Panorama

Volume : III Issue : I

International Book of Multidisciplinary Studies

Edited by :
Dr. Safiqur Rahman

PANORAMA

International Book of Multidisciplinary Studies

(Research Papers and Articles)

Volume III :: Issue I

making people employable

Unity Education Foundation

Guwahati

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Panorama : *Research Papers & Articles- A Collection of Research Papers, Articles on Arts, Humanities, Management & Social Science. Panorama a research based International Book of Multidisciplinary Studies with Peer reviewed book. Published by Kaziranga Printing House on behalf of Unity Education Foundation, 44, Peace Abode, Mother Teresa Path, Hatigaon, Guwahati.*

Published By : Kaziranga Printing House on behalf of
Unity Education Foundation, Guwahati

First Published : January 2020

ISBN : 978-81-935219-9-1

Price : INLAND : 1000/-

Printed at : Kaziranga Printing House, Chandmari, Guwahati-21

Editorial :

We feel great pleasure to present this issue 'PANORAMA' which contain research paper, Articles on Arts, Humanities, Management and social science on research based book before our eminent highly educated readers hand. As we know Teaching, Research and extension are the basic dimensions of higher education. The present volume "PANORAMA' is such an effort to bring multidisciplinary studies in our compendium to gain and to disseminate knowledge. This is our small contribution from Unity Education Foundation to provide a platform for the various research and studies to bring before the society. The ultimate goal of the book is to draw knowledge, information & understanding to attain certain accomplishment.

I express deep sense of gratitude to Adv. AS Tapader, Chairman Unity Education Foundation and other members for there all round help & encouragement in this regard. I am thankful to all the authors for their support & timely cooperation with us. I am also thankful to Jedidah Nyawira Kimathi, Kenya for helping & encouraging us in different ways during the course of this work.

The editorial board consists of prominent academicians from reputed Institutions and Universities. I am greatfull to all the esteem members for their constant support & cooperation to prepare this book.

Lastly, I hope that the book would be of great use to those who are working on the areas of expertise and as well to those who want to gain insight into the subject. I also welcome your comments & suggestions. I wish the readers many moments of happy & informative reading.

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Dated 03-01-2020

Foreword

Panorama a collection of research papers, Articles on Arts, Humanities, Management & Social Science. Panorama a research based International Book of Multidisciplinary Studies with Peer reviewed book. Published by Kaziranga Printing House on behalf of Unity Education Foundation, Guwahati. This book is very useful for academicians, researchers, environmentalists, planners, policy makers and the people who have interest in the area.

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Contents

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Rural Non-Institutional Credit and Its Consequences in Assam

Mangal Sing Kro

Abstract : *The poor people of the rural Assam are still obliged to depend on non-institutional credit to meet their needs. No doubt, the roles of institutional credit have been increasing since the nationalisation of commercial banks along with the expansion of microfinance facilities. But the prevailing of non-institutional credits at the present time is still cannot be neglected. The non-institutional finance is not for monetary interest only; rather it is also in other forms, like a lending commodity for commodity, lending money for commodity and so on and the rate of interest involves with the non-institutional finance is generally not in a yearly basis, rather the interests are on the monthly basis. The high-interest rate sometime leads to a ripple effect in the family management. Based on secondary data, this paper tries to analyse to bring to light of the prevalence of non-institutional finance in recent times in Assam.*

Keywords: *Institutional Finance, Non-institutional Finance, Interest and Insolvency*

Introduction:

The coverage of institutional finance in our country especially rural areas is increasing. Its flow to agriculture has been increasing for the past four decades and commercial banks have emerged as the major source of institutional credit to agriculture in the recent year (Mishra & Mahapatra, 2017). But no doubt its coverage has been increasing in the recent times; the people of the rural areas are still obliged to depend on non-institutional finances, such as Mahajans, traders, money lenders, relatives and so on. It appears that the banking system is still hesitant on various grounds to purvey credit to small and marginal farmers (Devaraja, 2011). Though the overall flow of institutional credit has increased over the years; there are several gaps in the system like inadequate provision of credit to small and marginal farmers (Mohan, 2004). Borrowing money from such Mahajans and money lenders is a common situation in our village areas. Agricultural households with better resources find easier access to formal credit systems compared to households with fewer resources (Anjani et al., 2017). Rural banks do not provide flexible products and services to meet the income and expenditure patterns of small rural borrowers (World Bank Report, 2006). .The transactions costs of informal borrowings are low as moneylenders are located conveniently, loan procedure is minimal and cash is disbursed promptly even at odd hours (Anjani et al., 2007). They lend money to the borrowers not for the interest (cash) only rather they lend money intending to gain the different forms of wealth of the borrowers also. The lending of money to get rice after a specific period is predominantly happening in our village areas. The lenders lend some specific quantity of rice to the poor farmers to get double quantity besides money lending are also seen in the non-institutional financial market. These kinds of lending ultimately create debt trap and the expanding trap enforces them to sell their lands, animals, other properties etc. to clear their liabilities. The families who have lost their land because of some reasons are forced to borrow money for their livelihood (Das, 2015). One of the important points here to be noted is that the interests

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charged by most of the village money lenders are monthly. Rafique (2006), in his paper "Implication of Informal Credit for Policy Development in India

for Building Inclusive Financial Sectors" has shown that the average size of interest taken by *Kabuliwallah* from the borrowers is 8 to 10 per cent per month.

Objectives of the Study:

1. To know how rural poor people are still depending on non-institutional Finance.
2. To analyse the impact of non-institutional finance on the rural poor.

Methodology:

This study is based on secondary data, taken from NSS and RBI data. Moreover, this study is also based on different research articles published in different journals.

Different Forms or Purposes of Lending of Non-Institutional Finance in the Rural Areas

The Traders, Mahajan or the village money lenders lend credit to the poor people in different forms or purposes. Sometimes they lend in form of money and sometimes other wealth forms.

1. **Lending Money to gain Money**: The Mahajan and the village money lenders lend money to get a high return in the form of money. They, generally, charge a high-interest rate monthly. For example, if the interest rate is 20% then these interests have to be paid monthly.

2. **Lending Money to gain commodity**: The village money lenders lend money intending to acquire commodities of the borrowers. Although most of the farmers belong to the poor or middle-class family, they, of course, obliged to depend on the village money lenders especially during an emergency. Therefore, they take money with the promise to give back the rice after harvesting at the agreed price. They lend not for rice only, but also for other goods like betel nut, bamboo etc. And the agreed price is generally lower than the prevailing market price.

3. **Lending commodity to gain commodity**: The Mahajan lend commodities to get more commodities from the borrowers. For example, if the Mahajan lends one quintal of rice to the borrowers then the borrowers have to pay two quintals, i.e., the double amount after a specific period. The borrowers, generally, borrow during seeding season when they face the problem to feed their family members. The amounts have to repay during harvesting season by the borrowers.

4. **Lending Money for Agricultural Lands (Land Mortgage)**: The poor farmers borrow money from the Mahajan or village money lenders by transferring land ownership until the borrowed amount is repaid. However, the lenders do not have the right to sell the lands without permission of the original landowners. The farmers become sharecropper after transferring land rights.

Why do the Village Poor People Borrow from Non-institutional Finance?

Borrowing from Mahajans or Village Money Lenders is not a difficult task if the borrowers have well records. Moreover, the borrowers can borrow with a promise to give some goods and other properties too. The poor people especially poor farmers obliged to depend on non-institutional sources of credit although they find no any other options to finance during their emergencies, such as health problem of the family members and admission fee for their children etc. Health problem is one of the main factors that lead them to more dependency on village money lenders.

Lack of sufficient institutional credit is also a reason why the village money lenders are getting the opportunity in the rural credit market. The village poor people obliged to depend on the village money lenders to afford their basic needs although they find it as the only way to support their livelihood.

Immense requirements of formalities for borrowing from the institutional finances also divert the mentality of poor people from the right track to the non-institutional financial market. Although poor illiterate farmers do not like to face such formalities in their borrowings, therefore, they change their track to where they can get very easily from the lenders.

One of the important reasons for borrowing from village money lenders but often neglected in our discussion is expenditure for alcoholic goods. Many poor people drink alcoholic liquid. Sometimes some habituated poor people borrow money from the village money lenders for purchasing such alcoholic goods.

How Does Non-institutional Finance Create Insolvency for a Long Time?

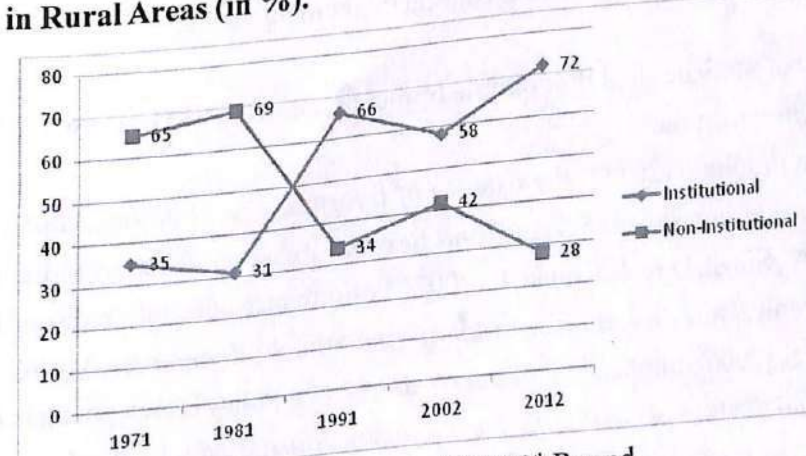
The main two reasons for creating insolvency are poverty and lack of proper knowledge in the utilisation of borrowed funds. The poor village farmers take the loan from non-institutional sources especially for child education, food, shelter and health expenditure (basic needs). As most of the poor farmers are not educated, hence they do not like to face the institutional financial formalities. Therefore, they intend to take the loan from those sources where they can take very easily (i.e., non-institutional sources). The interest rate of non-institutional credit is very high and the interest rate is generally monthly basis. Therefore, the borrowers face the problem of repayment once they take from the lenders.

The farmers who produced goods face from the scarcity of such goods is a common situation. When the farmers unable to repay the loans are usually trapped in debt for a long time, hence, the farmers either sell the goods or repay in the form of goods. One of such example is rice which the producers of rice (farmers) face the problem of scarcity. Generally, village poor farmers are subsistence farmers, therefore, if they sell or repay in the form of rice then the scarcity eventually takes place which ultimately lasts for a long time. As per NSS, 5.9% of households in the rural areas are indebtedness to non-institutional finance and 4.4% of households of rural Assam are indebtedness to institutional finance in 2012. On the other hand, in the urban area, indebtedness to institutional finance is 14.8% which 11.2% more than non-institutional finance (3.6%). Therefore, the percentages of household indebtedness to non-institutional finance in rural areas are more than urban areas'.

Comparison between the share of Institutional and Non-Institutional finance

The rural credit can be taken from both institutional and non-institutional sources. The role and coverage of institutional finances have been increasing since the nationalization of banks. The expansion of these branches along with other financial institutions, such as regional rural banks, cooperative banks and other microfinance institutions increases the coverage of the institutional finance. The government policy of financial inclusion effectively spreads its role even in remote rural areas. But the share of Non-Institutional finance in outstanding cash dues is still very high. The outstanding cash

Figure2: Share of Institutional and Non-Institutional Agencies in Outstanding Cash Debt of Assam in Rural Areas (in %).



Source: (1) Household Indebtedness in India, NSS 70th Round.
(2) Persistence of Informal Credit in Rural India: Evidence from "All India Debt and Investment Survey" and Beyond, Reserve Bank of India (2013).

Dues of institutional finance had decreased by 4% from 1971 to 1981, but its share marginally increased by 35% from 1981 to 1991. On the other hand, its share again turned down (8% decreased) from 1991 to 2002. Its share increased by 14% from 2002 to 2012. The outstanding cash dues of non-institutional finance in rural Assam is fluctuating and its share in 2012 (28%) is much lower than in 1971 (65%). Its share increased (4%) from 1971 to 1981 and felled down 35% from 1981 to 1991. The share of non-institutional finance on average has been decreasing.

Recommendations:

1. Reformation of Existing Institutional Finance: Many existing institutional finances are very exploitative. They charge a very high-interest rate. Their repayment methods are the weekly or biweekly basis. When the repayment should be done weekly or biweekly after a week of borrowing, the overall interest will be ultimately high. Therefore, such exploitative policy should be reformed.

2. Guidance for utilisation of borrowed funds: People borrowing only for the consumptions may make them insolvency. Therefore, to maintain rural economic stability, the government may appoint experts for the proper utilisation of borrowed funds.

3. Edutainment Programme: Edutainment programme may be effective in imparting financial education to the rural poor.

4. Development of Allied activities of Agriculture: The development of allied activities of agriculture will improve the financial background of neither agriculturally developed nor industrially advanced rural areas. This financial improvement will reduce the dependence on the non-institutional credit of the rural poor.

Conclusion:

Even though the share of non-institutional credit is decreasing in rural Assam, its share still cannot be neglected. Many people in rural Assam are still depending on non-institutional sources of credit; hence, they have been paying a high-interest rate. But it is also a positive sign for the state that the role of institutional credit has been increasing compared to the early times. The expansion of banking branches and microfinance institutions could touch even to some remote areas of the state. The introduction of Self-Help Groups is changing the scenario of the rural credit market to some extent. The institutional finances provide the loan to some needy people at a lower interest rate than non-institutional finance. But, because of the needs of some formalities, lack of sufficient resources in the hands of borrowers for providing as a security to the banks, illiteracy etc. lead the rural people to depend on non-institutional sources of credit during their emergencies.

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ISBN : 978-81-935219-9-1
978-81-935219-9-1