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RURAL CREDIT IN WEST BENGAL : A CASE STUDY OF A VILLAGE IN JALPAIGURI DISTRICT

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ABSTRACT

For most of the Indian rural poor households, savings are inadequate to finance farming and other economic activities. This, together with the differences between income and expenditure and lack of fixed capital investment of the rural poor, makes availability of timely credit at affordable rates of interest an essential pre-requisite for improving rural livelihoods and accelerating rural development.

This paper presents a case study of credit transactions in Nurpur, a village located in the remote area of Alipurduar sub-division in Northern West Bengal, with a purpose to review the existing status of rural credit system in a village in West Bengal and identify the areas of policy reforms for strengthening rural credit delivery mechanisms.

Introduction

The provision of credit and generation of savings have long been recognized as an essential element in any rural development strategy. Credit plays a crucial role in the modernization of agriculture but its role in the fight against rural poverty has seldom been recognized. In India rural financial services have mostly been controlled by rich farmers, who are able to use their large endowment base and influence within the local power structure to secure loans at very advantageous terms. Credit policies are also generally concentrated on land based agricultural production programmes, neglecting off-farm activities in which the poor are mainly engaged.

The rural poor- men and women, landless, artisans, agricultural labourers and others-have almost been excluded from these financial services either because they were not available (collateral and procedural requirements rendered them inaccessible) or simply because they were not considered creditworthy. The erroneous view is that the poor do not have any resources, do not save, that they cannot invest in view of immediate consumption needs, and that they are ignorant of the basic principles of sound money management (Karmakar, 2001).

In the fierce competition for a minute quantum of financial resources, the rural poor naturally

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lost out in the institutional markets and were forced to resort to exploitative informal sources of credit such as moneylenders and traders. The private moneylenders, landlords and traders (henceforth termed as professional moneylenders in our study), who are able to respond quickly thus exploit the poor and further compound their poverty.

This is an issue of high concern and distress which is also reflected in the report produced by an Expert Committee on Rural Credit (ECRC) instituted by the National Bank for Agriculture and Rural Development (NABARD). The Expert Committee observed that the poorest of the poor are left out of the formal credit system and the Rural Financial Institutions (RFIs) are not accessible to them. Though RFIs comprising of Commercial Banks, Regional Rural Banks (RRBs) and the co-operatives have a large network with an outlet for a population of under 5000 on an average, a large number of the rural poor, particularly weaker sections of the society, marginal farmers and women continue to remain inaccessible (Dubhashi, 2004).

With this backdrop an in-depth field study of credit market was undertaken in village Nurpur in Northern West Bengal in order to understand the prevailing rural credit transactions scenario in the State. The present study specifically aims at:

- evaluation and analysis of rural credit delivery system in Nurpur;
- identify the prevailing sources of rural credit in Nurpur;
- categorize the problems of rural indebtedness; and
- offer some remedial measures to overcome the problems of rural indebtedness.

To achieve the above stated objectives this paper is organized as follows: the next section discusses features of credit transactions in village Nurpur including demographic and economic profile of the village, interest structure of village debt, sources of credit and purposes of credit. Section 3 analyses the findings of the case study and concluding observations and suggestions are presented in section 4.

Credit Transactions in Nurpur : A Case Study

One day during our visit to the village Nurpur, in the month of May, 2009, we met a man named Surendra Oraon who used to weave beautiful wall hangings and other decorative bits and pieces made of cane. He is a landless labourer who only earns his bread by his expertise in weaving cane handicrafts. He borrowed Rupees 250.00 from one of the wholesalers of cane handicrafts for purchasing raw materials i.e. cane, with an agreement that he had to sell all his finished goods to that wholesaler only to pay off his debt. With this raw material he can weave 15 pieces which he sold at the rate of Rupees 22.00 per piece and usually it took 3 days to complete the assignment. Thus his total earnings for 3 days stood up at Rupees 80.00 only. When we asked him that why he did not have a loan of from somebody else, he told us that Mahajans (affluent class of people who used to lend money at high rate of interest) used to charge exorbitant rate of interest which changes from time to time. During that time it was 2 % to 11.5% per month.

Uttar Banga Kshetriya Gramin Bank (a state run rural bank), which operates in the districts of Northern West Bengal, runs a local branch at Shamuktala, which is about 10 kilometers away from Nurpur. Interestingly, Surendra never approached the bank because of its long cumbersome process and requirement of collateral for credit approval. He is of the opinion that "if you don't have any influential person to pursue for your loan, you won't get it".

This story exemplifies some interesting aspects of rural credit delivery system that prevails in Nurpur. It demonstrates the present status of village credit market, difficulties of the assetless labourer like Surendra in obtaining loans at reasonable rate of interest, the continuing structure of exploitation of rural poor by the affluent classes and the failure of the institutional sources in sanctioning credit to the people living below poverty line.

Field study was conducted during April, 2009 to September, 2009 and all credit-related data were collected during this period covering all 151 households of the village. As the information on credit is quite susceptible in character, we took necessary help from a local primary school teacher to extract the essential data from the village households by setting up a good association with them. Discussions were also completed with the existing village moneylenders and officials of public lending institutions to cross-verify the data revealed by the village households.

Village Profile

Nurpur, a small village with only 151 households and 837 individuals falls under the stretches and boundaries of Alipurduar II block in Alipurduar sub-division in Jalpaiguri district. Situated at a distance of 35 kilometers from the sub-divisional town of Alipurduar, most of the villagers are small and marginal farmers and landless labourers. Few villagers have been able to find jobs in primary/secondary schools, anganwadis, government offices and other business establishments outside the village. Some of them earn their livelihoods by weaving cane handicraft items which they sold to their Mahajans at Shamuktala, a locality which is 10 kilometers away from Nurpur.

Demographic and Economic Profile

It is customary to present demographic and social background of the village inhabitants as they exert tremendous influence on credit availability. Almost 59.00% (494 individuals) of the total villagers belong to scheduled castes, 23.06% (193 individuals) belong to scheduled tribes and 17.94 % (150 individuals) belong to upper castes like Brahmins, Kayastha, Kshatriya, etc. Other prominent castes are Rajbanshi, Rava, Nageshia and Oraon. However, all the village households belong to Hindu community. The Oraons of which Surendra is a member, are the most insolvent and impoverished castes of the village along with Ravas and Nageshias. Amongst 8 Rava households 3 have cultivation land of less than 1 bigha, only 8 out of 14 Nageshia households owns small pieces of land and 4 amid 15 Oraon households possess land of less than 1 bigha.

Surprisingly none of the households amongst these 3 castes have possession of land of more than 1 bigha. Amongst 151 village households, 60 households (39.74%) are landless and only 8 households (5.30%) possess land of more than 2 bighas. Literacy rate is also very low among the Nageshias followed by Oraons and Ravas. 4 Oraon households (26.67% out of total Oraon households) and total 18 households (11.92% out of 151 households) have monthly income of less than Rs. 1000. This clearly explains the pitiable condition of these Nurpur households. Detail demographic and socio-economic status of the households is classified in Table 1.

Table -1

Demographic and Socio-Economic Status of the Villagers

Source: Field Survey # Figures in parenthesis indicates number of individuals.

Note: 6.4 bigha =1 acre; C=Cultivation; J=Jobholders; CL=Casual labour; SE=Self employed

Features of Credit Transactions

The rural credit markets in Nurpur have presented many fascinating features. Traditionally, villagers relied primarily on professional moneylenders, relatives and friends to meet their social expenditures as well as for their survival. Though some of the rural borrowers have been depending upon institutional sources (Commercial Banks and other Regional Rural Banks like Uttar Banga Kshetriya Gramin Bank, Agricultural Land and Rural Development Bank and Co-operative societies) for production and investment credit requirements but for consumption credit needs like celebrating social functions, births/deaths cases, medical needs, meeting expenses on litigation, etc. they are forced to approach non-institutional sources (like local village moneylenders, traders, relatives and friends). For the rural poor, there is a very thin boundary line between consumption and production credit needs. Rural borrowers are more interested on timely and sufficient loans with low transaction costs.

Credit transactions in Nurpur are quite high and total outstanding debt of all Nurpur households approximately sum up to Rs. 8, 97,655.00 as on September, 2009. This huge debt also includes amount of long term loan borrowed by 9 villagers from different public lending institutions. Interestingly all of these 9 villagers are employed either in primary/secondary schools or in various government departments. 124 households (82.12%) are involved in credit transactions and 23 households (28.48%) are engaged in money lending business to their fellow Nurpur villagers. Out of these 23 households 12 of them have outstanding debt either to the public lending institutions or to the private moneylenders. Thus credit transactions have become one of the major facets of Nurpur's economy both in terms of total outstanding debt and involvement of the significant number of village households. A profile on the structure of village debt is given in Table 2.

Table -2

Debt Profile of Nurpur (as on September, 2009)

Source: Field Survey # Figures in parenthesis indicates percentage of households.

Interest Structure of Village Debt

It is interesting to note that about 1.8% of total village debts are interest free and 2.4% are obtained at concessional rate (i.e. at the rate of 4% to 14% per annum). The main sources of interest free and concessional credit are friends, helpful relatives, neighbours, and other allies and patrons. It has been already stated earlier that professional moneylenders offer loans at the interest rate ranging from 24% to 138% per annum depending upon the period of loan and the risks involved, while the interest structure of public lending institutions varied from 8.5% to 16% per annum. One of the main reasons of charging such a high interest rate by the professional moneylenders is that they disburse quick and easy loans to their fellow villagers without any collateral.

Professional moneylenders tend to give more credit for consumption and other needs whereas formal lending institutions like banks and co-operatives tend to specialize in areas where farmers have farm land titles and other collateral. It has been observed that rural areas with higher average incomes have lower interest rates (Burdwan district in West Bengal is more prosperous and the interest rates range from 36% to 84% per annum, while Nadia district in the same state is less prosperous and the interest rates range from 72% to 120% per annum) (Karmakar, 2001).

Out of total credit obtained in Nurpur, 81.6% (Rs. 732405.00) of the amount has been obtained at an interest rate ranging from 8.5% to 16% which also includes Rs. 9873.00 (1.1% of total debt) borrowed by Nurpur households from private money lenders at concessional rate, and the rest 80.5% of the amount from public lending institutions. Total outstanding debt owed by the villagers to different lending institutions according to the rate of interest is given in Table 3.

Table - 3

Total Outstanding Debt of Nurpur Households According to the Rate of Interest

Source: Field Survey. * Rounded off to nearest rupee.

Sources of Credit

In our study it is revealed that though public lending institutions sanctioned 80.5% of the total village credit, none of the single household with average monthly income of up to Rs. 2500 per household was able to obtain even a slightest amount from these formal institutions. All these 68 households do have some debt to professional moneylenders, relatives, friends, neighbours, allies etc. The public institutions being inaccessible to the poor households of Nurpur, they have no other alternatives than borrowing from professional moneylenders at very expensive rate of interest. Though the amount of private credit is very undersized in comparison to institutional credit, yet these private credits do matter a lot to many Nurpur households.

Public lending institutions in Nurpur include Commercial Banks (State Bank of India, United Bank of India, Central Bank and UCO Bank), Regional Rural Banks (Uttar Banga Kshetriya Gramin Bank and Agricultural Land and Rural Development Bank) and Co-operative societies while non-institutional sources comprise of, professional moneylenders (including landlords, agricultural moneylenders and traders), neighbours, relatives and friends etc. The distribution of total debt according to credit sources and monthly income are given in Table 4 and Table 5.

Table - 4

Total Outstanding Debt: Share of Different Credit Agencies (as on September, 2009)

Source: Field Survey.

Table-5

Total Credit Sanctioned to Different Income Groups by Different Credit Agencies (as on September, 2009)

Source: Field Survey. # Figures in parenthesis indicates percentage of Debt.

* Rounded off to nearest rupee.

Credit According to Purposes

Our survey of village debt also provides information regarding the distribution of credit by means of purposes. 72.6% of total debt was sanctioned for farm and non-farm expenses including capital expenditure whereas 27.4% was sanctioned for meeting household expenses, social expenses and other personal needs details of which is given in Table 6.

Table - 6

Purpose-wise Distribution of Village Debt (as on September, 2009)

Source: Field Survey. # Figures in parenthesis indicates percentage of Debt.

Findings of the Case Study

The significant issues of concern are:

(a) There are various shades of rural poverty but among the poorest of the poor like Surendra Oraon are termed as 'landless'. They are also termed as 'marginal farmers' or 'agricultural labourers' who have no land and depend only upon their skill and physical labour. As these landless poor operate from a very slim economic base, a great transformation in their economic base and mobility is possible if they had access to financial resources to support their physical and skilled labour resource.

(b) Within the existing system, availability of credit resources is restricted to the few who are able to have recourse to credit under various government sponsored programmes. The majority of the rural poor in Nurpur are unable to avail the benefit of these credit programmes due to past indebtedness, lack of sufficient knowledge about these schemes, inability to interact with bank/government officials, etc. Thus the poorest of the poor are left out of the formal credit system. Although Uttar Banga Kshetriya Gramin Bank and Agricultural Land and Rural Development Bank operating in the region have some subsidized credit schemes for the rural poor, a large section, particularly assetless poor and marginal farmers continue to remain inaccessible.

(c) In Nurpur, we have found that the poor villagers are not unproductive, but by virtue of their sheer numbers, labour potential and expertise in cane handicrafts they can be considered as one of the most productive segments of the population. Unfortunately their labour does not yield adequate returns, as because control over financial resources is in the hands of better-off segments. So a credit programme should be designed for the poor that can fulfill their genuine credit needs.

(d) Rural Financial Institutions (includes Commercial Banks and Regional Rural Banks) operating in Alipurduar town and in Alipurduar II block are more bureaucratic and are rarely guided by business considerations. They prefer to follow government 'norms and instructions' rather than meeting borrowers' requirements. This is one of the major causes for the continuance of the professional moneylenders in spite of their high interest rates.

(e) In Nurpur the cost of informal sector credit (with interest rate ranging from 24% to 138% per annum) is higher than that of formal sector credit even when the informal lender is not making monopoly profits. Also informal credit is more readily available to borrowers, whose urgent credit needs tend to be neglected by the public lending institutions due to high risk factors, lack of collateral and high cost of administering small loans.

(f) The distinguishing feature of professional moneylenders of Nurpur is their informality and flexibility of lending operations that help make their transaction costs lower than in the formal sector. On the other hand, Rural Financial Institutions have high transaction costs due to:

- poor monitoring due to absence of marketing information;
- high default rate due to political intervention;
- high documentation/procedural costs for borrowers and
- lack of market-orientation and improper targeting.

The transaction costs of these institutions are also very high due to low staff productivity and lack of motivation among urban oriented staff to work in rural branches.

(g) The market orientation of the professional moneylenders of Nurpur is unique. Their loans are 'packaged' for the rural borrowers while the loan schemes of Rural Financial Institutions are not targeted properly. Though professional moneylenders concentrate on lending for consumption needs and other social and medical contingencies, some moneylenders also provide credit for capital assets acquisition and bridge loans to those rural borrowers who have been sanctioned loans from formal credit institutions but are yet to receive the funds.

Conclusion

Based on our study of credit transactions in Nurpur, we can conclude that the rural credit market in this village is intensely segmented, with different rationing instruments regulating the allocation of credit from different sources, leading to the persistence of a wide range of interest rates (ranging from 0% to 138% per annum) within the village. Interest-free and concessional credits are governed by relatively strict societal norms and are also quite limited in scope. Institutional credit is comparatively cheaper (interest rate ranging from 8.5% to 16% per annum) but due to collateral requirements and long cumbersome procedures poor villagers have to fall back upon professional moneylenders at high rates of interest. This is notwithstanding the threat of losing their means of production, indebtedness and sometimes even bondedness – an indication of their struggle to survive against all odds. Their ability of repaying loans at such high rates of interest only exemplifies their tremendous risk bearing capacity, exceptional ability to optimize on their frugal resources, the 'real' potential of their scanty income generation and the possibility of mobilizing 'tiny' savings.

In most of the cases the primary objective of the professional moneylender is to set up an economic relationship with such terms and conditions that the poor borrower is squeezed for repayment and if the income situation of the borrower worsens, the supply of cash is tightened and interest rates (representing higher risk cost) are raised. Moreover, the terms of further loans are set in such a manner that the borrower is never able to repay the principal. As Rural Financial Institutions of Nurpur do not cater consumption loans to the poor, this market is controlled by professional moneylenders. If this system continues for another 20 years or so, the rural poor will be sucked dry of whatever assets they may have and become bonded to the professional moneylenders.

In order to reduce dependence of the poor rural people on these greedy professional moneylenders, a time has come to revamp the 'unhealthy' rural credit delivery system which does not serves the purposes of rural poor who live at the margins of the society. A viable rural credit delivery system should be designed to cater all types of rural credit such as:

- consumption credit – currently given only by professional moneylenders, relatives, friends, neighbours and other allies;
- production credit – given by public lending institutions, professional moneylenders and others; and
- term credit – given by public lending institutions and professional moneylenders only

Thus a rural credit delivery mechanism needs to be implemented that ensures:

- adequacy of loan amounts even for consumption purposes to the marginal farmers, landless labourers and artisans;
- collateral should not be insisted upon for loans below Rs. 1000 for the marginal farmers, landless labourers and artisans who has been approved loan for the first time. If the previous history of repayment is good then the loan amount could be further raised depending upon borrowers needs;
- loans sanctioned in time and without long-drawn procedures;
- low transaction costs for borrowers and loan transaction costs for banks;
- low interest costs;
- adequate repayment period, with some gestation period;
- savings and thrift opportunities;
- proper and courteous services without additional 'rent' costs;
- single window credit facilities for all types of rural credit;
- effective monitoring of service area plans for rural credit agencies without opening new branches and enhancing manpower costs; and
- better recovery of outstanding debts based on Bangladesh Grameen Bank model.

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