informal sector. It showed that only 13% borrowed and lent in the informal sector simultaneously. 27% of the household's extended informal credit to others without borrowing, and, 29.5% borrowed from others without lending. In total 69.5% of the households were involved in the informal sector. The survey reveals that 86% out of 200 households borrowed or lent in either of the two segments.

Table 2.4: The Formal and informal transaction

	Formal sector		Informal sector	
	Borrowed	Did not borrow	Borrowed	Did not borrow
Lent	6	16.5	13	27
Did not lent	24	53.5	29.5	30.5

Source: Mohieldin- 1994

They further found that the relative size of the informal credit obtained by the households was small than the size of formal sector credit. Survey found that the informal loans are smaller than formal loans and the quantum of the informal credit was approximately 48% of the total credit. The following data was given on the purpose of loans which were borrowed from formal and informal sectors:

Table 2.5: The Purposes of credit

Formal sector	Informal Sectors					
	None	Production	Consumption	Emigration	Social	Others
None	83	0	27	4	14	2
Agricultural Operation	21	5	2	1	2	0
Trade	3	5	0	0	1	0
Industrial	0	1	1	0	0	0

Housing	0	0	0	0	0	0
Consumption	3	0	3	0	0	0
Social	2	1	0	0	1	0
Others	3	1	1	0	1	1
Total	115	23	34	5	19	3

Source: Mohieldin- 1994

Some results that have come out from the above data were that the people who borrowed from one market did not borrow from other financial sector for the same purpose. The borrowing was from the formal financial sector when it was for business purpose. Large proportion of the loans was for consumption and social purposes when it was taken from informal sector.

According to A. Kumar *et. al.* (2017), the right to use institutional and non-institutional credit depends on land size. The use of formal credit is not scale-neutral though several measures have been taken to encourage financial inclusion in India but large segments of agricultural households are still remaining out of the formal credit system. Poor families are excluded frequently from getting the access of formal credit for not having required collateral or guarantors. He found that there is a positive relationship between land size and access to formal credit. The households having better resources get the access of formal credit easily compared to households with smaller amount of resources. They showed that a *'total about 7 percent of agricultural households, account for about 12 percent of agricultural households that borrow exclusively from formal sources, and they account for 24 percent of the total formal credit issued to agricultural households. In contrast, marginal households, which are 40 percent of farm households, account for 26 percent of borrowing from formal sources, and their share of total formal credit is about 17 percent'*. The complete reverse scenery has been found in case of informal credit. They observed that *'marginal farmers comprise 53 percent of agricultural households that borrow from informal sources, and their share of total informal credit is about 24 percent. Large farms, in contrast, account for only about 4 percent of households borrowing informally, and their share of total informal credit is about 18 percent'*. The conclusion that they made is that *'the access to institutional credit increases as land size increases, while credit from non-institutional sources decreases as land size increases'*.

2.06: Credit on Virtual system:

Virtual Credit intermediary: Rajkamal Iyer *et.al.* (2009) evaluated the opportunities of new online peer to peer lending market of small borrowers using the data of Prosper.com, a credit intermediary. Peer to peer online lending models provide a non hierarchical, market based system that facilitates the screening by gathering all the information on the credit worthiness of borrowers over multiple individual lenders by observing both standard financial information and non standard information about the quality of the borrowers. According to them the lenders use the soft information, and that become more important information when they screen lower credit quality borrowers. Their result showed that lenders in peer to peer markets were competent to understand efficiently about borrowers' credit worthiness using the valuable information that these market supplied. They found that, in these markets, the interest rate set by the lenders perceived borrowers default 45 percent more precisely than the exact credit score. The use of credible signals that were soft and non standard in banking process suggested that enhancing the chance for borrowers to post credible signals can facilitate the screening process. Their findings reassured that these markets partially gather true credit worthiness and were not totally influenced by 'cheap talk, there was the caveat that lenders in these markets sometimes appear to make incorrect inferences'. To show that how these peer to peer markets can complement traditional lenders such as bank, they showed direct evidence that these markets are able to infer dimensions of credit worthiness beyond credit score. While lenders depended on standard banking inputs for their conclusion, they also get considerable extra assumptions from credible soft, subjective or non standard information. According to Iyer *et. al.* (2009) that, '*the uncollateralized nature of lending and the ability of lenders to partially screen suggest that peer to peer market can indeed complement existing lending models and improve access to credit, partially for small individual borrowers who may otherwise be limited to costly sources of finance, like pay lenders and credit card debt*'.

Virtual lender: The lending to small business borrowers, in an alternative virtual way, has been described by the Lipman & Wiersch (2015) in their special report on alternative lending. They defined the alternative lenders as non bank credit providers, operating online, to serve small business borrowers including the merchants cash advance companies that allows business to borrow against future sales and to repay with a fixed

percentage of receipts through daily credit cards. These virtual lenders are using non-traditional methods to see the credit worthiness of borrowers such as the rating by their customers on social media. According to the report that online alternative lenders provide variety of products namely business loans, peer to peer loans, funding programs, capital advance etc. The amount of payments may be fixed on instalment based on a sale's percentage to be paid daily, weekly, bi-monthly, or monthly. It was reported that small business borrowers are increasingly moving to alternatives, in every one in five borrowers i.e., 18% approximately of those who applied for loan, applied the credit to an online lender.

2.07: Critic on lending policy:

R. Dasgupta (2009) suggested a new dimension to priority sector lending. He advocated for: i) incentives for credit flow improvement to small scale industries and food corps agriculture, as well as, ii) temporary credit to assure new industries and new professions.

R. Dasgupta (2001) critically reviewed the recommendations of committees having a bearing on rural banking and credit. The author mentioned that the rural credit was too some extent neglected in the post 1990 period, and, the Ministry of Finance, Government of India constituted a committee under the chairmanship of N. Narashimham in December 1997 to i) review the progress of banking sector with particular reference to the recommendation made by the earlier Narashimham Committee Report (1991), ii) chart a banking sector reform program to strengthen India's system, and, iii) make detailed recommendations in regard to banking policy , institutional supervisory, legislative and technological dimensions. The author has mentioned here that in 1998, the report of the higher level committee on agricultural credit (R.V Gupta Committee, 1998) put forth 42 recommendations in two groups, i) operational issues, and, ii) policy matters. The author raised the points on the procedure, scale of finance, no dues certificates, stamp duty and mortgages, margin and security arrangements. The Author also discussed some recommendations of Narashimham Committee (1998) which were directly related to the rural credit under four groups namely, i) approach to credit management, ii) operational aspect of credit management, iii) human resource management, and, iv) government support and policy issues. While discussing the above mentioned points he emphasized the

recommendation of R.V. Gupta Committee on: i) lender borrower relationship and mutual trust, ii) the coverage of loan simplification of documents, iii) designing of suitable micro credit product, and, iv) branch level efficiency etc. The author also raised his voice against R.V. Gupta Committee's silence of making a bridge between the gap of meeting huge demand of small and frequent loans and providing few of the loans by the institutional sectors due to their cost and logistic constraints resulting the entry of informal credit market players who charged a very high rate of interest.

S. Bose (2005) cited Chandrasekher and Roy for stating that, at the beginning, the Indian financial reform strategy involved four major initiatives:

- i). Reduction in the cash reserve ratio and statutory liquidity were allowed to increase the capacity of creating credit by banks.
- ii). In order to create competition among foreign banks, structural changes were made.
- iii). Banks were permitted to fix their asset portfolio and also allowed them for some extra spaces for altering the target of priority sector lending.
- iv). The Government fixed new capital adequacy norms for banks for protecting the system from the associated force of deregulation.

According to the author that, by increasing the limit of credit ceiling and widening the coverage to include many non-priority sector heads, the definition of priority sector was diluted, non fulfilment of target of priority sector lending was overlooked and commercial banks were given option to invest in special bond of certain specialised institutions. The rate of interest regulations under priority sector were removed except from the cases of small borrowal lending placed the rural bank on the same footing like as commercial banks.

According to Priya Basu (2005), the policies that were framed to increase the accessibility of credit to the marginalised section of society did not deliver the desired result. To improve the competence of the rural formal credit, both, the institution and the market, need to be redesigned. The Government of India, almost in all National Plans, emphasised for equitable growth by focusing the vast number of rural poor, but, the desired result of the action was not achieved properly, and, due to non-achievement of the desired result, the drive for nationalisation of Commercial Banks in 1969 was executed by

the then Prime Minister Mrs. Indira Gandhi. The priority sectors were given more attention and service area approach was adopted to focus bank before their client. During 1990s, due to liberalisation, the competition increased and the openness of financial sector was observed through the interest rate deregulation. But, the mind set of rural Indian people did not change as it was expected. The competition in banking sector increased. But, the dominating power remained with nationalised banks, particularly, in the rural area, even though, some restrictive provisions of service area approach were in action to help the entry of new bank branches in rural sector. Basu (2005) further assessed the social banking on poor people for post independence period. Basu pointed out that the social banking, as defined, has a belief that small borrowers are not really bankable and that the rural people and the small scale industry will be served by the banks, only if they are bound to do so.

The author analysed Rural Finance Access Survey (RFAS-2003) data and pointed out the following:

- i) 59% of rural households did not have deposit account and 79% of rural people had no access of credit from formal sources.
- ii) In rural areas, the service of bank was primarily for the rich borrowers and 66% of large farmers had a deposit account and 44% had the access of credit.
- iii) 70% of the marginalized farmers did not have bank account and 87% had no access of credit from formal sources.
- iv) Bribe was the common feature of credit from formal source in rural areas.
- v) The effective cost of taking loan for the Commercial Banks was too high as it included the bribe and other costs, and, waiting time for approval of loan was also maximum, on an average 33 weeks.
- vi) The bank demands collateral security for approving loan which the poor people lack. Basu pointed out that 87% of the households who took loans from Regional Rural Banks and 87% of the households who took credit from Commercial Banks had to give collateral securities. Land was the pre dominant collateral security with a very less execution.

On the basis of the above problems, Basu (2005) suggested the following for improving and making competitive and efficient financial market:

- i) Making the priority sector lending tradable for benefitting both rural poor people and banks by allowing competitive lender to spread in the rural area.
- ii) The appropriate rate of interest and deposit rate to be fixed so the informal lender can be avoided by the rural poor.
- iii) To make rural banking profitable, the transaction cost to be minimised and ensure the entry of private banks in rural sector to enhance the competition in rural financial market (A. A. Reddy-2010, also opined the same).
- iv) Framing of better regulation and supervision for restructuring rural banks. Enforcements of supervision need to be maintained strictly. Tough measures need to be taken for dealing with inefficient Regional Rural Banks and rural Cooperative Banks for ensuring entry of other financial institutions.

The reasons of reluctances of both the public sector banks and the private sector banks to expand their rural lending activities and opening of rural branches had been analysed by Sahasranaman and George (2013). They pointed their finger on the transaction cost and the total cost associated with the channel of providing the credit to the rural people. According to them, the channel of delivery of credit, matters. They examined five channels of delivery, viz. i) Public Sector Bank lending through rural branches, ii) Public Sector Bank lending through Self Help Groups, iii) Public Sector Bank lending through Microfinance, iv) Private Sector Bank lending through rural branches, and, v) Public Sector Bank lending through Microfinance institutions. They showed that the same amount of loan transmitted through different channels would have their different implication. The total channel cost including cost of debt, capital cost and loan losses is lowest at 13.75% when the transmission was done through AA rated microfinance finance institution and 41.53% when it is transmitted by a public sector bank directly through its own branches. This is one of the main reasons of the reluctance of private and public sector banks from expanding their rural branch operations and preferring of paying penalties of not meeting their priority sector obligations.

Using the secondary data, Chavan (2014) analyzed the coverage of small borrowers by the banking systems of India. She studied the distribution of bank credit, household debt and analyzed the change of position of small borrowers for getting bank credit by passing of times, i.e., from 1990s to 2000s. She found that during second half of 2000s the share of

small borrowers and other borrowers increased in respect of credit allocation in all the regions of the country and the major gainers were the small rural women borrowers. The rural men small borrowers too were able to get more share of credit during 2000s than before. There was also an increase in the proportion of bank credit extended to rural labour households during the second half of 2000s. According to Chavan, all these should be seen in the light of change in banking policy as there was a thrust on the policy of financial inclusion since 2005. She also indicated some points regarding allocation of bank credit to small borrowers that should be given due attention:

- i) Marginalisation of small borrowers in the urban areas of the country.
- ii) Marginalisation of urban women small borrowers who lost the share of credit in respect of urban men and rural women small borrowers.
- iii) There was a persistence fall in the share of total bank credit of backward social groups.
- iv) The relative share of small and marginal cultivators did not reach desired level; only the fall of share of credit was stopped.
- v) Though the share of bank credit to weaker sections was revived, but still, some banks were below their set target level.

She found that the financial inclusion had a positive impact on various aspect but still it did not provide the positive result for all, specifically, for under privileged section of the society. She suggested the followings:

- i) The effort of banks to reach the set target of lending to weaker section i.e., backward social groups, small marginal cultivators should have been continued.
- ii) Financial inclusion policy should have been continued for strengthening banking activity in rural region of the country and also in urban area where the poor people reside, particularly urban poor women who engage themselves as unorganised labour.

2.08. Conclusion: After discussing the issues relating to non-institutional and institutional credit on various sub-topic, like its definition, institutional and non institutional credit in India, difference between formal and informal credit and their interaction etc., and the recent trends of providing credit by using virtual system, it can be concluded that a little work has been done on the actual need of small borrowers'

and the role that is played by the credit market in the district of Darjeeling. The work 'Small Borrowers' Need and The Credit Market: A Study of Formal and Informal Borrowing in the District of Darjeeling, West Bengal' has been initiated to find out the issues relating to borrowing from the formal and informal credit market. But, before going to the issues related to small borrowers residing in the District of Darjeeling, it is necessary to understand the position of small borrowers in Indian credit market, as a whole, including formal and informal credit markets which have been discussed in Chapter No. III and Chapter No. IV respectively.

Chapter III

Small Borrowers and Formal Credit Market in India

3.01. Introduction: The financial system in India operated through two types of institutions in the formal sector and informal sector. Formal sector adopted a multi agency approach and includes the cooperative, public sector, commercial banks and regional rural banks. On the other part, the informal sector which operates outside the formal system consists mainly of rotating saving and credit associations (ROSCA), traders, merchants, contractors, commission agents, local money lenders, relatives etc. Formal sector is governed by the existing rules and regulations of the formal financial sector whereas the informal sector functions on their own norms, rules and disciplines.

The credit need of rural areas primarily was entrusted with the cooperative societies up to mid of 1960s and then commercial banks were mostly engaged in agricultural and marketing, though it was expected that the commercial banks would play a good role in rural credit market through bank expansion and flow of formal institutional credit to the poor and to relieve them from the burden of debt (Nair, 2000). The All India Debt and Investment Surveys (AIDIS) show that the outreach of commercial banks (formal) to the rural sector improved between 1971- 1991 and a clear corresponding decline of informal or non institutional source of credit has been observed. The following table shows that the distribution of cash debt of rural household by credit agencies (1971- 1991):

Table 3.1: Cash Debt of Rural Household by Credit Agencies (1971- 1991):

Credit Agencies	1971	1981	1991
Institutional	29.2	61.2	64.0
Co operative	20.1	28.6	21.6
Commercial Bank	2.2	28.0	33.7
Others	6.9	4.6	8.7
Non-institutional	70.8	38.8	32.7

Money lenders	36.9	16.9	17.6
	(13.8)	(8.3)	(10.5)
Traders	8.7	3.4	2.5
Relative/Friends	13.8	9.0	5.5
Others	11.4	9.5	7.2
Unspecified	-	-	3.3
All	100	100	100

Note: percentage within bracket relates to the share of professional money lenders in total credit outstanding.

Source: Reserve Bank of India Bulletin, May 1999.

[Reserve Bank of India (1999b): All India Debt and Investment Survey 1991 -1992-Salient Features, Monthly Bulletin, May.]

In order to assess the extent of assistance offered by the formal banking institutions we must look at the trend in small borrowal accounts.

Table: 3.2: Trends in Number of Accounts and Amount Outstanding of Small Borrowal Accounts in India

Year	No. of Accounts		Share of SBAs (%)	Amount Outstanding		Share of SBAs (%)	Outstanding per account
	All	SBAs		All	SBAs		
June 1984	295	282	95.6	43326	8897	20.5	3154
June 1985	336	321	95.6	49995	10028	20.1	3124
June1986	384	371	95.8	56182	12615	22.5	3400
June1987	434	416	95.8	63727	15444	24.2	3713
June1988	480	459	95.6	71285	17954	25.2	3912
June1989	521	497	95.4	88027	22330	25.4	4493
March1990	539	512	95	104312	24147	23.1	4716
March 1991	619	588	94.9	124203	27323	22	4647

March1992	659	625	95	136706	29945	21.9	4791
March1993	621	585	94.2	162467	32091	19.8	5486
March1994	596	558	93.6	175891	32188	18.3	5768
March1995	581	539	92.8	210939	34060	16.2	6319
March1996	567	519	91.6	254692	36253	14.2	6985

Source: RBI Monthly Bulletin 1999

[Reserve Bank of India (1999a): Salient result of the survey of Small Borrowal Accounts, March 1997, Monthly Bulletin,]

The above table (3.2) shows that the rate of increase in SBAs has not kept pace with the overall growth in credit. Interestingly, the major component of SBA's had been the IRDP loans while the share of Government Schemes, other than IRDP includes programmes like Prime Minister's Rojgar Yojana, Schemes of Urban Micro Enterprises, Integrated Urban Poverty Eradication Programme, etc. The IRDP loans were low interest loans, normally, with an annual charge of interest of ten percent but in certain cases the interest was reduced to four percent per annum (Swaminathan-1990). The tables below have been given to show various poverty alleviation program launched by Government of India and the share in SBAs in Government loan Scheme.

Table: 3.3 Poverty Alleviation Programs Launched by Government of India

Ministry / Department	Schemes	
Ministry of Rural Development	1	SwarnJayanti Gram SwarozgarYojana (SGSY)
	2	Jawahar Gram samridhiYojana (JGSY)
	3	Employment Assurance Scheme (EAS)
	4	SampoornaGrameenRozgarYojana (SGRY)
	5	Indira AwasYojana (IAY)
	6	National Social Assistance Program (NSAP)

	7	Annapoorna Scheme
	8	PradhanMantri Gram SadakYojana
	9	Integrated Wastelands development Program (IWDP)
	10	Drought Prone Areas Program (DPAP)
	11	Desert Development Program (DPP)
Ministry of Urban Development and poverty Alleviation	1	National slum Development Program.
Department of Public Distribution, Ministry of Consumer Affairs	1.	Targeted public Distribution System(TDPS) and Antyodaya Anna Yojana (AAY)
Department of Education, Ministry of Human resource Development	1.	Non Formal Education (NFE)
	2.	National Program for Nutritional Support to Primary Education.
	3.	Operation Blackboard scheme
	4.	SarvaShikshaAbhiyan
Department of Fertilizer	1.	Retention Pricing Scheme (RPS)
	2.	Concession Scheme for de-controlled fertilizers
Ministry of Agro and Rural Industries	1.	Prime Minister's RozgarYojana
	2.	Rural Employment Generation Program (REGP)
	3.	Khadi and Village Industries Commission (KVIC)

Ministry of Social Justice and Empowerment	1.	Special Central Assistance to Special Component Plan for Scheduled Castes
Department of Women and Child Development, Ministry of Human Resource Development	1	Integrated Child Development Services (ICDS) Scheme

Source: Arun Kumar Vaish - 2013

Table: 3.4: Share of SBAs in Government Loan Scheme

Scheme	March 1993		March 1997	
	No of Accounts	Amount Outstanding (Rs)	No of Accounts	Amount Outstanding (Rs)
IRDP	34.2	22.6	34.6	24.2
Other Schemes	8.9	8.5	21.7	21.7
General Loans	56.9	68.9	44.3	54.1

Note: The other schemes include Prime Minister's RojgarYojana, Self Employment for Educated Urban Poor, Self Employment for Educated Youth, Schemes for Micro Enterprises, etc.

Source: RBI Monthly Bulletin, Jan-Feb 1996 and February 1999.

3.02. Changing Priorities:

It is pertinent to point out here that the successive enquiries into the working of agricultural credit system have observed that the banks were showing their disinclination to serve a clientele who are located spatially and emotionally away from them and whose risk profile is difficult to assess. The transaction cost for releasing credit was also very high and the political intervention in the form of loan waiver and write offs are also observed. It must be pointed out that even the Regional Rural Banks which were set up exclusively for meeting the credit need of weaker section had to dilute their obligation to lend to this section of population.

Table: 3.5: Priority Sector Lending of Scheduled Commercial Bank

Year	Total credit outstanding	Agriculture	Retail Trade	Transport Operator	Artisan Village Industries	Other Small Scale Industries	Total
1980-81	3674	3722	801	1078	----	2844	8445
1981-82	29590	5076	1207	1523	----	3530	11156
1982-83	35020	5786	1195	1909	----	3857	12747
1983-84	43326	7655	1748	2257	----	5412	17072
1984-85	49995	8820	2127	2398	----	6629	11974
1985-86	NA	NA	NA	NA	----	NA	-
1986-87	63727	11019	3238	2558	----	7621	24436
1987-88	71285	12517	3997	2765	----	9493	28772
1988-89	88027	15266	5020	2988	----	11821	35095
1989-90	104312	16626	5560	3286	926	11986	38384
1990-91	124203	18573	6803	3639	934	15512	45461
1991-92	136706	20238	7591	3581	945	16409	48764
1992-93	162467	22060	8268	3743	1031	19264	54366
1993-94	175891	22872	9116	3757	1130	19920	56797
1994-95	210939	24948	10526	3957	1130	21722	62283
1995-96	254692	28809	12465	4577	1503	25822	73177
1996-97	284373	31634	16157	5202	1825	26793	81611
1997-98	329944	35262	18323	6468	1942	28628	90623

Source: CMIE, Banking and Finance, February 1997 and December 1998. RBI Basic Statistical Returns, Volumes 26, 27 and 28, March 1996, 1997 and 1998

Table 3.6: Share of Priority Sector in Total Credit Outstanding (in percentages)

Year	Agriculture	Retail Trade	Transport Operator	Artisan Village Industries	Other Small Scale Industries	All
1980-81	15.72	3.38	4.55	----	12.01	35.67
1981-82	17.15	3.47	5.15	----	11.93	37.70
1982-83	16.52	3.41	5.45	----	11.01	36.40
1983-84	17.67	4.03	5.21	----	12.49	39.40
1984-85	17.64	4.25	4.80	----	13.26	39.95
1985-86	NA	NA	NA	----	NA	-
1986-87	17.29	5.08	4.01	----	11.96	38.34
1987-88	17.56	5.61	3.88	----	13.32	40.36
1988-89	17.34	5.70	3.39	-----	13.43	39.57
1989-90	15.94	5.33	3.15	0.89	11.49	36.80
1990-91	14.95	5.48	2.93	0.75	12.49	36.60
1991-92	14.80	5.55	2.62	0.69	12.00	35.67
1992-93	13.58	5.09	2.30	0.63	11.86	33.46
1993-94	13.00	5.18	2.14	0.64	11.33	32.29
1994-95	11.83	4.99	1.88	0.54	10.30	29.53
1995-96	11.31	4.89	1.80	0.59	10.14	28.73
1996-97	11.12	5.68	1.83	0.64	9.42	28.69
1997-98	10.69	5.55	1.96	0.59	8.68	22.18

Note: Artisan and village industries are included in other small scale industries for the period between 1980 – 81 to 1994-95

Source: CMIE, Banking and Finance, February 1997 and December 1998. RBI Basic Statistical Returns, Volumes 26, 27 and 28, March 1996, 1997 and 1998.

From the above two tables (3.5 & 3.6) it becomes clear that the share of priority sector in total credit outstanding was in a declining trend since 1987-88 to 1997-98. In 1987-88, the total share of priority sector was 40.36% of total credit outstanding which declined to 28.73%, 28.69% and 22.18% for 1995-96, 1996-97 and 1997-98 respectively, which is an indicator of the incapacity or the lack of concern of the formal banking sector to serve the need of low income clientele and a gap between the demand and supply of funds emerged. The formal sector thrust even within the priority sector lending framework had been on productive activities, but the poor had the need of credit mainly for the purpose of financing income-consumption gap or tiding over occasional crisis and emergencies. The need and the delivery terms and conditions of the credit did not match. This was one of the prime reasons of increased dependence of the rural poor, more markedly non-cultivator, on informal credit sources like traders, contractors and money lenders (Nair, 2000). To reduce the gap of demand and supply of credit to the poor, interestingly, the formal sector took the initiative to develop a supplementary credit delivery system by encouraging institutional arrangement outside the financial system (i.e., by taking NGOs) to act as facilitators or intermediaries. The beginning was made with NABARD's pilot project in Karnataka (1991-1992) for linking self help group with formal banks, mediated through NGO, Mysore Resettlement and Development Agency (MYRADA). This project known as SHG linking project, was expected to be advantageous to the banking sector from the angle of both fulfilment of its social goals i.e., reaching out to the poor as well as achieving operational efficiency by externalizing a part of its transaction cost. The project success apparently in building a bridge between banks and the poor led to its institutionalization in 1996 by the Reserve Bank of India as a normal activity of banks under priority sector and service area approach. The deployment of loans under SHG linkage scheme can be observed from the following table:

Table 3.7: Deployment of loan under SHG linkage Scheme

Year	Cumulative	
	No. of Groups	Volume of Loans in Rupees (million)
1992-93	255	2.89

1993-94	620	6.53
1994-95	2122	24.45
1995-96	4757	60.58
1996-97	8598	118.36
1997-98	14317	237.59

Source: NABARD, SHG-Bank linkage program status on 31st March, 1998.

With the launching of NABARD's Pilot Project, microfinance, the development buzz word of 1990s, and much publicized magic potion to cure the illness of rural poverty, gained visibility in the Indian development landscape.

3.03: Credit in India for Small Borrower:

The overview of credit to small borrowers begins with the late colonial period. The problem faced by the Indian poor in the colonial period has continued in the period following independence time. Dependence on usurious moneylenders and operation of a deeply exploitative grade of interlocked, imperfect markets afflicts the rural poor. The performance of cooperative societies in India was found to be weak though the dependence on cooperative institutions was on large scale. The nationalization of banks in the year 1969 had some positive impacts on bank projects but their impact on availability of affordable rural credit to the poor and to the backward region was extremely adverse and due to this adverse impact, in rural areas, the moneylenders could make their come back.

3.04. Credit during the late colonial period:

The usurious money lending of the late colonial period can be picturised through many reports of that period. These reports explained that in those days, frequently the debt was not repaid in full and the unpaid part had become pro-note debt. If in any year the full debt was not paid off due to any reason, the part became mortgage debt on next production year. The loan taker due to heavy pressure of previous mortgage debt was unable to repay the debt taken for the current year production and hence the loan giver or the creditor took the bulk of produce and left the ryot unable to repay short term loan and thus the short term loans would become long term loans leading to a "vicious cycle" of loan. The real interest rates were not just the rates they charged but the interest rates were hidden in the

lower price paid for the produced sold (Devaraja-2011). The ryot, being the tenant cultivator who served on hire, was unable to clear his short term debt because of his mortgage and he was unable to cultivate without borrowing again as his crop, on large scale, was taken by the long term creditor. The role of moneylender was then only as a moneylender from whom the ryot could get credit but they also performed the role of a crop buyer, labour employer and landlord.

Repayment of the debt was a major compulsion for the farmers to sell their crop and the creditor usually insisted on repayment in the immediate post-harvest period and for doing this, the farmers were forced to borrow once again. It is found that repayment of prior debt was the single most important reason of borrowing and the most important source of credit was the rich moneylenders who made the mortgage mechanism through the vicious cycle of debt.

It is found that moneylenders often extended grain loans to poor proprietors, tenants and labourers. They charged their higher rate of interest from the poor cultivators as they made greater resort to grain loans and also for the vulnerable position of the too poor people. The lenders used the vulnerable position of the poorer cultivator and cheat them in various ways, showing miss calculation of the deposition, interest, etc., and never provided the receipts to the poorer but if the repayment was not made in instalment as agreed previously, they charged a higher penal rate of interest. In many cases it was found that moneylenders were purchaser of the crops. The moneylender forced his debtors (the poor) to sell the produce at a prearranged time which was normally immediate to post harvest period, at a lower price than the interest on the loan, and they had to buy back the grain again in the peak price period and was trapped again in debt for buying for which they had to borrow.

Another source of exploitation of the tenant was “the rent relationship”. Payment of rent was generally fixed just after the harvest period and which was tough for the tenant who paid rent in cash. The tenants were not allowed to harvest the crop from the ground without paying the rent. Since the lease of land renewed every year, there was an intense pressure on tenants for payment of the rent. In case, rent was not paid in due time, the higher rate of interest was charged and sometimes the rent charged was equivalent to the interest. To face the situation, the colonial administration made several attempts to tackle with it and during this period some Acts were passed for giving some relief to the poor. Low interest loans were provided after the Land Improvement Loans Act of 1883 and

Agriculturist Loans Act of 1884 but these loans remained extremely meagre and ineffective and the statement of the legendary scholar of Punjab, Malcolm Darling that “Indian peasant is born in debt, lives in debt and dies in debt” became the classic reality of the history of Indian economy. But to get rid of the situation, at the later period of colonial rule in India witnessed the Usurious Loan Act in 1918 which applied the *Damdapat* principal i.e., interest cannot be more than principal of debt.

3.05. The Co-operative Movement:

During the phase when co-operative movement was going on successfully in Europe, the then Government (British) encouraged the movement of Cooperative herein India and the Cooperative Credit Societies Act in India 1904 was enacted and cooperative banks were established in almost all major provinces by 1930. But the movement did not have an easy path, rather in India it was hard to continue as the cooperative credit societies were run, in most cases, by the rich landlords and the moneylenders. The cooperative societies were involving themselves in local power politics and were a source of rural patronage and influence. In 1994, All India Rural Credit Survey stated that less than 9% of rural credit needs in India was provided by formal credit institutions and more than 75% credit was supplied in the rural sector by moneylenders, traders and rich landlords though the cooperative credit society had already won its existence over last 50 years with only 5% of their share in rural credit.

From 1950 to 1960, the cooperative societies started to move forward with Integrated Scheme of Rural Credit as suggested by All India Rural Credit Survey, and, in 1970 the share of cooperatives in rural credit rose to 20% and presently India’s cooperative credit structure is one of the largest financial systems in the world covering nearly half of India’s total population. According to the Task Force on Revival of Rural Cooperative Credit Institutions (2004), these owes mainly to “deep impairment of governance”. Cooperative credit society was originally seen as member driven, democratic, self-governing, self-reliant institutes but over the years, for its basic functions, it looked up to the state. The government had become the dominant share holder, manager, regulator, supervisor and auditor. The Cooperatives were involved in conflict of interest and that led to regulatory arbitrage, recurrent losses, deposit erosions, poor portfolio quality and a loss of competitive edge for cooperation and domination of rural people

which was a characteristic of colonial period and was still continuing to be an abiding feature of these institutions even after independence. The following table shows the share of Cooperative in respect of rural household debt:

Table 3.8: Share of Cooperatives and Commercial banks in Rural Household debt in India 1951- 1991

Credit agency	1951	1961	1971	1981	1991
Cooperative and Commercial Bank	5.7	10.3	24.4	58.6	58.8

Source: Various All India Rural Credit Survey

The above data shows that the rural moneylenders share in rural household debt had a decreasing trend during 1951 to 1991 as the share of rural cooperatives and commercial banks reached 58.8% by 1991 showing evidence of displacement of rural moneylenders from their monopolistic market power due to the positive influence of co-operatives and commercial banks and the government (N. Batini *et. al.* 2011, citing Bell 1990).

3.06. Commercial Bank Nationalization:

In 1951, the All India Rural Credit Survey found that the share of banks in rural credit was less than one percent and the 1961 Census pointed out that 50 percent of the towns of India and almost none of its villages had a bank branch. In 1969, fourteen of India's largest scheduled commercial banks were nationalized for a larger social purpose and to serve national priorities and objectives such as rapid growth of agriculture, small industries, raising of employment levels and encouraging the entrepreneurs and development of backward areas. In the year 1969, the National Credit Council was setup to guide branch expansion programme found that the commercial banks served in Indian villages was less than one percent. The RBI created a comprehensive list of no branch locations and directed that all semi urban locations would have to be covered by the end of 1970. In the year 1976, Regional Rural banks were created to develop rural economy by providing rural credit and other facilities particularly to small and marginal farmers, agriculture labourers, artisan and small entrepreneurs. The expansion of bank branches (table No. 3.9) from 1977 to 2017 and the growth of bank office of rural banking in India, 1969-2017 (table 3.9 A) has been shown below.

Table 3.9: Branch Expansion of Scheduled Commercial Banks (1977-2017)

Year	Rural		Semi urban		Urban		Metropolitan		Total	
	No of offices	% change	No of office	% change	No of office	% change	No of office	% change	No of office	% change
1977	9537	----	7248	-----	4542	-----	3475	-----	24802	-----
1978	11806	23.79	7628	5.24	4843	6.63	3739	7.60	28016	12.96
1979	13337	12.97	7889	3.42	5037	4.00	3939	5.35	30202	7.80
1980	15105	13.26	8122	2.95	5178	2.80	4014	1.90	32419	7.34
1981	17656	16.89	8471	4.30	5454	5.33	4126	2.79	35707	10.14
1982	20401	15.55	8809	3.99	5693	4.38	4274	3.59	39177	9.72
1983	22686	11.20	9081	3.09	5917	3.93	4395	2.8	42079	7.41
1984	25380	11.88	9326	2.70	6116	3.36	4510	2.62	45332	7.7
1985	30185	18.93	9816	5.25	6578	7.55	4806	6.56	51385	13.4
1986	29703	-1.6	10585	7.83	7209	9.59	5790	20.4	53287	3.7
1987	30209	1.70	10637	0.49	7218	0.12	5795	0.08	53859	1.07
1988	31114	2.99	11132	4.65	7322	1.44	5842	0.81	55410	2.88
1989	33014	6.11	11166	0.31	7524	2.76	5995	2.62	57699	4.13
1990	34791	5.38	11324	1.42	8042	6.88	5595	-6.67	59752	3.56
1991	35206	1.19	11344	0.18	8046	0.05	5624	0.51	60220	0.78
1992	35269	0.18	11356	0.11	8279	2.90	5666	0.74	60570	0.59
1993	35389	0.34	11465	0.96	8562	3.42	5753	1.54	61169	0.99
1994	35329	-0.17	11890	3.71	8745	2.14	5839	1.49	61803	1.04

1995	33004	-6.58	13341	12.20	8868	1.41	7154	22.5	62367	0.91
1996	32995	-0.03	13561	1.65	9086	2.46	7384	3.21	63026	1.06
1997	32915	-0.24	13766	1.51	9340	2.80	7529	1.96	63550	0.83
1998	32878	-0.11	13980	1.55	9597	2.76	7763	3.10	64218	1.05
1999	32857	-0.06	14168	1.34	9898	3.14	8016	3.26	64939	1.12
2000	32734	-0.37	14407	1.67	10052	1.56	8219	2.53	65412	0.73
2001	32562	-0.52	14597	1.32	10293	2.40	8467	3.02	65919	0.78
2002	32380	-0.56	14747	1.03	10477	1.79	8586	1.4	66190	0.41
2003	32303	-0.23	14859	0.76	10693	2.06	8680	1.09	66535	0.52
2004	32121	-0.56	15091	1.56	11000	2.87	8976	3.41	67188	0.98
2005	32082	-0.12	15403	2.07	11500	4.55	9370	4.39	68355	1.74
2006	29534	-7.94	16184	5.07	12166	5.79	11732	25.21	69616	1.84
2007	29658	0.42	16970	4.86	13009	6.93	12351	5.28	71988	3.41
2008	30173	1.74	18246	7.52	14232	9.40	13315	7.80	75966	5.53
2009	30821	2.15	19569	7.25	15245	7.12	14277	7.22	79912	5.19
2010	31845	3.32	21313	8.91	16621	9.03	15391	7.80	85170	6.58
2011	33315	4.62	23630	10.87	17571	5.72	16403	6.58	90919	6.75
2012	35931	7.85	26392	11.69	18811	7.06	17478	6.55	98612	8.46
2013	39199	9.10	29163	10.50	19874	5.65	18348	4.98	106584	8.08
2014	44676	13.97	32216	10.47	21515	8.26	19589	6.76	117996	10.70
2015	48140	7.75	34526	7.17	23098	7.36	20879	6.59	126643	7.33

2016	50561	5.03	36455	5.59	24395	5.62	22088	5.79	133499	5.41
2017	48806	-3.47	38201	4.79	24574	0.73	26478	19.88	138059	3.42

Note : Data exclude ' Administrative offices'.

1. For data upto 2005, Basic Statistical Returns of Scheduled Commercial Bank.
2. For data from 2006 onwards, Master office file database as on August 3, 2017.
3. '% Change' has been generated.

Source: Reserve Bank of India, Handbook Statistics of Indian Economy, published on September 15, 2017 (Table No. 67)

Table3.9 (A): Growth of Rural Banking in India: 1969-2006

Year	No. of Bank Office	
	Rural	Percent of total
1969	1443	17.6
1972	5274	36.0
1975	7112	35.5
1978	12534	42.5
1981	19453	51.5
1984	25541	52.9
1987	30585	56.2
1990	34867	28.2
1993	35360	56.3
1996	32981	51.2
1999	32840	49.3
2002	32443	47.8

2005	32082	46.9
2006	30572	44.5

Source: RBI: Banking Service: Basic Statistical Returns various issues; Quarterly Statistics on Deposit and credit of Scheduled Commercial Bank: March-2006

3.07. Priority Sector Lending:

Before introducing the Regional Rural Bank in 1976, the RBI was directing the credit to the unbanked geographical region to influence the sectoral orientation of bank lending and in 1972, the definition of certain 'Priority sector' was formalized. In 1975, the target of the priority sector was set up at 33% and in 1979 it was raised to 40%. The sub-targets were also fixed for various sectors. Sub- target for agriculture was set up at 16% and the sub-target for 'weaker section' was fixed at 10%. By 1990, 42% of the agricultural credit went to the marginalized. The differential interest rate was also fixed in 1972. The scheme for providing cheaper credit to weaker section was introduced in 1974. In 1978, RBI directed commercial banks and Regional Rural Banks to charge flat 9% interest for all priority sector loans irrespective of size. Down payment for small rural borrowers was not made mandatory.

As a consequence of all the above, the share of moneylenders, landlords and agriculturist moneylenders in rural credit fell down from an average of over 75% in 1951- 61 to less than 25% in 1991 and the share of formal sector lending had become more than doubled between 1971 – 1990 (M. Shah *et.al.*, 2007).

Table 3.9 (B): Share of Priority Sector Advance in total credit of Schedule Commercial Banks, 1969-2005

Year	Share in Percentage
1969	14
1972	21
1975	25
1978	28.6
1981	35.6

1984	38.1
1987	42.9
1990	40.7
1993	34.4
1996	32.8
1999	35.3
2002	34.8
2005	36.7

Source: RBI Banking Service; Basic Statistical Returns. Various Issues

3.07.01. Priority Sector Lending – Trends

The developed and developing countries in the World have always used relatively preferential terms and conditions for lending to the poorer sections through the priority sector for the direct credit programs. In India, the bank nationalization in 1969 and prior to bank nationalization of banks used to provide loans to the big business, trading houses which were normally operating in urban and metropolitan areas. Corrective measures for releasing loans were taken through bank nationalization so that loans could be released beyond metropolitan and urban areas by the commercial banks and contributing towards the development of the country, considering the activities undertaken in the areas which were considered to be the priority sector.

For meeting the fixed obligation of the priority sector advance / credit for a widespread coverage, certain changes were made in bank licensing policy so that non-bank areas of rural and urban sector could be brought under the purview of bank as well as the benefit of priority sector advance could be extended to a larger section. A target of 40% of net bank credit was fixed for all Indian domestic commercial banks under priority sector with a sub-target of 18% for lending to agriculture and 10% for the weaker sections of the society. The target of lending to the sector was 32% of Net Bank Credit for foreign banks. If there was any short fall for providing loans to the priority sector, the domestic

commercial banks had to contribute to the Rural Infrastructure Development Fund (RIDF) and the foreign banks have to contribute to the Small Industries Development Bank of India (SIDBI).

The categories under priority sector had gone through several changes since 1972. Some new areas have been brought in under the sector. As per the Master Circular – Priority Sector Lending- Targets and Classification, issued by Reserve Bank of India on 1st July 2015, at present, the following categories are under the section:

1. Agriculture
2. Micro small and medium enterprise
3. Export credit
4. Education
5. Housing
6. Social infrastructure
7. Renewable energy
8. Others

The category “others” in priority sector advance includes the weaker section of the society. The following categories have been described as weaker section by the Reserve Bank of India:

Table: 3.10 Categories of Priority Sector

Number	Category
01.	Small and Marginal Farmer
02.	Artisan, village and cottage industries where individual limit does not exceed Rs. 1 lakh
03.	Beneficiaries under Government sponsored Scheme such as National Rural Livelihood Mission(NRLM), National Urban Livelihood Mission (NULM) and Self Employment Scheme for Rehabilitation of Manual Scavengers (SRMS)
04.	Scheduled Caste/ Scheduled Tribe

05.	Beneficiaries of Differential Interest Rate (DRI)
06.	Self Help Group
07.	Distressed farmers indebted to non institutional lenders
08.	Distressed person other than farmers, with a loan not exceeding Rs. 1 lakh per borrower to repay the debt to non institutional lender
09.	Individual women beneficiaries up to Rs. 1 lakh per borrower
10.	Persons with disabilities
11.	Overdraft up to Rs. 5000.00 under Pradhan Mantri Jan-Dhan Yojana (PMJDY) account, provided the borrower's household income does not exceed Rs. 1,60,000.00 for non rural areas
12.	Minority Communities may be notified by the Government of India time to time
* In States, where one of the minority community notified is in fact, in majority, item (12) will cover only the other notified minorities. These States/ Union territories are Jammu and Kashmir, Punjab, Meghalaya, Mijoram, Nagaland and Lakshadweep	

Source: RBI Master Circular dated 1st July, 2015

From the above two categories: (i) Categories under priority sector and (ii) categories of weaker section in priority sector, it is evident that agricultural activities, small scale industries, export activities, professional and self- employed persons, weaker sections, education, housing, micro credit, consumption loan, agro-based processing unit, software industries, leasing and higher purchase, venture capital, loans to poor and rural and urban sectors have all been included under these categories. This inclusion and the advance of credit under this category is not purely based on commercial terms and conditions and following flexible and liberal approach has been taken for releasing advance under this category. As per the current interest policy where loan is up to Rs. 2 lakh, the interest rate should not exceed the Benchmark Prime Lending Rate (BPLR) of the bank but banks have been given the liberty for determining interest rate freely where loan amount is above 2 lakh.

Private and public sector banks have played a pivotal role in development of economic activities by providing credit/ advance under the priority sector. The following table shows the outstanding credit of priority sector of public and private banks.

Table 3.11: Outstanding Credit to Priority Sector (Rs. in Crore)

Year	PSBs	As % of Adjusted Net Bank Credit	Pvt. Banks	As % of Adjusted Net Bank Credit	Foreign Bank	As % of Adjusted Net Bank Credit	All Banks
2001	146546	43.00	21549	38.2	11835	34.1	179930
2002	171185	43.1	25709	40.8	13414	46.7	210308
2003	203095	42.1	36705	44.2	14848	33.8	254648
2004	245672	44.0	52860	47.4	18276	34.8	316808
2005	310093	43.0	69384	43.3	23843	35.3	403320
2006	410379	40.3	106556	42.8	30439	34.6	547384
2007	521180	39.6	143768	42.7	37835	33.4	702783
2008	608963	44.6	163223	47.5	50301	39.8	822487
2009	719497	42.5	190303	46.8	55483	34.2	965283
2010	864562	41.7	215551	46.0	60290	35.1	1140403
2011	1028615	41.3	248828	46.6	66618	39.6	1344061
2012	1129990	37.4	286420	39.4	80538	40.9	1496949
2013	1284880	36.4	327317	37.5	85011	35.2	1697208
2014	1618971	39.4	464456	43.9	90723	36.0	2174150

Source: RBI, The Report of Progress of Banking in India as reported by Bank

From the above table the following trends can be observed in case of public sector, banks over its preceding year in respect of outstanding credit:

Table 3.12: Trends in Outstanding Credit of Public Sector Bank (PSBs) & Private Banks
(Rs in Crore)

Year	PSBs	Growth/Decline over previous year (%)	Private Bank	Growth/Decline over previous year (%)
2001	146546	-	21549	-
2002	171185	16.83	25709	19.30
2003	203095	18.64	36705	42.77
2004	245672	20.96	52860	44.01
2005	310093	31.72	69384	31.26
2006	410379	32.34	106556	53.599
2007	521180	27.0	143768	34.91
2008	608963	16.84	163223	13.53
2009	719497	18.15	190303	16.59
2010	864562	20.16	215551	13.267
2011	1028615	18.975	248828	15.438
2012	1129990	9.855	286420	15.108
2013	1284880	13.70	327317	14.279
2014	1618971	26.0	464456	41.898

Source: Generated from RBI, The Report of Progress of Banking in India as reported by Bank

From the above two tables some interesting results have come out while analyzing. That in the year ending on 31st March 2002, a growth of outstanding credit over 2001 of public sector bank was 16.83% and the increasing trend continued for the years 2003, 2004, 2005

and 2006 when the growth rates were 18.64%, 20.96%, 31.72% and 32.34 % respectively. Declining trends were observed in 2007 and 2008 when it was 16.84% and 18.15% respectively. In the year 2010 the growth reached 20.16% but again in the year 2011 and 2012 a declining trend was observed as it was 18.97% and 9.85% (being the lowest). In the year 2013 the growth over previous year was found to be 13.70% and in the year 2014 it was found 26% over 2013's outstanding credit. At the same time if the trends of private sector banks are analyzed, one will be able to observe that the growth in 2002's outstanding credit over 2001's outstanding credit was 19.30% and in 2003 and 2004 those were found 53.59% and then a declining trend of growth over immediate past year was observed in the year 2007, 2008 - 13.53% and 16.59% respectively and in the year 2010 the growth was minimum at 13.27% over 2009's credit outstanding but in the year ending on 31st March 2014 the percentage of growth over 2013 was found to be 14.90%. It was also found that the share of priority sector advance was 39.4% by public sector bank which was just below the set target of 40% of Adjusted Net Bank Credit in the year ending on 31st March, 2014 and at the same time the target had been achieved by private sector bank in the year 2014 by achieving 43.9% against the national norm of 40%. It must be mentioned here that the starting of expansion of rural credit was from 1969 after the nationalization of commercial banks and marked expansion of rural credit took place during 1970-1980 but on the declaration of the New Economic Policy in 1991, the priority sector lending was curbed. Bhattacharyya and Bhattacharyya (2007) found that from 1980-1981 and 2002-2003, during this 23 years credit expanded at a rate of 11.1 percent and during 1980-1981 to 1990-1991, the credit expanded at a much faster rate, but during 1992-1993 to 2002-2003, the expansion rate declined to much less figure and this was for the New Economic Policy and curbing the targeted credit particularly the allotment of priority sector lending.

3.08. Weaker Section and Small Borrowal Account in the Priority Sector:

The category of weaker section as defined under priority sector encompasses various socially and economically unprivileged sections. The share of this section followed a pattern that was similar to agricultural and Micro and Small Enterprise sectors. The target of advance to the priority sector has been fixed as:

Table 3.13: Target Advance under the Priority Sector & Weaker Section for domestic Scheduled Commercial Bank and Foreign Bank

Categories	Domestic scheduled commercial bank and foreign bank with twenty branches or above	Foreign banks with less than twenty branches
Total Priority Sector	<p>40% of adjusted net bank credit or credit equivalent amount of off – balance Sheet exposure, whichever is higher.</p> <p>Foreign bank with twenty branches or above have to achieve the total priority sector target within a maximum period of 5 years starting from 1st April, 2013 and ending on 31st March 2018 as per the action plans submitted by them and approved by RBI.</p>	<p>40% of adjusted net bank credit or credit equivalent amount of off- balance Sheet exposure, whichever is higher to be achieved in a phased manner* by 2020.</p>
Advance to weaker section	<p>10% of adjusted net bank credit or credit equivalent amount of off – balance Sheet exposure, whichever is higher.</p> <p>Foreign bank with twenty branches and above have to achieve the weaker section target within a maximum</p>	Not applicable

	period of five years starting from 1 st April, 2013 and ending on 31 st March 2018 as per the action plans submitted by them and approved by RBI.	
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Note:

*Phased manner is as follows:

Year	Total priority sector as percentage of Adjusted Net Banking Credit (ANBC) or credit equivalent amount of off – Balance Sheet exposure, whichever is higher
2015-2016	32
2016-2017	34
2017-2018	36
2018-2019	38
2019-2020	40

Source: RBI Bulletin issued in 1st July, 2015.

3.09. Profile of Small Borrowal Account:

The way we look at the credit distribution to the small borrowers' section is to segregate the loan account with relatively small credit limits. The account with a credit limit up to Rs. 0.2 million i.e., Rs. 2 lakh is referred to as Small Borrowal Account (SBA). The following tables have been shown to give details of the profile of share of credit to weaker sections Small Borrowal Accounts from 1975 to 2014.

Table 3.14: Profile of Small Borrowal Accounts

At the end of	Cut off limit for SBA(Rs.)	Small Borrowal Accounts			All Accounts			Percentage share of small borrowal accounts in all account	
		No. of accounts	Amount outstanding	Avg. amount outstanding per account	No. of accounts	Amount outstanding	Avg. amount outstanding per account	No. of accounts	Amount outstanding
June 1975	10000	5607	831	1482	6180	9011	14581	90.7	9.2
June 1976	10000	7674	1110	1447	8317	11678	14041	92.3	9.5
June 1977	10000	10016	1393	1391	10750	13457	12518	93.2	10.4
June 1978	10000	12137	1816	1496	13007	15961	12271	93.4	11.4
June 1979	10000	14336	2336	1630	15383	19163	12457	93.2	12.2
June 1980	10000	16834	2886	1714	18034	21312	11817	93.4	13.5
June 1981	10000	19307	3553	1840	20747	24875	11990	93.1	14.3
June 1982	10000	21877	4582	2096	23516	29590	12583	93.0	15.5
June 1983	10000	23628	5089	2149	25563	35020	13700	92.6	14.5
June 1984	25000	28211	8797	3154	29537	43326	14668	95.5	20.5
March 1985	25000	32137	10028	3120	33611	49995	14874	95.6	20.1
March 1986	25000	37143	12615	3396	38789	56182	14484	95.8	22.4
March 1987	25000	41610	15444	3711	43436	63727	14672	95.8	24.2

March 1988	25000	45886	17954	3913	47981	71285	14857	95.6	25.2
March 1989	25000	49717	22330	4491	52113	88027	16892	95.4	25.4
March 1990	25000	51180	24147	4718	53851	104312	19370	95	23.1
March 1991	25000	58784	27323	4648	61947	124203	20050	94.9	22.0
March 1992	25000	62548	29945	4788	65861	136706	20757	95	22.0
March 1993	25000	58521	32091	5484	62116	162467	26155	94.2	19.8
March 1994	25000	55810	32188	5767	59651	175891	29487	93.6	18.3
March 1995	25000	53915	34060	6317	58097	210939	36308	92.8	16.2
March 1996	25000	51905	36253	6985	56672	254692	44941	91.6	14.2
March 1997	25000	50094	37446	7475	55618	284373	51130	90.1	13.2
March 1998	25000	46828	41095	8776	53584	329944	61575	87.4	12.5
March 1999	200000	50997	88282	17311	52305	382425	73144	97.5	23.1
March 2000	200000	52856	102745	19439	54370	460081	84620	97.2	22.3
March 2001	200000	50456	106294	21067	52364	538434	102825	96.4	19.7
March 2002	200000	54130	125649	23212	56388	655993	116336	96.0	19.2
March 2003	200000	56527	145057	25662	59491	755969	127073	95.0	19.2
March 2004	200000	61900	162700	26282	66390	880312	132597	93.2	18.5

March 2005	200000	71106	199880	28110	77151	1152468	149378	92.2	17.3
March 2006	200000	77122	248498	32221	85435	1513842	177192	90.3	16.4
March 2007	200000	84347	278895	33065	94442	1947100	206169	89.3	14.3
March 2008	200000	94554	331022	34993	106990	2417006	225909	88.4	13.7
March 2009	200000	95801	349865	36500	110056	2847713	258800	87.0	12.3
March 2010	200000	102632	360745	35100	118648	3345169	281900	86.5	10.8
March 2011	200000	102155	383888	37600	120724	4075647	337600	84.6	9.4
March 2012	200000	109111	456621	41800	130881	4803267	367000	83.4	9.5
March 2013	200000	102305	514833	50300	128286	5525317	430700	79.7	9.3
March 2014	200000	109225	526691	48200	138751	6282082	452800	78.7	8.4

Note : i. No of accounts in thousand and amount in Rs. Million

ii. 2588.8= 258800 in column 8 for 2009

Source: Various RBI Bulletin.

Small Borrowal Accounts are predominant in number and accounted for over 90% of all borrower accounts since 1975 till 2014. The cut off limit of credit for classification of small borrowal accounts was revised upward twice since 1975 to 2020. The starting of the cut off limit was fixed at Rs. 10000 in 1975 and later after June 1983, it was revised to Rs. 25000. In the year 1975, the Small Borrowal Account in All Account in respect of number of accounts was 90.7% and with respect to amount outstanding it was 9.2% with the cut off limit of Rs. 10000 per loan. In the year 1983 (March) the share of SB account in all account was 92.6% and the share of amount outstanding was 9.2%. In the year 1984, after increasing the cut off limit of credit of SB account, the percentage of small borrowal accounts to all accounts increased to 95.5% from 92.6% of 1983. The share of amount

outstanding in all accounts increased to 20.55% from 14.5%. The cut off limit was revised the second time in the year 1998 (April) i.e., the cut off limit Rs. 25000 was further raised to Rs. 2 lakh per account in April 1998 and the ratio of SBAs to all accounts increased to 0.975 from 0.874 i.e., an increase of 10.1 percent (0.975-0.874) in a year.

The share in amount outstanding declined between March 1999 and 2006 by 7 percentage points and share of number of SB accounts in all accounts reduced to 90.3% at the end of March 2006 from 97.5% in March 1999. The average amount outstanding per small borrowal accounts showed a continuous increasing trend from June 1978 to June 1984 when the average amount outstanding per borrower increased continuously. The same is noticeable between 1986 and 1990, and between 1992 and March 2008. However, there was a steep decline in the share of SBA to all accounts from 97% to 78% between 1999 and 2014, but the average amount outstanding per account showed a continuous increasing trend (except 2010) till March 2014. In March 1999, the average amount outstanding per account was Rs. 17.3 thousand which rose to Rs. 48.2 thousand in 2014 in case of SBA and the share of SBAs in outstanding amount had fallen from 23.1% in March 1999 to 8.4% in 2014.

It would be pertinent to mention here the observation of R. Radhakrishna (2008) regarding the loss of momentum in the distribution of bank credit in favour of small borrowers and other vulnerable groups. He stated that *“between December 1972 to June 1983, there were 21.2 million additional bank loan accounts in total, added and nursed by the Scheduled Commercial Banks, of which 19.8 million or 93.1 per cent were accounts with credit limit of Rs. 10000 and less. This trend of focusing on small borrowal accounts continued for another decade up to March 1992, despite the effectiveness of loan waiver scheme in March 1990. Between December 1982 and March 1992, there were 38.1 million additional bank accounts, of which 36.0 million were the redefined small borrowal accounts with credit limit of Rs. 25000/- and less. Between March 1992 and March 2001, there has been an absolute decline of 13.5 million accounts in the aggregate bank loan accounts and this was happened because of a much larger decline of 25.3 million accounts for the redefined small borrowal accounts with credit limit of Rs. 25000 and less. On the other hand, borrowal accounts with higher credit limit of above Rs. 25000 have shown an unusually large increase of 11.8 million as compared with only 2.1 million increases during the preceding decade i.e. during December 1983 to March 1992. Even for the*

period of March 2001 to March 2005, while an addition of 24.79 million in total loan accounts has occurred, small borrowal accounts have experienced an absolute fall 0.49 million until march 2004; during 2004-2005, there was a fractional rise 1.97 million because of the forced expansion in farm loans” (Radhakrishna-2008; pp-123).

3.10. Loans to Weaker Section of Society and Non-performing Assets:

An asset is called Non-performing Assets (NPA) when it ceases to generate income for the lender. It is defined as a credit facility in respect of which the interest and/ or instalment of principal has remained due for a specific period of time. An important aspect of observing the loans to weaker section is by considering the position of loans as NPAs or not. It is important to see whether the NPAs of loan to weaker section has increased or declined. It is a matter of great concern for policy matters as credit (Non- performing loans) is one of the most essential elements of economic growth and higher NPAs or NPLs affect the credit flow. The resource is raised by bank not by taking deposits only but also by giving credit to people and recycling the funds received as repayment of loan from the borrower. The NPAs are the main hindrance to generating resources. The trend in growth of NPAs of PSBs against weaker section loans during 2001 to 2011 can be observed from the table below:

Table 3.15: Loan to Weaker Sections and NPAs of Public Sector Banks

Year	Advance to weaker section (Rs Crores)	Total NPAs (in Crore)	NPAs of Weaker section (in crore)	% to Total	% to loan	Growth rate of loan %	Growth rate of NPAs %
1	2	3	4	5	6	7	8
2001	24899	53184	5606	11	23	-----	-----
2002	26459	56514	5744	10	22	6	2
2003	29655	52790	5749	11	19	12	0
2004	35493	50141	6706	13	19	20	17
2005	51445	47693	5752	12	11	45	-14

2006	59471	41380	5023	12	8	16	-13
2007	79038	38590	5238	14	7	33	4
2008	99994	39750	5388	14	5	27	3
2009	122894	43908	5074	12	4	23	-6
2010	168433	57448	5053	9	3	37	0
2011	220250	71051	7929	11	4	31	57

Note: Column 3 represents total NPAs of PSBs, column 5 represents percentages of weaker sections NPAs to total NPAs of PSBs, column 6 represents percentages of weaker section NPAs to loan amount to weaker sections, column 7 represents growth rate of loans to weaker sections, column 8 represents growth rate of weaker section NPAs.

Source: Najmi Shabbir and Rachna Mujoo (2014)

Interestingly the percentages of weaker section NPAs to total NPAs of PSBs was near to 11 percent in 2001 and hovered around the same till 2011. The lowest NPAs was observed in 2010 when it was at 9% and in the same year the percentages of weaker section NPAs to loan amount of weaker section was at 3%, i.e., both were below two digits. It signifies the marked improvement in respect of NPAs of PSBs with regard to weaker sections. The percentage of growth rate of NPAs was 2% in the year 2002 over 2001 had reached zero percent by 2003, and was found negative in 2004, 2005 and 2010, the situation reversed and there was a sharp rise of 57% in growth rate of NPAs was observed in 2011.

3.11. Distribution of Small Borrowal Accounts by Type of Account:

Table 3.16: Small Borrowal Accounts by Type of Account as on March 2014

Type of Account	Small Borrowal Accounts			All Accounts			Percentage of SBAs in all account	
	No. of accounts	Amount Outstanding	Amount share (%)	No. of accounts	Amount Outstanding	Amount share (%)	No. of accounts	Amount Outstanding
Cash credit	7403	385927	7.3	9692	12332418	19.6	76.4	3.1

Overdraft	4789	121882	2.3	6824	397756	6.3	70.2	3.1
Demand Loan	62656	2957997	56.2	69394	8855380	14.1	90.3	33.4
Of which:								
Kishan Credit Card	20305	1314554	25.0	25131	2265879	3.6	88.8	58.0
Credit Card other than KCC	15716	185645	3.5	17293	304952	0.5	90.9	60.9
Medium term loan	15890	702318	13.3	19459	7973179	12.7	81.7	8.8
Long term loan	18334	1084047	20.6	33013	25817727	41.1	55.5	4.2
Others	153	14742	0.3	369	3868363	6.2	41.4	0.4
All accounts	109225	5266911	100.0	138751	62820824	100.0	78.7	8.4

Note: No. of accounts in thousands and amount in Rs. Million

Source: RBI Bulletin, 11th May, 2015

The above table shows that demand for loans dominated the percentage of share of 56.2% of the amount outstanding, and 57.36% (62656/109225 x 100) of number of account in case of Small Borrowal Account. Kishan Credit Card was holding 25% share of amount outstanding with 20305000 numbers of Small Borrowal Accounts. The participation of women in the Small Borrowal Account can be observed on the basis of account type from the following table:

Table 3.17: Small Borrowal Account by type of account as on March 31st, 2008

Type of account	Percent Share				Average amount outstanding per account(Rs.)	
	No. of account		Amount Outstanding			
	All borrower	Women borrower	All borrower	Women borrower	All borrower	Women borrower
Kishan Credit Card	16.00	14.3	17.7	14.4	38536	34465
Cash credit	4.9	3.6	6.2	3.4	44719	32325
Overdraft	6.2	5.5	4.7	3.4	26682	21171
Demand Loan	17.2	29.1	15.4	24.5	31373	28683
Credit Card	10.2	1.8	3.7	1.2	12743	22862
Term loan	40.7	39.0	47.3	46.5	40631	40845
Medium term loan	20.5	16.2	18.7	17.0	31982	35847
Long Term loan	20.2	22.7	28.6	29.5	49377	44409
Others	4.7	6.8	5.0	6.6	36680	33372
All small borrowal accounts	100.0 (94132)	100.0 (11326)	100.0 (329396)	100.0 (38765)	34993	34226

Note: Figures in the brackets relate to number of accounts in thousands and amount outstanding in Rs. Crore

Source: RBI Bulletin, May 2011.

From the above table (3.17), it is clear that as on March 31, 2008, term loans dominated the type of loan accounts in respect of number of accounts and amount outstanding in small borrowal account. The share was 40.7% of number of accounts and 47.3% in amount outstanding. Again, in the number of account share of 40.7%, women were holding 39% of the number of accounts and in share of amount outstanding 47.3%, women were holding 46.5% in small borrowal accounts in case of term loans. This was followed by demand loans consisting 17.2% of the total small borrowal account and 15.4% of the total outstanding amount. It was observed that 16% loan were released

through Kishan Credit Card and in terms of amount outstanding its share is at 17.7% in which women borrowers were 14.3% and 14.4% respectively in case of number of account and amount outstanding. It was further observed that in terms of average amount outstanding per account, all small borrowal account stood at Rs. 34993 per account where as women borrower stood at Rs. 34226 per account.

3.12. Distribution of Small borrowal accounts by Rate of Interest:

Following tables are given to show the distribution of small borrowal accounts as on the following dates:

Table 3.18 (A): Distribution of Small Borrowal Account by Rate of Interest as on March 31, 2001

Rate of interest (Percent per annum)	Percent Share				Average amount outstanding per account (Rs)	
	Number of accounts		Amount outstanding		All borrower	Women Borrower
	All borrower	Women Borrower	All borrower	Women Borrower		
Less than 11	5.6	5.0	4.8	5.1	18274	17141
11-12	12.2	12.1	11.3	11.1	19617	15655
12-13	38.1	42.0	39.6	40.9	21895	16547
13-14	11.6	12.6	12.1	12.5	21908	16829
14-15	9.8	10.8	9.9	10.8	21148	17056
15-16	9.7	8.6	9.4	10.1	20454	19915
16-17	5.4	4.9	5.5	5.2	21436	17891
17 and above	6.0	2.7	6.2	3.4	21587	20962

Total	100.0 (50456)	100.0 (8005)	100.0 (106294)	100.0 (13605)	21067	16995
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Note: Figures in the brackets relate to number of accounts in thousands and amount outstanding in Rs. Crore

Source: RBI Bulletin, May 2004.

Table 3.18 (B): Distribution of Small Borrowal Account by Rate of Interest as on March 31, 2004

Rate of interest (Percent per annum)	Percent Share				Average amount outstanding per account (Rs)	
	Number of accounts		Amount outstanding			
	All borrower	Women Borrower	All borrower	Women Borrower	All borrower	Women Borrower
Less than 6	8.4	5.2	3.7	2.8	11145	11832
6-10	30.4	32.8	28.5	30.8	24642	20414
10-12	21.5	23.1	28.4	27.8	34654	26092
12-13	19.5	19.5	20.1	19.0	27106	20873
13-14	8.2	8.3	8.3	8.2	26422	21432
14-15	5.3	5.4	5.7	6.0	28221	24185
15-16	2.5	2.2	2.3	2.4	23891	23693
16-18	1.5	1.4	1.4	1.5	24955	22871
18-20	1.4	0.6	0.9	0.5	17587	16384
20 and above	1.3	1.3	0.7	1.1	15475	19086

Total	100.0 (61900)	100.0 (11244)	100.0 (162700)	100.0 (24477)	26284	21769
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Note: Figures in the brackets relate to number of accounts in thousands and amount outstanding in Rs. Crore

Source: RBI Bulletin, 2006.

Table 3.18 (C): Distribution of Small Borrowal Account by Rate of Interest as on March 31, 2006

Rate of interest (Percent per annum)	Percent Share				Average amount outstanding per account (Rs)	
	Number of accounts		Amount outstanding		All borrower	Women Borrower
	All borrower	Women Borrower	All borrower	Women Borrower		
Less than 6	2.8	1.2	2.8	1.5	32184	33465
6-10	40.4	42.1	44.0	45.0	35119	29046
10-12	21.0	23.6	25.0	26.5	38341	30581
12-13	9.0	9.8	9.0	10.7	32420	29663
13-14	3.8	3.9	4.3	4.3	36459	30035
14-15	2.5	2.8	2.7	3.1	35434	29413
15-16	1.2	1.7	1.2	1.3	30558	21182
16-18	1.4	1.1	1.7	1.3	38671	31158
18-20	1.4	0.8		1.1	35561	38425
20 and above	16.6	13.0	7.8	5.2	15153	10830
Total	100.0 (77122)	100.0 (12709)	100.0 (248498)	100.0 (34506)	32221	27151

Note: Figures in the brackets relate to number of accounts in thousands and amount outstanding in Rs. Crore.

Source: RBI Bulletin, June 2008.

Table 3.18 (D): Distribution of Small Borrowal Account by rate of Interest as on 31st March 2008

Rate of interest (Percent per annum)	Percent Share				Average amount outstanding per account (Rs)	
	Number of accounts		Amount outstanding		All borrower	Women Borrower
	All borrower	Women Borrower	All borrower	Women Borrower		
Less than 6	8.2	4.6	3.7	2.1	15536	15883
6-10	29.5	37.5	31.0	34.6	36836	31566
10-12	18.3	23.5	23.4	27.5	44767	40059
12-13	11.3	15.1	14.8	16.3	45610	37031
13-14	5.7	6.9	7.1	7.2	43339	35384
14-15	3.9	4.1	4.5	4.7	40896	39879
15-16	1.9	1.4	2.2	1.8	40682	44624
16-18	2.9	1.1	2.6	1.5	31146	47627
18-20	3.6	1.4	2.9	1.3	28127	30813
20 and above	14.6	4.5	7.8	3.0	18744	22904
Total	100.0 (94132)	100.0 (11326)	100.0 (329396)	100.0 (38765)	34993	34226

Note: Figures in the brackets relate to number of accounts in thousands and amount outstanding in Rs. Crore.

Source: RBI Bulletin, May 2011.

Table 3.18 (E): Distribution of Small Borrowal Account by rate of Interest as on March 2014

Interest Rate Range (percent)	Small Borrowal Accounts			All accounts			Percent share of SBAs in all accounts	
	No. of accounts	Amount outstanding	Amount Share (%)	No. of accounts	Amount outstanding	Amount Share (%)	No. of account	Amount outstanding
Less than 6	3553	58547	1.1	3763	989529	1.6	94.4	5.9
6 and above but less than 9	25478	1563271	29.7	29186	3395639	5.6	87.3	46.0
9 and above less than 10	1607	59296	1.1	2115	1067561	1.8	76.0	5.6
10 and above less than 11	11517	490201	9.3	16664	15437693	25.5	69.1	3.2
11 and above less than 12	10372	584878	11.1	14172	9387198	15.5	73.2	6.2
12 and above less than 13	14658	878151	16.7	18913	11160222	18.5	77.5	7.9
13 and above less than 14	8257	463930	8.7	11885	8562304	14.2	69.5	5.4
14 and above less than 15	7475	429284	8.2	10211	5545665	9.2	72.9	7.7
15 and above less than 16	2529	163117	3.1	4506	2391688	4.0	56.1	6.8
16 and above less than 20	8051	303606	5.8	9834	1890091	3.1	81.9	16.1
20 and above	15612	264294	5.0	17193	639985	1.1	90.8	41.3
All accounts	109080	5258574	100.0	138442	60467575	100.0	78.8	8.7

Note: Number of accounts in thousands and amount outstanding in Rs. million

Source: RBI Bulletin, May 11, 2015, small borrowal account of schedule commercial bank: 2014

While analyzing the small borrowal account by rate of interest of the year ending on 31.03. 2001, it was found that about two fifth of the small borrowal accounts (38%) belong to modal interest rate ranges of 12% to 13% and claimed approximately 40% share in amount outstanding. Other important interest rate range were 11% to 12% and 13% to 14% which claim share of approximately 12% and 11.6% with average amount outstanding of Rs. 19617 and Rs. 21908 per account respectively. In case of women small borrowal account, 12% to 13% rate of interest range claimed the highest share of women borrowers which was 42% followed by 13% to 14% and 11% to 12% ranges claiming 12.6% and 12% share of women borrower respectively but highest average amount outstanding per account for women borrower was Rs. 20962 belonging to 17% and above range, pointing to to the hardship of repayment at a very high rate of interest.

About one third of the small borrowal accounts (30.4%) belonged to the modal interest rate range of 6% to 10% and claimed 28.5% share in amount outstanding as on 31st March 2004. Other important ranges of interest rates for small borrowal accounts were 10% to 12% and 12% to 13% holding for 21.5% and 19.5% respectively, in terms of number of accounts and registered 28.4% and 20.1% in terms of amount outstanding respectively. Average amount outstanding per account was highest at Rs. 34654 in the range of interest rates between 10% to 12% and average amount outstanding per account was lowest at Rs. 11545 in the range of interest between 'less than 6%'. In case of women small borrowal accounts, as 31st March 2004, 32.8% share was in between the range of interest 6% to 10%. In case of average amount outstanding per account, it was highest at Rs. 26092 per account in the interest range of 10% to 12% and it was lowest at Rs. 11832 per account in the range of interest rates 'less than 6%'.

In the year 2006, about two fifth of the small borrowal account, i.e., 40.4% belonged to the interest range of 6% to 10% accounting for 44% share in amount outstanding. Other important ranges of interest rate for loans under small borrowal accounts were 10% to 12% and 20% above holding the share of 21% and 16.6% respectively. In case of women borrower, 42.1% numbers of accounts were charged interest rates between 6% to 10%. The average amount outstanding per account was highest for all borrowers and women borrowers at Rs. 38671 and Rs. 38425 in the interest rates range between 16% to 18% and 18% to 20% respectively and the same was lowest

for all borrowers and women borrowers at Rs. 15153 and Rs. 10830 per account respectively in the interest rate ranges between 20% and above.

As on 31st March 2008, 29.5% of the small borrowal accounts were charged interest rates in the range of 6% to 10% accounting for 31% share in amount outstanding. 18.3% of the small borrowal accounts were charged interest rates in the range of 10% to 12%. In case of women borrower, 37.5% numbers of accounts were charged 6% to 10% interest rates holding 34.6% of the amount outstanding. The average amount outstanding per account was highest at Rs. 47627 in the interest rates range of 16% to 18% for women borrowers and for all borrowers; the average amount outstanding per account was highest at Rs. 45610 in the interest range of 12 % to 13%. The average amount outstanding per account was lowest at Rs. 15536 and Rs. 158830 for all small borrower and women small borrower were in the interest rate ranges between 'less than 6%'.

In terms of number of accounts, 94% and 91% credit account in extreme interest rate categories, i.e., with interest rate ranges "below 6%" and '20% and above' respectively were small borrowal accounts as on 31st March 2014. In terms of amount outstanding, in interest range 6% to 9% category, 46% of credit outstanding pertained to SBAs and 41.3% of outstanding credit with interest rate range 20% and above was that of SBAs. 46% was in the interest rate range 6% to 9% and 41% share of SBAs in the amount outstanding was in the interest rate range 20% and above. The total number of small borrowal accounts stood at ten crore ninety lakh eighty thousand with the total amount outstanding to rupees fifty two lakh eightyfive thousand five hundred seventy four millions (5258574 million). It must be mentioned here that the lowest percent share of SBAs in all account for all the interest rate ranges was 56.1% which relates to '15% and above but less than 16% category'.

One can also have a look to see the distribution of small borrowal account depending upon its social group. The following tables show the distribution of SBAs by social group.

3.13. Distribution of small borrowal accounts by Social group:

**Table 3.19(A): Distribution of Small Borrowal Accounts by Social Group as on
31.03.1997**

Social Group	Percent Share		Average amount outstanding per account (Rs.)	
	No. of accounts	Amount outstanding		
1. Scheduled Tribe	8.9 (9.4)	6.6 (8.7)	5956	(6392)
2. Scheduled Caste	17.8 (23.7)	12.7 (17.1)	5739	(4972)
3. Others	72.7 (66.5)	80.1 (73.7)	8855	(7645)
Total @	100.0 (100)	100 (100)	8036	(6897)

Note: i. @: total includes unspecified

ii) Figures in the brackets pertain to small borrowal account of women.

Source: RBI Bulletin, February -19

**Table 3.19(B): Distribution of Small Borrowal Accounts by Social Group as on
31.03.2001**

Social Group	Percent Share				Average amount outstanding per account (Rs.)	
	No. of accounts		Amount outstanding			
	No of Accounts	Amount outstanding	No of Accounts	Amount outstanding	No of Accounts	Amount outstanding
1. Scheduled Tribe	6.1	6.9	3.8	4.3	13150	10460
2. Scheduled Caste (including Neo Buddhists)	12.2	17.8	7.1	10.2	12234	9759
3. Others	80.7	74.3	87.8	84.1	22940	19257

Total @	100.0 (50456)	100.0 (8005)	100.0 (106294)	100.0 (13605)	21067	16995
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Note: i. @: Total includes unspecified

Source: Source: RBI Bulletin, May 2004

Table3.19 (C): Distribution of Small Borrowal Accounts by Social Group as on 31.03.2004

Social Group	Percent Share				Average amount outstanding per account (Rs.)	
	No. of accounts		Amount outstanding			
	No of Accounts	Amount outstanding	No of Accounts	Amount outstanding	No of Accounts	Amount outstanding
1. Scheduled Tribe	3.7	5.3	2.6	3.9	18786	16132
2. Scheduled Caste (including Neo Buddhists)	6.7	10.0	4.6	7.0	18309	15411
3. Others	87.4	83.4	90.0	87.2	27045	22818
4. Unclassified	2.2	1.4	2.7	1.9	32895	29876
Total	100.0 (61900)	100.0 (11244)	100.0 (162700)	100.0 (24477)	26284	21769

Note: Figures in the bracket relate to number of accounts in thousand and amount outstanding in Rs. Crore.

Source: RBI Bulletin, July 2006

Table (No. 3.19 D): Distribution of small borrowal accounts by social group as on 31.03.2006

Social Group	Percent Share				Average amount outstanding per account (Rs.)	
	No. of accounts		Amount outstanding			
	No of	Amount	No of	Amount	No of	Amount

	Accounts	outstanding	Accounts	outstanding	Accounts	outstanding
1. Scheduled Tribe	3.0	4.7	2.1	3.3	22101	19013
2. Scheduled Caste (including Neo Buddhists)	5.4	8.6	3.9	5.8	22964	11403
3. Others	91.6	86.8	94.1	90.9	33102	28494
Total	100.0 (77122)	100.0 (12709)	100.0 (248498)	100.0 (34506)	32221	27151

Note: Figures in the bracket relate to number of accounts in thousand and amount outstanding in Rs. Crore.

Source: RBI Bulletin, June 2008

Table 3.19(E): Distribution of Small Borrowal Accounts by Social Group as on 31.03.2008

Social Group	Percent Share				Average amount outstanding per account (Rs.)	
	No. of accounts		Amount outstanding			
	No of Accounts	Amount outstanding	No of Accounts	Amount outstanding	No of Accounts	Amount outstanding
1. Scheduled Tribe	1.7	2.5	1.2	1.5	29299	20600
2. Scheduled Caste (including Neo Buddhists)	3.3	6.4	2.4	3.8	25560	20452
3. Other backward caste	8.0	11.8	8.0	11.3	35269	32661
4. General	74.0	78.8	74.3	82.6	35121	35861

5. All others	13.0	0.4	14.1	0.8	37672	-
Small borrowal accounts	100.0 (94312)	100.0 (11326)	100.0 (329396)	100.0 (38765)	34993	34225

Note: Figures in the bracket relate to number of accounts in thousand and amount outstanding in Rs. Crore.

Source: RBI Bulletin, May 2011

While analyzing the distribution by social group it is observed for all years that General Category occupied the maximum percentage of the total SBAs, followed by SCs and then STs. The same is also observed in case of average amount outstanding per account. The average amount outstanding of General Category is found more than the overall average of SBAs in all years. Women borrowers held significant position in all the categories. It is interesting to note that average loan outstanding amount per account for women under SC category is less than the average amount of loan outstanding per account under this category. However, it is not so in the case of ST category where loan amount outstanding was higher for women than the average amount for the ST category (table 3.19 A)

It must be mentioned here that Anjani Kumar *et. al.* (2010, pp 253-264) also observed in their studies that the weaker sections belonging to Scheduled Castes, Scheduled Tribes, and Backward castes households received less credit form the institutional sources than general castes households.

3.14. Distribution of Small Borrowal accounts by Population Group:

Another way to look the portion of small borrowers in the society as a whole based in the villages, cities, rural, urban metropolitan areas. The following tables will provide an overview of the distribution of small borrowal account by population group for the various years:

Table 3.20 A. Small Borrowal Account by population group as on 31st March 1997

Population Group	Percent Share				Average amount Outstanding per account (Rs.)	
	Number of account		Amount outstanding		All borrower	Women borrower
	All borrower	Women borrower	All borrower	Women borrower		

Rural	54.9	57.6	45.9	49.6	6723	5933
Semi urban	28.7	28.1	29.3	29.9	8201	7355
Urban	11.3	9.1	13.5	12.7	9637	9574
Metropolitan	5.2	5.2	11.3	7.8	17517	10443
Total	100.0	100.0	100.0	100.0	8036	6897

Source: RBI Bulletin, February 1999

Table 3.20 B: Small Borrowal Account by population group as on 31st March 2001

Population Group	Percent Share				Average amount outstanding per account (Rs.)	
	Number of account		Amount outstanding		All borrower	Women borrower
	All borrower	Women borrower	All borrower	Women borrower		
Rural	44.0	46.0	33.9	33.3	16243	12309
Semi urban	27.0	28.4	28.0	28.1	21825	16778
Urban	14.7	13.8	20.0	19.0	28524	23508
Metropolitan	14.3	11.8	18.2	19.6	26791	28131
Total	100.0 (50456)	100.0 (8005)	100.0 (106294)	100.0 (13605)	21067	16995

Note: Figures in the brackets relate to number of accounts in thousands and amount outstanding in Rs. Crore

Source: RBI Bulletin, May 2004

Table 3.20 C: Small Borrowal Account by population group as on 31st March 2004

Population Group	Percent Share				Average amount outstanding per account (Rs.)	
	Number of account		Amount outstanding		All borrower	Women borrower
	All borrower	Women borrower	All borrower	Women borrower		
Rural	40.1	44.7	34.1	37.5	22343	18252
Semi urban	24.4	23.5	28.7	26.2	30834	24223
Urban	12.4	11.1	19.4	18.1	41063	35492

Metropolitan	22.9	20.7	17.7	18.2	20315	19210
Total	100.0 (61900)	100.0 (11244)	100.0 (162700)	100.0 (24477)	26384	21769

Note: Figures in the brackets relate to number of accounts in thousands and amount outstanding in Rs. Crore

Source: RBI Bulletin, July 2006

Table 3.20 D: Small Borrowal Account by population group as on 31st March 2004 and March 2006

Population Group	Percent Share				Average amount outstanding per account		
	No. of accounts		Amount outstanding				
	As at end of March 2004	As at end of March 2006	As at end of March 2004	As at end of March 2006	As at end of March 2004	As at end of March 2006	Percent (+)/(-) in 2006 over 2004
Rural	40.1	35.8	34.1	30.5	22343	27481	23.0
Semi urban	24.5	25.7	28.7	27.1	30834	34045	10.4
Urban	12.4	14.0	19.4	19.2	41063	44299	7.9
Metropolitan	22.9	24.5	17.7	23.1	20315	30340	49.3
All SBAs	100.0 (61900)	100.0 (77122)	100.0 (162700)	100.0 (248498)	26284	32221	22.6

Note: i. Figures in the brackets relate to number of accounts in thousands and amount outstanding in Rs. Crore

ii. (+): increase, (-): decrease

Source: RBI Bulletin, June 2008

**Table. 3.20 E: Small Borrowal Account by population group at the end of March
2006 and March 2008**

Population Group	Percent Share				Average amount outstanding per account		
	No. of accounts		Amount outstanding				
	As at end of March 2006	As at end of March 2008	As at end of March 2006	As at end of March 2008	As at end of March 2006	As at end of March 2008	Percent (+)/(-) in 2008 over 2006
Rural	35.8	33.1	30.5	31.5	27481	332706	21.1
Semi urban	25.7	22.9	27.1	26.5	30045	40608.8	19.3
Urban	14.0	11.8	19.2	17.1	44299	50608.9	14.2
Metropolitan	26.6	32.6	23.1	25.3	30340	27179.4	-10.4
All SBAs	100.0 (77122)	100.0 (94132)	100.0 (248498)	100.0 (329396)	32221	34993	8.6

Note: i. Figures in the brackets relate to number of accounts in thousands and amount outstanding in Rs. Crore

ii. (+): increase, (-): decrease

Source: RBI Bulletin, May 2011

Table 3.20 F: Small Borrowal Accounts: Population group wise: March 2014

Population Group	Small Borrowal Accounts			All Accounts			Percent share of SBAs in all account	
	No. of accounts	Amount outstanding	Amount share (%)	No. of accounts	Amount outstanding	Amount share (%)	No. of accounts	Amount outstanding
Rural	41781	2190976	41.6	47896	5246134	8.4	87.2	41.8
Semi urban	30449	1832193	34.8	38290	6640959	10.6	79.7	27.6
Urban	13258	721947	13.7	19801	10053428	16.0	67.0	7.2
Metropolitan	23688	521795	9.9	32764	40880303	65.1	72.3	1.3
All accounts	109266	5266911	100.0	138751	62820824	100.0	78.7	8.4

Note: i. Figures in the brackets relate to number of accounts in thousands and amount outstanding in Rs. Million

Source: RBI Bulletin, May 11, 2015; Small borrowal accounts of scheduled commercial banks: 2014

While analyzing the population group data of March 1997, it was found that the number of small borrowal accounts in rural areas holding 54.9% that was more than half of all the small borrowal accounts covering 45.9% of the total amount outstanding. The metropolitan areas were holding only 5.2% of the number of small borrowal accounts of the total covering 11.3% of the amount outstanding, whereas, the semi urban and urban areas were holding 28.7% and 11.3% of the number of accounts respectively covering 29.3% and 13.5% of the amount outstanding respectively. Though the highest numbers of small borrowal accounts were in rural areas but the average amount outstanding per account was lowest in rural areas, and it was found at Rs. 6723 per account. Despite the fact that the share of small borrowal accounts was lowest (5.2%) in metropolitan areas, the average amount outstanding per account was seen highest at Rs. 17517 in metropolitan areas.

In case of women borrowers same trends had been observed. The difference between the average of all small borrowal account and women borrower account, in rural areas, was Rs. 790 per account, in semi urban areas it was Rs. 846 per account, in urban areas it was Rs. 63 per account and in metropolitan areas, it was found at Rs. 7074 per account.

It was found, while analyzing the data relating to 2001, that though the rural small borrowal accounts were predominant in numbers, i.e., 44%, but those were smaller in amount outstanding per account as compared with those areas and accounted for about one third (33.9%) of the amount outstanding. Semi urban, urban and metropolitan areas followed next with declining shares of number of accounts as well as amount outstanding, these were 27%, 14.7%, 14.3% and 28.0%, 20.0% and 18.2% respectively for semi urban , urban and metropolitan areas. The average amount outstanding per account is highest at Rs. 28524 which was related to urban areas and immediately next one is at Rs. 28131 was related to women borrower account of metropolitan areas. The difference between the average amount outstanding per account for all small borrowal account and women borrower accounts were found Rs. 3934 in rural areas, Rs. 5047 in semi urban areas, Rs. 5016 in urban areas, and Rs. 1340 was found in Metropolitan areas. The interesting thing

was that the average amount outstanding per account of women borrower was higher (Rs. 28131), than the average amount outstanding per account for all small borrowers (Rs. 26791).

In 2004 also, the rural small borrowal accounts were predominant in numbers, i.e., 40.1%, and the share of amount outstanding was 34.1% and the number of women small borrowal accounts were holding 44.7% in rural areas covering 37.5% share of amount outstanding of all rural borrowers. 24.5% share of small borrowal accounts were held by semi urban areas covering 28.7% of amount outstanding. The average amount outstanding per account was lowest at Rs. 20315 in metropolitan areas but it was moiré than double in the urban areas. In semi urban and rural areas the average amount outstanding per account were Rs. 30834 and Rs. 22343 respectively.

The average amount outstanding per account for women borrowers, in all areas, were less than the average amount outstanding per account for all borrowers. The difference between the average amount outstanding per account for all small borrowers and women borrowers were found Rs. 4091 in rural areas, Rs. 6611 in semi urban population, Rs. 5571 in urban areas and it was at Rs. 1105 in metropolitan areas.

Both the shares in number and amount outstanding were of rural small borrowal accounts declined during the period between March 2004 to March 2006. In March 2004, the rural small borrowers were at 40.1% which came down to 35.8% in March 2006. The amount outstanding was also declined from 34.1% in March 2004 to 30.5% in March 2006. But the average amount outstanding per account increased for rural borrowers to Rs. 27481 in 2006 from Rs. 22343 in 2004, i.e., 23% growth over 2004's amount outstanding per account. Between the periods of March 2004 to March 2006, the percentage share of number of accounts for semi urban, urban, metropolitan areas increased by 1.2%, 1.6% and 1.6% respectively and the percent share of the amount outstanding decreased for semi urban and urban areas by 1.6% and 2% respectively. The average amount outstanding per account during March 2004 to March 2006, for rural, semi urban, urban and metropolitan areas increased by Rs. 5138, Rs, 3211, Rs. 3236 and Rs. 10025 per account respectively. The highest percentage of growth in average amount outstanding per account was found 49.3% in metropolitan areas.

The share of small borrowal accounts in rural areas declined from 35.8% to 33.1% during the period between March 2006 to March 2008. At the same time, the amount outstanding in rural areas increased from 30.5% to 31.5%, but in semi urban and urban

areas, both the percent share of number of accounts and the amount outstanding decreased. In metropolitan areas, the share of number of accounts increased to 32.6% in March 2008 from 24.6 in March 2006 and the same trend was observed in respect of amount outstanding. The amount outstanding for metropolitan areas was found at 25.3% in March 2008 which was more than 23.1% of March 2006. The differences between the average amount outstanding per account for rural, semi urban, urban areas during March 2006 to March 2008 increased by Rs 5789.6, Rs. 6563.8 and Rs. 6309.9 and the same, in metropolitan areas decreased by Rs. 3160.6.

In rural population, in March 2014, 87.2% of all credit accounts were SBAs and shared 41.8% of the credit outstanding. In metropolitan areas, 1.3% of the credit outstanding pertaining to SBAs, although in terms of number of accounts, these areas had 72.3% of share. The semi urban areas were holding 79.7% of share of number of accounts covering 27.6% of amount outstanding of small borrowal accounts.

Table 3.21: Percentage distribution of Outstanding Credit of Small Borrowal Account of Scheduled Banks according to broad category of borrowers as on March 2015.

Population Category	Individual				Others		Total	
	Male		Female		No. of accounts	Amount outstanding	No. of accounts	Amount outstanding
	No. of accounts	Amount outstanding	No. of accounts	Amount outstanding				
Rural	77.1	78.5	20.0	18.6	2.9	2.8	100.0	100.0
Semi urban	70.9	72.3	25.8	24.6	3.3	3.1	100.0	100.0
Urban	70.7	70.0	25.3	24.2	4.0	5.8	100.0	100.0
Metropolitan	81.4	77.0	16.7	16.6	1.9	6.5	100.0	100.0
All India	75.4	75.1	21.7	21.2	2.9	3.7	100.0	100.0

Source: Basic statistical return, RBI, March 10, 2016.

From the above table it is clear that the metropolitan areas hold 81.4% of male small borrowal account covering 77% of amount outstanding whereas in rural areas, 77.1% of numbers of account holders were male and 20% were female small borrower covering 78.5% of amount outstanding by male small borrowers and 18.6% was by female small borrowers. The average percentage of male small borrowal account was 75.4%

metropolitan areas (81.4%) and rural areas (77.1%) were higher than the percentages of all India and semi urban (70.9%) and urban (70.7%). The same trend had been seen in case of amount outstanding by these population groups in case of male small borrowers. The percentage of female small borrowers in all India for number of account holding was 21.7%. The rural areas, semi urban areas and urban areas were more than the all India percentage of account holding for women borrowers and metropolitan areas was below the all India percentage. The same trends in case of amount outstanding for these groups were observed.

3.15. Distribution of accounts according to loan scheme:

The small borrowal accounts were sanctioned under various loan schemes like Integrated Rural Development Program (IRDP), Differential Rate of Interest Scheme (DRI), Prime Minister's Rojgar Yojana (PMRY), Scheme of Urban Micro Enterprise (SUME), Prime Minister's Integrated Urban Poverty Eradication Program (PMIUPEP) etc. The distribution of credit to small borrowers under these schemes can be assessed by analyzing the following data.

Table 3.22 A: Distribution of SBAs by loan scheme as on 31st March, 1997

Loan Scheme	Percent Share				Average amount outstanding per account (Rs.)	
	Number of accounts		Amount outstanding			
	All	Female	All	Female	All	Female
IRDP	34.6	42.2	24.2	31.7	5624	5172
PMRY (including SEEUY)	1.4	1.7	2.4	2.7	13775	11172
DRI	1.6	1.9	0.6	0.8	2970	2285
Scheme of urban micro enterprise including SEPUP	2.0	2.1	1.6	2.1	6376	6799
PMIUPEP	0.1	0.2	0.1	0.3	9925	8970

Others	16.0	13.9	17.0	15.8	8508	7821
Loan not covered under any scheme (NUAS)	44.3	38.0	54.1	46.7	9808	8489
Total @	100.0	100.0	100.0	100.0	8036	6897

Note: @: Total includes unspecified.

Source: RBI Bulletin, February 1999.

The interesting observation of the above table was that 54.1% amounts were outstanding under “Loan Not Covered Under Any Scheme (NUAS)” which were holding the major share, i.e. 44.3% of number of accounts of total small borrowal accounts. Female small borrowers of NUAS were holding 46.7% of the total amount outstanding to female under these schemes and 38% of the total female small borrowal accounts. The IRDP scheme also had the major share of 34.6% of all small borrowal accounts in terms of number of accounts and 24.2% of all amount outstanding under these schemes. The average amount outstanding per account for all borrowers and female borrowers were highest at Rs. 13775 and Rs. 11172 which were under the PMRY scheme. Other loans under DRI, SUME, PMIUPEP were found with relatively small share in terms of number of accounts and amount outstanding.

More than two fifth of number of accounts (42.2%) pertaining to women were covered under IRDP which were holding 31.7% of amount outstanding to female under these schemes.

Table 3.22 B: Distribution of SBAs by Loan Scheme as on 31.03. 2001

Loan Scheme	Percent share				Average amount outstanding per account (Rs.)	
	Number of accounts		Amount outstanding			
	All borrower	Women borrower	All borrower	Women borrower	All borrower	Women borrower
IRDP	16.6	24.3	6.9	10.9	8749	7610
PMRY	2.4	2.1	4.2	4.2	37022	33612

SGSY	2.0	2.2	1.5	2.0	15695	15412
Other Schemes	18.3	19.1	17.9	18.8	20547	16649
NUAS	58.6	51.4	66.8	63.0	24013	20836
Total@	100.0 (50456)	100.0 (8005)	100.0 (106294)	100.0 (13605)	21067	16995

Note: i. @: Total includes unspecified.

ii. Figures in bracket relate to the number of accounts in thousands and amount outstanding in Rs. Crore

Source: RBI Bulletin, May 2004

The IRDP, the largest loan scheme for all small borrowers which was holding 16.6% of the numbers of accounts and 9.9% of the total amount outstanding. In IRDP scheme, women small borrowers were holding 24.3% of the number of accounts and 10.9 percent of the total amount outstanding to female borrowers. The average amount outstanding per account, under IRDP scheme, was at Rs. 8749 for all small borrowers, whereas, for the women borrowers, the same was at Rs. 7610 per account. The highest average amount outstanding stood at Rs. 37022 for all borrowers in PMRY scheme and for women borrower, it was at Rs. 33612 per account under the same scheme (PMRY) though only 2.4% of the total amount outstanding was under PMRY. One interesting outcome of the above data was that, in case of IRDP, the percentage of holding number of accounts and amount outstanding, both were highest for women small borrowers than all small borrowers. This implies that more women were engaged in those programmes.

Table 3.22 C: Distribution of SBAs by Loan Scheme as on 31.03. 2004

Loan Scheme	Percent share				Average amount outstanding per account (Rs.)	
	Number of accounts		Amount outstanding			
	All borrower	Women borrower	All borrower	Women borrower	All borrower	Women borrower
IRDP	5.05	8.4	1.9	3.4	9203	8978
PMRY(including	2.1	1.9	3.4	3.2	41987	38260

SEEUY)						
SGSY	2.5	3.8	1.6	2.7	16663	15157
Other Schemes	14.9	17.6	14.4	18.0	25404	22392
NUAS	72.5	66.5	75.9	70.0	27537	23159
Unclassified	2.05	1.8	2.8	2.1	29146	25370
Total@	100.0 (61900)	100.0 (11244)	100.0 (162700)	100.0 (24477)	26284	21769

Note: Figures in bracket relate to the number of accounts in thousands and amount outstanding in Rs. Crore

Source: RBI Bulletin, July-2006

While analyzing the data of 2004 regarding the distribution of SBAs by loan scheme, it was found that NUAS was holding 72.5% of the accounts of all small borrowers covering 75.9% of amount outstanding to all borrowers. The percentage of holding of number of account by women borrowers under NUAS was also very high and stood at 66.5% covering the amount outstanding at 70.0 percent level. The average amount outstanding per account is highest at Rs. 41987 for all borrowers which were under PMRY scheme (including SEEUY). The average amount outstanding per account for women borrower was also highest under this PMRY scheme and stood at Rs. 38260 but interestingly PMRY scheme were holding only 2.1% of total account and 3.4% of amount outstanding for all small borrowers. For women borrowers under PMRY scheme, the percentage of holding of accounts and amount outstanding were stood at 1.9% and 3.2% respectively.

Table 3.22 D: Distribution of SBAs by Loan Scheme as on 31.03. 2006

Loan Scheme	Percent share				Average amount outstanding per account (Rs.)	
	Number of accounts		Amount outstanding		All borrower	Women borrower
	All borrower	Women borrower	All borrower	Women borrower		
IRD P	3.8	5.7	1.5	2.2	12284	10691
PMRY(including	2.5	2.5	3.8	3.8	48381	40852

SEEUY)						
SGSY	2.2	3.7	1.4	2.4	20748	17846
Loans for Agriculture Under Special Agricultural Credit Plan (SACP)	4.6	4.8	5.4	5.6	38231	31826
All other scheme	40.7	39.4	45.8	44.3	36256	30580
NUAS	46.2	43.8	42.1	41.6	29377	25821
All small borrowal accounts	100.0 (77122)	100.0 (12709)	100.0 (248498)	100.0 (34506)	32221	27151

Note: Figures in bracket relate to the number of accounts in thousands and amount outstanding in Rs. Crore

Source: RBI Bulletin, June 2008

The data as March 2006, regarding the distribution of SBAs by loan scheme revealed that the small borrowal accounts, sanctioned under various major loan schemes like IRDP, PMRY (including SEEUY), SGSY and loans under SACP formed 13.1% of the total number of accounts and accounted for about 12.1% of the total amount of credit outstanding. NUAS formed about 46.2% of the total number of accounts covering 42.1% of the total credit amount outstanding under these schemes. The average amount outstanding per account was maximum at Rs.48381 under PMRY scheme. The numbers of account shares and the share of amount outstanding, both were higher in case of women borrowers under the scheme of SACP. The average amount outstanding per account under SACP scheme, for women borrowers, was Rs. 31826 which was lower than the average amount outstanding for all small borrowers.

Table 3.22 E: Distribution of SBAs by Loan Scheme as on 31.03. 2008

Loan Scheme	Percent share				Average amount outstanding per account (Rs.)	
	Number of accounts		Amount outstanding			
	All	Women	All	Women	All	Women

	borrower	borrower	borrower	borrower	borrower	borrower
IRDP	1.3	1.9	0.8	1.1	23607	20113
PMRY(including SEEUY)	1.4	1.5	2.1	2.1	53000	48531
SGSY	1.8	2.8	1.0	1.5	19663	19061
Loans for Agriculture Under Special Agricultural Credit Plan (SACP)	3.1	3.4	3.9	3.7	44337	37495
All other scheme	37.3	39.8	47.1	45.4	44212	39057
NUAS	55.2	50.6	45.1	46.1	28563	31146
All small borrowal accounts	100.0 (94132)	100.0 (11326)	100.0 (329396)	100.0 (38765)	34993	34226

Note: Figures in bracket relate to the number of accounts in thousands and amount outstanding in Rs. Crore

Source: RBI Bulletin, May 2011

The findings from the above table showed that the loans disbursed under NUAS contributed to 55.2% of the total small borrowal accounts and 45.1% of the amount outstanding to all small borrowers. Women borrowers, under the NUAS was at 50.6% for holding number of accounts of all women small borrowers covering 46.1% of the total amount outstanding to women small borrower. The average amount outstanding per account highest at Rs. 53000 was under PMRY (including SEEUY) and lowest at Rs. 19663 was under SGSY for all small borrowal accounts.

The average amount outstanding per account for women small borrowers were highest at Rs. 39057 was under “all other schemes”.

3.16. Interest cost of Small Borrowal Accounts by Occupation:

After Nationalization of fourteen scheduled commercial banks of India in 1969 and formalization of priority sector lending, the differential interest rates were also fixed in 1972 for providing loan to weaker section at relatively low cost of interest than large

borrowal accounts. The following tables will give an overview of the average interest rate (%), occupation wise which was charged to small borrowers as well as large borrowers and the difference of the interest rates (DRI) between them.

Table 3.23 A: Average interest cost according to occupation on small and large borrowal account, March 2001

Occupation	Average interest rate (percent)		
	Small borrowal account (upto Rs. 2 lakh)	Large borrowal account (above Rs. 2 lakh)	Interest rate differential
Agriculture	13	14.7	1.7
Of which : Direct finance	13.0	15.3	2.3
Industry	13.2	14.9	1.7
Transport Operators	13.2	14.5	1.3
Professional and other services	13.3	15.6	2.3
Personal loans	14.1	14.1	0.0
Of which: loans for consumer durable	15.4	16.2	0.8
Loans for housing	11.5	13.0	1.5
Trade	13.2	13.2	0.0
Of which: retail trade	13.0	15.3	2.3
Finance	13.9	14.0	0.1
Other occupations	14.1	14.8	0.7
Total :	13.5	14.4	0.9
Of which: artisan and village industries	13.0	15.9	2.9
Other small scale industries	13.2	15.3	2.1

Source: RBI Bulletin, May 2004

Table 3.23 B: Average interest cost according to occupation on small and large borrowal account, March 2004

Occupation	Average interest rate (percent)		
	Small borrowal account (upto Rs. 2 lakh)	Large borrowal account (above Rs. 2 lakh)	Interest rate differential
Agriculture	10.5	13.3	2.8
Of which : Direct finance	10.5	13.3	2.5
Industry	10.9	13.8	2.9
Transport Operators	13.9	14.0	0.1
Professional and other services	12.7	13.8	1.1
Personal loans	11.0	13.6	2.5
Of which: loans for consumer durable	14.8	16.9	2.1
Loans for housing	8.9	12.5	3.6
Trade	11.5	11.0	-0.5
Of which: retail trade	11.5	13.6	2.1
Finance	10.7	14.0	3.3
Other occupations	10.6	13.5	2.9
Total :	10.9	13.4	2.5

Source: RBI Bulletin, July 2006

**Table 3.23 C: Average interest cost according to occupation on small and large
borrowal account, March 2006**

Occupation	Average interest rate (percent)		
	Small borrowal account (upto Rs. 2 lakh	Large borrowal account (above Rs. 2 lakh	Interest rate differential
Agriculture	9.1	12.0	2.9
Of which : Direct finance	9.1	11.5	2.4
Industry	10.1	11.5	2.4
Transport Operators	11.2	13.0	1.8
Professional and other services	11.2	12.6	1.4
Personal loans	13.1	10.7	-2.4
Of which: loans for consumer durable	12.5	15.5	3.0
Loans for housing	8.0	8.5	0.5
Trade	11.5	11.0	-0.5
Of which: retail trade	11.4	12.4	1.0
Finance	9.9	13.4	3.5
Other occupations	11.6	12.0	0.4
Total :	11.4	12.2	0.8

Source: RBI Bulletin, June 2008

Table 3.23 D: Average interest cost according to occupation on small and large borrowal account, March 2008

Occupation	Average interest rate (percent)		
	Small borrowal account (upto Rs. 2 lakh)	Large borrowal account (above Rs. 2 lakh)	Interest rate differential
Agriculture	9.0	11.8	2.8
Of which : Direct finance	9.0	11.8	2.8
Indirect Finance	10.7	11.7	1.0
Industry	13.0	12.4	-0.6
Transport and other support service	14.0	12.3	-1.7
Professional and other services	12.2	12.6	0.4
Personal loans	14.2	12.0	-2.3
Of which: loans for consumer durable	23.9	16.7	-7.2
Loans for housing	9.8	10.5	0.7
Rest	14.9	14.3	-0.6
Trade	11.7	12.5	0.8
Of which: whole sale trade	11.4	12.1	0.7
Retail trade	11.8	12.8	1.0
Finance	10.1	12.7	2.6
All other	9.8	12.6	2.8
Total :	11.5	12.3	0.9

Source: RBI Bulletin, May 2011

Table 3.24: Interest Rate Differential on Small Borrowal Accounts and Large Borrowal Accounts for the years 2001, 2004, 2006 and 2008 .

Occupations	2001	2004	2006	2008
Agriculture	1.7	2.8	2.9	2.8
Of which : Direct finance	2.3	2.5	2.4	2.8
Indirect Finance	-	-	-	1.0
Industry	1.7	2.9	2.8	-0.6
Transport and other support service	1.3	0.1	1.8	-1.7
Professional and other services	2.3	1.1	1.4	0.4
Personal loans	0	2.5	-2.4	-2.3
Of which: loans for consumer durable	0.8	2.1	3.0	-7.2
Loans for housing	1.5	3.6	0.5	0.7
Rest	-	-	-	-0.6
Trade	0	-0.5	-0.5	0.8
Of which: whole sale trade	-	-	-	0.7
Retail trade	2.3	2.1	1.0	1.0
Finance	0.1	3.3	3.5	2.6
All other	0.7	2.9	0.4	2.8
Total	0.9	2.5	0.8	0.9

Note: i. '-' unspecified

Source: Generated from RBI Bulletin, various issues

The following observations can be drawn from the above data of March 2001 that the average rate of interest on small borrowal accounts stood at 13.5% and the large borrowal accounts were at 14.4% when credit limit for small borrowal accounts was upto Rs. 2 lakh. The average interest rate, for all occupations were either same or relatively higher for large borrowal accounts than the small borrowal accounts. The average interest rates for consumer durable was highest for all the borrowers whether small or large and

those were 15.4% and 16.2% for small borrowal accounts and large borrowal account respectively and the interest rate differential was only 0.8%. The highest interest rate differential was observed when loan was taken from 'professional and other services' and for 'retail trade'. In both the cases the difference of average interest rate was 2.3%. The average interest rate for extending loans to 'artisan and village industries' was 13.0% for small borrowers and 15.9% for the large borrowers and the interest rate differential were 2.9%. The average interest rate was at 11.5% and 13.2% for small borrowers and large borrowers respectively when the loans were extended for 'housing' and the average interest rate differential was 1.5%. The average interest rate differential was lowest when personal loans were extended. For both the borrowers the rate was 14.1% and differential was at zero level.

While analyzing the data on March 2004, regarding the interest rate differentials, the following points were observed. The average interest rate for the small borrowal accounts was 10.9% while for large borrowal account it was 13.4% and an interest rate differential of 2.5% was observed clearly. The highest interest rates, for both, small borrowal and large borrowal accounts were for extending loans for consumer durables which were stood at 14.8% and 16.9% respectively and the average interest rate differential was 2.1%. The average interest rate was lowest for small borrowers when loan was extended for 'housing' and it stood at 8.9% and for large borrowal average interest rate was lowest 11.0% when the loan was extended for 'trade'. A negative interest rate differential of 0.5% was observed for small borrowers in case of loans extended under trade as small borrowers had to bear an average interest rate of 11.5% and large borrowers were getting loans, for trade, in an average interest rate of 11%. The average interest rate differential was highest at 3.6% as the average interest rate charged to small borrowers and large borrowers were at 8.9% and 12.5% respectively when the credit was extended for housing purpose. Average interest for personal loans was 11.0% and 13.6% for small and large borrowers respectively and the average interest rate differential was at 2.5%.

At the end of March 2006, the small borrowal accounts were cheaper by about three percent than large borrowal account and those were loans for consumer durables, agriculture and industry as the average differential interest rates in those category were 3.0%, 2.9% and 2.8% respectively. The average interest rate for small borrowal was 11.4% and for large borrowers 12.2% and the small average interest rate differential stood at 0.8%. The average interest rate differential was negative for small borrowers in case of

loan extended for 'personal loans' category and it was stood at -2.4% as the average interest rate for personal loans for small borrowers was 13.1% and for large borrowers, it was at 10.7%. The same negative trend was also observed when loans were extended for trade where the average interest rate differential was at -0.5%, as the average interest rate for trade category for small borrowers was 11.5% and for large borrowers it was at 11%. The average interest rate was highest at 3.5% when the loans were extended for 'finance'. The average cost of loan of small housing and large house were at 8.0% and 8.5% for small and large borrowal accounts respectively.

At the end of March 2008, the average interest rates for personal loans for small borrowal accounts was at 14.2% and for large borrowal account it was 12.0% that implied the small borrowers were to pay a bit high average rate of interest for taking personal loans. The average of interest rate of small borrowal accounts and large borrowal accounts stood at 11.5% and 12.3% respectively and interest rate differential between these two categories of borrowers was 0.9%. The average interest rate differential was highest at 7.2% where small borrowers were to pay average rate of interest 23.9% for consumer durables and large borrowers were paying 16.7% of average interest rates which implied that small borrowers were paying more interest for taking loans for consumer durables.

By considering the average interest rate differentials for March 2001, March 2004, March 2006 and March 2008 it was found that in case of March 2001, small borrowers had a privilege regarding the payment of average rate of interest as all the differentials of positive which implied that small borrowers were paying less rate of interests in all the occupations than large borrowers. In the end of March 2004, the same trends were observed except the case when personal loans were extended. In case of personal loans, small borrowers were paying 0.5% more in rate of interest, on an average. The average interest rate differential between small borrowers and large borrowers were increased from 0.9% in March 2001 to 2.5% in March 2004. The interesting findings, here, was that the average interest rate for small borrowers which was 13.5% in March 2001 had been decreased to 10.9% in March 2004. At the same time the average interest rate for large borrowers were come down to 13.4% in March 2004 from 14.4% in March 2001.

In the end of March 2006, the interest rate differential for personal loan was changed to -2.4% from 2.5% in March 2004. The reasons of this differential of 4.9% was due to the change of average interest rate of small borrowal account which was raised from 11.0% in March 2004 to 13.1% in March 2006 and the downfall of average interest

rate of large borrowal account from 13.6% in March 2004 to 11.0% in March 2006. The average interest rate differential for all borrowers brought down to 0.8% only at the end of March 2006 from 2.5% in March 2004. At the end of March 2006, also the average rate of interests for small borrowers for different occupations was less than large borrowers except in case of extending personal loans.

At the end of March 2008, the average interest rate differential was at 0.9% and negative average interest rate differentials were observed in the cases when loans were extended for industry, personal loans, consumer durable, rest categories (under personal loans) and transport and other services etc. where small borrowers were to pay average interest rate more than the large borrowers. The highest difference was observed against consumer durables, which was at 7.2% more than the average rate of interest of the large borrowers. One interesting observation was that during April 2004 to end of March 2006, the differential of average interest rate was changed by 4.9% [2.5% to -2.4%] for personal loans and for consumer durables it was changed by 10.2% [3% to -7.2%] during 2006 to 2008.

3.17. Distribution of small borrowal accounts by the size of amount outstanding:

Table 3.25 A: Small Borrowal Accounts by the Size of Amount Outstanding as on March 1993 and 1997

Amount Outstanding Size class	Percent share			
	1993		1997	
	No of accounts	Amount outstanding	No of accounts	Amount outstanding
<1000	14.7	1.6	8.3	0.7
1000-2500	22.7	8.2	14.7	3.6
2500-5000	28.0	20.8	24.0	12.7
5000-7500	15.1	18.9	17.1	14.9
Upto 7500	80.5	49.5	64.1	31.9
7500-10000	7.1	12.5	10.8	13.7
10000-15000	7.3	18.2	14.1	24.2
15000-25000	5.1	19.8	11.0	30.2

Total	100.0	100.0	100.0	100.0
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Source: RBI Bulletin: February 1999

**Table 3.25 B: Small Borrowal Accounts by the Size of Amount Outstanding as on
March 31, 2001**

Amount Outstanding Size class	Percent share				Average amount outstanding per account (Rs)	
	No of accounts		Amount outstanding		All Borrowers	Women borrowers
	All Borrowers	Women borrowers	All Borrowers	Women borrowers		
< 2500	12.9	15.5	0.6	1.1	1030	1175
2500-5000	12.4	15.7	2.1	3.4	3450	3723
5000-10000	20.9	23.8	6.7	10.1	6801	7210
10000-15000	13.9	13.5	7.5	9.6	11378	12066
15000-25000	16.5	15.0	14.2	17.0	18165	19206
<25000	76.7	83.5	31.2	41.1	8573	8370
25000-50000	12.6	9.6	18.8	19.0	31570	33717
50000-75000	3.7	2.7	9.8	9.5	56028	59642
75000-100000	2.4	1.5	9.2	7.8	81145	85756
100000-150000	2.6	1.6	14.1	11.4	113067	119214
150000-200000	1.7	0.9	12.8	9.0	161350	171508
Above 200000	0.4	0.2	4.1	2.2	214530	230064
Total	100.0	100.0	100.0	100.0	21067	16995
	(50456)	(8005)	(106294)	(13605)		

Note: The figure in bracket relates to the number of accounts in thousands and amount outstanding in Rs. Crore

Source: RBI Bulletin, May 2004

**Table 3.25 C: Small Borrowal Accounts by the Size of Amount Outstanding as on
March 31, 2004**

Amount Outstanding Size class	Percent share				Average amount outstanding per account (Rs)	
	No of accounts		Amount outstanding		All Borrowers	Women borrowers
	All Borrowers	Women borrowers	All Borrowers	Women borrowers		
< 2500	8.6	10.0	0.3	0.5	1003	1029
2500-5000	7.9	10.0	1.0	1.5	3327	3359
5000-10000	16.6	17.3	3.6	5.0	5776	6318
10000-15000	11.9	12.2	4.6	6.0	10245	10733
15000-25000	18.1	17.6	10.6	12.5	15443	15492
<=25000	63.1	67.1	20.2	25.6	8433	8297
25000-50000	19.1	19.5	20.6	22.7	27425	25247
50000-75000	6.5	5.6	13.3	13.0	53191	50888
75000-100000	3.8	2.9	11.7	10.1	81690	75738
100000- 150000	4.1	3.1	15.8	14.7	101909	104740
150000- 200000	2.2	1.5	13.0	10.7	155035	154165
Above 200000	0.6	0.3	5.4	3.3	233992	209279
Total	100.0 (61900)	100.0 (11244)	100.0 (162700)	100.0 (24477)	26284	21769

Note: The figure in bracket relates to the number of accounts in thousands and amount outstanding in Rs. Crore

Source: RBI Bulletin, July 2006

**Table 3.25 D: Small Borrowal Accounts by the Size of Amount Outstanding as on
March 31, 2006**

Amount Outstanding Size class (in Rs.)	Percent share				Average amount outstanding per account (Rs)	
	No of accounts		Amount outstanding		All Borrowers	Women borrowers
	All Borrowers	Women borrowers	All Borrowers	Women borrowers		
Upto 2500	19.5	19.5	0.6	0.2	1076	236
2500-5000	5.2	6.6	0.6	0.9	4023	3646
5000-10000	10.7	13.5	2.4	3.6	7415	7255
10000-15000	9.3	11.1	3.5	4.9	12091	11931
15000-25000	14.6	15.6	8.7	11.0	19288	11123
Upto 25000	59.4	66.2	15.9	20.5	8689	8395
25000-50000	18.1	16.9	18.9	21.0	33913	33712
50000-75000	7.8	6.4	13.5	13.5	55933	56780
75000-100000	5.2	4.0	12.4	11.6	77257	79210
100000-150000	5.0	3.6	16.6	14.6	107750	109740
150000-200000	2.9	2.0	13.7	11.7	155779	160339
Above 200000	1.6	0.9	9.0	7.1	212140	220245
All small borrowal accounts	100 (77122)	100 (12709)	100 (248498)	100 (34506)	32221	27151

Note: The figure in bracket relates to the number of accounts in thousands and amount outstanding in Rs. Crore

Source: RBI Bulletin, June 2008

**Table 3.25 E: Small Borrowal Accounts by the Size of Amount Outstanding as on
March 31, 2008**

Amount Outstanding Size class (in	Percent share		Average amount outstanding per account (Rs)
	No of accounts	Amount outstanding	

Rs.)	All Borrowers	Women borrowers	All Borrowers	Women borrowers	All Borrowers	Women borrowers
Upto 2500	20.7	16.7	0.4	0.4	639	842
2500-5000	4.8	6.3	0.7	0.9	5032	5103
5000-10000	9.1	12.3	2.3	3.3	8725	9216
10000-15000	8.6	11.3	3.4	4.8	13754	14478
15000-25000	14.3	15.9	8.7	10.6	21397	22801
Upto 25000	57.6	62.5	15.5	20.0	9402	10967
25000-50000	19.7	18.8	20.8	21.9	36876	39973
50000-75000	8.9	8.1	15.3	15.3	60139	64418
75000-100000	5.1	4.1	12.5	11.7	85140	97581
100000-150000	5.4	4.1	18.0	16.0	116611	133880
150000-200000	2.7	2.0	13.3	11.3	175457	197674
Above 200000	0.6	0.5	4.7	3.8	260521	269164
All small borrowal accounts	100 (94132)	100 (11326)	100 (329396)	100 (38765)	34993	34226

Note: The figure in bracket relates to the number of accounts in thousands and amount outstanding in Rs. Crore

Source: RBI Bulletin, June 2008

While comparing the data of distribution of SBAs according to the size of amount outstanding for 1993 and 1997, it was found that in these two periods amount outstanding size “up to Rs. 7500” had the major shares of number of accounts, i.e, 80.5% and 64.1% in 1993 and 1997 respectively with their corresponding share of amount outstanding 49.5% and 31.9% respectively. The top two categories “Rs. 10, 000 to Rs. 15000” and “Rs. 15000 to Rs. 25000” had their shares of number of accounts in 1993 were 7.3% and 5.1%

respectively. It was found 14.1% and 11% respectively with their corresponding holding of average amount outstanding 18.2% and 19.8% respectively for 1991 and 24.2% and 30.2% respectively in 1993.

As on March 2001 about one fifth, i.e., 20.9% of the small borrowal accounts were holding 6.7% of the average amount outstanding in the range of “Rs. 5000 to Rs. 10000”. The amount outstanding ranges “less than Rs. 25000” were holding 76.7% of the total small borrowal accounts with 31.2% share of amount outstanding of small borrowal account and these ranges were holding 83.5% of women small borrowal accounts with 41.1% of the amount outstanding of women small borrowers. The average amount outstanding Rs. 8573 per account and Rs. 8370 per account for all small borrowers and women borrowers respectively under the range ‘less than Rs. 25000’. The overall average amount outstanding per account was Rs. 21067 and Rs. 16995 for all small borrowers and women borrowers respectively.

At the end of March 2004, about 63% of the small borrowal accounts had amount outstanding in the range of “less than Rs. 25000” and accounted for 20.2% of the amount outstanding. The small borrowal accounts formed 19.1% shares in number of accounts and accounted for 20.6% in terms of class size of “Rs. 25000 to Rs. 50000” amount outstanding. The small borrowal accounts, each with amount outstanding Rs. 50000 and above accounted for 59.2% of amount outstanding of all the small borrowal accounts. 67.1% of the accounts of women borrowers were in small size class of amount outstanding of Rs. 25000 or less and accounted for 25.6% of the amount outstanding. Amount outstanding per account for women borrowers in this size class was little lower at Rs. 8297 as compared to Rs. 8433 for all small borrowers.

At the end of March 2006, the small borrowal accounts each with the outstanding amount of Rs. 2500 or less, accounted for 19.5% of total number of small borrowal accounts and accounted for only 0.6% in the total amount outstanding. The amount outstanding ranges “up to Rs. 25000” were holding 59.4% of the total small borrowal accounts covering 15.9% of the total amount outstanding of small borrowal account with Rs. 8689 per account as average amount outstanding. The average amount outstanding per account for all small borrowers was Rs. 32221. The amount outstanding ranges from “Rs. 25000 to Rs. 50000” were holding 18.1% of the total number of accounts covering 15.9% of the amount outstanding for all small borrowers. The small borrowal accounts each with outstanding of Rs. 50000 and above were holding 22.5% of the number of accounts

covering for a bulk 65.2% of the amount outstanding for all the small borrowal accounts. Women borrowers were holding 66.2% of the number of accounts in the amount outstanding ranges “Rs. 25000 or less” covering 20.5% of the amount outstanding. The amount outstanding per account for all women borrowers was Rs. 27151 which was lower than the amount outstanding per account Rs. 32221 for all small borrowers.

At the end of March 2008, the accounts with outstanding amount “up to Rs. 25000”, constituted 57.6% of total number of accounts and only 15.5% of total outstanding amount. The accounts with outstanding amount of “Rs. 150000 to Rs. 200000” each, constituted 2.7% and 13.3% of the total by number of accounts and amount outstanding respectively. For women borrowers the average amount outstanding per account was Rs. 34226 and for all the small borrowers it stood at Rs. 34993.

3.18. Introduction of Non-Banking Financial Company – Micro Finance Institution

A Sub-Committee of Central Board of Reserve Bank of India under the chairmanship of Sri Y.H. Malegam was constituted to study the issues of MFI sector. The committee submitted its report in January 2011 and accordingly a separate category NBFCs i.e., Non-Banking Financial Company – Micro Finance Institution was created and notified by the Reserve bank of India on 2nd December 2011(notification No RBI/11-12/270) and accordingly the NBFC-MFI was defined as a non-deposit taking NBFC (other than a company licensed under section 25 of the Indian Companies Act 1950) that fulfils the following conditions:

- i) Not less than 85% of its ‘net assets’ are in the nature of ‘Qualifying assets’

“The net assets’ is defined total assets other than cash and bank balances and money market instruments and the ‘qualifying assets is meant by a loan which satisfies the following criteria:

A loan disbursed by NBFC-MFI to a borrower with:

- a) Rural household annual income not exceeding Rs. 60000 or urban and semi- urban household income not exceeding Rs. 120000.
- b) Loan amount should not exceed Rs. 35000 in the first cycle and Rs. 50000 in the subsequent cycles.
- c) Total indebtedness of borrower should not exceed Rs. 50000

- d) The tenure of the loan not to be less than 24 months for loan amount in excess of Rs. 15000 with prepayment without penalty.
- e) Loan amount to be extended without collateral.
- f) Aggregate amount of loans, given for income generation, should not be less than 75 percent of the total loans given by MFI.
- g) Loan is repayable on weekly, fortnightly or monthly instalment at the choice of the borrower.

The RBI further stated in their pricing credit regulation that all NBFC-MFI should maintain aggregate margin cap of not more than 12 percent. The interest cost is to be calculated on average fortnightly balances of outstanding borrowings and interest income to is to be calculated on average fortnightly balances of outstanding loan portfolio of qualifying asset. The interest on individual loan should not exceed 26% per annum and to be calculated on reducing balance basis and the processing charge should not be more than 1% of gross loan amount and it need not to be included in the margin cap or interest cap.

To maintain the fair lending practice, some directions were also issued by the RBI on the issues of (i) transparency in interest rate (ii) multiple lending, over borrowing and ghost borrowers and (iii) non coercive methods of recovery.

On the issue of transparency in interest rates the following direction was given:

- (a) The interest charges, the processing charges and the insurance premium can only be the three component of pricing of the loan.
- (b) There should not be any penalty for delayed payment.
- (c) No security deposit/ margin money can be taken by NBFC-MFI from the borrowers.
- (d) A loan card is to be provided to borrowers by the NBFC-MFI in which the effective rate charged, all other terms and conditions attached to loan, information for identifying the borrower properly and acknowledgement by the NBFC-MFI of all repayment including instalment received and the final discharged should be written clearly in the vernacular language.

Regarding the issues of multiple lending, over borrowing and ghost borrowers, the RBI issued direction to all NBFC-MFI that:

- (i) NBFC-MFI can lend individual borrowers who were not member of joint liability group (JLG) / self-help group (SHG) or to borrowers those were members of JLG/SHG.
- (ii). A borrower cannot be a member of more than one SHG/JLG.
- (iii). Not more than two NBFC-MFI should lend to the same borrowers.
- (iv). There must be a minimum period of moratorium between the grant of loan and the due date of the repayment of the first instalment and the moratorium should not be less than the frequency of repayment.
- (v) Recovery of loan given in violation of the regulation should be deferred till all the prior existing loans were fully repaid.
- (vi). There should be close supervision of disbursement function involving more than one individuals and all the sanction and disbursement of loan should be done at central location.

Repayment and recovery of loans are most crucial two functions, and considering the importance of non-coercive recovery, the RBI issued directions to all NBFC-MFI that they should ensure about their code of conduct and system of repayment, training and supervision of field staff. This code of conduct should incorporate the guideline on Fair Practice Code issued for NBFCs vide circular CC No. 08 dated September 28, 2006 and its corresponding amendments from time to time. The recovery should normally be made only at a central designated place. If the borrower fails to appear at central designated place on two or more successive occasions then only field staff can be allowed to make recovery at the place of residence or work place of the borrower.

3.19. Bank Loans to MFI for On Lending:

On 1st July 2015, through the master circular (No.RBI/15-16/53, FIDD.CO.Plan.BC.4/04.09.01/2015-16) on Priority Sector lending target and Classification, RBI notified that bank credit to MFI extended for on-lending to individuals and also to members of SHG/JLG would be eligible for categorization as Priority Sector Advance under respective categories viz. Agriculture, Micro, small and Medium Enterprises, Social Infrastructure and others, provided not less than 85 percent of the total

assets of MFI should be in the nature of ‘qualifying assets’. In addition, aggregate amount of loan, extended for income generating activity, should not be less than 50 percent of the total loans given by MFIs. Through the master circular following changes were also made:

1. The loans can be extended to a borrower whose household annual income in rural areas should not exceed Rs. 100000 instead of Rs. 60000 and in non-rural areas, it should not exceed Rs. 160000 instead of Rs. 120000.
2. The loan amount should not exceed Rs. 60000/- in the first cycle and Rs. 100000/- in the subsequent cycle instead of Rs. 35000/- in the first cycle and Rs. 50000 in the subsequent cycles.
3. The total indebtedness of the borrower should not exceed Rs. 1,00,000/- instead of Rs. 50,000/-.

Through this circular, it was also notified that no loan related and adhoc service charges should be levied on Priority Sector Loan up to Rs. 25000. In the case of eligible Priority sector Loans to SHG/JLG, the limit of Rs. 25000 be applicable per member and not to the group as a whole and at the same, the banks were directed to acknowledge the application of loan received under Priority sector and communicate the applicants about the decision in writing.

3.20. Conclusion: From the above discussion on ‘Small Borrowers and Formal Credit Market in India’ based on some sub-topics, the following can be summed-up as conclusion:

- a. The formal credits in India provided to small borrowers have been channelized through multi agency approach and was dominated by the Co-operatives prior to the Nationalisation of Commercial Scheduled Banks. After Nationalization of Commercial Banks, it dominated the credit market by reaching non banking region and opening bank branches there. Due to this nationalization of commercial banks and the policy of opening of many bank branches in un-banked regions, the dependence of poor people on the informal credit provider i.e., moneylender reduced substantially.
- b. As the new bank branches were opened in the un-banked regions, the number of small borrowal accounts increased substantially in the banks. Considering the number of small borrowal account it was found that in 1971, the percentage of small borrowal account in all account was 91% and in the year 2000, the

percentage of small borrowal account in all account increased to 97%, i.e., a steady increasing trend in the number of account as well as in the percentage was observed. But, after the year 2000 and up to 2014, the scenario was found adverse. A steady declining trend in respect of percentage of number of small borrowal accounts in all accounts and the amount outstanding was observed. During 1997 to 2008, a steady declining growth trend in IRDP was also observed. During the year 2001 to 2004, a fall of 10% of IRDP loan account was observed and that can be considered as the major reason of overall fall of number of small borrowal account under various schemes.

- c. As the demand of small loans increased in the formal sector, the amount of loan of small borrowal account was also increased. The limit of loans per account in small borrowal account was increased to Rs. 25000/- per account after June 1983 from Rs. 10,000/- and again the limit was increased to Rs. 200000/- per account in 1998 (April) and since then, it is stand still at Rs. 200000/- per account though there is a vertical increase in Consumer Price Index.
- d. Considering the non-performing assets arising due to the advance given to the weaker section, it can be concluded that the loans to small borrowers did not contribute much to the non-performing assets of banks.
- e. While considering the loans on the basis of social categories, it was found that during 1997 to 2008, there was a downward trend of loan account of small borrowers of reserved categories and it came to only 5% in 2008 from 27% in 1997, though during these phase loans to other social categories was increased to 95% in 2008 from 72% in 1997. From the discussion of this Chapter, it can be concluded that Scheduled Commercial Banks were reluctant to disburse loans to the small borrowers of reserved categories and the major loans, in small borrower's category, were obtained by the other social categories than SC & ST categories.
- f. From the discussion of small borrowal account on the basis of population, it can be concluded that during the year 1997 to 2014, the urban population of small borrowers obtained more loans from scheduled commercial banks than the population group resided in rural, semi-urban and metropolitans of India.
- g. From the study of rate of interest paid by the small borrowers, it was found that the privilege enjoyed by the small borrowers while paying interest for small loans under various categories were delegitimized and the enjoyment of positive rate

differentials by the small borrowers came not only to an end but also had to suffer the consequences of negative interest rate differentials under small borrowal category for loans for industry, transport and other support service, personal loans except house loans. In these loans small borrowers had to pay more rate of interest than large borrowers which can be concluded as the discouragement of loans under small borrowal category.

The above discussion and the referred conclusion are only based on the formal loans in India. But, to understand the position of small borrowers in India and the Indian credit market as a whole, it is required to understand the issues of informal credit market in India. The next chapter (IV) 'Small Borrowers and Informal Credit market in India: Outlining Relevant Literatures and Data Sources' of this thesis deals with various issues of the topic.

Chapter IV

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

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

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

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

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

- i) Full service indigenous bankers who took deposits and made loans.
- ii) Commercial Financers who lent primarily their own resources.
- iii) Brokers who connected potential lenders and borrowers.

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

- i) The intermediary keeps intimate knowledge about their client
- ii) The absence of the control of government on the lending and borrowing rates
- iii) The absence of charge on the informal intermediaries in the form of idle or low interest reserves, which were imposed on regulated intermediaries.

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

4.02. Relation between lender and borrowers:

The borrowers and the lenders of the informal credit markets are known to each other and borrowers were under continuous scrutiny in the Indian credit markets. The relation of lenders and borrowers had been running generation after generations. Instead of pen and paper or written documents, the word of mouth played the crucial role which was the reverse of the credit extending process of banks. Banks lend on the basis of cash flow and the financial position of the borrowers, whereas, in the informal markets, the intermediaries watch closely the business activities of the borrowers in all possible ways. The lenders watch the borrowers' personal expenditure and they talk with the persons who know the borrowers closely while collecting information about the borrowers from the competitors of the borrowers. The lender also watches the payment records of the

borrowers to see his capacity of meeting obligations on failure of the market. Depending upon the net worth of the borrower, the lender extended the credit. The lenders cautiously avoid to come under the purview of state money lending act and so they avoid to lend to agriculturists, who are normally protected under money lending acts. In informal credit markets, moneylenders normally provide credit for working capital arrangement to prosperous traders/ clients for avoiding the risk of loss. They extend credit only to those who have strong roots in the community.

4.03. Rate of interest in Informal Credit Market:

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

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

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

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

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

From the above estimates, it was found that brokers and indigenous bankers extended credit at a rate of 18-24 percent per annum to the large borrowers mainly to established traders with 18 percent as the norm rate and to the small borrowers (artisan) and traders at a rate of 24-36 percent per annum which was higher than the rate of extending credit to

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

Table 4.02: Finance Companies, Brokers and their Interest Rates

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.04. The volume of informal credit:

Another way to examine the distribution of credit by institutional and non institutional agencies is by observing the volume of credit they have extended to rural and

urban poor. This can be observed from the following table as given by All India Debt and Investment Survey (AIDIS), 1981-82.

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

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

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

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

4.05. Dominance of Credit:

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

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

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

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

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

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

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

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

decades the share of non institutional sectors came down by 22% though they had 70.8% share of rural credit.

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

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

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

4.06. The Share of Urban Credit:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10	29.1	5.7	31.7
All	14.8	10.3	22.4

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Source: Chavan (2007)

The table shows that in 1991-1992, the percentage of dalit households who took loans from informal sources was at 12.6% and the number of dalit households who took loans from formal sources was at 7.6%. Within a decade, and in 2002, the percentage share of who took loans from informal sources increased by 4 percentage points and there was a

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

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

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

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

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

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

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

inheritance. The lenders and their officials were allowed to enforce the decree that was given by panchayat for collecting their dues. That was equivalent to a debt bondage.

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

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

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

Region	RURAL			
	Formal	Professional	Non professional	Relatives

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

Source: Bhattacharjee & Rajeev (2011)

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

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

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

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

Source: Bhattacharjee & Rajeev (2011)

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

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

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

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

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

Source: NSSO 2006

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

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

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

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

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

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

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

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

Source: Cited by Chandrasekhar- 2014

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

2. Formal includes Government, Cooperative Society, Bank

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

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

The total share of non-institutional source of credit including credit from moneylender was Rs.19007 crore in the total outstanding debt of Rs. 26735 crore in 2004-09 in which the share of moneylender was Rs.11827 crore and in the year 2009-10, the

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

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

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

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

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

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

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

Source: Generated from the citing of Chandrasekhar- 2014

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

2. (-) refers to decrease

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

The major increase in the share of moneylenders and other non-institutional sources in rural labour households, in terms of amount of money during 2004-05 to 2009-10 was observed in Uttaranchal – by Rs.59 crore & 107 crore, Hariyana –by Rs. 182 crore & Rs. 287 crore, Rajasthan- by Rs. 521 crore & Rs. 60 crore, West Bengal – by Rs. 146 crore & Rs. 375 crore, Andhra Pradesh – by Rs. 328 crore & Rs. 1548 crore, Karnataka- By Rs. 259 crore& Rs. 490 crore and Tamil Nadu- by Rs. 510 crore & Rs. 403 crore respectively. But it was also found that in states like West Bangal, Chattisgarh, Andhra Pradesh, Tamil Nadu, though the share of moneylenders increased in terms of quantum of money but the percentage share in terms of sources i.e., formal, moneylender and other

non-institutional sources, had come down from their position in 2004-2005 and in 2009-10 which implied that an increase in quantum of money does not necessarily mean that the percentage of share in all sources will increase.

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

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

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

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

1. Indian credit market is divided into two main sectors, i.e., i) credit issues by formal institutions and ii) credit issued in informal way by other than formal institution which is known as informal credit providers. The co-existence of both formal and informal credit has been observed in the same market. The estimation of exact involvement of informal credit is very hard to determine but approximately 20% of the commercial credit outstanding in various market are from informal sources of credit.
2. The dominant Indian informal credit providers were: Shikarpuries or Multanies (self service bank of Sind) in South India, Rostogies in Uttar Pradesh, Marwaris in Eastern India. The main three functions of these informal credit providers were: i) taking deposit and extending credit, ii) using own reserves for providing credit, iii) brokers were used as intermediary between provider and borrowers. The small borrowers, always, had to pay high rate of interest on their loans than the large borrowers in informal credit market.
3. The maximum loans in institutional sector i.e., in formal sector were found 'below the rate of interest 20% per annum' category where as 'no interest' loans found dominant in non-institutional, i.e., informal sector in urban India. The main sources of these 'no interest' loans are the loans taken from relatives and friends. But, in case of rural India, the dominant rate of interest in informal sector was found '30% and above per annum'

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

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

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

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

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

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

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

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

Chapter- V

Small Borrowers and Credit Market in West Bengal

5.01. Backdrop: Money lending activities were very much present in the pre independence colonial period in Bengal. The Money lending activity in West Bengal has been running following the West Bengal Moneylenders Act 1940. Before the Tenancy Act, the Zaminders of Bengal had received good incentives by giving the land to the hands of tenants without any further cost but after the passing of tenancy legislation, the benefits of landlords weakened due to the difficulty in collection of rent or removing the tenants from the land.

The strengthening of tenant's right had given the result of greater confidence in profit-making from their investment though they had lack of access of fund. For the requirement of fund to be invested, the farmers of Madras could borrow against the tenant occupancy right. The Bengal Tenancy Act was passed in 1885 and observing the effect of Bengal Tenancy Act, the then Government of India observed that many raiyats of Bengal were affected by the Bengal Tenancy Act and were at the mercy of moneylenders. The Government of Bengal replied that after the passing of Bengal Tenancy Act, there was substantial increase in the number of transfer of occupancy right but most of these were not for moneylenders. The moneylenders of Bengal were not the outsiders of Bengal but the persons who were involved in agricultural activities with a little capital which they could lend out at the usury. The Government of Bengal had argued on the basis of a letter of a supporter of tenant right, M. Fanucane, who argued using data of 47000 transactions that land was going out to other peasants and only one in seven transfers was to moneylenders. Fanucane also argued that "*of these so called Mahajans, however, but a small portion, were probably other than substantial raiyats themselves, for these are the chief moneylenders in rural Bengal*" (Swamy & Roy, 2016).

5.02. Formal Credit Lenders Act- 1940: On 1st August 1940, an Act to regulate the transaction of money lending in Bengal was introduced. This act was the 'The Moneylenders Act-1940' (Bengal Act X of 1940). This Act still is still in operation for regulating the activity of moneylenders in West Bengal. This act has defined the bank, the borrowers, the moneylenders and the money lending businesses which are as follows:

- i) Bank means a banking company as defined in the Banking Regulation Act-1949 and included:
 - a. A bank included in the second schedule of the Reserve Bank of India Act-1934
 - b. 'A corresponding New Bank' as defined in banking Companies (Acquisition and Transfer of undertakings) Act 1970.
 - c. Any other Financial Institution which may be notified by the State Government.
- ii) Borrower means a person to whom a loan is advanced and includes a successor-in-interest and surety.
- iii) Commercial loan means a loan advanced to any person to be used by such person for the purpose of any business of concern relating to trade, commerce, transport, industry, mining, planting, insurance, banking or entertainment, or to the occupation of wharfinger, warehouse keeper or contractor or any other venture of a mercantile nature, whether as proprietor or principal or agent or guarantor.
- iv) Lender means a person who advances loans and includes moneylenders and the 'moneylenders' means a person who carries on the business of money lending in West Bengal or who has a place of such business in West Bengal and included a payee as defined in the Contract Act -1872.
- v) 'Money lending' business or the business of 'money lending' means the business of advancing loans either solely or in conjunction with any other business.

In West Bengal, no moneylender is permitted to run the activity without holding an effective licence for money lending issued by the sub-Registrar of whose jurisdiction the money lender has place of money lending business, otherwise, no court shall pass an order in favour of moneylender in any suit instituted by a moneylender for recovery of a loan or in any suit instituted by the money lender for the enforcement of an agreement entered into or security taken or for recovery of any security given, in respect of such loan. Any borrower in respect of any moneylender, who has advanced him loan, can file an application to the court for cancellation of licence of moneylender showing the grounds. On receipts of such application the court can start an inquiry if required.

This act states that every moneylender shall have to keep and maintain at least a cash book, a ledger and a receipt book and the same shall be written in Bengali or English in regular course of business and will have to give the borrower a statement written in Bengali or English as per the desire of the borrower showing the details of condition of the loan and other necessary information at the time of taking loan. After payments made by the borrower, the lender has to give a plain and complete receipt of such payments on account of the loan to the borrower and when the repayment of a loan is complete, the lender has to mark indelibly with words indicating full payment or cancel every paper signed by the borrower and discharge any mortgage, restore any pledge, return any note and cancel any assignment given by the borrower as security. This further directs the moneylender that within two months of the commencement of each year, the moneylender has to furnish each of his borrowers a statement to be written in Bengali and / or in English as the borrower desires, be signed by moneylenders or his agents showing the amount outstanding against the borrower and clearly indicating the following:

- i) The amount of the principal and interest due at the commencement.
- ii) The amount of any sum advanced to the borrower from time to time from the commencement of the year and the dates on which the loan was advanced.
- iii) The amount of any payment received from the borrower since the commencement of the year in respect of the loan outstanding and the dates on which the repayments were received.
- iv) The amount of every sum due from the borrower remaining unpaid and the date on which each sum becomes due and the amount of interest accrued due and unpaid in respect of every such sum.
- v) The amount of every sum not yet due which remains outstanding and the date upon which such sum becomes due.

On demand by the borrower, the lender is bound to provide the statement to the borrower within thirty days, if it was not provided by the lender within previous six months from the date of receiving of demand for statement. After receiving the statement, the borrower shall not be bound to acknowledge or deny its correctness and his failure to comply shall not be deemed to be an admission of correctness of the account which has been provided by the lender.

The Bengal Moneylenders Act-1940 has safeguarded the borrowers by prescribing a limit to the amount and the rate of interest recoverable as:

A. No borrower of loans other than borrower of commercial loan shall be liable to pay:

- i) Any sum in respect of principal and interest which together with any amount already paid or included in any decree in respect of a loan exceeds twice the principal of the original loan.
- ii) The interest outstanding on the date up to which such liability is computed, a sum greater than the principal outstanding on such date.
- iii) Any interest other than simple interest at a rate per annum not exceeding :
 - a) 12.5% p.a. in case of unsecured loans
 - b) 10% p.a. in case of secured loans.

B. No borrower of a commercial loan shall be liable to pay any interest other than simple interest at a rate per annum not exceeding in the case of:

- a) 20% p.a. in case of unsecured loans
- b) 17% p.a. in case of secured loans.

In case where loans were taken in kinds, the money value of the commodity at the time when loan was taken, the place where the loan was taken shall be deemed to be the principal of the loan and when the loan was repayable in kind, the market value of the commodity in the said locality at the date of repayment shall be considered. If any conflict arises between the borrower and the lender and if the lender refuses to receive the amount which has been paid by borrower to lender as principal or interest or where a borrower has sent to the lender a postal money order of any sum of money due from him in respect of a loan and the lender has refused to accept the same, the borrower may apply to the court to deposit the said sum in court to the account of the lender. The court shall keep the amount and will ask the lender about his willingness to accept the money so deposited and receive the sum, provided that in accepting any sum, a lender shall not be bound by any statement made by the borrower in depositing the same.

For recovering the debt or dues any molest or abets the molestation of a debtor for the purpose of recovering or attempting to recover a debt, shall be punishable, on conviction,

with imprisonment which may be for one year or with fine which may extend to one thousand rupees or with both.

It is very clear from the above discussion, in West Bengal, the act of borrowing and lending, the relation of borrowers and lenders, in case of formal market, depended heavily on this Act. But before passing the Bengal Money lenders Act-1940, there were some other acts on which the relations, acts and the behaviour of the borrowers and moneylenders depended. There were the following Acts:

- i) The Usury Laws Repeal Act-1855
- ii) The Usurious Loans Act- 1918
- iii) The Bengal Money Lenders Act-1933

5.03. Priority Sector Advance in West Bengal: The Reserve Bank of India set the target of 10% for nationalised banks and 12% for foreign bank of the ANBC (adjusted Net Banking Credit) for advance to weaker sections under Priority Sector credit and due to non availability of precise definition of the term ‘ Weaker Section’, banks used to interpret as they like to interpret and sometimes lending to SC/ST farmers up to certain limit was included in agriculture, weaker sections, micro credit, small business or self-employed. Due to this reason, from 2006-2007 (table No.5.01) , the advance to weaker section under Priority Sector lending has been shown by clubbing it to show a comparative study of Priority Sector lending between West Bengal and India .

Table 5.01: Distribution of number of accounts pertaining to Priority sector advance by all Schedule Commercial Banks for West Bengal and India as a whole (in Lakh)

	1980-1981		1990-1991		2000-2001		2001-2002	
	India	WB	India	WB	India	WB	India	WB
Agri& Allied :	112.0	6.66	120.8	12.2	193.2	6.61	163.5	6.34
Of which Direct:	99.1	5.34	120.2	11.2	190.4	6.51	158.5	6.12
SSI	9.61	0.77	27.0	4.78	20.7	3.66	19.3	3.31
Small Business	3.60	0.35	7.76	1.02	76.1	5.69	74.7	5.32
Weaker Section	NA	NA	NA	NA	0.75	0.01	0.37	0.08
Education	NA	NA	NA	NA	1.61	0.02	1.63	0.04

Housing	NA	NA	NA	NA	5.79	0.22	8.15	0.35
Other Priority sector	NA	NA	NA	NA	0.02	Neg	0.02	Neg
Total	NA	NA	NA	NA	298.3	16.2	269.4	15.5

	2002-2003		2003-2004		2004-2005		2005-2006	
	India	WB	India	WB	India	WB	India	WB
Agri& Allied :	173.5	6.92	199.0	7.26	216.7	8.03	260.5	9.51
Of which Direct:	170.55	6.60	196.3	7.20	209.3	7.72	242.3	8.82
SSI	18.2	3.21	18.1	3.85	14.8	2.72	18.1	3.09
Small Business	75.4	5.76	76.3	5.04	77.7	4.89	80.7	5.81
Weaker Section	0.70	0.03	0.29	0.01	0.51	0.01	0.29	0.01
Education	2.51	0.07	3.62	0.09	4.90	0.15	6.65	0.21
Housing	14.1	0.69	20.6	0.86	26.7	1.17	32.6	1.26
Other Priority sector	0.02	Neg	0.23	Neg	0.02	Neg	0.17	0.01
Total	286.9	17.0	320.9	17.5	342.6	17.0	400.3	19.9

	2006-2007		2007-2008		2008-2009		2009-2010	
	India	WB	India	WB	India	WB	India	WB
Agri& Allied :	296.9	9.62	307.2	11.1	341.0	13.7	392.3	12.2
Of which Direct:	261.9	9.02	302.2	10.6	335.1	12.8	385.8	11.4
SSI	18.2	3.05	38.2	3.7	40.1	4.0	67.1	5.5
Small Business	81.3	6.56	55.2	3.5	65.4	3.6	37.1	2.0
Education	8.3	0.35	12.5	0.4	16.2	0.5	19.7	0.6
Housing	33.5	1.64	42.2	2.3	44.4	2.4	44.5	2.2
Other Priority sector including Weaker								

section	0.3	0.02	0.2	0.04	0.8	0.1	2.5	0.1
Total	438.9	21.4	455.8	21.3	507.9	24.3	563.2	22.6

Note: From 2006-2007, Weaker section credit is shown in other relevant heads including other Priority sector.

Source: Generated from Dr. S.K. Rao (as cited in statistical table relating to Bank in India, RBI)

It is clear from the above table (5.01) which gives a comparative analysis of trend of accounts under priority sector lending for West Bengal and India, while observing the data it was found that data specifically on weaker section was available for 2000-2001. In 2000-2001, the number of accounts of weaker sections for India as a whole was 75000 and for West Bengal it was 1000 only that is 1.33 percent (i.e., $1000/75000 \times 100$) of total number accounts of priority sector lending of India. In 2001-2002, the total number of accounts of weaker section for all India was 37000 when Bengal was at 8000 only i.e., 21 percent of total number. In 2001-2002, the total number of weaker section, for all India, come down 37000 from 75000 in 2000-2001 and at the same time the number of accounts in West Bengal was gone up to 8000 from 1000. A considerable rise in accounts of weaker section (which was included in other priority sector) was observed in 2008-2009 and 2009-2010 when it was 80000 and 250000 for all India level and at the same time the number of accounts in West Bengal was 10000 and 10000 respectively. It was observed that from the year 2000 to 2010, the number of accounts of weaker section along with other priority sectors, for all India, was increased from 77000 to 250000 and in West Bengal it was increased from 1000 to 10000 during these years and but the year 2010 the percentage of weaker section loans reached to 4 percent (i.e., $10000/250000 \times 100$) of the total number accounts of priority sector lending of India.

5.04. Distribution of Banking Centres in West Bengal: The Banked Centre is a centre, which has at least one branch or office of commercial or co-operative bank. The population group of banking centres, as defined by the Reserve bank of India are: i) 'Rural' group includes all banked centres with population of 'less than 10000'; ii) 'Semi-urban' group includes all banked centres with population of '10000 and above but less than 1 lakh'; iii) 'Urban' group includes all banked centres with population of '1 lakh and above but less than 10 lakh'; iv) 'Metropolitan' group includes all banked centres with

population of '10 lakh and above' (Directory of Bank Offices, Reserve Bank of India). The distribution centres for disbursing the formal loans is normally commercial and other categories of bank in West Bengal. The picture of the distribution of banking centres in West Bengal in the year 2011 and 2012 can be understood from the following table (No.5.02):

Table 5.02: Banking Centres in West Bengal

Rural		Semi-Rural		Urban		Metropolitan		All Centres	
2011	2012	2011	2012	2100	2012	2011	2012	2011	2012
2155	2201	295	303	58	58	2	2	2510	2564

Source: BSR, RBI -41th Issue. (March 2, 2013, Table No 1.2)

5.05. Expansion of Bank Branch in West Bengal: The Branches of bank refer to those offices which are engaged in either; i) banking business (i.e., either accepting deposits and / or offering credit to their customer); or ii) banking and foreign exchange business; or iii) administration, banking & foreign exchange; or iv) administration and banking; or v) administration and foreign exchange; or vi) only foreign exchange business. The expansion of bank branches of Scheduled Commercial banks in West Bengal can be observed from the following table (No.5.03):

Table 5.03: Expansion of Bank Branch in West Bengal

Year	No of bank branch	Increase of branch	Percentage of expansion
1980	2143	-----	-----
1985	3268	1125	52.50
1990	4075	807	24.69
1995	4395	320	7.85
2000	4525	130	2.96
2005	4661	136	3.00
2013	6402	1741	37.35

Source: Generated from Basic Statistical return of scheduled Commercial banks, RBI

The expansion of branch of Scheduled Commercial Banks (SCB) displays a declining trend since 1985 till 2000. The percentage of growth of branches came down to 3.00 percent in year 2000 from 52.50 percent in the year 1985. During 2005-2013, the number of bank branches of SCB in all India expanded from 68355 in 2005 to 106584 in 2013, i.e. the rate of expansion of bank branches of SCB increased at rate of 55.92 percent (read with table 3.9 of chapter-III). Therefore, though the rate of expansion of bank branches of SCB in West Bengal was 37.35%, but still the expansion was much below the expansion rate of all India level.

5.06. Small Borrowal Accounts in West Bengal and India:

The comparative analysis of number of accounts and the amount outstanding of small Borrowal accounts for the year 2000-2001, 2003- 2004, 2005-2006 & 2007-2008 in respect of India and West Bengal as a whole can be understood from the table given below :

Table 5.04: The Comparative Analysis of Small Borrowal Accounts

Year ended on	India /WB	Small Borrowal Accounts					All Accounts		Percent share of SBAs in all accounts	
		No of accounts (in Thousand)	Amounts outstanding (Rs. Crore)	Average amount outstanding	Percent share		No of accounts (in thousand)	Amount outstanding (Rs. Crore)	No of accounts	Amount outstanding
					No of accounts	Amount outstanding				
31.03.2001	WB	3332	5971	17920	6.6	5.6	3422	30257	97.1	19.7
	India	50456	106294	21067	100	100	52364	538434	96.4	19.7
31.03.2004	WB	3270	7526	23013	503	4.6	3470	47599	94.3	15.8
	India	61900	162700	26284	100	100	66392	880312	93.2	18.5
31.03.2006	WB	3556	10607	29832	4.6	4.3	3899	70940	91.2	15.0
	India	77122	248493	32221	100	100	85435	1513842	90.3	16.4

31.03.2008	WB	3436	12742	37088	3.65	3.87	4104	125512	83.7	10.2
	India	94132	329396	34993	100	100	106990	2417007	88.0	13.6

Source: Generated from various Basic Statistical Return of RBI.

It is visible from the above table (No.5.04) that there has been a downward trend in the trend in the number of small borrowal accounts in West Bengal. The same declining trend was also observed in case of amount outstanding of SBAs in West Bengal during 2001 to 2008,

In case of percentage share of SBAs in all accounts in respect of amount outstanding, except in 2001, the percentage of West Bengal was always lower than the all India level. In 2001, the percent share of SBAs in all account was at 19.7% for both west Bengal and In India. But from 2004 a declining trend was observed in West Bengal. .

In respect of percent share of number of SB accounts in all accounts, In West Bengal, SBAccounts were at 97.1% in 2001; 94.3% in 2004; 91.2% in 2006 and 83.7% in 2008 were more than the percent share of SBAs in all India level except in 2008 and a declining trend was also observed in case of West Bengal, gradually from 2001 as the percentage of SBAs in all accounts were come down from 94.3% in 2001 to 83.7% in 2008.

5.07. Population group-wise classification of Small Borrowal Accounts in West Bengal:

The position of small borrowal accounts of scheduled commercial banks in West Bengal can be understood from the table (5.05) mentioned below to observe the specific head-wise distribution of SB accounts based on the regional specification such as Rural, Semi- Urban, Urban and metropolitan. The total number of small borrowal accounts in agriculture of scheduled commercial banks, in rural region, was 1611077 numbers which was the highest in number in comparison to the other regions. Out of these 1611077 number of SB accounts, 1553163 number of SB accounts, i.e. 96%, was directly financed agricultural accounts and 74.66% of total number of SB accounts of direct finance to agriculture in West Bengal as a whole.

In case of the Industry, the number of small borrowal accounts was highest in urban/ metropolitan region of West Bengal. In this region the number of SB account under

Industry was 24780 out of total 149561 number of SB accounts, i.e. 16.57% of total number of SB accounts under 'Industry'.

Table 5.05: Population Group-wise classification of outstanding credit of Small Borrowal accounts of Schedule Commercial bank of West Bengal according to occupation, for March 2015

Occupation	Rural		Semi Urban		Urban/ metropolitan		Total	
	No of accounts	Amount outstanding	No of accounts	Amount outstanding	No of accounts	Amount outstanding	No of accounts	Amount outstanding
1)Agri& Allied :	1611077	63585.66	355681	15016.37	190275	9600.53	2157033	88202.55
Of which								
Direct:	1553163	61544.85	346644	14650.19	180462	9057.58	2080269	85252.62
Indirect Finance:	57914	2040.81	9037	366.18	9813	542.94	76764	2949.93
2)Industry	101642	3406.53	23139	896.17	24780	1407.56	149561	5710.26
3) Transport	8564	273.78	7824	406.67	36653	1790.12	53041	2470.57
4)Professional & other services	43697	1832.91	20678	811.95	37747	1506.32	102122	4151.17
5)Personal Loans:	203733	9389.11	136107	6397.89	894326	27237.76	1234166	43024.75
I. Loan for Housing	16075	1082.53	14678	800.37	49816	3254.65	80569	5137.55
II. Loans for consumables & durables	7742	307.62	4776	159.82	7934	308.87	20452	776.31
III. Rest of Personal Loans	179916	7998.96	116653	5437.7	836576	23674.24	1133145	37110.89

6) Trade:	214604	9155.66	80793	3562.83	60034	3185.49	355431	15903.99
i) Wholesale trade	8078	396.26	2766	118.48	3930	134.15	14774	648.89
ii) Retail trade	206526	8759.4	78027	3444.35	56104	3051.35	340657	15255.1
7) Finance	19833	677.39	2595	102.71	1643	96.66	24071	876.76
8) All others	237560	6976.6	61448	1830.81	134102	1898.04	433110	10705.45
Total (WB)	2440710	95297.64	688265	29205.4	1379560	46722.47	4508535	171045.52
Total (India)	42922379	2378154.7	31606959	2139993.6	1950586.2	36595913	2329543.5	1346246.4

Source: Basic Statistical Return, March 10, 2016 of RBI

In case of SB accounts under the head of ‘Personal Loan’ which consist of housing, purchase of consumable and personal loan etc., the highest number of accounts (894326) was also in urban/ metropolitan region of West Bengal which claims 72.46% of total small borrowal account under the head ‘Personal Loan’ of Scheduled Commercial Banks. The ‘rest of personal loan’ category of SB account is 836576 numbers out of the total small borrowal personal loan account 1234166 numbers, i.e. 67.78%. **The interest rate differential, in case of personal loan for small borrowers, found in decreasing mode (table 3.24) but still 30% (i.e., 1234166/4508535 x 100) of the total SB loans account is personal loan account in West Bengal.**

In case of small borrowal account under the head ‘trade’, it was found that the highest number of accounts i.e. 214604 numbers were opened in rural regions of West Bengal. This region held 60.37% of the total SB accounts opened for borrowing for trade. In these 214600 numbers of trade SB accounts, ‘retail trade’ occupies 96.24% of the SB accounts. **The reason behind these huge loan account under ‘retail trade’ is the opportunity of getting the benefit of differential rate of interest, as it was found that the small borrowers borrowing under ‘retail trade’ always enjoyed positive rate differentials in interest and paid less interest than the large borrowers borrowing under the same head (read with table 3.24).**

5.08. Comparative Analysis of Bank Group-wise deposit and credit: This can be observed from the table (No. 5.06) as mentioned below:

Table 5.06: Comparative Analysis of the Bank Group-wise deposit and Credit (total credit and credit of small borrowal accounts) of Scheduled Commercial Banks of West Bengal for 2012 and 2016.

Banks	Year	No of office	Deposit		Total Credit		Of which credit to small borrower	
			No of account	Amount	No of account	Amount	No of account	Amount
SBI & its Associates	2012	1001	15611	823888.9	931	591774.2	694	31301.8
	2016	1296	35661	1460986	952	780247.4	646	33225
Foreign Bank	2012	35	336	90790.6	131	74624	122	5736
	2016	33	227	101277.3	54	98517.1	38	1527.8
Nationalised Bank	2012	3576	36645	218665.0	2005	1378095.8	1648	76560.6
	2016	4335	62271	3409081.8	2463	1776910.8	1968	90236.7
Regional Rural Bank	2012	930	7188	107653.2	1046	52889	980	27014.7
	2016	960	14403	174593.4	1172	86711	1037	37593.8
Private Bank	2012	519	3863	538454.1	535	290206.6	427	7657.0
	2016	1036	10021	953897.3	3611	616088.1	3425	86700.4
All Scheduled Commercial bank	2012	6061	63643	3739451.9	4648	2387590.9	3872	148270.8
	2016	7660	122583	6099836.5	8251	3358474.9	7114	249284.3

Note: Number of accounts is in thousand and amount is in million of rupees.

Source: BSR 41th Issue, March 20, 2013 and BSR data of March 2016, published by RBI

The observations from the above table (No.5.06) are as follows:

- i) During 2012 to 2016, the number of office of the SBI and its Associate Banks increased at a rate of over 29% but the loan account of small borrowers were decreased by over 6.91% , though the credit issued to small borrowers increased during this periods by over 6.14%.
- ii) In case of Foreign Banks the number of offices came down to 33000 in 2016 from 35000 in 2012. During these phase, the total number of credit account of Foreign Banks came down to 54000 in 2016 from 131000 in 2012. This

downward trend was also followed in case of the total number of credit account of small borrowers which came down to only 38000 in 2016 from 122000 in 2012. The rate of decrease of loan account of small borrowers over 2012 was more than 68% and the amount of loans to SBAs also decreased by Rs. 4208.2 millions i.e. over 73% was observed.

- iii) In case of Nationalized Bank , the increasing trend of number of office by 21.22% was observed during 2012 to 2016 , the total number of loan accounts in these Banks during the same periods increased by 22.84% and the number of small borrowal account increased by over 19.41%. The amount of credit released to small borrowers during 2012 to 2016 increased by 17.86%.
- iv) In case of Regional Rural Bank, the total number of offices decreased in 2016 from 2012 but the total number of credit account during these phase increased by over 12%, the amount of total loan issued was also increased by over 63.5% and the amount of loan issued to small borrowers increased by over 39%.
- v) During 2012 to 2016, the offices of Private commercial Banks increased by over 99%. The total number of loan account increased by over 574% and the loan account of Small borrowers increased at 702% over 2012. The amount of loans issued to small borrowers, during these phase, increased by above 1000% over the amount of loans issued to SBA in the year 2012.
- vi) While considering the data relating to all Scheduled Commercial banks, it was observed that during 2012-2016, the total number of offices of Scheduled Commercial Banks increased from 6061 in 2012 to 7660. The percentage of increase of 26.38% was observed. The total number of loan account was 4648,000 in 2012 and this was increased to 8251000 in the year 2016. The percentage of increase in loan account was 77.52%. The total number of loan account of small borrowers was 3872000 in 2012 which increased to 7114000 in 2016 , i.e. growth of loan account of small borrower by 83.73% was observed during 2012 to 2016 with a corresponding increase in amount of loans released was observed by over 68.12%.

5.09. Comparative analysis of Population group-wise total credit and credit to small borrowal account: This can be observed form the following table (5.07) as mentioned below:

Table 5.07: Comparative Analysis of the Population Group-wise total Credit and Credit to Small Borrowal Accounts of Scheduled Commercial Banks of West Bengal:

Banks	Year	No of office	Total Credit		Of which credit to small borrower	
			No of account	Amount	No of account	Amount
Rural	2012	2534	2325	180931.2	2137	73111.40
	2016	3162	4096	296893.9	3805	134029.4
% of growth in respect to 2012		24.78	76.17	64.09	78.05	83.32
Semi Urban	2012	830	658	84019.6	555	22431.4
	2016	1206	1719	158402.6	1554	50791.0
% of growth in respect to 2012		45.30	161.25	88.53	180	126.43
Urban	2012	1191	627	234210.7	422	20267.7
	2016	1594	1510	388916.7	1199	41220.9
% of growth in respect to 2012		33.84	140.83	66.05	184.12	103.38
Metropolitan	2012	1506	1037	1888429.4	759	32460.3
	2016	1698	925	2514261.7	556	23242.6
% of growth in respect to 2012		12.75	(-10.80)	33.14	(-26.75)	(-28.40)

Source: Generated from BSR various issues published by RBI

Note: Number of accounts is in thousand and amount is in million of rupees.

It was observed from the above table (5.07) that in 2016, except in Metropolitan, a positive growth has been observed in respect to 2012 in rural, semi urban and urban populations. In Metropolitan, during 2012 to 2016, a negative growth of number of account of credit in total and in small borrowal was observed along with a negative growth in amount of credit in small borrowal account.

5.10. Comparative Statement between West Bengal & other State showing the State-wise & population Group-wise classification of Small Borrowal Accounts: One can also observe the position of small borrowal accounts of West Bengal in respect of total number of accounts, amount outstanding in rural, semi urban and urban and metropolitan regions in comparison to other states of India to get some interesting result. The table below (5.08) has been given to show the state-wise comparison between West Bengal and

other states of India, keeping the data of small borrowal accounts of West Bengal at 100% level, the achievements of other states have been derived:

Table 5.08: State-wise & Population Group-wise classification of Small Borrowal Accounts of Scheduled Commercial Bank - March 2015.

State	Rural		Semi Urban		Urban/ Metropolitan		Total	
	No of accounts	Amount outstanding	No of accounts	Amount outstanding	No of accounts	Amount outstanding	No of accounts	Amount outstanding
WEST BENGAL	2440710	95279.64	688265	29025.4	1379560	46722.47	4508535	171045.52
%	100	100	100	100	100	100	100	100
Haryana	602837	47133.8	323335	25646.61	965379	35213.69	189551	107994.1
% in respect of Bengal	24.699	49.46	46.98	88.36	69.98	75.37	41.95	63.14
Himachal Pradesh	371026	24148.67	73775	3705.03	19224	1039.79	464045	2289.48
% in respect of Bengal	15.20	25.34	10.72	12.76	1.39	2.23	10.29	13.38
Jammu & Kashmir	457611	28152.01	163051	10392.41	84381	4109.91	705043	42654.33
% in respect of Bengal	18.75	29.54	23.69	35.80	6.12	8.80	15.64	24.94
Punjab	513649	39674.68	480926	32218.86	648714	26010.32	1643289	97903.86
% in respect of Bengal	21.05	41.63	69.88	111	47.02	55.67	36.45	57.24
Rajasthan	1572293	124703.01	1027884	75824.28	764159	32999.09	3364336	233526.38
% in respect of Bengal	64.42	130.86	149.34	261.23	55.39	70.63	74.62	136.53
Chandigarh	2915	185.07	-----	-----	183532	6258.26	186447	6443.33
% in respect of Bengal	0.12	0.19	-----	-----	13.30	13.39	4.14	3.77
NCT of Delhi	11441	629.4	4699	307.56	2890340	58591.6	2906480	59528.56
% in respect of Bengal	0.47	0.66	0.68	1.06	209.51	125.40	64.47	34.80

Bengal								
Arunachal Pradesh	19093	927.03	20289	1168.01	-----	-----	39382	209505
% in respect of Bengal	0.78	0.97	6.27	4.02	-----	-----	0.87	122.48
Assam	1000015	44080.62	556698	29421.74	259435	9627.79	1816148	83130.15
% in respect of Bengal	40.97	46.26	80.88	101.37	18.81	20.61	40.28	48.60
Manipur	21864	1097.6	26371	1342.4	22843	1340.35	71078	3780.35
% in respect of Bengal	8.93	1.15	3.83	4.62	1.66	2.87	1.58	2.21
Meghalaya	92551	4183.88	22657	1249.71	18069	1047	133277	6480.56
% in respect of Bengal	3.79	4.39	3.29	4.31	1.31	2.24	2.96	3.79
Mizoram	23731	1306.23	29731	1845.02	26626	1583.16	80080	4734.41
% in respect of Bengal	0.97	1.37	4.32	6.36	1.93	3.39	1.78	2.77
Nagaland	24681	1211.16	44270	2382.07	-----	-----	68951	3593.23
% in respect of Bengal	1.01	1.27	6.43	8.21	-----	-----	1.53	2.10
Tripura	198920	5705.16	143071	5384.8	38875	1820.4	380966	12910.36
% in respect of Bengal	8.15	5.99	20.79	18.55	2.82	3.90	8.45	7.55
Andaman & Nicobar Island	9494	620.66	14147	1023.82	-----	-----	23641	1644.48
% in respect of Bengal	0.39	0.007	2.06	3.53	-----	-----	0.524	0.96
Bihar	3445100	153571.98	1235644	63998.01	542419	23844.35	5223163	241414.33
% in respect of Bengal	141.15	161.15	179.53	220.49	39.32	51.03	115.85	141.14
Jharkhand	1201784	38064.95	351426	14143.45	268903	11523.69	1822113	63732.09
% in respect of Bengal	49.24	39.94	51.06	48.73	19.49	24.64	40.41	37.26

Sikkim	13547	760.26	8203	500.2	-----	-----	21750	1260.46
% in respect of Bengal	0.56	0.80	1.19	1.72	-----	-----	0.48	0.74
Chhattisgarh	506519	23180.07	233946	13344.73	180383	8467.4	920848	44992.21
% in respect of Bengal	20.75	24.32	33.99	45.9	13.08	18.12	20.42	26.30
Madhya Pradesh	1661011	114358.11	1324.145	90216.89	1012393	44776.78	3997549	249351.77
% in respect of Bengal	68.05	120	0.19	310.82	73.39	95.84	88.67	145.78
Uttar Pradesh	6209188	349605.56	2016382	132390.01	2226674	91890.72	10452244	573886.28
% in respect of Bengal	254.40	366.86	292.97	456.12	161.40	196.67	231.83	335.52
Uttarakhand	332366	18710.67	170894	11336.02	119850	4992.42	623110	35039.12
% in respect of Bengal	13.62	19.63	24.83	39.06	8.69	10.69	13.82	20.48
Goa	123526	3541.42	169473	6455.38	-----	-----	292999	9996.79
% in respect of Bengal	5.06	3.72	24.62	22.24	-----	-----	6.50	5.84
Gujarat	1081177	68605.52	879451	49590.71	1406289	44902.68	3366917	163098.9
% in respect of Bengal	44.30	71.99	127.78	170.85	101.94	96.12	74.68	95.35
Maharashtra	2510224	151485.4	1925139	120414.58	7212668	166157.2	11648031	438057.17
% in respect of Bengal	102.85	158.96	279.71	414.85	522.82	355.63	258.36	256.106
Dadar & Nagar Haveli	1722	49.22	18469	489.37	-----	-----	20191	538.58
% in respect of Bengal	0.071	0.052	2.68	1.69	-----	-----	0.45	0.003
Daman & Diu	145	5.39	12219	424.09	-----	-----	12364	429.48
% in respect of Bengal	0.006	0.006	1.78	1.46	-----	-----	0.27	0.25
Andhra Pradesh	4717089	257378.59	3179770	193166.43	1983399	107728.96	9880258	558273.98
% in respect of Bengal	193.27	270.10	462	665.51	143.77	230.57	219.15	326.39

Bengal								
Karnataka	3279705	207590.53	1923733	131458.22	3509764	136165.77	8713202	475214.52
% in respect of Bengal	134.38	217.83	192.33	452.91	254.41	291.44	193.26	277.83
Kerala	665117	37528.88	5009996	306248.15	1536394	75819.62	7211507	419596.64
% in respect of Bengal	27.25	39.38	727.92	1055.10	111.37	162.28	159.95	245.31
Tamil Nadu	7122760	411491.51	6185225	394556.53	4975292	247412.21	18283277	1053469.25
% in respect of Bengal	291.83	431.80	898.67	1359.35	360.64	529.54	405.53	615.90
Lakshadweep	2835	171.41	1726	102.1	-----	-----	4561	273.51
% in respect of Bengal	0.116	0.180	0.25	0.35	-----	-----	0.10	0.16
Pondicherry	99845	5763.55	91523	5533.89	163752	8455.64	355120	19753.09
% in respect of Bengal	4.90	6.05	13.30	19.07	11.87	18.10	7.88	11.55
Telangana	2867748	155190	1441398	82324.64	2340102	78865.03	6649248	316379.67
% in respect of Bengal	117.50	162.85	209.42	283.62	169.63	168.79	147.48	184.97

Source: Basic Statistical Return, March -10, 2016 (table No 5.8, accessed on 25.01.2017)

(-) implies Non availability of data

'%' Generated by the Researcher.

It is found from the above table (5.08) that Uttar Pradesh, Maharashtra, Andhra Pradesh, Tamil Nadu and Telangana were ahead than West Bengal in respect of total number of SB account and amount outstanding in all the three regions viz rural, semi urban, urban and metropolitan regions. In rural region, Tamil Nadu held 191.83% more SB account and 331.80% more amount outstanding than West Bengal. In semi-urban region, Tamil Nadu is ahead by 798.67 in case of existence of SB account and 1259.35% more amount outstanding than West Bengal.

5.11. Position of Small Borrowal Account of other States in respect to West Bengal:

The achievement of states which are ahead than West Bengal has been summarized in the table (5.09) as mentioned below:

Table 5.09: Position of Small Borrowal Account of Other States in respect to West Bengal

State	Rural		Semi Urban		Urban/ metropolitan	
	No of accounts (ahead by % than WB)	Amount outstanding (ahead by % than WB)	No of accounts (ahead by % than WB)	Amount outstanding (ahead by % than WB)	No of accounts (ahead by % than WB)	Amount outstanding (ahead by % than WB)
Uttar Pradesh	154.40	266.86	192.97	256.12	61.40	96.67
Maharashtra	2.85	58.96	179.71	314.85	422.82	255.63
Andhra Pradesh	93.27	170.10	362	565.51	43.77	130.57
Karnataka	34.38	117.83	92.33	352.91	154.41	191.44
Tamil Nadu	191.83	331.80	798.67	1259.35	260.64	429.54
Telangana	17.50	62.85	109.42	183.62	69.63	68.79

Source: Generated From Basic Statistical return, RBI, March 10, 2016.

Apart from above mentioned states, Bihar is ahead in rural and semi-urban region and Kerala is ahead in Semi-urban and urban & metropolitan region in respect of number of SB account and the amount outstanding than West Bengal.

5.12. Informal Credit in West Bengal

It is difficult to get data regarding informal credit in any simple way as the person who is in debt to any informal lender do not utter their names and the informal lenders also keep their business secret, as far as possible, from the general people due to their nature of business. But they keep the information about the borrower and the borrower somehow

knows the address of informal lenders. Unlike the data on formal credit, data regarding informal credit can only be collected through primary survey.

Some studies can be found on the informal credit situation of West Bengal which has shown the increase of demand of informal credit in the field of agriculture since 1970 due to the high growth of production of agriculture. This increased need of credit of the farmer made them dependent on easy available informal credit in the market of West Bengal. This dependence on informal credit is visible not only in the agricultural sector of West Bengal but also seen as prime source of credit in all other purposes like consumptions, medical, education, meeting need of traders for input purchase etc.

Ashok Rudra (1975) surveyed 81 villages spread over the whole state of West Bengal and also included the Santal Parganas district of Bihar to find the contribution of loans in agrarian relations i.e., the role of loans played in the relational matrix of landowner and their tenants or farm servants. His findings were:

i). In case of production loans (most often given in kinds) to tenants and farm labour, it was found that out of 77 number cases arising from 15 districts, 51 number of cases were found where owner advanced tenant's share of cost for some items and 32 number cases were found where such advance was interest free. The incidence of taking production loan was not common among farmers and farm servants as most of them were without any land. These findings rejected the proposition that '*landowners extend loans primarily by way of usury and not out of their interest in increasing production*'.

ii) In case of consumption loans, which was normally taken, most often, in kind and repaid in kind by poor tenants and farm servants from their landlords, suppliers, food suppliers during the pre harvest session for dealing with their consumption needs. The findings were that out of 60 numbers of cases arising from 15 districts, 50 numbers of cases where farm servants received loans for consumption need from his employers and 34 numbers of cases where such loans were interest free. According to the author, the findings, from the data of consumption loans suggested also to reject the proposition that '*most landowner indulge in giving consumption loans and these at a high rates of interest*'.

iii). In case of loans to casual labourers, his findings were that the prevalent user of this loan was casual labourers and the giver of the loan was a farmer. The repayments of these loans were made in terms of unpaid labour to be supplied on demand to the farmer as per the discretion of the farmer at any point of time. The author found that out of 61 cases arising from 15 districts, in 36 number of villages where the labourer availed loans from

the farmers, in 29 villages labourers got their loans from moneylenders, and in 7 cases, he found that there was no source of providing credit to the casual labourers.

iv). In case of loans for general purpose other than production or consumption loans , it was found that out of 67 villages, professional money lenders existed in 33 villages. In 26 numbers of villages the indulgence of farmer in giving such loans were found. In 12 numbers of villages borrowers got loans from shops from where they purchased their thing on credit. The table (5.10) below has been given to show the general purpose loans open to different categories of Borrowers:

Table 5.10: The purpose of loans

Sources of credit for general purposes	Open to				Total number of villages observed
	Tenants	Farm servants	Casual labour	All categories	
Money lenders	30	6	18	33	67
Farmers	26	6	-----	26	67
Shops	12	2	3	12	67
Others	36	19	13	36	67

Note: Figure represents the number of cases (villages) observed for a particular category of lender lending to a particular category of borrower. Neither the rows nor the columns are additive due to obvious reasons.

Source: Ashok Rudra (1975)

D. Banerjee (1996) conducted a survey in the districts of Coochbehar, Dinajpur, Malda, Birbhum and Murshidabad of West Bengal and found the following kinds of agreement of credit in these five districts:

- i). Borrowing in Cash and the repayment is also in cash
- ii). Borrowing in cash but repayment in Kind
- iii). Borrowing in kind and repayment is also in kind
- iv). Borrowing in cash but repayment is with labour
- v). Borrowing in kind and repayment in cash

He observed that out of 136 sample case studies, 'borrowing in cash and repayment in cash' was 60 percent of the credit agreement followed by 'borrowing in cash but repayment in credit' type agreement was at 28.7 percent. The 'borrowing in kind and repayment in kind' type of credit agreement was at 6.6 percent and 'borrowing in cash and repayment was made with labour' was at 2.15 percent. He did not calculate the percentages of the 'borrowing in kind and repayment in cash' type credit agreement though this type was very wide spreaded in rural economy of West Bengal. He further pointed out that there were two types of credit agreements with land as collateral:

1. **Khay Khalasi System:** In this case the lender allows one year to the borrower for repayment of loan taking the usufructuary rights of land. The size and the productivity of lands determined the quantum of the credit. Normally, a land owner of one bigha of land could get only Rs. 2000/- credit from the lender. All the work i.e., from sowing to harvesting had to be done by the borrower but the produce of land would have been taken by the lender as repayment of principal and interest of loan.
2. **Leasing of land:** In this type of collateral, the amount of credit varies with the market value of land. The usufructuary rights of land is enjoyed by the lender till the principal of credit remains unpaid. The Interest is the produce of the land. But, In this case, the borrowers need not to give his free labour for the production. This leasing system was less economic for the lender than the khay khalasi system.

According to Vikas Rawal (2001), the land reforms, the political environment, the reorganisation of local government influenced the rural market functioning of West Bengal significantly. The increased need of credit of the farmers made them dependent on the easy available informal credit in the market of West Bengal. This dependence on informal credit is visible not only to the agricultural sector of West Bengal but also seen as a prime source of credit in all other purposes like consumptions, medical, education, meeting need of traders for input purchase, etc.

In a socio economic survey in Burdwan district of West Bengal, on 203 households, was conducted by Laha & Kuri in 2006-2007 found that among total different categories 94 percent participated in the rural credit transactions. Following table (5.11) has been given to show the participation of household in rural credit markets.

Table 5.11: Participation of household in Rural Credit

Category of households	No of Households	Households		Borrowing households under		
		Borrowing	Not borrowing	Formal only	Informal only	Both
Agricultural labour	44 (21.67)	43 (97.73)	1 (2.27)	2 (4.65)	31 (72.09)	10 (23.26)
Marginal Farmers	121 (59.60)	114 (94.21)	7 (5.79)	11 (9.65)	62 (54.39)	41 (35.96)
Small farmers	25 (12.32)	23 (92.00)	2 (8)	10 (43.48)	8 (34.78)	5 (21.74)
Medium Farmers	11 (5.42)	10 (90.91)	1 (9.09)	6 (60.00)	0 (0.00)	4 (40.00)
Large farmers	2 (0.99)	1 (50.00)	1 (50.00)	1 (50.0)	0 (0.00)	0 (0.00)
All	203 (100.00)	191 (94.09)	12 (5.91)	30 (15.71)	101 (52.88)	60 (31.41)

Source: Laha&Kuri

Note: Figures in parenthesis indicate percentage

From the above table (5.11) it is clear that the farmers of Burdwan district of West Bengal are prone towards credit. Out 230 sample households of different categories, 191 households participated in borrowing activities (i.e. 94.09%) and only 12 households did not borrow (i.e., 5.91%). Out of 191 borrowing households 15.71 percent borrowed from formal sources and 52.88% borrowed informal sources and 31.41% borrowed from both formal and informal sources. according to author, the institutional credit was not able to meet the demand of 31.41% borrowing households so they had to show their dependence on informal lenders for the remaining amount of credit demand which was not met by institutional sources. The author pointed out that the demand of credit placed by the middle and large farmers were almost met by the institutional sources which indicated that

there has been a positive association between availability of institutional credit and landownership pattern applying the assumption that poor households with no collateral had to face obstacle for getting credit from institutional sources

From the study of A. Pandit *et. al.* (2007) on potato cultivation in West Bengal and Bihar, the sources of loans of the farmers in some district of West Bengal can be observed from the following table (No. 5.12):

Table 5.12: Sources and Quantum of loan Invested in Potato Cultivation in some District of West Bengal

Sources		Jalpaiguri	Burdwan	Hooghly	Paschim Medinipur	West Bengal
Friends & Relatives	Amount *	742	-----	108	-----	186
	Percent**	6.67	-----	1.59	-----	2.05
Fellow Farmer	Amount	793	-----	-----	-----	169
	Percent	5.00	-----	-----	-----	1.23
Potato Trader	Amount	2175	2728	151	936	1419
	Percent	8.33	5.00	1.59	4.92	4.92
Input Trader	Amount	731	1065	2234	3298	1967
	Percent	5.00	6.67	9.52	18.03	9.84
Moneylenders	Amount	3839	3986	270	3655	2920
	Percent	8.33	13.33	3.17	14.75	9.84
Non Institutional loan	Amount	8281	7778	2763	7889	6661
	Percent	30.00	25.00	14.29	34.43	25.82
Bank	Amount	4172	9970	4415	15590	9046

	Percent	15.00	20.00	11.11	49.18	23.77
Co-operative	Amount	4300	11823	13517	6114	8932
	Percent	13.33	28.33	60.32	27.87	32.79
Self Help Group	Amount	307	-----	-----	-----	65
	Percent	3.33	-----	-----	-----	0.82
Institutional Loan	Amount	8779	21794	17932	21705	18043
	Percent	31.67	48.33	69.84	70.49	55.33
Total	Amount	17059	29572	20695	29594	24704
	Percent	61.67	65.00	80.95	81.97	72.54

*Average (among the loan takers) loan (in Rs.) per farmer invested in potato cultivation per hector.

**Percentage of total farmers who availed loan.

Source: Arun Pandit *et. al.* (2007)

From the above vivid picture (table5.12), the non institutional credit for West Bengal, as a whole is 25.82% but the investment for potato cultivation from non institutional sources were as: for Paschim Medinipur, it was 34.43%; for Jalpaiguri, it was 30.00%; for Burdwan, it was found to be 25% and for Hooghly district, it was found at 14.29%. The main sources of these non-institutional credit in these districts were found to be moneylenders, input and output (potato) traders. The charge of supplying credit i.e., rate of interest was found to be exorbitant and sometimes it reached 70 percent also. One most important point was observed by them was that the potato trader extended credit to the farmer in cash i.e., cash loan was given to them and in return the farmer had to give assurance of selling his product to the input creditor. It was also found that sometimes, these loans were given without charging any interest on loan but the charge of input i.e. fertiliser, chemical was always higher than the market price. The most interesting point was that knowing the charge of input is higher than the market price, still the farmer preferred to take loans from these input creditors. The reason of this popularity of input creditors among the farmers was due to the following nature of the loan: i) hassle-free, ii) familiarity, iii) unlimited amount, iv) low or no transaction cost, v) easy and timely

availability. The major constraint that these farmers faced in some district of West Bengal while taking credit from institutional sources and which make them bound to go to non-institutional credit providers and the problem faced by them while taking loans from non-institutional credit providers can be understood from the table (No. 5.13) given below:

Table 5.13: Major Constraints faced by farmers in availing Credit (percent)

Constraints	Jalpaiguri	Burdwan	Hooghly	Paschim Medinipur	West Bengal
Institutional Credit					
Delay in disbursement	18.33	11.67	7.94	9.84	11.89
Complicated formalities	10.00	13.33	12.70	18.03	13.52
Insufficient amount	18.33	11.67	12.70	14.75	14.34
Risk of being defaulter	11.67	11.67	7.94	3.28	8.61
Lack of insurance	-----	-----	-----	-----	-----
Lack of knowledge	10.00	6.67	4.76	4.92	6.56
Lack of individual insurance claim	5.00	5.00	11.11	13.11	8.61
Lack of guarantor	8.33	8.33	3.17	3.28	4.51
Neglected being poor	-----	-----	-----	-----	-----
Corruption	-----	-----	-----	1.64	0.41
Official harassment	1.67	5.00	1.59	3.28	2.87
Does not give to the defaulters	3.33	1.67	1.59	4.92	2.87
Non-institutional credit					

High interest rate for non-institutional loan	11.67	6.67	3.17	3.28	6.15
Nil	31.67	35.00	41.27	26.23	33.61

Source: Source: Arun Pandit *et.al.* (2007).

The potato farmers in the state faced various problems as stated above in the table (5.13) for availing the credit facility. It was found that some farmers do not want to go for taking the institutional loans due to their lack knowledge about the formalities and the complex procedure of taking formal loans, delay in disbursement, less amount of loan etc. It clearly suggests that the procedure should be simple so that the accessibility of formal credit can be to the illiterate farmers also. The risk of defaulting is also one of the reasons of unwillingness of taking formal credit. These constraints of taking formal credit send the farmers for considering the easy available informal credit from moneylenders. The major constraint of taking loans from non-institutional sources has been the interest rate which found higher than the formal sources and sometimes 70 percent also.

S. Bhattacharya (2010) has cited the work of Bhaumik and Rahim who showed that the structural and the actual operational nature of rural credit in West Bengal through their survey work on eight villages in Hooghly and Bankura District. It was found that ninety percent of the borrowing households had the extreme need of credit and two third of the total loan taken by the households were from informal sources due to inadequacy and unequal distribution of formal credit in the region. It was also found in the study region that the dependence of agricultural labour was on informal sources heavily and the formal loans were taken mostly for the purpose of production but informal loans were taken for meeting the purpose of consumption.

In a study conducted by B.K. Pramanik (2012), on the bank credit accessibility of the Muslim minorities in west Bengal revealed that in Howrah District, out of 838 households, 92.84% were the borrowing households and only 7.15% were non borrowing households. This study was conducted on the people engaged in zari work, embroidery and tailoring work, shop and grocery and engaged in profession and others. Out of these 838 households 34.19% had taken loan from formal sector and 92.93% had taken loans from informal sources and 27.89% took loans from both the sources. The author showed that out of the total loans from informal sources, the loan from ostager was 5.13%, from

moneylender was 49.18%, from friends and relatives was 40.76% and other informal sources was 4%. The friend and relatives provided loans mainly for consumption need. The loans from moneylenders and ostagers were for productive purposes. The author pointed out that moneylenders and friends and relatives emerged as the two most important informal sources of getting credit for Muslim households in the Howrah district.

Table 5.14: Participation of households in Credit Market in Howrah District

Activity wise category of households	No of Households	Percentage of household		Percentage distribution of borrowing households under:		
		Borrowing	Not borrowing	Formal	Informal	Both
Zari	382	94.76	5.23	29.83	92.54	22.37
Embroidery & tailoring	246	95.12	4.88	39.74	97.86	33.76
Shop & Grocery	29	89.65	10.34	34.64	65.38	34.61
Profession	28	85.71	14.28	33.33	95.83	29.16
Others	153	90.19	9.8	36.36	90.15	31.06
All	838	92.84	7.15	34.19	92.93	27.89

Source: B.K. Pramanik (2012)

Table 5.15: Distribution of Informal loans based on Borrower Lender type in Howrah District

Type of Borrower	Type of Lenders				
	Ostager	Moneylender	Friend & Relatives	Others	Total
Zari	5.88	53.92	37.45	2.75	100(500)
Embroidery & Tailoring	2.71	44.75	46.10	6.44	100(295)

Shop & Grocery	0.00	47.18	45.99	6.82	100 (44)
Profession	0.00	42.63	44.38	12.90	100(32)
Others	3.23	43.01	44.09	9.06	100 (93)
All	5.13	49.18	40.76	4.93	100 (974)

Source: B.K. Pramanik, (2012)

Note: Figure in parenthesis indicates the loan cases

But in the study of Murshidabad District, it was found that out of 160 Muslim households 84.28% were the borrowers and 15.71% were non borrowers. Out of the borrowing households 17.14% took loans from formal sources and 81.42% took loans from informal sources and 14.28% of the borrowing households took loans from both formal and informal sources. The author showed that 100% of the weaving households took loans from informal sources. In case of people who were engaged in silk spinning, more than 90% showed their dependence on informal sources for getting credit. The main two informal sources that came from the study were ‘moneylenders’ and ‘friend & relatives’. The informal sources used by the households engaged in weaving is 100% and out of these 48.36% took loans from money lenders and 30.32% took loans from friend and relatives and 21.32% of the households took loans from other informal sources. In case of people engaged in silk trading in Murshidabad district, 55.39% depend on the money lenders. Here also the author pointed out that the informal sources ‘friends & relatives’ was the highest loan provider for production purpose and for consumption purpose but the loans from ‘moneylenders’ were mostly taken for the purpose of production.

Another study conducted by Mazumder & Sarkar (2015) on the determinant of credit accessibility in the unorganised sector of Kolkata. They found that gender, age between 31 to 50 years, marital status, personal income, number of dependents, household income and other assets possessed by the borrowers were the significant factors of accessibility of credit for unorganised workers. The age above 50 years category, level of education and occupation were found insignificant factors of getting credit. The accessibility of credit for male borrower is higher due to their high risk taking ability and the responsibility towards their family than a female borrower. They pointed out that in an organised sector, workers in between 31 to 50 years of age were more likely to receive

loans as compared to the lower age category due to their confidence of repaying loans and their responsibility towards the family. It was found that the large households where the number of dependents was more than two demanded more credit than others. The chances of getting loans for unorganised workers increased with the increase in personal income, household income as the lender's confidence on the borrowers' regarding repayment of loan increased. It was further observed that providing loan to unorganised workers were always risky in nature and the accessibility became smoother when the previous loan was repaid in due time. The above result came out from the survey on 130 samples. Out of these 130 samples of workers, 106 workers took loans from bank, relatives & friend, professional moneylenders, traders and commission agents and 24 workers did not demand or accessed loan from any sources. Out of these 130 workers, 26.2% took loan from formal institutions like public and private banks. 55.3% of the workers had taken loan from informal credit sources. The interesting findings which had been cited by them was that though 90% of the unorganised workers had their bank account but only 26.2% of the unorganised workers took loans from formal institutions. The 55.3% of the workers of unorganised sector took credit from informal lenders such as relative and friends, professional moneylenders, traders and commission agents. It was found that 31.5% of the workers took loans from relatives & friends, 16.9% had taken from professional moneylenders, and the traders and commission agents provided credit to 6.9% of the workers. The study also pointed out the constraints of taking credit by the unorganised workers and found that only 17.7% of the unorganised workers were unable to take the credit due to inadequate collateral and 8.5% of the workers were unable for the high rate of interest on the loan charged by the informal lenders.

Deb and Rajeev (2007) experienced another type of creditors in the Hooghly district of West Bengal. While surveying they felt that the agricultural production in West Bengal increased the demand for credit in agricultural sector of West Bengal and they found that input creditors emerged as a new type of creditor of the then time who served the small farmer's and marginalised farmer's demand of credit by replacing the traditional moneylenders in the rural sector of West Bengal. The reason of flourishing informal credit market was the inadequacy of formal lending institutions in the district and the role played by these formal lending institutions for issuing formal loans to the rural poor. The poor rural people had to visit multiple times for getting their loans sanctioned and disbursed. Due to these reasons, the farmers of West Bengal started to depend on upon the "Input

creditor”- a new class of lender of the then time for their need of fund. Input creditors supplied credit to poor farmers in terms of input, in time, without any formal collateral as the main motive of input creditors was to run their trading business. The rate of interest that was charged by the input creditors was not too high like traditional moneylenders. There was also a binding of Gram Panchayets on these input creditors as the trade licence was issued by the Gram Panchayet so the input traders were bound to abide the norms of Gram Panchayet. The author noticed that these input traders were not monopolist, duopolist and they had to face competitions among various traders who used to act as input creditors beside their normal trading business. On this issue, S. Bose (2005) has stated reviewing the Rawal that in West Bengal, transformation of rural credit market was due to the two major initiatives of the Left front government i.e., land reform and strengthening of local government institutions in West Bengal. The higher rate of repayment of bank loan was observed in West Bengal due to the involvement of panchayat in the process of releasing loan and repayment of loan. According to P. Basu (2006) also, in West Bengal where land reforms were done in a good manner and due to land reforms the scope of money lending was more and the village moneylenders and other types of informal financiers had been around for as long as the village had existed.

In context of formation of interest in informal credit market, Bhattacharjee and Rajeev (2010) found that in West Bengal, the variable security has a negative relation with rate of interest in case of professional moneylenders. It implies that asymmetry of information about borrowers exists in the market or the borrowers are mostly unknown. The relation between the variable security and interest rate is positive in case of non professional moneylenders. It indicates that the borrowers are known to each other.

A clear picture can be drawn regarding the non institutional/ informal credit in rural West Bengal from the following Table (5.16) where the source wise distribution of outstanding credit (%) for farmer’s households in the rural area of West Bengal during 1971- 2003 has been shown:

Table 5.16: Source wise distribution of Outstanding Credit (%) for farmer’s households in the rural area of West Bengal during 1971- 2003

Source	West Bengal				India			
	1971	1981	1991	2003	1971	1981	1991	2003

I. Total Institutional credit	33.0	65.30	82.00	58.00	31.70	63.20	66.30	57.70
II. Total non-Institutional Credit	67.00	34.70	17.80	42.00	68.30	39.80	30.60	42.30
i). Landlord	3.70	1.10	0.20	.00	8.10	3.70	3.70	.00
ii).Agricultural moneylender	12.50	5.10	2.90	00	23.00	8.30	6.80	.00
iii).Professional moneylender	15.60	5.30	3.40	13.00	13.10	7.80	10.70	25.70
iv). Trader	9.40	5.10	1.50	10.70	8.40	3.10	2.20	5.20
v. Relative & Friend	24.10	15.00	8.90	15.40	13.10	8.70	4.60	8.50
vi. Others	1.70	3.10	0.80	0.70	2.60	5.20	2.60	0.90
vii. Doctors, lawyers etc	0.00	0.00	0.00	2.30	.00	.00	.00	2.10
viii. Unspecified	0.00	0.00	0.20	0.00	0.00	0.00	3.10	0.00

Source: Dr. S. Bhattachariya (2013)

From the above table (5.16), the following interesting facts have come out:

- i) The non institutional credit outstanding in West Bengal was at 67% in 1971 which came down to 17.8% in 1991 but again had gone up to 42% in 2003. That was almost equal to the percentage of non institutional credit at Indian level i.e. 42.3% in the then time. The fall of this source during 1981 and 1991 was due to spreading of formal sector credit through the opening of new bank branches in the rural areas.
- ii) The credit outstanding of ‘agricultural moneylender’ and the ‘landlord’ had shown a steady declining state since 1971 to 2003.
- iii) ‘Professional moneylender’ was at 15.60% in 1971 which declined heavily during 1981 and 1991 but by 2003, which again climbed to 13%.
- iv) Loan outstanding from ‘trader’ was at 9.4% in 1971 which came down to 5.10% in 1981 and 1.50% in 1991 but by 2003 that again had risen to 10.70%

and that was due to the introduction of new category of credit supplier in rural West Bengal. The new category of creditors had been known as the 'Input Creditor' and they basically the traders who supplied goods etc. to the rural poor people at credit at a low rate of interest than the 'professional moneylenders'. This input creditor supplied credit in kind and with almost no collateral securities and had become the one of the major and popular source of non institutional credit in rural West Bengal (Deb & Rajeev-2007).

- v) The share of credit outstanding of the 'relatives & friends' was at 24.10% of the total credit in 1971 which was the major non institutional sources at that time. During 1981 to 1991, the credit outstanding from this source had come down to 15% and 8.9% respectively. But by 2003, it again climbed up to 15.40% which was much higher than the all India level i.e. 8.5% of that time. It must be mentioned that in rural West Bengal the loans from 'relatives & friends' was found to be the main source of interest free credit but some authors raised questions regarding the actual intention of the relatives. It was seen that interest free loans were not always interest free that is the attachment of some implicit valuation to the interest free loans were there for the maximum time. The market interlinked in rural West Bengal was almost disappeared in consequence of the emerging influence of capitalism in agriculture and an active pro-poor state government intervention. A comparatively higher share of 'relative and friends' in respect of credit does not always mean that it is not good or the economy (Bhattachariya-2013).

An idea of the distribution of amount borrowed in cash from the informal credit lending sources (non institutional) can be drawn from table (No.5.17) mentioned below with a comparison of the situation of West Bengal with Indian level as a whole during period from 1971 to 2002-2003:

Table 5.17: Comparative Analysis of Institutional and Non-Institutional Credit of West Bengal and India (as a whole during period from 1971 to 2002-2003)

Source	West Bengal				India			
	1971	1981	1991	2003	1971	1981	1991	2003
I. Total Institutional credit	17.17	46.52	57.80	57.30	21.69	56.20	55.00	59.50
II. Total non-Institutional Credit	82.83	51.39	41.40	45.7	78.31	42.91	40.60	40.5
i). Landlord	3.05	2.16	1.00	0.10	5.84	3.59	3.40	0.60
ii).Agricultural moneylender	11.36	2.20	2.90	5.20	19.06	9.65	8.70	11.20
iii).Professional moneylender	19.17	9.52	13.30	14.40	15.63	7.57	11.80	17.90
iv). Trader	8.32	4.95	1.10	6.60	14.47	5.77	3.90	3.00
v. Relative & Friend	23.51	27.80	20.50	16.00	10.73	11.53	8.70	6.20
vi. Doctors, lawyers etc	17.42	4.76	2.70	3.50	12.56	4.80	4.10	1.60
vii. Unspecified	0.00	2.09	0.80	0.00	0.00	1.20	4.50	0.00

Source: Dr. S. Bhattachariya (2013)

In 1971 the proportion of borrowed cash from institutional credit sources was 17.17% and the proportion of borrowed cash from informal (non-institutional) sources was 82.83% in West Bengal. The trend of informal sources, as a whole, decreased during 1971 to 1981 by 31.44% when the institutional credit sources increased by 29.35% in West Bengal. By

2002-2003, the total institutional credit in West Bengal rose up to 54.30% but this was also unable to reach the then Indian level of proportion of borrowed cash from institutional credit sources which then stood at 59.60%. The non institutional cash borrowing in West Bengal during 2002-2003, came down to 45.7% but that was above the Indian level (proportion of the then time which stood at 40.5% as a whole). The share of cash borrowing from landlord came down to 0.10% in 2002-2003 from 3.05% in 1971. Agricultural moneylender and professional moneylender had to give up their share, from 1971 to 2002-2003, by 6.16% and 4.77% respectively in West Bengal. In 1971, the share of credit of one of the informal source 'relatives and friends' was the main source of informal credit which stood at 23.51% but that came down to 16.00% by the year 2002-2003 by losing 7.51% during 1971 to 2002-2003. This source was the main source of informal credit and was holding the highest percent share among all other informal sources in West Bengal, whereas, in India as a whole, the percent share of this source in 2002-2003 was only 6.20%. This implies that in West Bengal poor people still depend on this source heavily.

S. Mukherjee (2015) surveyed Murshidabad and Jalpaiguri districts of West Bengal and the survey result revealed that out of 146 households in Murshidabad, more than 36% took loans from informal sources and only 13% of total loans were taken from formal sources and the remaining percent of households took loans from both the sources. In Jalpaiguri district, out of 164 households, 14% took credit from formal sources while 16% had taken the loans from the informal sources. 70% of the households took loans from both the sources. In these two districts, she noticed, the coexistence of formal and informal credit without any superseding evidence of one over other. The entrepreneurs' choice of source of credit mainly depend upon the interest rate, political affiliation to local Panchayet, time taken for getting the loans, purpose of loans, transaction cost etc. The author observed that very rarely, the producers used formal credit when the effective interest rate of same exceeded the price of the informal credit. In these two districts, as per the author, informal credit was found as the more accessible and efficient to a great extent for productivity and eventually accommodates potential borrowers rationed from formal sector.

One interesting study on non institutional credit for small business was conducted by Chakraborty (2015), in two districts, Kolkata and North 24 Parganas of West Bengal. He observed, through his study, the role of non institutional loans for the development of

small business in the study region. He stated that the following features of small business can attract the non institutional credit provider:

- i) Trustworthiness
- ii) Flexibility
- iii) Flexible collateral
- iv) Presence of brokers
- v) Instant credit need.

He pointed out that trustworthiness of borrower generates the chances of getting credit from informal sources. A trustworthy borrower can able to make a good bonding with the lender and can maintain a good personal relation with the lender, third party and with the guarantor. The personal relation in business helps small wholesalers' to get loans from the large wholesalers'. The author observed that the vegetable sellers charged high price from frequent customers and charged low price from regular customers and they tried to sell all their stock by this price discrimination to ensure the repayment of loans of non institutional lenders. He further observed that the collateral used in small business was not fixed rather flexible in nature. Small business owners offered their ornaments, personal cell phone, bi-cycle, motor-cycle etc as collateral which was completely mismatch for formal institutional loans. It was observed that in vegetable market and fish market, that the two most important collaterals were future loan and self respect. The borrower's specific nature of collateral fitted with non-institutional lenders acceptance. It was also observed that the presence of brokers helped borrowers by solving the problems of asymmetric information as the new small borrower requires the recommendation of brokers for getting credit facilities from the large whole sellers. Brokers for their own interest bring borrowers and suppliers in the same platform. Informal lenders extend credit at a very high rate and fix the condition of repayment of credit in the next day by giving a threat to the borrower regarding denial of future loan. This is just the common feature of credit markets as reported in the World Development Report 1989 while discussing issues in informal finance. Besides of the above characteristic of small business borrowers in West Bengal, the author has identified the following five forms of informal credit which have been in operation in the market:

- i) Trade credit arrangement
- ii) Unregistered chit fund
- iii) Individual money lending system

- iv) Trader association
- v) Hundi system

He pointed that alike other places, in Kolkata and North 24 paraganas, the individual money lender system had been playing the most important role in forming the financial back bone of district's economy. The numbers of unregistered money lenders have been more in number than registered individual moneylenders in these two districts of West Bengal. The Kabuliwalas, Housewives and the unemployed persons are the individual moneylenders whose primary activity is to provide loans. Whereas, working men, women, tailors, teachers, and retired government servants provide loan as a secondary activity. The important characteristic of money lending, according to author, is that the money is multiplied by their operation. Normally for a 100 days loan, rate of interest that has been charged by the lender is 10% on day basis in Sealdah area. The borrower of the loan required to repay the loan on daily basis by giving equal amount of instalment. Through the multiplication process of money the loan amount becomes very large after completion of the loan period. The process of multiplication of money, extended as loan, can be understood from the following table (No.5.18).

Table 5.18: Multiplication process of money in Informal Credit

Original amount of loan (Rs)	Amount lent (Rs)	Likely deduction (Rs)	Repayment (Rs)
500	450	50	100 days X 50 = 500
1000	900	100	100 days X 100 = 1000
10000	9000	1000	100 days X 1000 = 1000

Source: Chakraborty, July 2015

The comparison of West Bengal with other States in respect of the share of moneylender and other non-institutional sources can be observed from the table (5.19) as shown below:

Table 5.19: Comparison of West Bengal with other States in respect of the share of Moneylenders and Other Non-institutional Sources during 2004-05 to 2009-10 (Taking the position of West Bengal at 100%) for rural labour households.

States	Money Lender 2004-05 =100%	Position in respect of West Bengal 2004-05(=100%)	Money lender 2009-10	Position in respect of West Bengal 2009-10 (=100%)	Other non-Institutional 2004-05	Position in respect of West Bengal 2004-05 (=100%)	Other non-institutional 2009-10	Position in respect of West Bengal 2009-10 (=100%)
Jammu & Kashmir	0	-----	5	1.22	14	2.68	33	3.68
Himachal Pradesh	5	1.89	10	2.44	44	8.43	21	2.34
Punjab	326	123.48	245	59.76	381	72.99	738	82.27
Uttaranchal	23	8.71	82	20	13	2.49	120	13.38
Haryana	330	125	512	124.88	286	54.79	573	63.88
Rajasthan	581	220.08	1102	268.78	415	79.50	475	52.95
Uttar Pradesh	978	370.45	973	237.32	626	199.92	1023	114.05
Bihar	222	99.11	138	33.66	154	29.50	193	21.52
Assam	20	7.58	11	2.68	40	7.66	72	8.03
West Bengal	264	100	410	100	522	100	897	100
Jharkhand	10	3.79	13	3.17	43	8.24	28	3.12
Orissa	113	42.80	56	13.67	84	16.09	220	24.53
Chattisgarh	141	53.40	49	11.95	165	31.61	58	6.47
Madhya Pradesh	298	112.88	188	45.85	348	66.67	470	52.40
Gujarat	177	67.05	129	31.46	545	104.41	556	61.98
Maharashtra	331	125.38	208	50.73	816	156.32	803	89.52
Andhra Pradesh	3703	1402.65	4031	983.17	958	183.52	2506	279.38
Karnataka	340	128.79	599	146.10	262	50.19	752	83.84

Kerala	2100	795.45	937	288.54	1011	193.68	603	67.22
Tamil Nadu	1804	683.33	2314	564.39	411	78.74	814	90.75
Other States	62	23.48	13	3.17	42	8.05	81	9.03
Total	11827	4479.92	12026	2933.17	7180	1375.48	11035	1230.21

Source: Generated from Chandrasekhar- 2014 (Read with table 4.19 of chapter-IV)

Note: The quantum of outstanding debt in Rs. Crore.

From the above table (5.19) some interesting points can be observed by comparing the position of different states with the Position of West Bengal in respect of moneylenders and other non-institutional sources:

In 2004-2005, the share of moneylender in respect of quantum of money, Punjab was ahead by 123.48% from West Bengal but the scenario have been reversed in 2009-10 when Punjab was at 59.76% of the amount credit provided by of moneylender in West Bengal. The same was also happened in case of the state Maharashtra which was 125.38% of West Bengal in 2004-2005 but in 2009-10, it came down to 50.73% of West Bengal in respect of share of moneylender (quantum of money).

In both 2004-05, the share of moneylender in respect of quantum of money, Haryana was 125% of West Bengal and the same position held by the state in 2009-10 also.

The position of Rajasthan in respect of moneylender was 220.08% than West Bengal in 2004-05 but the percentage increased in 2009-10 when it was found 268.78% than the share of moneylender in respect of quantum of money in West Bengal.

In case of Madhya Pradesh, in 2004-05, the state was at 112.88% of West Bengal's share in respect of quantum of money of moneylenders but in 2009-10, the share of the moneylenders was gone down and stayed at 45.85% of West Bengal's share.

The massive fall was seen in case of the state Kerala, which was at 795.45% of West Bengal in respect of share of moneylender in 2004-2005 but in 2009-10, the state came down at 288.54% of West Bengal's share of moneylender in respect of quantum of money.

5.13. Outreach of Microfinance in West Bengal:

As per the position of microfinance penetration index -2014, the MPI value of West Bengal is 1.54 with a rank of 5 (jointly with Odisha) among all states in India. The first four ranks were held by the states of Andhra Pradesh, Puducherry, Karnataka and Tamil Nadu respectively. The MPI value more than one indicated that the penetration of microfinance is more than the population as MPI is calculated on the basis of division of state's share of microfinance including SHGs by the share of households the state. The MPI value 1.54 for West Bengal stated there has been a good penetration of microfinance in the state.

5.13.01. Outreach of Microfinance through banks:

The microfinance status report 2016-17 (NABARD) stated that the total number of SHGs (as on 31.03.2017) which linked with the public sector commercial banks, private sector commercial banks, regional rural banks and Cooperative banks was 945056 with their savings amount in these four categories of banks was Rs. 195270.76 lakh and these 945056 number of SHGs outreach to 9793112 members in the state of West Bengal.

Table 5.20: Outreach of Microfinance in West Bengal (as on 31.03.2017) in respect of Savings

No of banks	Categories of banks	SHGs		No of SHGs members		SHGs Savings	
		Number	%	Number	%	Amount	%
20	Public Sector Commercial banks	294113	31.12	3369490	34.41	42231.90	21.63
06	Private Sector Commercial banks	7911	0.84	100093	1.02	795.50	0.41
03	Regional Rural banks	270596	28.63	2814479	28.74	70048.63	35.87
18	Cooperative banks	372436	39.41	3509050	35.83	82194.73	42.09
47	Total	945056	100.0	9793112	100.0	195270.76	100.0

Source: Generated from the data of Status of Microfinance in India 2016-2017

This outreach was the outcome of the activities of twenty numbers of public sector commercial banks, six numbers of private sector commercial banks, three numbers of regional rural banks and eighteen numbers of cooperative banks of West Bengal. These

banks mobilized the savings from the members of their SHGs. It was found that (table 5.20) the cooperative banks had the highest number of SHGs (372436) for savings activity with highest members (3509050) and having the highest accumulation of savings fund of Rs. 82194.73 lakh as on 31.03.2017. The cooperative banks of West Bengal held 39.41% of savings SHGs, 35.83% of total members and 42.09% of total amount of savings fund as on 31.03.2017 of these four categories of banks.

While considering the disbursement of loans by these above mentioned four categories of banks it can be observed that total bank loans outstanding was Rs. 484172.92 as on 31.03.2017, in West Bengal, against 669469 number of SHGs. Out of these 669469 SHGs, the exclusively women SHGs were 585077 in number, i.e. 87.39% of the total SHGs of the above mentioned institutions in West Bengal. The percentage of holding of these institutions, in West Bengal, in respect of number of SHGs and the amount of outstanding can be observed from the table (5.21) as shown below:

Table 5.21: Percentage of holding of SHGs and the amount outstanding in West Bengal (as on 31.03.2017)

No of banks	Categories of banks	SHGs		Outstanding against SHGs	
		Number	%	Amount	%
20	Public Sector Commercial banks	217992	32.56	134335.77	27.75
06	Private Sector Commercial banks	3113	0.46	2528.49	0.52
03	Regional Rural banks	215048	32.12	244833.00	50.57
18	Cooperative banks	233316	34.86	102455.66	21.16
47	Total	669469	100.0	484152.92	100.0

Source: Generated from the data of Status of Microfinance in India 2016-2017

Note: .01 has been adjusted 34.86 to make the total as 100%.

It was found that the cooperative banks in West Bengal, as on 31.03.2017, were holding the highest share i.e. 34.86% in respect of number of SHGs against whom the loans were outstanding in these banks but RRBs of West Bengal had the highest share (50.57%) of the total amount outstanding against their SHGs. It was found that an average of above Rs.1,13,850/- was outstanding against every SHGs in RRBs of West Bengal. The average loans outstanding in West Bengal against each SHGs of: Public sector commercial bank was Rs. 61,624/-; Private sector commercial banks was Rs. 81224/-.

While analysing the disbursement of loan during 2016-2017, it was observed that in West Bengal twenty number of Public sector banks, six number of private sector commercial banks, three number of RRBs and eighteen number of Cooperative banks, as a whole issued loans to 250586 number of SHGs and the amount of total loans disbursed to these SHGs was Rs. 2,33,580.55 lakh. Out of the 250586 SHGs, 205892 SHGs was exclusively women SHGs and the amount of disbursement of loans to these women SHGs was Rs. 1,85,865.3/- lakh as a whole. In West Bengal, the share of exclusive women SHGs in terms of number was 82.16% and in terms loans disbursement was 79.57% of total loans disbursed to SHGs in 2016-2017 by these above four categories of institutions. The table (No.5.22.) has been given to show the distribution of loans to SHGs in West Bengal during 2016-2017 (bank category-wise)

Table 5.22: Disbursement of bank loans to SHGs in West Bengal during 2016-2017

No of banks	Categories of banks	SHGs		Disbursement of loans to SHGs		Exclusive Women SHGs		Disbursement of loans to exclusive women SHGs	
		Number	%	Amount	%	Number	%	Amount	%
20	Public Sector Commercial banks	84700	33.80	72196.93	30.91	62126	30.17	54657.25	29.41
06	Private Sector Commercial	2505	1.00	5285.77	2.26	2503	1.22	5284.97	2.84

	banks								
03	Regional Rural banks	54211	21.63	75307.11	32.24	37209	18.07	54248.49	29.19
18	Cooperative banks	109170	43.57	80790.74	34.59	104054	50.54	71674.59	38.56
47	Total	250586	100.0	233580.55	100.0	205892	100.0	185865.3	100.0

Source: Generated from the data of Status of Microfinance in India 2016-2017

The bank-wise distribution of SHGs in West Bengal can be observed from the following table (5.23) which revealed that in total 47 banks participated in the microfinance activities like savings from SHGs and loans disbursement to SHGs. A detailed analysis of SHGs savings linked to banks and the total banks loans outstanding against SHGs in West Bengal:

Table 5.23: Details of SHGs savings linked with Commercial banks, RRBs and Cooperative Banks and the loans outstanding against SHGs.(Amount in Lakh)

Sl. No	Name of the Banks	Details of savings linked with the bank			Total Bank loans outstanding against SHGs	
		No of SHGs	No of members	Savings amount	No. of SHGs	outstanding Amount
Public sector commercial banks:						
1	Allahabad Bank	37272	432896	9393.47	31098	23651.00
2	Bank of Baroda	11445	141117	1058.46	3068	1285.84
3	Bank of India	16532	188565	671.00	5575	2599.00
4	Bank of Maharashtra	23	230	47.98	3	0.39
5	Canara Bank	4600	73053	901.00	1923	1595.00

6	Central Bank of India	30197	410130	5295.71	25211	13817.00
7	Corporation Bank	43	430	6.78	43	20.00
8	Dena bank	609	7320	104.62	24	13.00
9	IDBI Bank	3223	40588	182.94	2684	3422.00
10	Indian Bank	6691	86983	755.25	1216	1348.00
11	Indian Overseas Bank	1553	23295	358.14	2097	1313.00
12	Oriental bank of Commerce	979	8811	95.69	280	17.26
13	Punjab and Sind Bank	182	2007	7.67	0	0.00
14	Punjab National Bank	15100	151000	4093.67	13304	8202.59
15	State Bank of India	47759	597788	6637.00	33903	27228.00
16	Syndicate Bank	1610	20415	20.94	1798	1966.00
17	UCO Bank	21725	274551	3875.88	19788	13464.09
18	Union bank of India	2037	25271	282.00	3459	1205.00
19	United bank of India	91997	879144	8383.00	72372	33081.00
20	Vijaya bank	536	5896	60.70	146	107.60
Total		294113	3369490	42231.90	217992	134335.77
Private sector commercial banks:						
1	Bandhan Bank Limited	310	310	128.51	0	0.00
2	Federal Bank Limited	0	0	0.00	1	0.00
3	HDFC bank Limited	512	7680	40.23	26	48.49
4	ICICI Bank Limited	10	130	9.71	0	0.00

5	Karnataka Bank Limited	38	440	1.40	1	3.00
6	YES bank Limited.	7041	91533	615.65	3085	2497.00
Total		7911	100093	795.50	3113	2548.49
Regional Rural Banks:						
1	BangiyaGraminVikash Bank	128946	1418405	35722.79	107272	118506.72
2	PaschimBangaGramin Bank	62834	607616	16355.00	46928	81743.14
3	Uttar bangaKshetriyaGramin Bank	78816	788458	17970.84	60848	44583.14
Total		270596	2814479	70048.63	215048	244833.00
Cooperative Banks :						
1.	Balageria Central Co-operative Bank Ltd	1831	17356	108.07	524	550.05
2	Bankura District Central Co-operative Bank Ltd	16971	156658	3075.76	12070	5502.66
3	Birbhum District Central Co-operative Bank Ltd	3302	30393	343.44	3000	140.32
4	Darjeeling District Central Co-operative Bank Ltd	348	4256	171.70	44	45.98

5	Hoogly District Central Co-operative Bank Ltd	25971	180962	5378.30	24895	7141.99
6	Howrah District Central Co-operative Bank Ltd	6580	57810	2110.51	4881	2295.08
7	Malda District Central Co-operative Bank Ltd	20608	191562	2475.34	3172	2061.85
8	Murshidabad District Central Co-operative Bank Ltd	15425	134039	3990.77	13052	6702.11
9	Nadia District Central Co-operative Bank Ltd	29691	290770	8959.09	22845	13652.72
10	Purulia District Central Co-operative Bank Ltd	5587	57391	619.60	2138	193.30
11	Raiganj Central Co- operative Bank Ltd	8440	85411	1038.37	2930	1696.94
12	TamlukGhatal Central Co-operative Bank Ltd	9483	85686	2526.23	6912	3120.59
13	The Burdwan District Central Co-operative Bank Ltd	12507	100134	1723.28	8267	1179.99
14	The DakshinDinajpur District Central Co- operative Bank Ltd	1879	17437	417.79	1371	271.99
15	The Jalpaiguri Central Co-operative Bank Ltd	2731	18884	278.32	2107	304.34

16	The Mugberia Central Co-operative Bank Ltd	7658	62602	2251.54	5961	4108.67
17	The West Bengal State Co-operative Bank Ltd.	199287	1974934	42589.62	116933	51364.37
18	Vidyasagar Central Co-operative Bank Ltd	4137	42765	4137.00	2214	2122.71
Total		372436	3509050	82194.73	233316	102455.66

Source: Generated from status of microfinance in India 2016-17, NABARD.

The observation from the above table (No. 5.23) is as follows:

The highest number of SHGs for savings i.e. 199287 was linked to the West Bengal State Co-operative Bank Ltd. The quantum of savings of these SHGs was Rs. 42589.62 lakh which was generated from 1974934 members of the said Co-operative bank. It was also found that in case of outstanding amount of loan as on 31.03.2017, the said co-operative bank had also the highest quantum of outstanding loans of Rs. 51364.37 lakh against 116933 numbers of SHGs. The average amount of savings, per member of that SHGs was Rs. 2157/- [42589.62 lakh / 1974934] and per SHG was Rs. 21370/-. The average amount of loan outstanding per SHG was Rs. 43926.

In case of Public Sector Banks, the United Bank of India was having the highest number of SHGs for savings in West Bengal, i.e. 91997 as on 31.03.2017, among all other Public Sector Commercial Banks. The total number of SHGs for savings in this bank in West Bengal was 897114 with amount of Rs. 8383.0 lakh as savings. The average savings per SHG was Rs. 9112/- and per member was Rs. 954/- but Allahabad Bank in West Bengal, had the highest amount of savings of SHGs, i.e. Rs. 9393.47 lakh. The average amount of savings: per SHG was Rs.25204/- and per member of SHG was Rs. 2170/- in Allahabad Bank of West Bengal. The highest quantum of loan outstanding was Rs. 33081.0 lakh was against 72372 SHGs in United Bank of India of West Bengal. The average amount of loan outstanding per SHG was Rs. 45710/- in this bank.

In case of Private Sector Commercial Banks in West Bengal, it was found that the highest number of SHGs for savings, i.e. 7041, was in YES Bank Ltd. The amount of

saving of these SHGs in this bank was Rs. 615.65 lakh. The average amount of savings: per SHGs was Rs. 8743/- and per member of SHG was Rs. 673/-. This bank had also the highest quantum of outstanding loans (Rs. 2497 lakh) among all other private sector commercial banks. The average amount of outstanding loans per SHG was Rs. 80940/- in this bank.

In case of RRBs of West Bengal, the Bangiya Gramin Vikash Bank was having the highest number of SHGs, i.e. 128946 with 1418405 members. The quantum of savings of SHGs was amounted to Rs.35722.79 lakh as on 31.03.2017. The average number of savings: per SHG was Rs. 27703/- and per member of SHG was Rs. 2519/-. This Gramin bank was also having the highest amount of outstanding loans, i.e. Rs 118506.72 lakh, among all other RRBs against 107272 SHGs. The average amount of loan outstanding SHG was Rs. 1,10,473/-.

The average loans outstanding per SHG in State bank of India in West Bengal was Rs. 80311/- and in case Allahabad Bank, the average loan outstanding per SHG was Rs. 46053/-.

In West Bengal, as on 31.03.2017, the average loan outstanding against each SHGs of: Public sector commercial banks was Rs. 61624/-; Private Sector Commercial Banks was Rs. 81866/-; RRBs was Rs. 1,13,850/- and Co-operative Banks was Rs. 43913/- .

5.13.02. Progress of Microfinance through the Micro Finance Institutions in West Bengal:

As per the report of Bharat Microfinance 2016, the total number of microfinance institutions which are operating in 20 districts of the state of West Bengal is 45 and out these 45 MFIs, 32 numbers of MFIs have their head quarters in the state. The names of the MFIs which operates in West Bengal are : Agradut Polly Unnayan samity, Arohan, ASA International, Bagaria Relief Welfare, Barasat Sampark, Barasat Prostuti, Basix, BJS, Boys' Recreation Club, BURS, BWWA, DakshinBudhakali, Destiny, Dhosa, DISA, ESAF, Jagaran, Janalakshmi, KDS, MESP, NABARD, Purba Barasat Prerana, Sahara Utsarga, Sampurna, Sarala, Satin Creditcare, Seba Rahara, SKS, SMGBK, Swayamsampurna, Ujjivan, Unacco, Uttarayan, Vedika, Village Fin, VSSU, BagnanMahila, Barasat Grameen Society, Parama Mahila Samity, Helping Nation, Jamalpur Panchyajanya, Barasat Society, Sreema Mahila Samity, AML, SML.

5.14. District-wise number of MFIs operating in West Bengal:

It was found that twenty districts of West Bengal were covered by the MFIs through their activities. The number of MFIs which operates in every district can be observed from the table (5.24) as shown below:

Table 5.24: District-wise operation of number of MFIs in West Bengal

SI No	Name of the District	No. of MFIs operating	%, (in respect of total MFIs operating in State = 45)
1	North 24 Parganas	22	48.89
2	South 24 Parganas	20	44.44
3	Kolkata	16	35.36
4	Nadia	15	33.33
5	Bardhaman	14	31.11
6	Howrah	12	26.67
7	Murshidabad	12	26.67
8	Birbhum	11	24.44
9	Hooghly	11	24.44
10	Malda	10	22.22
11	Uttar Dinajpur	10	22.22
12	DakshinDinajpur	8	17.78
13	Medinapore (Purba)	8	17.78
14	Bankura	7	15.56
15	Cooch Behar	7	15.56
16	Medinapore (West)	7	15.56
17	Darjeeling	6	13.33

18	Jalpaiguri	6	13.33
19	Purulia	6	13.33
20	Alipurduar	2	4.44

Source: Generated from the Bharat Microfinance Report-2016

It was observed that highest number of MFIs (22 nos.) operate in North 24 Parganas district and in Alipurduar district only 2 MFIs operate. It is found that the activities of MFIs are more in the districts of South Bengal than in the districts of North Bengal.

5.15. List of MFIs with Loan Portfolio and Legal Form:

The Portfolio and the legal form of MFIs which have their head quarters in the State of West Bengal can be observed from the table (5.25). On the basis of the size of loan portfolios, the MFIs have been termed as Tiny, Small, Medium, Moderately large, Large, Giant. The segregation of these MFIs on the basis of their loans portfolio are as : i) Tiny- MFIs with loan portfolio of less than Rs. 1 crore ; ii) Small- MFIs with loan portfolio of more than Rs. 1 crore but less than Rs. 10 crore; iii) Medium- MFIs with loan portfolio of more than RS. 10 crore but less than Rs. 50 crore'; iv) Moderately large- MFIs with loan portfolio of more than Rs. 50 crore but less than Rs. 100 crore; v) Large - MFIs with loan portfolio of more than Rs. 100 crore but less than Rs. 500 crore; vi) Giant- MFIs with loan portfolio of more than Rs. 500 crore.

Table 5.25: MFIs according to Loan portfolio and Legal form (in West Bengal)

SI No.	Loan portfolio	Name of the MFIs	Legal form
01	Less than Rs.1 crore	Barasat Society of Self Employment for Rural and All Liberal	Society
02.		Agradut Polly Unnyan samity	Society
03.		Bagaria Relief Welfare Ambulance Society	Society
04		Barasat Grameen Society	Society
05		Barasat sampark	Society

06	More than Rs. 1 crore but less than Rs 10 crore	Bengal Women Welfare association	Sec. 8 Comapny
07		Boys' Recreation Club	Society
08		BURS	Society
09		Dakshin Budhakali Improvement Society (DBIS)	Society
10		Destiny FincoPvt. Ltd	NBFC
11		Dhosa Chandaneswar Bratyajana Samity (DCBS)	Society
12		Duttapukur Institute of Social Advancement	Society
13		Parama Mahila Samity	Society
14		Purba Barasat Prerana	Society
15		Sampurna Training Entrepreneurship Programme	Sec. 8 Company
16	More than Rs.10 crore but less than Rs. 50 crore	Swayamsampurna	Trust
17		Vivekananda Sevakendra- O- sishu Uddyan (VSSU)	Society
18		Bagnan Mahila Bikash Cooperative Credit Society Ltd	Macs or Cooperative
19		Belghoria Janakalyan Samity	Society
20		Kotali Para Development Society	Society
21.		Sahara Utsarga Welfare Society	Society
22.		Seba Rahara	Society
23.	Society for Model Gram Bikash Kendra	Society	
24.	Sreema Mahila Samity	Society	
25.	More than Rs. 50 crore but less than Rs. 100 crore	Uttran Financial Service Pvt. Ltd	NBFC-MFI

26.	More than Rs. 100 crore but less than Rs. 500 crore	ASA International India Microfinance Pvt. Ltd	NBFC-MFI
27		Jagaran Microfin Private Ltd	NBFC-MFI
28.		Sarala Development and MicrofinPvt.Ltd	NBFC-MFI
29.		Village Financial Services Pvt. Ltd	NBFC-MFI
30.	More than Rs. 500 crore	Arohan Financial Pvt. Ltd	NBFC-MFI

Source: generated from the Bharat Microfinance Report-2016.

From the above table (5.25), it was revealed that the MFIs having their loan portfolios between ‘less than Rs. 50 crore’ have been running their microfinance business on the legal form as ‘Society’. Out of 24 microfinance institutes in between the loan portfolios ‘less than 50 crore’, the legal form of 19 MF Institutions are ‘Society’, two number of institutions have their legal form as ‘Section 8 Companies’. In case of MF Institutions having their loan portfolio ‘more than Rs. 50 crore’, it was found that all of them (six MFIs) are working under the legal form of ‘NBFC-MFI’. Apart from these, in West Bengal, number of MF institution running their microfinance activities under the legal form of: NBFC is one, MACS or Co-operative is one, Trust is one.

5.16. Progress of Microfinance in West Bengal as reported by the Association of Microfinance Institution - West Bengal:

The microfinance institutions in West Bengal have come under one umbrella and created an association of microfinance institution which have been working in the state of West Bengal to address the issues of microfinance business jointly. The association is known as ‘Association Micro Finance Institutions- West Bengal’ and formed in the year 2006. The performance report of their showed that their member institutions of AMFI-WB were operating in 23 districts of West Bengal and serving through a total channel of 1870 branch offices. The progress report of MFIs (28 MFIs) which have been working in West Bengal, in a consolidated form, can be observed from the table (5.26) as shown below:

Table 5.26: Consolidated Yearly Performance Report of MFIs in West Bengal for 2011- 2012 to 2016-2017.

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Organisational profile :							
1	Number of Branches	1913	1713	1781	1547	764	1870
2	Number of District covered	18	19	19	19	20	23
3	Number of block covered	287	294	341	341	338	341
4	Total Number of Municipality covered	104	113	121	121	121	121
5	Total Number of Employees/ staff	13098	11717	11630	10910	6118	14640
Outreach:							
6	Number of borrowers	4500000	3531877	3991404	4586097	2110268	6074674
7	Loan outstanding (in Rs. Crore)	3177.14	3123.70	4119.82	6202.76	3427.96	14685.04
Portfolio Quality:							
8.	Average Loan size in Rs.	10017.00	10105.00	10737.00	11862.91	15112.00	16510.00
9.	Loan Repayment rate (%)	99.00	99.00	99.11	99.19	99.78	98.22

Source: Annual report of AMFI-WB (2016-17)

Note: data of 2011-12 to 2014-15 include the data of Bandhan Bank and the data of 2015-16 and 2016-17 exclude the data of Bandhan Bank.

It was found from the above table (5.26) that the number of borrowers of the MFIs which work under AMFI-WB reached to 6074674 and the total loans outstanding against these borrowers was Rs. 14685.04 crore with an average loan size of Rs. 16510/- as on 31.03.2017. In the year 2015-16, it was seen that there was huge reduction of number of borrowers, number of branches from 2014-15 and the main reason was that during the period Bandhan has been upgraded to Bank from the status of microfinance institution. The loan repayment rate has decreased from 99% in 2011-12 to 98.22 in 2016-17 but the average loan size increased to Rs. 16510/- in 2016-17 from Rs. 10017/- in 2011-12.

5.17. Conclusion: Based on the above discussions of formal and informal credit in West Bengal, the following can be summarized as conclusion:

i). During pre-independence period the money lending activity was operative in the then Bengal depending on: a). The Usury Laws Repeal Act-1855, b). The Usury Loans Act-1918 and iii) The Bengal Moneylenders Act-1933. The present money lending in formal sector depends upon the West Bengal Moneylenders Act-1940.

ii). The expansion of Bank branches during 1980 to 2013 in West Bengal grew at a lower rate in compared to all India growth rate of bank branched of scheduled commercial banks and the number of account of the priority sector credit under the head of account 'weaker section' was also found low during 2000 to2010. In case of small borrowal account, a declining trend in percent share of number of account in all accounts as well as in amount outstanding was also observed during 2004 to2008.

Iii). In population group-wise classification of small borrowal accounts of Scheduled Commercial Banks in West Bengal it was found that the small borrowers of rural region of West Bengal depend heavily for their agricultural activity on scheduled commercial banks whereas the small borrowers of urban West Bengal depends for their 'personal loans' from Scheduled Commercial Banks. The maximum trade related small borrowers account opened in the rural region of West Bengal.

iv). The effect of Nationalisation of Scheduled Commercial bank in 1969 decreased the share of informal credit in West Bengal, but still, cash and kind both type of borrowing from informal lender have been observed. The 'relative and friend' emerged as major source of informal credit. The input creditors also found as one of the most important sources of borrowing who extend credit to borrowers in kind without taking collateral security. The repayment of credit taken from informal lender have been made in cash or/ and kind or by giving manual labour in favour of lenders. The Khai Khalasi System and leasing of land have been found as two ways which supplement the collateral security of issuing loans by informal lenders.

v). The forms of informal credit found dominant in West Bengal are: i) Trade credit arrangements, ii) Unregistered chit fund, iii) Individual money lending system, iv). Traders Association and, v). Hundi.

vi) In comparison with other states in respect of quantum of money given as loan by moneylenders, it is observed that that the involvement of moneylenders in the credit market of West Bengal is high and the rank of West Bengal is after the following states: Rajasthan, Madhya Pradesh, Kerala, Hariyana, Andhra Pradesh, Uttar Pradesh, Karnataka, Tamil Nadu. In case of share of other non-institutional sources except moneylenders, it is observed that only Uttar Pradesh and Andhra Pradesh are ahead than West Bengal. This implies that other non-institutional sources are also very much involved in providing credit to the small borrowers of West Bengal.

vii). In case of microfinance outreach in West Bengal, it was found that the value of Microfinance Penetration Index (MPI) for West Bengal in 2014 was found to be 1.54 (Tankha & Nair, 2014) indicated that good progress had been done by the initiative of the microfinance institutions along with public and private commercial banks, RRBs, Cooperatives etc. The MPI value of more than one indicated that the penetration of microfinance is more than the population of the state as MPI is calculated on the basis of division of state's share of microfinance including SHGs by the share of households of the state.

In the previous four chapters (chapter 2 to chapter 5) the issues of small borrowers in formal and informal credit markets in India (including West Bengal) have been discussed. The outreach of microfinance in West Bengal has also been discussed. Before

discussing the issues like assessment of rate of interest, the preference shifting of loan sources in the study area, it is necessary to look into the socio-economic condition of small borrowers. In the next chapter- VI, the socio-economic condition of small borrowers in the study region has been discussed.

Chapter- VI

Socio-economic Condition of Small Borrowers in the District of Darjeeling: Findings & Analysis

6.01. History of Darjeeling District: The geographical position of the district is in the northernmost part of the State of West Bengal with a shape of irregular triangle with hilly areas in the northern and vast Terai region in the southern part of the district. Historically, the inhabitant of the Hilly areas of the districts were Lepchas, Limbus, Bhutias, Tibetan and various Nepalese castes and tribes from ancient times. On the other hand, the plain areas of the districts covered by thick forests. These areas were populated and inhabited by various indigenous tribal groups like Meche, Koches, Rajbangshi, Dhimal and others who mainly lived on nomadic cultivation and Jhoom cultivation. The word Darjeeling comes from two Tibetan words ‘dorje’, the meaning of this word is ‘thunderbolt’ and the word ‘ling’ means ‘a place or land’. Therefore the meaning of Darjeeling is - ‘a Land of thunderbolt.’

From the year 1670, some part of Darjeeling was under the king of Sikkim and Kalimpong area was under Bhutanese domination. Since 1780, there was fight between the King of Sikkim and the Gurkhas of Nepal in the western part of today’s Darjeeling and ultimately in 1790, the Gurkhas captured the area of the district up to the River Tista. Thereafter, the fights between the East Indian Company and the Nepalese army broke out during 1814-1816 and finally the British won the fight and through the ‘treaty of Sugauli’ and the ‘treaty Titalya, in 1817, the hilly areas of Darjeeling along with Sikkim retained under the British territory as a ‘Buffer State’ between kingdom of Nepal and Bhutan. In the year 1829, the British ruler decided to use the place of Darjeeling for the purpose of making a sanatorium and pursued for that to the king of Sikkim and ultimately they got the domination of the area from the king of Sikkim through a short deed of grant on 1st February 1835 which stated that ‘out of friendship for the said Governor General, hereby present Darjeeling to East India Company’. Though it was an unconditional transfer but in 1841, the ruler of Sikkim was granted an allowance of Rs. 3000/- as an annual compensation from East Indian Company which later increased to Rs. 6000/- per annum in 1846. The British started to develop the area under Darjeeling.

During 1860- 1870, major development on infrastructure were made by the British, new roads were made, world famous Darjeeling Himalayan Railways were build-up, inter area network through roads between Kurseong, Kalimpong and Tarai regions were made and Tea and Cinchona cultivation flourished. Due to those development and expansion of cash-crop cultivation there was a huge range to deforestation and during those phase a conservator of Forest was also appointed. During 1870 to 1901, steady but uneventful growth was observed in Darjeeling Areas. There were only two towns Darjeeling and Kurseong in the district. After the independence, Darjeeling district was formed. Siliguri Municipal Corporation gained its importance functioning as the gateway of North Eastern states including Assam and Sikkim. Darjeeling Himalayan Railway gained its World Heritage status from UNESCO in the year 1999.

6.02. Population Dynamics:

As per the first regular Census conducted under British rule in the year 1871-1872 showed the population figure of 94712 which was increased to 155719 by the next census in 1881 and in 1901 Census the population figure of Darjeeling area increased to 2,49,117. As per the first Census after independence which was conducted in the year 1951, the population of the district reached to 4,59,617 i.e., an increase of 73% from 1901's Census. After the independence the growth rate of population decreased (with exception in the decade of 1971-1981) and finally the Census of 2011 showed that the population of Darjeeling stands at 18,46,823 with 9,37,823 male and 9,09,564 females.

6.03. Socio Demographic Profile of Darjeeling District:

Table 6.01: Socio Demographic Profile of Darjeeling District in comparison to West Bengal

Particulars		West Bengal	Darjeeling District
Number of Villages	Total	40203	687
	Inhabited	37468	616
	Uninhabited	2735	71
Number of Towns	Statutory	129	5

	Census	780	24		
	Total	909	29		
Number of Households	Normal	20,309,872	389,003		
	Institutional	41796	1793		
	Houseless	28647	438		
Population	Total persons	91,276,115	1,846,823		
	Males	46809,027	937,259		
	Females	44,467,088	909,564		
Rural Population	Total Persons	62,183,113	1,1118,860		
	Males	31,844,945	566,965		
	Females	30,338,168	551,895		
Urban Population	Total Persons	29093,002	727,963		
	Males	14964,082	370294		
	Females	14,128,920	357,669		
Sex Ratio (Number of females per 1000 males)	Total Persons	950	970		
	Rural	953	973		
	Urban	944	966		
		Number	%	Number	%
Literates	Total persons	61,538,281	76.26	1,315,585	79.56
	Males	33,818,810	81.69	717673	85.61
	Females	27,719,471	70.54	597,912	73.33

Scheduled castes	Total persons	21,463,270	23.51	317,275	17.18
	Males	11,003,304	23.51	161,495	17.23
	Females	10,459,966	23.52	155,780	17.13
Scheduled Tribes	Total persons	5,296,953	5.8	397,389	21.52
	Males	2,649,974	5.66	197,251	21.05
	Females	2,646,979	5.95	200138	22.00

6.04. Distribution of Workers/ Non-Workers based on categories of Workers in Darjeeling District

Table 6.02: Distribution of Workers/ Non-Workers based on categories of Workers in Darjeeling District

Workers and Non-workers:		West Bengal		Darjeeling District	
		Number	%	Number	%
Total workers (Main & Marginal)	Total persons	34,756,355	38.08	683,726	37.02
	Males	26,716,047	57.07	479,586	51.17
	Females	8,040,308	18.08	204,140	22.44
Main Worker	Total persons	25,686,630	28.14	532,855	28.85
	Males	21,678,279	46.31	396,341	42.29
	Females	4,008,351	9.01	136,514	15.01
Marginal Workers	Total persons	9,069,725	9.94	150,871	8.17
	Males	5,037,768	10.76	83,245	8.88
	Females	4,031,957	9.07	67,626	7.43

Non-Workers	Total persons	56,519,760	61.92	1,163,097	62.98
	Males	20,092,980	42.93	457,673	48.83
	Females	36,426,780	81.92	705,424	77.56
Category of Workers (Main & Marginal):					
Cultivators	Total persons	5,116,688	14.72	76,178	11.14
	Males	4,500,041	16.84	54,694	11.40
	Females	616,647	7.67	21,484	10.52
Agricultural Labourers	Total persons	10,188,842	29.32	66,041	9.66
	Males	7,452,814	27.9	40,368	8.42
	Females	2,736,028	34.03	25,673	12.58
Workers in Households Industry	Total persons	2,464,124	7.09	16,579	2.42
	Males	1,114,683	4.17	10,667	2.22
	Females	1,349,441	16.78	5,912	2.90
Other Workers	Total persons	16,986,701	48.87	524,928	76.77
	Males	13,648,509	51.09	373,857	77.95
	Females	3,338,192	41.52	151,071	74.00

Source: Census-2011

6.05 Profile of the study area:

The four blocks in the plains of the Darjeeling District and the wards of Siliguri Municipal Corporation (SMC) under the jurisdiction of Darjeeling District have been considered as the as the Study area. A brief profile of the study area based on the Census data 2011.

Table: 6.03: Profile of the study area

	Matigara Block	Naxalbari Block	Khoribari Block	Phansidewa Block	Siligui Municipal Corporation
Area (in Square kilometre)	132.61	188.12	144.88	312.10	20.10
Populations	1,97,278	1,65,523	1,09,251	2,04,522	2,94,546
No of Males	1,01,023	85,054	55,671	1,03,719	1,51,535
No. of females	96,255	80,469	53,580	1,00,803	1,14,,011
SC population	70,527	44,328	58,570	60,704	26,042
ST population	26,484	32,388	21,262	62,595	3,703
Literate Persons	1,29,006	1,10,663	63,540	1,13,572	2,28,688

Source: Census data -2011.

Matigara and phansidewa blocks are very close to siliguri town. The matigara block can be termed as peri-urban region of Siliguri because of connectivity and the extension of the civic amenities to this regions. Phansidewa is an agricultural area which is growing fast as a rurbanised area with four lane National Highway connecting the region with siliguri and jalpaiguri towns and a it is located in the border of Bangladesh. Naxalbari and Khoribari are also grown as rurbanised area and well connected to Siliguri town. Naxalbari is also located along the border of Nepal.

The literacy rates of the region have increased considerably in the last decade and so the non-farm activities have out-migration have been noticed in all the concerning blocks. The main recipient of these migrant populations is the siliguri corporation area and the area has become a cosmopolitan (Chatterjee & Mukherjee, 2019).

6.06. Household information of the small borrowers:

General information of the respondent small borrower was obtained from survey of households taking the following parameters- age, religion including sub community, number of family members and composition, family status of the respondent whether

unitary or joint, marital status, and the education level of the respondent. The survey was conducted from the month of November 2017 to May 2018 in the four blocks of Darjeeling district namely, Matigara Block, Naxalbari Block, Phansidewa Block, Khoribari Block and in the different wards of Siliguri Municipal Corporation which come under the jurisdiction of Darjeeling district authority.

6.06.01. Distribution on the basis of Social Class (Sub-Community): Out of 244 households, it was found that 118 households of the small borrowers belonged to Scheduled Caste community i.e., 48.36% of the total and 3 households were of Scheduled Tribe Community i.e., 1.23% of the total while 123 households belonged to others including general and other backward class community. The factual matrix of the survey regarding distribution of small borrowers on the basis of social class has been shown in the table (No. 6.04) below:

Table 6.04: Distribution of small borrowers on the basis of social class

Block	No. of Households surveyed	SC	ST	Others
Matigara Block	47	20	0	27
NaxalbariBlock	41	16	0	25
Khoribari Block	51	42	3	06
Phansidewa Block	50	34	0	16
Siliguri Municipal Corporation	55	06	0	49
Total	244	118	3	123
Percentage	100%	48.36%	1.23%	50.41%

Source: Primary Survey data

6.06.02: Distribution of small borrowers on the basis of Gender: It was found that the total number of family members in 244 households of the small borrowers was 983. The average number of family member per family was 4.03 (983/244) in which number of the male members was around 54% of the total and female members was around 46% of the

total members. Minors accounted for only 21.5% of the total family members in the 244 house of small of small borrowers. The distribution of small borrowers on the basis of gender is shown in the table (No. 6.05) below:

Table 6.05: Distribution of small borrowers on the basis of Gender

Block	No. of Households surveyed	Male	Female	Minors (included in Male & Female)	Total
Matigara Block	47	98	80	32	178
NaxalbariBlock	41	89	78	33	167
Khoribari Block	51	124	99	49	223
Phansidewa Block	50	111	102	69	213
Siliguri Municipal Corporation	55	107	95	28	202
Total	244	529	454	211	983
Percentage		53.81%	46.19%	21.46%	983= 100%

Source: Primary Survey data

6.06.03. Age Wise Distribution of the family member of small borrowers: From the survey of 244 households of small borrowers it was found that out of 983 total members, the modal class belonged to 18-60 years of age. Dependent minors constituted only 21.5% and dependent elders constituted only 9% of the total member of the household surveyed (table No. 06.06).

Table 6.06: Age wise distribution of the family member of small borrowers

Block	No. of Households surveyed	Below 18 years	Between 18 yrs to 60 years	Above 60 years	Total
Matigara Block	47	32	134	12	178
NaxalbariBlock	41	33	122	12	167

Khoribari Block	51	49	157	17	223
Phansidewa Block	50	69	122	22	213
Siliguri Municipal Corporation	55	28	148	26	202
Total	244	211	683	89	983
Percentage		21.46%	69.48%	9.05%	983=100%

Source: survey data

6.06.04. Religion of the small borrowers: While surveying 244 households of the small borrowers, it was found that the Hindu community was the dominant religious group with 94% of the total household surveyed and less than 5% of the households belonged to Muslim communities and less than 3% belong to the Christian communities (table No. 06.07).

Table 6.07: Religion of the small borrowers

Block	No. of Households surveyed	Hindu	Muslim	Christian	Others
Matigara Block	47	47	0	0	0
Naxalbari Block	41	40	1	0	0
Khoribari Block	51	47	1	3	0
Phansidewa Block	50	41	9	0	0
Siliguri Municipal Corporation	55	55	0	0	0
Total	244	230	11	3	0
Percentage	244=100%	94.26%	4.51%	2.46%	0

Source: Survey data

6.06.05. Family Status of the Respondent small borrowers: In all households surveyed across the blocks, unitary family dominated the household family status, except for

Naxalbari block where both joint and unitary family were almost in equal proportion (table No. 6.08).

Table 6.08: Family Status of the Respondent small borrowers

Block	No. of Households surveyed	Family Status			
		Unitary		Joint	
		No	%	No	%
Matigara Block	47	41	87.23%	6	12.77%
Naxalbari Block	41	21	51.22%	20	48.78%
Khoribari Block	51	32	62.75%	19	37.25%
Phansidewa Block	50	32	64%	18	36%
Siliguri Municipal Corporation	55	47	85.45%	08	14.55%
Total	244= 100%	173	70.90%	71	29.10%

Source: Survey data

6.06.06. Average Family Size wise Distribution of the small borrowers: It is interesting to note that the family size of 5-10 members was the modal group as shown in the following table (No. 6.09):

Table 6.09) : Average Family Size wise Distribution of the small borrowers

Block	No. of Households surveyed	Up to 4 members	Between 5 to 10 members	More than 10 members
Matigara Block	47	21	20	06
Naxalbari Block	41	11	26	04
Khoribari Block	51	12	30	09
Phansidewa Block	50	13	32	05
Siliguri Municipal Corporation	55	29	22	04

Total	244 = 100%	86 (35.25%)	130 (53.28%)	28 (11.47%)
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Source: Primary Survey data

6.06.07. Current marital status wise distribution of the respondent small borrowers:

Out of 244 households of small borrowers the married borrowers were found as the majority among small borrowers. Out of 244 borrowers, 205 borrowers were found as married borrowers, i.e. 84% of the total borrowers. The following table (No. 6.10) has been given to show the distribution on the basis of current marital status of small borrowers in four blocks and Siliguri Municipal Corporation area under the jurisdiction of the district of Darjeeling.

Table 6.10: Marital status wise distribution of the respondent small borrowers

Block	No. of Households surveyed	Single	Married	Widowed	Divorced or separated
Matigara Block	47	3	43	1	0
Naxalbari Block	41	8	31	2	0
Khoribari Block	51	3	43	5	0
Phansidewa Block	50	4	45	1	0
Siliguri Municipal Corporation	55	02	43	07	3
Total	244	20	205	16	3
Percentage	244 = 100%	(8.20%)	(84.01%)	(6.56%)	(1.23%)

Source: Primary Survey data

6.06.08. Distribution as per the level of Education of the small borrowers: Level of education of borrowers is an important criterion regarding the disbursement of loans. It is found from the households surveyed that more than 55% of the total borrowers had received elementary education, around 25% of the borrowers were at higher secondary and graduation level and only 3% of the borrowers were illiterate showing that education is positively related with obtaining loan (Table No. 6.11).

Table 6.11: Distribution as per the level of Education of the small borrowers

Block	No. of Households surveyed	Illiterate	Functional Literate (up to class 4)	Up to class 10 (class 5 to 10)	Up to Class 12 (class 11 to 12)	Up to Graduation	Post Graduation
Matigara Block	47	01	03	28	07	08	0
Naxalbari Block	41	03	05	19	03	11	0
Khoribari Block	51	04	12	24	08	03	0
Phansidewa Block	50	0	06	34	06	03	1
Siliguri Municipal Corporation	55	0	03	35	09	06	2
Total	244	8	29	140	33	31	3
Percentage	(100%)	(3.28%)	(11.89%)	(57.38%)	(13.52%)	(12.70%)	(1.23%)

Source: Primary Survey data

6.07. Economic Information of the respondent small borrowers: Economic information of the respondent small borrower was obtained from survey of households taking the following parameters- earning status of small borrowers' household whether sole earner or joint earner, monthly income of the respondent small borrowers.

6.07.01: Distribution on the basis of Earning Status of Households: Earning status of the households will determine the quantum of loans that a household will demand. Hence, it is expected that more number of earners in a family will have higher income status and lesser demand of consumption loan. On the other hand, multiple earners in a family increase the probability of receiving loans from multiple sources. It is found that out of 244 households around 31% of the total households of the small borrowers' house have the status of 'Sole Earner'. Scheduled Caste community having the 'sole earner' status constituted only 13% but in case of 'joint earner', the scheduled caste households constituted around 34% of the total 244 households (table No. 6.12).

Table 6.12: Distribution on the basis of Earning Status Householder

Block	No. of Households surveyed	Sole earner			Joint earner		
		SC	ST	Others	SC	ST	Others
Matigara Block	47	9	0	17	9	0	12
Naxalbari Block	41	2	0	5	14	0	20
Khoribari Block	51	14	0	3	28	3	3
Phansidewa Block	50	4	0	8	29	0	9
Siliguri Municipal Corporations	55	02	0	12	04	0	37
Total	244 (100%)	31(12.70%)	0	45 (18.44%)	84 (34.43%)	3 (1.23%)	81 (33.20%)

Source: primary Survey Data

6.07.02. Distribution on the basis of Monthly Income of the respondent households of small borrowers: From the table (No. 6.13) below it be highlighted that more than 86% of the households surveyed belonged to the income class ‘Rs. 10000 to Rs. 20000 and above’, it is to be noted that 36 SC households have monthly income of Rs. 20000 and above which accounts for around 15% of the total households surveyed. Only less one 1% of the total households earns ‘less than Rs. 5000’ in a month.

Table 6.13: Distribution on the basis of Monthly Income of the respondent households of small borrowers:

Range of monthly Income	Less than Rs. 5000			Rs. 5000 to Rs. 10000			Rs. 10000 to Rs. 15000			Rs.15000 to Rs. 20000			Rs. 20000 and above			Total
	SC	ST	Others	SC	ST	Others	SC	ST	Others	SC	ST	others	SC	ST	Others	
Blocks:																

Matigara Block	0	0	0	0	0	2	2	0	6	7	0	3	11	0	16	47
Naxalbari Block	0	0	0	1	0	0	6	0	8	6	0	0	3	0	17	41
Khoribari Block	0	0	0	7	0	0	12	2	4	12	1	0	11	0	02	51
Phansidewa Block	1	0	0	7	0	4	10	0	5	6	0	3	10	0	04	50
Siliguri Municipal Corporation	0	0	1	1	0	9	3	0	10	1	0	16	1	0	13	55
Sub-total	1	0	1	16	0	15	33	2	33	32	1	22	36	0	52	244
Total	02		31			68			55			88			244	
% on Total (244=100%)	0.82		12.70			27.87			22.51			36.07			100	

Source: Primary Survey data

Table 6.14: Distribution on the basis of Savings Information:

Blocks	No of Household surveyed	With savings (Yes)			Without saving (No)		
		SC	ST	Others	SC	ST	Others
Matigara Block	47	19	0	26	1	0	1
Naxalbari Block	41	16	0	24	0	0	1
Khoribari Block	51	42	3	6	0	0	0
Phansidewa Block	50	34	0	15	0	0	1

Siliguri Municipal Corporation	55	6	0	49	0	0	0
Sub-total	-----	117	3	120	1	0	3
Total	244	240			4		
% on total	244= 100%	98.36%			1.64%		

Source: Primary Survey data

6.08. Distribution on the basis of Mode of Savings: It was observed from Table (No 6.14), that out of 244 small borrowers more than 98% of the small borrowers have savings. In case of mode of savings, it is found where the borrowers have saved their accumulation (table No. 6.15). It is observed that among 244 borrowers 190 small borrowers have kept their saving in public sector bank, 50 borrowers have kept their money in Private sector bank, only 4 borrowers have kept their money Co-operative Bank, 8 borrowers have kept their money at Post Office, 118 borrowers have kept savings in LIC, 12 borrowers have used their PF account for keeping their accumulation, only 5 borrowers are found who have kept their savings in MFIs and 170 small borrowers have saved their money in SHGs. Apart from these formal savings institutions 45 borrowers have stated that they have kept their savings in their own custody, 29 borrowers save in informal local organizing committees and only one borrower has stated that he has saved money to his/her friends/ relatives. Out of these 244 borrowers, 4 borrowers have stated that they do not have any savings. Following are the further observations:

i). In the mentioned four Blocks and in Siliguri Municipal Corporation area, total 244 small borrowers' household were surveyed and out of this 244 Small borrowers' households, 118 households belonged to Scheduled Caste Community, 3 households belonged to Scheduled Tribe Community and 123 household belonged to other communities.

ii). In case of Public Sector Bank, total 190 small borrowers' household kept their saving and out of this 190 household, 85 household belonged to Scheduled Caste community, 3 household belong to Scheduled Tribe Community and 102 households belong to other communities.

iii). In Private Sector Bank, it was found that a total of 50 small borrowers household kept their accumulation there. Out of these 50 households, 19 household belong to Scheduled Caste and 30 households belong to other communities.

iv). Only 4 households saved their money in Co-operative Banks and no borrowers accumulated their money in chit funds. The saving in Post Offices by the small borrowers found relatively low and only 5 borrowers saved their money there. In case of saving in MFIs, the number of borrowers was 8 only.

v). In case of savings in LIC, it found that 118 borrowers kept their money in LIC. Out of this 118 borrowers households, 44 households belonged to the Scheduled Caste Community and, only single belong to Scheduled Tribe community and 73 households belonged to borrowers of other communities.

vi). Apart from savings in Public Sector bank, Small borrowers' households showed a keen interest in saving their money in SHGs in which they were a member. It was found that 170 small borrowers' households contributed to the SHG fund for savings purpose. Out of these 170 households, 89 households belonged to Scheduled Caste, 3 households belong to Scheduled Tribe and 78 households belonged to other communities.

vii). It was further observed that apart from the above formal institutions where borrowers saved their money, there were also some other places of savings. 45 borrowers told that they save in their own custody also, 29 borrowers told that they save in informal local organising committees and only single told that she saved her money to his relative.

viii) Out of these 244 borrowers, only four borrowers told that they did not have any saving anywhere. Out of these 4 borrowers, 1 borrower belonged to Scheduled Caste community and 3 borrowers belong to other communities.

It was further observed that out of these 244 respondent small borrowers some borrowers had deposited their savings in multiple places at the same time. It was found that out of 240 households, who had savings, 117 households were of SCs, 3 households were of STs and 120 households were of other categories. The table (No. 6.15.A) below has been given to observe the number of sources where small borrowers have kept their accumulation. Some observations regarding the number of sources of savings of 240 respondents have been given below:

- i) It was found that out of total 244 small borrowers' households, 240 household saved amount in different sources and 4 household did not have any savings anywhere. Out of 240 respondents who saved, 31 small borrowers saved in only one sources, and in this 31 household, 22 household belonged to SC and 9 household belong to other categories.
- ii) 91 households saved their accumulation in two sources, and in these 91 households, 45 household belonged to SC and 45 households belonged to other categories.
- iii) 64 households have three savings sources and in these 64 households, 26 households belong to SC, 1 household belong to ST and 37 households are of other categories.
- iv) Four saving sources are used by 43 households, where 20 households were of SC and 23 households were of other categories.
- v) 10 small borrowers have used five savings sources, where 4 households are of SC, 1 of ST and 5 households are of other communities and single borrower of other category used six sources for keeping his/ her savings
- vi) It was found that out of 4 borrowers, who did not have savings, one household belong to SC and 3 households belong to other categories.

As a whole it was observed that maximum small borrowers had savings, and the highest number borrowers used two savings sources for keeping their accumulations (table No. 6.15.A).

Table 6.15: Distribution on the basis of Mode of Savings

Blocks	HHs surveyed		Mode of Savings												
			Public sector bank	Private sector bank	Cooperative bank	Chit Fund	Post Office	LIC	PF	MFI	SHG	Own Custody	Locally organised Committee	Friend/Relative	No Savings
Matigara Block	SC	20	17	0	1	0	0	12	2	0	2	2	3	0	1
	ST	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Others	27	25	5	2	0	3	16	4	0	4	5	6	1	1
	Total	47	42	5	3	0	3	28	6	0	6	7	9	1	2
Naxalbari Block	SC	16	11	3	0	0	1	9	0	0	14	0	0	0	0
	St	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Others	25	22	5	1	0	0	19	0	0	10	2	1	0	1
	Total	41	33	8	1	0	1	28	0	0	24	2	1	0	1
Khoribari Block	SC	42	26	10	0	0	0	9	1	0	39	7	11	0	0
	St	3	3	1	0	0	0	1	0	0	3	1	1	0	0
	Others	6	4	3	0	0	0	3	0	0	6	1	1	0	0
	Total	51	33	14	0	0	0	13	1	0	48	9	13	0	0
Phansidewa Block	SC	34	28	5	0	0	1	11	4	2	28	12	0	0	0
	ST	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Others	16	13	2	0	0	0	5	1	0	14	6	1	0	1
	Total	50	41	7	0	0	1	16	5	2	42	18	1	0	1
Siliguri Municipal Corporation	SC	6	3	1	0	0	1	3	0	0	6	1	2	0	0
	ST	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Others	49	38	15	0	0	2	30	0	3	44	8	3	0	0
	Total	55	41	16	0	0	3	33	0	3	50	9	5	0	0
Total SC	118		85	19	1	0	3	44	7	2	89	22	16	0	1
Total ST	3		3	1	0	0	0	1	0	0	3	1	1	0	0
Total Others	123		102	30	3	0	5	73	5	3	78	22	12	1	3
Grand Total (SC, ST, Oth)	244		190	50	4	0	8	118	12	5	170	45	29	1	4

Source: Survey Data

Table 6.15.A: Number of saving sources used by small borrowers.

No of sources of savings	No of small borrowers			
	Total	SC HHs	ST HHs	Other HHs
In 1 source	31	22	0	9
In 2 sources	91	45	1	45
In 3 sources	64	26	1	37
In 4 sources	43	20	0	23
In 5 sources	10	4	1	5
In 6 sources	1	0	0	1
No savings	4	1	0	3
Total	244	118	3	123

Source: Survey data.

6.09. Indebtedness of Small Borrowers: Indebtedness of small borrowers has been found through the survey by taking the parameters- i) source of formal and informal credit ii) amount borrowed iii) purpose of credit i.e. purpose of taking the loan which has been shown at the time of taking loans iv) utilisation of credit etc., and after taking the loan where the small borrower utilised the loan amount actually, v) various of issues of repayment of loans etc. that also have been found out.

6.09.01. Distribution of the basis of sources of formal and informal credit: It was found that among 244 respondent small borrowers 149 borrowers had taken loans from SHGs and 132 borrowers took loans from Public/Private Sector Bank and RRBs. The number of respondent small borrowers who took loans taken from microfinance institute was only 44. The number of respondents who took loans from other than these three sources as mentioned above were: from Cooperative – 4 respondents, from LIC – 1 respondent and loan taken from PF – only 1 respondent (Table No. 6.16)

Table 6.16: Distribution on the basis of sources of formal and informal credit.

Blocks	HHs surveyed		Formal sources of Credit							Informal sources of Credit					
			Public sector bank / Private sector bank & RRB	Cooperative bank	LIC	PF	MFI	SHG	Others	Landlord/employer	Moneylender	Trader & commission Agent	Local ly organized Committee	Friend/ Relative	Others
Matigara Block	SC	47	7	1	0	0	0	9	0	0	5	0	1	1	0
	ST		0	0	0	0	0	0	0	0	0	0	0	0	0
	Oth		18	2	0	0	2	5	0	0	7	0	4	5	0
	Total		25	3	0	0	2	14	0	0	12	0	5	6	0
Naxalbari Block	SC	41	8	0	0	0	6	7	0	0	1	0	1	4	0
	ST		0	0	0	0	0	0	0	0	0	0	0	0	0
	Oth		23	1	0	1	4	9	1	0	5	0	2	4	0
	Total		31	1	0	1	10	16	1	0	6	0	3	8	0
Khoribari Block	SC	51	16	0	1	1	6	38	0	0	7	0	8	3	0
	ST		1	0	0	0	0	3	0	0	0	0	1	0	0
	Oth		2	0	0	0	1	6	0	0	1	0	2	0	0
	Total		19	0	1	1	7	47	0	0	8	0	11	3	0
Phansidewa Block	SC	50	19	0	0	1	10	21	0	0	3	0	0	6	2
	ST		0	0	0	0	0	0	0	0	0	0	0	0	0
	Oth		11	0	0	0	2	12	0	0	2	0	1	1	0
	Total		30	0	0	1	12	33	0	0	5	0	1	7	2
Siliguri Municipal Corporation	SC	55	1	0	0	0	2	5	0	0	1	0	1	0	0
	ST		0	0	0	0	0	0	0	0	0	0	0	0	0
	Oth		26	0	0	0	11	35	0	9	2	0	1	3	0
	Total		27	0	0	0	13	40	0	9	3	0	2	3	0
Total SC			51	1	1	2	24	80	0	0	17	0	11	14	2
Total ST			1	0	0	0	0	3	0	0	0	0	1	0	0
Total Others	244		80	3	0	1	20	66	1	9	17	0	10	13	0
Grand Total (SC, ST, Oth)			132	4	1	3	44	149	1	9	34	0	22	27	2

Source: Survey Data

Apart from these formal loans, small borrowers took loans from informal sources like moneylenders, landlords/ employed, trade and commission agents, local organising committees and friends and relatives. It was observed that the number of respondents who took loans from moneylenders was 34 and 22 respondent small borrowers had taken from local organising committees. Only 27 respondents had taken loans from friend/ relatives. Only 2 respondents took loans from ‘other’ informal sources. These borrowers took loans from neighbour by giving them the right of cultivating borrowers’ land.

It was also found that small borrowers took loans not only from one source but also loans were taken from multiple sources at the same time. The number of sources from where the respondent small borrowers took loans can be observed from the table (No. 6.16.A) as shown below:

Table 6. 16 A : Number of sources of credit used by small borrowers

No of sources of Credit	No of small borrowers				
	SC HHs	ST HHs	Other HHs	Total	Percentage
In 1 source	48	1	49	98	40.16
In 2 sources	51	2	58	111	45.49
In 3 sources	15	0	13	28	11.48
In 4 sources	4	0	3	7	2.87
Total	118	3	123	244	100

Source: Survey data.

From the table (No. 6.16.A) above, the following observation was made:

- It was observed that 98 number of small borrowers’ households took loans from only single source, in which 48 Households belong to SC, 1 household belongs to ST and 49 households belong to other category.
- Number of small borrowers who took loans from two sources was 111, in which the number of households belongs to: SC category- 15, ST category -

2 numbers of households, and 58 numbers of households were of other category.

- Number of respondent who took loans from three sources was 28, in which SC was 15 and other category was 13.
- Maximum number of sources from which small borrowers took loans was four and the number of small borrowers who took loans from four sources was 7 only, in which SC respondents were 4 and other category respondents were 3 only.

From the above matrix, **it has become clear that maximum respondent small borrowers took loans from two sources at a time.**

6.09.02: Distribution on the basis of amount borrowed by the respondent households of small borrower:

The amount borrowed by the respondent 244 small borrowers has been calculated by categorising the borrowed amount in five categories and these are: i) less than Rs. 10000; ii) more than Rs. 10000 but below Rs. 50,000; iii) More than Rs. 50,000 but below Rs. 1,00,000; iv) More than Rs. 100000 but upto Rs. 2,00,000 and v) more than Rs. 200000. Under these categories of amount borrowed, block-wise data have been tabulated from the survey data (table No. 6.17). Following are the major finding:

1. It was found that the total loans of 81 respondent small borrowers were under the category of ‘more than Rs. 10000 but below Rs. 50000’, which is 33.20% of the total respondent. In this 81 respondent 48 respondent belong to SC, 1 respondent belong to ST and 32 respondents belong to other category.
2. The total amount borrowed by the 71 respondents (29.10% of the total) was under ‘ more than Rs. 50000 but below Rs. 100000’ category in which 32 numbers of respondents were of Scheduled Cast, 2 numbers of respondents were of Scheduled Tribe and 36 numbers of respondents were of other category.
3. It was observed that total loans of 54 numbers of small borrowers which was 22.13% of the total respondent, was under the category ‘More than Rs. 100000 but upto Rs. 200000’. In this category, the number of respondents belonged to SC and other categories were 22 and 32 respectively.

4. Only 28 respondent had taken a total loans of ‘more than Rs. 200000’ and only 10 respondents’ total loans come under ‘ less than Rs. 10000’ category.

It was found that out of 244 respondents, the total loans of 206 respondent small borrowers, i.e. 84.43% of the total respondents, come in between ‘ More than Rs. 10000 but below Rs. 2,00,000’ category. The maximum small borrowers had taken loans under the category ‘ More than Rs. 10000 but below Rs. 50000’.

Table 6.17: Distribution on the basis of amount borrowed by the respondent households of small borrowers:

Range of borrowing=>	Less than Rs.10000			More than Rs. 10000 but below Rs. 50,000			More than Rs. 50000 but below Rs. 1,00,000			More than Rs. 1,00,000 but up to Rs. 2,00,000			More than Rs. 200000			Total
	SC	ST	Others	SC	ST	Others	SC	ST	Others	SC	ST	Others	SC	ST	Others	
Blocks:																
Matigara Block	0	0	1	5	0	2	5	0	6	5	0	14	5	0	4	47
Naxalbari Block	1	0	1	5	0	1	3	0	5	5	0	9	2	0	9	41
Khoribari Block	2	0	0	19	1	3	11	2	2	7	0	0	3	0	1	51
Phansidewa Block	1	0	0	14	0	9	14	0	5	5	0	1	0	0	1	50
Siliguri Municipal Corporation	1	0	3	5	0	17	0	0	18	0	0	8	0	0	3	55
Sub-total	5	0	5	48	1	32	33	2	36	22	0	32	10	0	18	244

Total	10	81	71	54	28	244
% on total 244= 100%	4.10	33.20	29.10	22.13	11.47	100

Source: Survey data

6.09.03: Distribution on the basis of purpose of credit as shown while taking credit:

At the time of taking loans from formal or informal sources, borrowers had to show the reason or the purpose for taking the credit also to the lender with all other necessary point. If the loan provider understands the reason which has been shown by the borrower is not correct, the loan may not be sanctioned. Borrowers show the original reason of taking loans only when they become confident that due to the reason or purpose their loans will not be rejected otherwise they write false causes or purposes. The purposes they showed while taking loans had been observed (table No. 6.18) and depicted below:

1. It was found that out of 244 respondent small borrowers, 13 number of respondent applied for the loans showing the 'Subsistence' purpose in which 8 respondents were of SC category and 5 respondents were of other category. The meaning of subsistence purpose, here, had been considered as money required for daily food, repairing of home, digging of well etc.
2. It was found that 217 respondent small borrowers had applied loans showing the reason 'Business' and out of these 217 respondents, 96 respondents were from SC category and 118 respondents were from other category.
3. While taking loans 'Purchasing of Cattle' had been shown as a purpose by 12 numbers of small borrowers. In these 12 respondents, 9 respondents belonged to SC and 3 respondents belonged to other categories.
4. 'Recreation' and 'Education' were shown as a purpose of taking loans by 6 and 4 respondents respectively out of total respondent 244.
5. 22 numbers of respondents applied for loans showing that they needed loans for 'emergent needs' such as treatment, obsequies etc., and out of these 22 respondents, 13 belonged to SC and 9 numbers of respondents belonged to other categories.

6. Only 15 respondents told that they took loans showing the reason ‘Repayments of old loans, and out of those 15 respondents, 10 respondents belonged to Scheduled Cast, 1 respondent belonged to ST and 4 respondents belonged to other categories. The interesting finding is that all these loans were taken from relatives/ friends with no interests.

7. Another interesting finding is that no respondent applied for loans for purchasing of ‘home appliances’ and only one respondent had been included in ‘other purpose’. ‘Other purpose’, here refers to the loan taken for taking the right of use of land for cultivation.

Table 6.18: Distribution on the basis of purpose of credit as shown while taking credit

Blocks	HHs surveyed		Purpose of Credit								
			Subsistence	Business	Purchasing Cattle	Recreation	Education	Emergent need (Repayment of old loans	purchasing of home	Other needs
			No. of Respondents								
Matigara Block	SC	20	2	14	0	1	0	1	2	0	0
	ST	0	0	0	0	0	0	0	0	0	0
	Others	27	2	26	2	0	0	3	1	0	0
	Total	47	4	40	2	1	0	4	3	0	0
Naxalbari Block	SC	16	1	12	0	1		2	1	0	0
	ST	0	0	0	0	0	0	0	0	0	0
	Others	25	1	23	1	0	0	1	0	0	0
	Total	41	2	35	1	1	0	3	1	0	0
Khoribari Block	SC	42	2	36	1	2	1	6	6	0	1
	ST	3	0	3	0	0	0	0	1	0	0
	Others	6	0	6	0	0	0	0	1	0	0
	Total	51	2	45	1	2	1	6	8	0	1
Phansidewa Block	SC	34	3	29	7	2	0	4	1	0	0
	ST	0	0	0	0	0	0	0	0	0	0
	Others	16	0	15	0	0	0	1	0	0	0
	Total	50	3	44	7	2	0	5	1	0	0
Siliguri Municipal Corporation	SC	6	0	5	1	0	1	0	0	0	0
	ST	0	0	0	0	0	0	0	0	0	0
	Others	49	2	48	0	0	2	4	2	0	0
	Total	55	2	53	1	0	3	4	2	0	0
Total SC		118	8	96	9	6	2	13	10	0	1
Total ST		3	0	0	0	0	0	0	1	0	0
Total others		123	5	118	3	0	2	9	4	0	0
Grand total		244	13	217	12	6	4	22	15	0	1

Source: Survey Data

6.09.04. Distribution on the basis of Utilisation of credit: Response of small borrowers regarding purpose of utilisation of loans was received during survey. The purposes of utilisation were categorised in three categories viz. loans utilised as per stated purpose; loans utilised other than the stated purpose and loans utilised partly as per stated purpose and partly other than stated purpose. Responses of 244 respondent small borrowers were received and tabulated in the table (No. 6.19) below. Some interesting results have been observed.

Table 6.19: Distribution on the basis of Utilisation of credit

Blocks	HH Surveyed	Purpose of utilisation		
		As per stated purpose	Other than stated purpose	Partly Stated and Partly for other than stated
		No of Respondent		
Matigara Block	47	34	5	8
Naxalbari Block	41	28	5	8
Khoribari Block	51	32	7	12
Phansidewa Block	50	28	10	12
Siliguri Municipal Corporation Area	55	40	7	8
Total	244	162	34	48
% on total (244= 100%)	100%	66.40	13.93	19.67

Source: Survey data

From the above table (No.6.19) it was found that out of 244 respondents, 162 respondents, i.e. 66.40% of the total respondents replied that they used the loan as per the purpose stated while taking the loans. 48 respondents, i.e. 19.67% of the total respondents stated that they used the loans partly for the purpose as stated while taking the loans and partly used for other than the stated purpose. It was observed that only 34 numbers of

respondents i.e. 13.93% of the total respondents used or utilised the loans other than stated purpose.

6.09.05. Distribution on the basis of purpose of taking credit and actual utilisation of credit: As stated above in point No. 6.09.03, that sometimes borrowers do not show the original cause of taking loans apprehending that showing of original cause may be the rejection of the sanction of their loans amount, and for this, they show some other causes or purposes than the actual purpose of taking loans. In the table (No. 6.20) below, the purposes of taking loans, as shown while taking, and the actual utilisation of the amount of loans had been observed. The observation is very interesting.

1. It was found that 244 respondent small borrowers had taken 442 numbers of loans from various sources. Out of these 442 loans, 364 number of loans, i.e. 82.35% of the total number of loans, as shown, were taken for business purpose. It was found that 22 numbers of loans, i.e. 4.98% of total loans, were taken showing the emergent purpose. 15 numbers of loans, i.e. 3.39% of the total loans, were taken showing the purpose of repayment of old loans. For the purpose of purchasing of cattle, as shown while taking the loan, only 14 loans were taken which was 3.17% of the total loans. Showing education, recreation purposes only 7 and 6 numbers of loans respectively, for each purpose, were taken. Only 1 number of loan was taken by showing the purpose of 'land taken on lease'. Out of the 442 number of loans, no loan was taken for the purposes of purchasing of home appliances, assets, car, bike etc., and for giving loan to others.

2. The total number of 442 loans were utilised in 469 numbers of ways or purposes. The utilisation of those 442 numbers of loans was as follows:

i) It was found that the purpose of 'subsistence', 13 loans were taken and all these loans were utilised in subsistence purpose as it was states while taking the loan and only 1 loan was utilised for both subsistence and emergent purposes. These 13 loans were utilised in 14 numbers of way. The percentage of loans taken for subsistence purpose and utilised for the same purpose is near to 100%.

ii) Total 364 numbers of loans were taken for the purpose of 'business' but the loans were utilised in total 388 ways or purposes. Out of those 364 numbers of loans, only 285 loans were utilised for business purpose. Loans taken for business but the utilization purpose of the loans were: subsistence purpose - 42 loans; recreation purpose- 10 loans; education

purpose – 11 loans; for emergent need, treatment, obsequies etc – 11 loans; for repayment of old loans – 10 loans; for purchasing of home appliances- 8 loans; for taking land on lease for cultivation – 8 nos. of loans and for giving loan to others- 3 nos. of loans. Apart from business use, the loans taken for business utilised mainly in subsistence purposes. Here it must be mentioned that near about 78.30% (i.e., $285/364 \times 100$) of business loans were utilised for business purpose.

iii) For purchasing of cattle 14 number of loans were taken and these 14 loans were utilised in total 15 numbers of ways. Out of those 14 loans, 11 loans were utilised for purchasing of cattle, i.e. as per the stated purpose. But this loan was utilised for other purposes also. The loans taken for purchasing of cattle but utilised other purposes were: for subsistence purpose- 2 no of loans; for repayment of old loans- 1 loan; and for purchasing of home appliances- 1 loan. Here also, the deviation of cattle loans was found mainly for subsistence purpose. Here also 78.57% (i.e. $11/14 \times 100$) of the cattle loans were utilised for purchasing of cattle, i.e. as per the states purpose.

iv). Only 6 number of loans were taken showing the purpose 'Recreation' and all these 6 loans were utilised for that purpose only, i.e. 100% utilisation of loans was as per the stated purpose.

v) There were 7 numbers of loans which were taken for 'education' purpose and those 7 loans were utilised in 8 nos. of ways. Out of those 7 loans, taken for education purpose, 5 numbers of loans were utilised for education purposes and the deviations were: for emergent need – 2 loans and for subsistence purpose- 1 loan. It was found that 71.42% (i.e., $5/7 \times 100$) of the education loans were utilised for the stated education purpose.

vi). Total 22 nos. of loans were taken for 'emergent' purpose like treatment, obsequies etc. and those 22 numbers of loans were utilised in total 22 numbers of ways or purposes. But out of those 22 numbers of loans which were taken for emergent purpose, 2 loans were utilised for subsistence purpose. The number of loans utilised as per the stated purpose was 20. he percentage of utilisation of 'emergent loans' as per the stated purpose was near about 99.91% (i.e. $20/22 \times 100$).

Vii) There was only 1 loan which was taken for 'taking land on lease' for cultivation purpose and it was utilised for the same purpose. The percentage of utilisation was 100% in this case.

It is clear from the above analysis that the maximum number of loans were utilised as per the stated purpose which was shown while taking the loan.

Table 6.20: Purpose and Utilisation of the Credit

Purpose of taking Credit	No of loans taken	Purpose of Utilisation of Credit										No of way of utilisation
		Subsistence	Business	Purchasing Cattle	Recreation	Education	Emergent need (treatment,	Repayment of old loans	purchasing of home appliances',	Land taken on lease	Loan to others	
Subsistence	13 (2.94)	13	0	0	0	0	1	0	0	0	0	14
Business	364 (82.35)	42	285	0	10	11	11	10	8	8	3	388
Purchasing cattle	14 (3.17)	2	0	11	0	0	0	1	1	0	0	15
Recreation	6 (1.36)	0	0	0	6	0	0	0	0	0	0	6
Education	7 (1.58)	1	0	0	0	5	2	0	0	0	0	8
Emergent need	22 (4.98)	2	0	0	0	0	20	0	0	0	0	22
Repayment of old loans	15 (3.39)	0	0	0	0	0	0	15	0	0	0	15
Purchasing of home appliances', assets, car, motor bike etc.	0	0	0	0	0	0	0	0	0	0	0	0
Land taken on lease	1 (0.23)	0	0	0	0	0	0	0	0	1	0	1
Loan to others	0	0	0	0	0	0	0	0	0	0	0	0
Total	442 (100%)	60	285	11	16	16	34	26	9	9	3	469
% on the basis of utilisation of loans (469 = 100%)		12.79	60.77	2.35	3.41	3.41	7.25	5.54	1.92	1.92	0.64	100%

Source: Survey data.

Note: Figure in the parenthesis in col. 2 represents the percentage of loans on total loans taken.

6.09.06. Distribution on the basis of repayment of loans: it was found from the table (No. 7.09.06) that out of 244 respondent small borrowers, 226 number of small borrowers pay regular instalment of loans, i.e. 92.62 % of the total small borrowers pay regular instalment of loans. The percentage of irregularities in repayment of loans was found in case 5.33% of borrowers. Only 13 number of borrowers stated that they were unable to

repay the loan instalment regularly and only 2.05% of the total borrowers, i.e. 5 numbers of borrowers informed that they had to stop repayment of loans due to various reason. The picture of repayment of loans can be observed form the table (No. 6.21) as given below.

Table 6.21: Repayment of Loans

Blocks	HH Surveyed	Repayment		
		Regular	Irregular	No Repayment
Matigara Block	47	40	4	3
Naxalbari Block	41	39	1	1
Khoribari Block	51	45	5	1
Phansidewa Block	50	48	2	0
Siliguri Municipal Corporation Area	55	54	1	0
Total	244	226	13	5
% on Total	(244= 100%)	92.62%	5.33%	2.05%

Source: Survey data

It was also found from the table (No. 6.21) that in Phansidewa Block and in the area under SMC, no small borrower had stopped repayment of loans. Maximum number of small borrowers (5 number) with irregularities in repayment was noticed in Khoribari Block followed by Matigara Block (4 no. of borrowers), whereas the maximum number of defaulter, who stopped repayments were found in Matigara block (3 no of borrowers). From the above matrix, it can be said that the small borrowers inclined toward repayment of loans on regular basis following the schedule of repayment as provided to them by the loan provider institution but due to some reason like loss in business/ profession etc., they become unable to repay loans and the percentage of this unable re-payer was only 2.05% which is a very meagre figure.

6.09.07. Distribution on the basis of period of repayment of instalment of loans: The mode of repayment was found by dividing the repayment schedule in seven categories of periods, viz. daily repayment; weekly repayment; bimonthly repayment (i.e. repayment in every 15 days); monthly repayment; weekly and monthly repayment in a single month and only month repayment. The following observation can be drawn from the table (No. 6.22):

i) It was found that out of 244 respondent small borrowers, only 1 borrower repay his debt regularly on day basis. This borrower was a retail fish seller in a market of Matigara block who used to take loan from moneylender everyday in the morning before he purchased fish from regulated market (Whole-seller) and after selling the fish he returned the amount of loan to the moneylender from whom he took in the morning with interest. The rate of interest in this case was found very high i.e. @ 2% per day basis.

ii) It was also found that 93 out of 244 respondent small borrowers, i.e. 38.11% of the total respondents, repay their loans weekly while only 2.46% of the small borrowers repay instalment of loan in bimonthly basis, i.e. repayment in every 15 days. These weekly and bi-monthly repayments were mainly for repayment of loans taken from MFIs.

iii) It was observed that 222 numbers of respondent small borrowers, i.e. 90.98% of the total respondent, repay the instalment of loan in monthly basis. This monthly repayment was mainly for the loans taken from Public/ Private commercial banks, Cooperative Societies, RRBs, SHGs and for some MFIs also.

iv.) It was also found that there were 70 numbers of respondent small borrowers who paid weekly and monthly instalment of loan in a single month and only monthly repayment of loans was done by 147 borrowers.

Table 6.22: Period of repayment of Instalment of loan

Blocks	HH Surveyed	Mode of Repayment of loans					
		Daily	Weekly	Bi-monthly	Monthly	Weekly & Monthly	Only monthly
Matigara Block	47	1	5	0	42	1	41

Naxalbari-Block	41	0	18	1	35	11	24
Khoribari Block	51	0	16	2	51	16	33
Phansidewa Block	50	0	27	1	47	24	22
Siliguri Municipal Corporation Area	55	0	27	2	47	18	27
Total	244	1	93	6	222	70	147
% on total	100%	0.41%	38.11%	2.46%	90.98%	28.69%	60.25%

Source: Survey data

6.09.08: Distribution on the basis of Sources of Repayment of Loans: It was found that the repayment of loans were made by the small borrowers from the various sources like generating income from where the loan amount was invested, disposal of their old assets and accumulation of money, borrowing money from the moneylenders or relatives if they unable to manage their repayment amount of loan in full. These sources of repayment of loans, in this study, have been shown by dividing these into six categories (table No. 6.23) and some respondents did not want to disclose the sources of repayment of loans. These respondents were included in 'No response' category. It was also found that borrowers used various sources, based on the availability of money, for repayment of a single loan. The findings were shown below:

i). It was found that 170 small borrowers out of 244 small borrowers repaid the loan amount by generating income using the loan amount i.e. 69.76% of the total respondent borrowers generated enough income by using the loans amount and from that income they were repaying their instalment of loans.

ii).The money for loan repayment was taken from 'other sources' by 92 small borrowers out total 244 respondents. This 'other sources' include: taking money from spouse, son,

daughter etc., other business income where the loan amount was not invested, salary, wage of other work etc. It was found that 37.70% of the total respondents repaid loan amount by taking the money from these sources. The reasons of using ‘other sources’ were found as: business loss, unable to generate profit from cultivation, investment of loan amount in unproductive purposes like repairing of house, digging of well etc. but these borrowers were able to manage the amount of repayment of loan from the regular income of their family.

iii). There were certain cases where borrowers were unable to repay loan amount by generating income using the loan amount or by taking money from other regular income sources of the family, and in that situation, borrowers, for paying instalment of loans, disposed their old assets, used their old savings or borrowed money from moneylenders, friend and relatives. It was observed that 11.42% of the total borrowers, i.e. 28 numbers of borrowers repaid loan amount by using their old savings and only 2 numbers of borrowers repaid loan amount by disposing their old assets. Further, it was found that only 1 borrower had to take loan from moneylender for repayment of previous loan amount, whereas, 5 borrowers had taken loans from friends and relatives for repayment of their previous loans. Only 4 borrowers did not disclose the sources of repayment of their loans.

Table 6.23: Sources of repayment of loans

Blocks	HH surveyed	Sources of Repayment of loans						
		Income generation by using loan amount	Disposal of old assts	Using old saving	Borrowing from moneylenders	Borrowing from relatives or friends	Other Sources	No response
Matigara Block	47	31	1	7	0	1	13	1
Naxalbari Block	41	28	0	1	0	0	14	1
Khoribari Block	51	40	0	7	1	2	22	1

Phanside wa Block	50	28	1	6	0	0	24	1
Siliguri Municipal Corporati on Area	55	43	0	7	0	2	19	0
Total	244	170	2	28	1	5	92	4
% on total	100%	69.67%	0.82%	11.48%	0.41%	2.05%	37.70%	1.64%

Source: Survey data

6.10. Conclusion: This chapter was based on the analysis of socio-economic condition of the small borrowers in the District of Darjeeling. This analysis is empirical in nature and the finding that has come out from the study is found interesting and the following conclusions have been drawn:

1. It is revealed from the distribution of small borrowers on the basis social class that the credit has been evenly distributed to general category borrowers and the scheduled category borrowers. Out of the 244 number of respondent borrowers, the percentage of general category borrowers was just above 50% and the percentage of scheduled category borrowers was just below 50%.
2. The maximum loans were issued in favour of married women as MFIs and SHGs issue loans only to women but it is revealed from the study that the family of the small borrowers are dominated by number of male members and are in unitary family status but joint earner. The maximum number of the members of the small borrowers' family is in the age group 'between 18- 60 years' of age. The age of '18-60 years' is considered the main working age of people with their full mental and physical ability and after 60 years people are considered senior citizen. The maximum loans have been issued to the small borrowers who have completed their primary education. Therefore, it can be concluded that the maximum loans have been issued to the literate small borrowers who are with their physical and mental

- ability to utilise the amount of loan in productive purpose and can employ their labour also.
3. As per the Master Circular issued by RBI in regard to the MBFC-MFIs (Ref. No. RBI/15-16/20, DNBR (PD) CC No. 047/03.10.119/2015-16 dated July 1, 2015 and updated as on April 20, 2016) it is said that a Microfinance Institution can lend to a small borrower with rural household and their family annual income does not exceed Rs. 1,00,000/- and this income limit for borrowers of urban region has been limited to Rs. 160,000/-. But it is observed that out of 244 respondent small borrowers, maximum i.e. above 36% of the respondent borrowers earn more than Rs. 20000/- monthly. Though a contradiction have been pointed out but these income found sufficient to repay back the loans amount and the defalcation rate of payment of instalment of loan has been noticed only at 2 percent. The small borrowers earn sufficiently by using the loans amount to repay the loan amount and after meeting the expenditure along with the instalment of loans, borrowers save the residue of income. In case of savings it is found that maximum of the small borrowers save in two sources at a time and their choice can be ranked as Public Sector bank, Self Help Group and LIC as first , second and third choice respectively.
 4. It is observed that out of 244 respondent small borrowers 98 borrowers took loan from single source only and 111 borrowers used two credit sources at a time. Therefore, it can be concluded that maximum respondent small borrowers like to take loans from up to two sources at a time and the total amount of loans for maximum borrowers (around 88%) found up to Rs. 2,00,000/- .
 5. In case of purpose and utilisation of credit, it is observed that maximum loans were taken for business purpose, and more than 66% of the loan getting families have used the loans for the purpose they have shown while taking the loans and around 80% of the loans taken by the small borrowers were utilised as per the purpose stated while taking loans.

Through this chapter, the socio-economic condition of small borrowers along with the purpose of credit of small borrowers and the utilisation of credit have been discussed. The major issue of any loan is the interest associated with the loan. In the next chapter (7),

along with some other issues of small borrowers like preference of loan sources, i.e., formal or informal loan along with the preference shifting of sources of loan, rate of interest paid by the small borrowers in the district of Darjeeling have also been discussed.

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)

Blocks	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
		Number of Loans						
Matigara Block	47	5	15	17	16	2	13	68
Lender-wise breakup: Total No. of Formal loan : 45 Total No of Informal loan : 23		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	41	09	01	17	35	9	8	79
Lender-wise breakup: Total No. of Formal loan : 62 Total No of Informal loan : 17		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	51	4	2	3	62	13	13	97
Lender-wise breakup: Total No. of Formal loan : 75 Total No of Informal loan : 22		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	50	10	9	3	57	8	6	93
Lender-wise breakup: Total No. of Formal loan : 78 Total No of Informal loan : 15		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	55	12	34	6	34	15	4	105
Lender-wise breakup: Total No. of Formal loan : 88 Total No of Informal loan : 17		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.**

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 by 11percent (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 1971 to 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 10 percent 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 viii) 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 from 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.

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APPENDIX – I

DEPARTMENT OF ECONOMICS
UNIVERSITY OF NORTH BENGAL
QUESTIONNAIRE

ON

**SMALL BORROWERS' NEED AND THE CREDIT MARKET: A STUDY OF FORMAL AND INFORMAL
MARKET BORROWING IN THE DISTRICT OF DARJEELING, WEST BENGAL.**

Survey Site:

Census Village No. Mauza..... G.P.....

Approx. Number of Households:.....No.

General Information:

1. Name of the Respondent:.....

2. Age (Completed years):.....

3. Religion: Hindu / Muslim / Christian / Others

4. Sub Community: SC / ST / OBC

5. Mother tongue:other language spoken.....

6. A) Current marital Status: Single / Married / Widowed / Separated / Divorced

B) Age at Marriage (in No of years completed):No of years

7. A) Education Level: Illiterate / Functionally literate / upto class IV/ Upto Class VIII/
upto class X / Upto class Class XII/ Graduate / Post Graduate

B) Place of Education:.....

8. A) Family Status: Unitary / Joint

B) Earning Status of the householder: sole / Joint

9. Family Composition:

Sl No	Category	Male	Female	Total
i	Household size			

ii	Household Minors			
iii	Earning Members			
iv	Earning Minors			
v	Dependent Minors			
vi	Dependent members			

10. Family Information:

Sl No.	Name	Age	Sex	Relation	Education	Occupation
1						
2						
3						
4						
5					A	
6						
7						

Economic Information:

11. Main Occupation:

Category: Farmer / Tenant farmer / Artisen / Transport operator / trader /
Daily

Labour/ Street vendor / Temporary Stall / Hawker / Home servant

11 A) Primary Activity..... years of
engagement.....

12. Secondary Occuation.....

Category: Farmer / Tenant farmer / Artisen / Transport operator / trader /
Daily

Labour/ Street vendor / Temporary Stall / Hawker / Home servant

12 A). Secondary activityYears of Engamenent.....

13. Working Hours a day:

Primary

.....Secondary.....

13 A.) If Artisen, Nature of artisenactivity :.....

13 b). If Artisen , From Whom the skill was acquired?

14. Source of Income:

S.no	Source of Income	Monthly (Rs.)	Annually (Rs.)
a	Sales of Agricultural Product		
b	Sales of Craft Item		
c	Sales of Fruits		
d	Sales of Fish		
e	Sales of Milk		
f	Sales of Egg & Poultry		
g	Rent of House		
h	Rent for land		
i	Rent for draft-animal		
j	Remittances from relatives		
k	Profit earned (for Artisians)		
l	Profit earned (for traders)		
m	Profit earned (Money lender)		
n	Salaries Drawn		
o	Daily Wages Drawn		
p	Other (Secify)		
	Total		

15. Daily wage rate (In Rs) : Male :..... Female:
.....

16. Total household income: Monthly..... Annually.....
.....

17. Monthly expenses of consumption of food :.....

17 A). Meals taken a day: Once / Twice / Thrice
(Breakfast) (Lunch) (Diner)

18. Monthly General expense: Rs.

19. Monthly Educational Expense Rs.

ASSET INFORMATION:

20a. Housing Type: Pucca / Semi Pucca / Kuchha

20b. House Description: (i) Approx. Plinth Areasq.ft

(ii) Number of Rooms No.

20c. House Plan: (i) Sleeping Room No.

(ii) Living Room No.

(iii) Kitchen No.

(iv) Store-Room No.

(v) Courtyard No.

(vi) Bathrooms No.

(vii) For Cattle No.

20d. Annual Maintenance CostRs.

21. Livestock Holdings:

a) Cattle: Total..... Purpose: Home-consumption / Sale

b) Cattle in milk: Total..... Purpose: Home-consumption / Sale

c) Goats: Total..... Purpose: Home-consumption / Sale

d) Pigs: Total..... Purpose: Home-consumption / Sale

e) Chickens: Total..... Purpose: Home-consumption / Sale

f) Ducks : Total..... Purpose: Home-consumption / Sale

g) Others (Specify) Total..... Purpose: Home-consumption / Sale

22. Kitchen Garden:

a) Approx. Areakathas

b) Vegetables grown:..... Purpose: Home-consumption / Sale

c) Fruit grown:..... Purpose: Home-consumption / Sale

23. Any other personal landholding: Size..... kathas Location:.....

24. Household Assets:

- a) Cycle.....Value.....
- b) Radio.....Value.....
- c) Tape-recorder.....Value.....
- d) TV set.....Value.....
- e) Motorised vehicle.....Value.....
- f) RefrigeratorValue.....
- g) Small tools.....Value.....
- f) Others Value

25. Household Utensils: Mostly Steel / Aluminum / Brass / Pewter /Plastic/ Breakable

25 A). Personal Jewellery:gram, Value.....

26. **HEALTH INFORMATION:**

	Good	Occasionally ill	Frequently ill
Respondent's General Health			
General Health of Spouse			
General Health of Children			

27. Savings Information:

a) Whether Respondent has savings: Yes / No

b) Value of savings: Rs.

c) Mode of savings:

Sl No.	Place of savings	Amount (Rs)
1	Public sector Bank	
2	Private Sector Bank	
3	Cooperative Bank	
4	Chit Fund	
5	Post Office	
6	MFI	

7	Own Custody	
8	LIC	
9	Provident Fund	
10	Locally Organised Committee	
11	Friend / Relative	
12	Other (Specify)	
Total		

Information of Indebtedness:

28. Source of Loan / Credit:

SI No.	Sources	Amount	Duration	Purpose
1	Government			
2	Commercial Public Private Sector Bank & RRB			
3	Cooperative Society / Bank			
4	Insurance			
5	Provident Fund			
6	MFI			
7	NGO			
8	Other formal Institute (Specify)			
Total				
9	Landlord			
10	Agricultural Moneylender			
11	Professional Moneylender			
12	Traders & Commission Agent			

13	Relative & Friend			
14	Locally Organised Committee			
15	Other (Specify)			
Total				

29. Amount of outstanding loans:

SI No.	Sources	Amount	Period	Rate of Interest
1	Government			
2	Commercial Public Private Sector Bank & RRB			
3	Cooperative Society / Bank			
4	Insurance			
5	Provident Fund			
6	MFI			
7	NGO			
8	Other formal Institute (Specify)			
Total				
9	Landlord			
10	Agricultural Moneylender			
11	Professional Moneylender			
12	Traders & Commission Agent			
13	Relative & Friend			
14	Locally Organised Committee			
15	Other (Specify)			
Total				

29 A). Amount of Loan Repaid:

SI No.	Sources	Amount	Period	Interest
1	Government			
2	Commercial Public Private Sector Bank & RRB			
3	Cooperative Society / Bank			
4	Insurance			
5	Provident Fund			
6	MFI			
7	NGO			
8	Other formal Institute (Specify)			
Total				
9	Landlord			
10	Agricultural Moneylender			
11	Professional Moneylender			
12	Traders & Commission Agent			
13	Relative & Friend			
14	Locally Organised Committee			
15	Other (Specify)			
Total				

30. Details of Loan taken:

i) what is the purpose of Loan:

SI no	Purpose	Tick mark
1	Subsistence	

2	Business	
3	cattle	
4	Recreation (marriage, programmes etc)	
5	Education of children	
6	Emergent (medical , obsequies)	
7	Repay of old loans	
8	Purchasing of home appliances (TV , Refrigerator etc.)	
9	Other (Specify)	

ii) Does the loan come under any scheme of Central Govt. / State Govt. / Local Govt: Yes / No

iii) Is the Loan taken from informal source: Yes / NO

iv) The amount of loan applied : Rs.....

v) The amount of loan sanctioned: Rs:

vi) The time lag between application and sanction of loan:weeks

vii) The time lag between sanction and disbursement of loan amount:Weeks

viii) No. of times the respondent had to travel to get the loan sanctioned :weeks

ix). The distance of loan Sanction office from the house of respondent:k.m.

x.) The cost of travel from home of respondent to loan sanction office : Rs.

xi) How the loan was disbursed : Lump sum (one time) / Part by Part

xii) Whether any bribe was taken for disbursing loan : Yes / No

xii) if yes, what is the percentage of bribe:.....% on sanction amount

xiii) what is the rate of interest of loan :.....% p.a.

xiv) Is any guarantor required for the loan: yes / No

xv) if yes, who was the guarantor of the loan:

- a) Family member b) relative or friend c) neighbour

xvi) The number of instalment fixed for repayment:no.

xvii) Amount per instalment : Rs.....

xviii) Repayment of loan : a) regular b) irregular c) over due

xix) Mode of repayment of loan: a) daily b) monthly c) quarterly d) biannual e) Annual

xx) How much money (Principal) paid till date: Rsplus interest
Rs.....

xxi) Total amount due till date: Rs.....

xxii). How does the respondent utilised the loan:

Sl no	Utilised through	Tick mark
1	Consumption	
2	Repayment of Previous loan	
3	Recreation	
4	Medical and other emergent needs	
5	Education	
6	Production purpose	
7	As per stated purpose	
	Other (specify)	

xxiii) Difficulties faced at the time of getting loan: a) difficulty faced b) no difficulty faced

xxiv) Does the respondent generates income by using loan amount: Yes / No

xxv) Does the respondent increase his/ her household income by using loan: Yes / No

xxvi) what is the status of repayment: a) fully paid b) being paid c) not yet started

xxvii) what is the main reason of defaulting in repayment of loan:
.....

xxviii) Whether any action was taken for defaulting: yes / No

xxix) if yes, state the nature of action

31. Preference Shifting of source of loan between Intra and inter source:

a. How many loans the respondent has taken till date: Single / Multiple

b. Whether respondent has taken loan from different sources: yes / No

c. whether the respondent has shifted his her loan from one formal sources to another formal sources: Yes / No

d. . whether the respondent has shifted his her loan from one informal sources to another informal sources: Yes / No

e. . whether the respondent has shifted his her loan from one formal sources to another informal sources: Yes / No

f. whether the respondent has shifted his her loan from informal sources to another formal sources: Yes / No

g. What the reason of shifting of loan from one source to another:

i) Formal to Formal :

1. Application not entertained in one formal source
2. Less complicated process than previous source
3. Less cost of receiving loan
4. Distance from Home
5. Difference in rate of interest (shifted to lesser one/ shifted to higher one)
6. unable to provide collateral security
7. inadequate loan size.
8. other (specify)

ii) Informal to Informal:

1. Application not entertained in one informal source
2. Less complicated process than previous source
3. Less cost of receiving loan
4. Distance from Home
5. Difference in rate of interest (shifted to lesser one/ shifted to higher one)
6. unable to provide collateral security
7. inadequate loan size.
8. other (specify)

iii) Formal to Informal:

1. Application not entertained by formal source
2. Less complicated process than previous source
3. Less cost of receiving loan
4. Distance from Home
5. Difference in rate of interest (shifted to lesser one/ shifted to higher one)
6. unable to provide collateral security
7. inadequate loan size.
8. emergent in nature
9. other (specify)

iv) Informal to formal :

1. Application not entertained in informal sources
2. Less complicated process than previous source
3. Less cost of receiving loan
4. Distance from Home
5. Difference in rate of interest (shifted to lesser one/ shifted to higher one)
6. unable to provide collateral security
7. inadequate loan size.
8. not emergent in nature
9. other (specify)

32a. Whether the respondent is satisfied with the sanctioned loan amount: Yes / No

**32b. If No, what action does the respondent take for the balance amount of loan:
(Specify)**

33. whether the loan sanctioning official is known to the respondent: Yes / No

**34. What was the attitude of person/ official who sanctioned the loan to the respondent :
Negative attitude / positive attitude / problematic till confirmation bribe**

35. How the loan was repaid:

- i) through income generation by using the loan amount
- ii) by disposal of old assets
- iii) using old saving
- iv) borrowing from moneylender
- v) borrowing from relatives and friends
- vi) no response
- vii) other (specify)

36. whether the statement of loan account or loan pass book was provided to the respondent:

Yes / No

g

37. what is/ are the main reasons of default of paying instalment of loan:

(Specify).....

38. whether the loan amount was invested to any income generation activities: Yes / No

39. what was the approximate amount of income generated by using loan amount : Rs...../
month

40. what source of loan the respondent prefers : Formal / informal

Notes :

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Purpose of credit and its utilisation by the small borrowers in the district of Darjeeling

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Abstract

Objective: This work assesses purpose and utilisation of credit taken by small borrowers and to observe whether the credit taken by the borrowers have been utilised as per the purpose stated while taking credit from different sources. This study has also made an attempt to find out the degree of such deviations between the purpose and utilisation of loans taken by small borrowers.

Methods/Analysis: This study based on primary data, collected from the four blocks and one municipal corporation area of the District of Darjeeling. In total, 244 households of small borrower of various social communities, who had taken loan of less than ₹ 200000 from lender was surveyed and the data, were collected in a structured questionnaire. The method of purposive sampling was used to collect sample and only the borrowers were interviewed.

Findings: It was found that near about 89% of the borrowers showed the cause of taking loans was businesses. The per percentage of taking loans for emergency need arising out of treatment, obsequies etc. was only around 9%. The percentage of the borrowers who were found in the vicious cycle of debt trap was around 6% of the total respondents. The deviation from the stated purpose while utilising the loans amount was observed and found that it was maximum in case of business loans.

Application: It was further found that the informal loans were utilised as per the stated purpose more than the loans taken from formal sources.

Keywords: Credit, Purpose, Utilisation, Credit, Darjeeling District, Small borrower.

1. Introduction

The new millennium, unlike the 1990s, witnessed a favourable change regarding the coverage of small borrowers by the banking system. As per RBI norms, a small borrowal account (SBA) is defined to having a credit limit of up to ₹2,00,000. The individuals holding such accounts have relatively small credit requirements. 'RBI provides disaggregated information on SBA holders by social groups and gender, that is, SCs/STs and women. RBI also classifies loans to weaker sections as part of priority sector credit, which includes loans to various socially and economically underprivileged sections - small and marginal farmers, village artisans, backward social groups, individual women beneficiaries and persons belonging to minority communities as notified by the central government from time to time [1].

The borrowers take credit only when they find no other option for mitigating their financial needs except by taking loan from any credit provider. There are two types of credit sources - formal and informal. The borrower can place his/her demand for credit either to the formal sources or informal sources or from both the sources at the same time. The quantum of credit varies with the sources. It was found that the loan derived from informal sources was smaller than the loan from formal sources and consequently the quantum of informal loan was also less than the formal credit [2]. The large borrowers with better financial conditions have often been offered loans from formal sources in better terms and condition than the small borrowers. The bank employees also help them to get the loan. The small and marginal borrowers depend heavily on informal sources for taking loans in developing countries [3], primarily because of the lack of collaterals or other assets.

Abraham defined net activity of informal credit relations among the village families for basic consumption need as subsistence credit which was free of any interest charge upto ₹100 since it had limited chance of defaulting of loans as the borrowers' social cost have been found to be much higher as defaulters of repayment of loans [4]. This 'subsistence credit' activity has been observed in Poovar district of Kerala in India but not much in rest of India. Rather the reverse has been observed in case of formal loan. The loan providers of formal source extend loans mainly for production purpose. It is very tough to get loans for consumption purpose though the consumption need always exists in the families of the marginal section of the society. Apart from the consumption need there are other needs also for which the people of the marginal section of the society borrow. The borrowers, in recent times, can take loans by becoming a member of SHGs (Self Help Groups) or by becoming a client of MFIs (Micro-finance Institutions), but in both the cases, the amount of loan is not very high, rather it starts from a meagre figure and gradually increases with the number of times the borrowers borrow. MFIs also do not provide consumption loans. The borrower cannot become a member of more than one SHG but can take loans from a maximum of two MFIs [5,6]. Thus the loans are restricted in quantum and number of providers but the need and necessities of small borrowers' families continue to increase, compelling them to borrow from informal sources. The rate of interest charged by an informal moneylender is higher than formal sources but it does not deter the borrower from borrowing at such high rates of interest [7]. The lender lends only when he assumes that the risk of providing loan is within the permissible limit of lender and after considering this, the cause of taking loan, the financial position of borrower to see how the borrower will repay the loan amount etc. are also considered by the lender. The reason for taking loans must be considered carefully, otherwise, the objective of providing loans will be in vein as it was found in case of cattle loans provided to the borrowers under the Integrated Rural Development Programme (IRDP). It was pointed out by Shah *et al.* that the cattle loans provided under IRDP was unable to fulfil its objective as majority of the borrowers reported that either they had sold off their cattle or the animals were dead. The cattle loan under IRDP was provided to borrowers without taking adequate attention [8]. It was found that corruption was there at every stage of the IRDP provided loans [9]. Given this debate, the present study will outline the stated purposes for seeking loans by the small borrowers from different credit providers and the ultimate form of utilisation of that loan.

2. Profile of the study area

The four blocks in the plains of Darjeeling district and the wards of Siliguri Municipal Corporation under the jurisdiction of Darjeeling district have been considered as study area. A brief profile of the study area based on Census data 2011 [10-12], has been stated below:

The Matigara Community Development Block has an area of 132.61 square kilometres. The block consist of one census town - Bairatal and the rural area with five Gram Panchayets - Matigara-I, Matigara-II, Atharokhai, Pathargata, Champasari. The Block has a population of 1,97,278 persons of which 1,35,583 are rural population and 61695 are urban population. There are 1,01,023 males and 96,255 females. The number of persons of Scheduled castes were 70,527 and Scheduled Tribe were 26,484 (around 50% of the total population) are SC and ST. The total number of literate persons in the Block were 1,29,006 (65% approximately) out of which 72,352 were males and 56,564 were females.

The Naxalbari Community Development Block has an area of 188.12 square Kilometres with six Gram Panchayet s- Moniram, Naxalbari, Hatighisa, Upper Bagdogra, Lower Bagdogra, Gossainpur. As per the Census 2011, the block has a population of 1,65,523 of which 97,717 are rural and 67,806 are Urban. There are 85,054 males and 80469 females. The number of Scheduled Castes is 44,328, of which 22,808 are males and 21,520 females. The number of Scheduled Tribes is 32,388 of which 15,989 are males and 16,399 are females (around 48% SC and St of the total Population. The total number of literates are 1,10,663 (around 66%) of which 62,270 are males and 48,393 were females.

TheKhoribari Community Development Block has an area of 144.88 square kilometres with four Gram Panchayats - Binnabari, Buraganj, Khoribari Panishali, Raniganj Panishali, holding a total 23,352 households with a total population of 1,09,251, of which 55,671 were males and 53,580 were females. The rural and urban population were 97,399 and 11,852 respectively.

The number of Scheduled Castes was 58,570 in which 30,031 were males and 28,539 were females. The Scheduled Tribes were 21,262 in which 10,615 were males and 10,647 were females (64% SC and ST of the total population). The total number of literates in the block was 63,540, of which 36,566 were males and 26,975 were females. The Phansidewa Community Development Block has an area of 312.10 Square Kilometres and consists of rural area only with seven Gram Panchayats – Phansidewa- Bansgoan, Chathat- Bansgoan, Bidhan Nagar-I, Bidhannagar-II, Ghospukur, Jalas-Nijamtara and Hetmuri- Sighijhora. The block had a total population of 2,04,522 and all of which were rural population. There were 1,03,719 males and 1,00,803 females. The number of persons of Scheduled Castes community is 60,704, of which 31,321 were males and 29,383 were females. The number of Scheduled Tribes is 62,595, of which 30,744 were males and 31,851 were females (around 60% Sc and ST of the total population) . The total number of literates in the block were 1,13,572 of which 64,890 were males and 48,682 were females.

The area of Siliguri Municipal Corporation which comes under the jurisdiction of the Darjeeling district administration is 20.10 Square Kilometres with population of 2,94, 546 of which 1,51,535 were males and 1,14,011 were females. The number of Scheduled Castes is 26,042, of which 13,335 were males and 12,707 were females. The number of Scheduled Tribes is 3,703 of which 1863 were males and 1840 were females (only 10% Sc and ST of the total population). The total number of literates in these of SMC were 2,28,688, of which 1,22,163 were males and 1,06,525 were females. Matigara and Phansidewa are in close proximity to Siliguri town. Matigara can be termed as the peri-urban region of Siliguri because of the connectivity and extension of civic amenities to this region. Phansidewa, although is predominantly an agricultural area, is developing fast as a rurbanised area with the 4-lane National Highway running alongside and establishing greater connectivity to both Siliguri and Jalpaiguri towns. Naxalbari and Khoribari, are also very well connected to Siliguri town and has also been rurbanised in the past one decade or so, causing a shift to non-farm activities in the areas. Naxalbari is located along the borders of Nepal.

Literacy rates have increased considerably in the last decade and thus inclination towards non-farm activities and out-migration has been noticeable in all the blocks concerned. SMC is the recipient of migrant population not only from the other blocks of Darjeeling district, as mentioned, but also from other districts of northern Bengal and the adjoining state of Bihar. Besides, with the blooming of the service sector many trained personnel also get their postings in SMC, giving the town a cosmopolitan demographic character.

3. Data collection and Methodology

Primary data were collected by conducting field survey. During November 2017 to May 2018, a field survey was conducted in four blocks and one corporation area of Darjeeling District, namely: Matigara Block, Naxalbari Block, Khoribari Block, Phansidewa Block and in different wards of Siliguri Municipal Corporation (SMC). Data were collected with a structured questionnaire from the borrowers by conducting interviews of the borrowers who have taken small amount of loans (less than ₹ 2,00,000 from one provider) from different sources. The places of collection of data were the block offices, ward offices under SMC and the Sabala Mela, 2018 organised in Siliguri by the Government of West Bengal. The Blocks of Darjeeling District can be divided into two regions, the hill region and the plains. Due to political unrest during the year 2017 in the hill blocks of Darjeeling district, for the present study, four blocks in the plains and the SMC (area under the jurisdiction of Darjeeling district authority) have been considered purposively for conducting the survey for collection of data. All the four blocks and the SMC in the plain region of the district have thus been selected.

Table 1. Caste-wise distribution of small borrowers

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

Source: Field Survey

In the aggregate, 244 households of borrowers belonging to different social communities were surveyed and the total number of loans disbursed was 442. The following Table 1 provides the demographic status of the small borrower respondents. The method of purposive sampling was used to collect sample and only the borrowers were interviewed. As stated, the primary objective of the study is to observe whether the credit taken by the small borrowers have been utilised as per the purpose stated while taking credit.

1. Purpose of credit as shown while taking credit

At the time of taking loans from formal or informal sources, borrowers had to show the reason or the purpose for taking the credit to the lender with all other necessary information. If the loan provider understands that the reason which has been shown by the borrower is not true, the loan may not be sanctioned. Borrowers show the original reason for taking loans only when they become confident that due to the particular reason or purpose, their loans will not be rejected. The purposes stated while taking loans are provided in Table 2. The inferences that can be drawn are given below:

1. It was found that out of 244 respondent small borrowers, 13 of the respondents applied for the loans showing the 'Subsistence' purpose in which 8 respondents were of SC category and 5 respondents were of other category. The meaning of subsistence purpose, here, has been considered as money required for daily food consumption, repairing of home, digging of well, etc.
2. 217 respondent small borrowers conveyed that they had applied for loans showing the reason 'Business', and out of these 217 respondents, 96 respondents were from SC category (approximately 45 %) and 118 respondents were from other category.
3. While taking loans against 'Purchasing of Cattle' had been shown as a purpose by 12 small borrowers, 9 respondents belonged to the SC community and 3 respondents belonged to other categories.
4. Recreation' and 'Education' were shown as a purpose by 6 and 4 respondents respectively out of a total of 244 respondents.
5. 22 respondents applied for loans showing that they required loans for 'emergency needs' such as treatment, obsequies etc. and out of these 22 respondents, 13 belonged to SC community and 9 belonged to other categories.
6. Only 15 respondents told that they took loans showing the reason 'Repayments of old loans, and out of these 15 respondents, 10 respondents belong to Scheduled Caste, 1 respondent belonged to ST and 4 respondents belonged to other categories. The interesting feature is that all these loans were taken from relatives/ friends with no interests rates. It is found that MFIs and SHGs also do not provide loans to small borrowers for redeeming previous loan.
7. Another interesting finding is that no respondent applied for loans for purchasing of 'home appliances' and only one respondent has been included in 'other purpose'. Other purpose, here, refers to the loan taken to lease in land for cultivation.

Table 2. Distribution on the basis of purpose of credit as shown while taking credit

Blocks	HHs surveyed		Purpose of Credit								
			Subsistence	business	Purchasing Cattle	Recreation	Education	Emergent need (treatment, obsequies etc)	Repayment of old loans	purchasing of home appliances'	Other needs
			No. of Respondents								
Matigara Block	SC	20	2	14	0	1	0	1	2	0	0
	ST	0	0	0	0	0	0	0	0	0	0
	Others	27	2	26	2	0	0	3	1	0	0
	Total	47	4	40	2	1	0	4	3	0	0
Naxalbari Block	SC	16	1	12	0	1		2	1	0	0
	St	0	0	0	0	0	0	0	0	0	0
	Others	25	1	23	1	0	0	1	0	0	0
	Total	41	2	35	1	1	0	3	1	0	0
Khoribari	SC	42	2	36	1	2	1	6	6	0	1

Block	St	3	0	3	0	0	0	0	1	0	0
	Others	6	0	6	0	0	0	0	1	0	0
	Total	51	2	45	1	2	1	6	8	0	1
Phansidewa Block	SC	34	3	29	7	2	0	4	1	0	0
	St	0	0	0	0	0	0	0	0	0	0
	Others	16	0	15	0	0	0	1	0	0	0
Siliguri Municipal Corporation	Total	50	3	44	7	2	0	5	1	0	0
	SC	6	0	5	1	0	1	0	0	0	0
	St	0	0	0	0	0	0	0	0	0	0
Total SC	Others	49	2	48	0	0	2	4	2	0	0
	Total	55	2	53	1	0	3	4	2	0	0
	Total SC	118	8	96	9	6	2	13	10	0	1
Total ST	3	0	0	0	0	0	0	1	0	0	
Total others	123	5	118	3	0	2	9	4	0	0	
Grand total	244	13	217	12	6	4	22	15	0	1	

Source: Survey Data

2. Utilisation of credit

Response of small borrowers regarding the purpose of utilisation of loans was also collected during the survey. The purposes of utilisation were categorised in three categories viz. loans utilised as per stated purpose; loans utilised other than the stated purpose and loans utilised partly as per stated purpose and partly other than stated purpose. Responses of 244 respondent small borrowers were received and tabulated (Table 3) and some interesting results have been observed.

Table 3. Distribution of small borrowers on the basis of utilisation of credit

Blocks	HH Surveyed	Purpose of utilisation		
		As per stated purpose	Other than stated purpose	Partly Stated and Partly for other than stated
		No of Respondent		
MatigaraBlock	47	34	5	8
Naxalbari Block	41	28	5	8
Khoribari Block	51	32	7	12
Phansidewa Block	50	28	10	12
Siliguri Municipal Corporation Area	55	40	7	8
Total	244	162	34	48
% on total (244= 100%)	100%	66.40	13.93	19.67

Source: Survey data

It was found from Table 3 that out of 244 respondents, 162 respondents, i.e. approximately 2/3rd of the total respondents, replied that they had used the loan as per the purpose stated while taking the loans. 48 respondents, i.e. around 20% of the total respondents, stated that they used the loans partly for the purpose as stated while taking the loans and partly used for other than the stated purpose. It was observed that only around 14% of the total respondents stated that they used or utilised the loans in other than stated purpose. Thus, whether formal or informal, majority of the respondents utilised their loans as per the stated purposes.

3. Purpose of taking credit and actual utilisation of credit

Sometimes borrowers do not show the original cause of taking loans apprehending that showing of original cause may lead to the rejection of the sanction of their loan amounts as discussed earlier, and for this, they show some other causes or purposes than the actual purpose of taking loans. The purpose of taking loan, as shown while taking loan, and the actual utilisation of the amount of loan is provided in Table 4. The observations are indeed interesting as outlined below:

It was found that 244 respondent small borrowers had taken 442 loans from various sources. Out of these 442 loans, 364 loans, i.e. more than 80% of the total number of loans, as shown, was taken for business purpose. It was found that 22 loans, i.e. around 5% of total loans, were taken showing the emergent purpose. 15 loans, i.e. a little over 3% of the total loans, were taken showing the purpose of repayment of old loans.

For the purpose of purchasing of cattle, as shown while taking the loan, only 14 loans were taken which was 3.17% of the total loans. For purposes of education, recreation, only 7 and 6 loans were taken respectively. Only 1 loan was taken by showing the purpose of 'land taken on lease'. Out of the 442 loans, no loan was taken for the purpose of 'purchasing of home appliances', assets, car, bike etc. or for giving 'loan to others'.

The total number of 442 loans were utilised in 469 ways or purposes. The utilisation of these 442 loans is as follows:

1. It was found that the purpose of 'subsistence', 13 loans were taken and all these loans were utilised in subsistence purpose as it was stated while taking the loan and only 1 loan was utilised for both subsistence and emergent purposes. These 13 loans were utilised in 14 numbers of way. The percentage of loans taken for subsistence purpose and utilised for the same purpose is near 100%.
2. In total 364 loans were taken for the purpose of 'business' but the loans were utilised in a total of 388 ways or purposes. Out of these 364 loans, only 285 loans were utilised for business purposes. Loans taken for business but the utilization purpose of the loans were: subsistence purpose - 42 loans; recreation purpose- 10 loans; education purpose – 11 loans; for emergent need, treatment, obsequies etc. – 11 loans; for repayment of old loans – 10 loans; for purchasing of home appliances - 8 loans; or taking land on lease for cultivation – 8 no of loans and for giving loan to others - 3 loans. Apart from business use, the loans taken for business utilised mainly in subsistence purposes. Here it must be mentioned that near about 78.30% of business loans were utilised for business purposes.
3. For purchasing of cattle, 14 loans were taken and these 14 loans were utilised in total 15 ways. Out of these 14 loans, 11 loans were utilised for purchasing of cattle, i.e. as per the stated purpose. But these loans was utilised for other purposes also. The loans taken for purchasing of cattle but utilised in other purposes were: for subsistence purpose- 2 loans; for repayment of old loans- 1 loan; and for purchasing of home appliances- 1 loan. Here also, the deviation of cattle loans was found mainly for subsistence purpose. Here also 78.57% of the cattle loans were utilised for purchasing of cattle, i.e. as per the states purpose.
4. Only 6 loans were taken showing the purpose 'Recreation' and all these 6 loans were utilised for that purpose only, i.e. 100% utilisation of loans was as per the stated purpose.
5. There were 7 loans which were taken for 'education' purpose and these 7 loans were utilised in 8 no of ways. Out of these 7 loans, taken for education purpose, 5 loans were utilised for education purposes and the deviations were: for emergent need – 2 loans and for subsistence purpose- 1 loan. It was found that 71.42% of the education loans were utilised for the stated education purpose.
6. Total 22 loans were taken for 'emergent' purpose like treatment, obsequies etc. and these 22 loans were utilised in total 22 ways or purposes. But out of these 22 loans which were taken for emergent purpose, 2 loans were utilised for subsistence purpose. The loans utilised as per the stated purpose was 20. The percentage of utilisation of these emergent loans as per the stated purpose was near about 90.91%.
7. There was only 1 loan which was taken for 'taking land on lease' for cultivation purpose and it was utilised for the same purpose. The percentage of utilisation was 100% in this case.

Table 4. Distribution of the purpose and utilisation of credit

Purpose of taking Credit	No of loans taken	Purpose of Utilisation of Credit										No of way of utilisation
		Subsistence	Business	Purchasing Cattle	Recreation	Education	Emergent need (treatment, obsequies etc)	Repayment of old loans	purchasing of home appliances', Assets, Car, Byke etc.	Land taken on lease	Loan to others	
Subsistence	13 (2.94)	13	0	0	0	0	1	0	0	0	0	14
Business	364 (82.35)	42	285	0	10	11	11	10	8	8	3	388
Purchasing cattle	14 (3.17)	2	0	11	0	0	0	1	1	0	0	15
Recreation	6 (1.36)	0	0	0	6	0	0	0	0	0	0	6
Education	7 (1.58)	1	0	0	0	5	2	0	0	0	0	8
Emergent need	22 (4.98)	2	0	0	0	0	20	0	0	0	0	22

Repayment of old loans	15 (3.39)	0	0	0	0	0	0	15	0	0	0	15
Purchasing of home appliances', assets, car, bike etc.	0	0	0	0	0	0	0	0	0	0	0	0
Land taken on lease	1 (0.23)	0	0	0	0	0	0	0	0	1	0	1
Loan to others	0	0	0	0	0	0	0	0	0	0	0	0
Total	442 (100%)	60	285	11	16	16	34	26	9	9	3	469
% on the basis of utilisation of loans (469 = 100%)		12.79	60.77	2.35	3.41	3.41	7.25	5.54	1.92	1.92	0.64	100 %

Source: Survey data

Note: Figure in the parenthesis in col. 2 represents the percentage of loans on total loans taken

4. Source-wise utilisation

The above utilisation of loans can be observed on the basis of its source i.e. formal source and informal source (Table 5). Out of these 442 loans, 348 loans were taken from the formal sources and 94 loans were from informal sources. Out of these 348 formal loans, it was found that above 75% of these loans were utilised as per the stated purpose and around 24% of these loans were utilised beyond the purpose stated while taking these loans. In case of informal loans it was found that out of total 94 informal loans, 92 were used as per the stated purpose. The percentage of utilisation of informal loans as per the stated purpose was near about 98%. These 2 (two) informal loans were taken for the purpose of treatment and business and were utilised for the purpose of repayment of old loan and subsistence.

Table 5. Source-wise utilisation of loans (Considering number of loans)

No of HH Surveyed	Sources of loans	Total no. of loans	Utilized as per stated purpose	Not utilized as per stated purpose	Percentage of utilisation on total loans	
					As per Stated purpose	Not as per stated purpose
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: Survey data

4. Conclusion

'In March 2014, out of 138.8 million borrowal accounts with scheduled commercial banks (including regional rural banks), 109.2 million accounts had credit limit up to ₹200,000 (SBAs) and accounted for 78.7 per cent of all borrowal accounts. However, in terms of amount outstanding their share was 8.4 per cent in total outstanding credit. Majority of small borrowal accounts pertains to household sector, particularly individuals, and is concentrated in a few sectors such as agriculture, small business, retail trade and personal loans. It is thus evident that small business did account for an important segment of small borrowal accounts.

From the survey data obtained to analyse the purpose of taking credit and its utilisation, the following conclusions can be drawn:

At the time of taking loans, borrowers primarily show their requirement of loan for an economic purpose like investing in their business or expansion of business etc. Taking loan for consumption purposes or to tide over a crisis period is not generally accepted by formal credit sources, since the probability of defalcation is expected to be high. In this study, it is found that near about 89% of the borrowers have shown that the cause of taking loans is for business purpose and only 9% of the borrowers have shown that they have taken loans for meeting their emergency needs arising for treatment, obsequies of family members and other emergent purposes. There are only few borrowers who have shown the cause for taking loans as 'Repayment of old loans'. The borrowers who are in a debt trap are nearly 6% of the total respondent small borrowers.

The above distribution of loans with majority of the loans obtained for business purposes is particularly because of the presence of large number of small borrowers from SMC and the other blocks that are also in close proximity to the Siliguri town. Faster rate of urbanisation and growth of Census towns display that dependence on agriculture is less lucrative when compared to investment in small businesses. The 4-lane National Highway is now providing adequate transportation infrastructure and the irreversible trend of urbanisation motivates Small borrowers to take up small business activities. It is also notable that around 45 percent of the borrowers who borrowed for business purposes belonged to the marginalised section of the society. The highest number of SC small borrowers is present in Khoribari block followed by Phansidewa, Matigara and Naxalbari. All these blocks have a high percentage of SC and ST population (varying between 48%-60% of the total population). The least number of SC households interviewed are from SMC area which has only 10% of the marginalised section in the total urban population. Matigara has almost become urbanised owing to land use changes from agriculture to urban institutions like educational institutions and small factories.

Thus, the small businesses cater to the newly urbanised areas and hence the demand for such loans. These blocks also have a dominant SC population. While considering the utilisation part of these loans, it has been observed that maximum loans, over 64% of the total number of loans have been utilised for business purpose and the maximum deviation of purpose has also been observed from business loans. Total 364 loans were taken showing the cause as business need, and out of these, 285 numbers of loans were utilised for the business purpose. The deviation from the stated purpose (Business) found for 79 loans. This implies that only a small percentage of borrowers (22%) have deviated from the stated purpose, although they are small borrowers. It has also been observed that 244 respondents have taken 442 loans from formal and informal sources, showing various causes as stated. Total 442 numbers of Loans have been utilised in 469 ways and out these 442 loans, 356 loans have been utilised as per their stated purpose. Deviation from the shown purpose of taking loans has been observed for 86 loans. These 86 loans have been utilised in 113 ways which were not as per their stated purpose. These 86 loans which were not utilised as per their stated purpose include 79 loans which were taken for business but utilised for other purpose than business. It is found that more than 80% of the loans have been used as per purpose (i.e. $356/442 \times 100$) that the borrowers have shown at the time of taking loan. While considering the utilisation on the basis of sources of loans i.e. formal and informal, it was observed that the utilisation of informal loans were more for stated purpose than formal loans.

The overall utilisation of informal loans, as per the stated purpose, was around 98% of total informal loans whereas the utilisation of formal loans for the stated purpose was around 76% of the total formal loans. Therefore, finally, considering all the aspects of purpose and utilisation of loans, and source-wise also, it can conclusively be stated that loans taken by the small borrowers are utilised as per the purpose stated by them while taking the loan and informal loans is utilised as per the stated purpose more than the formal loans. As is also evident, a large number of small borrowers interviewed are from the socially and economically marginalised section – this is in consonance to the RBI policy as stated earlier. Chavan also pointed that bank lending could not undermine the importance of informal credit from moneylender. The presence of a large percentage of informal loans also validates the study.

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