# Rural Banking and Landless Labour Households: Institutional Reform and Rural Credit Markets in India

V.K. RAMACHANDRAN AND
MADHURA SWAMINATHAN

*Financial liberalization is a key component of programmes of orthodox structural adjustment. Financial reforms include, among other things, the removal of controls on interest rates and the abolition of programmes of directed credit. Here the effect of financial sector reform on rural banking and rural credit transactions in India is examined, with particular reference to landless labour households. First, the trends in selected indicators of rural banking at the national level over the last 30 years are reviewed. Secondly, longitudinal data for a village in Tamil Nadu are used to examine changes in patterns of indebtedness and credit transactions among landless labour households. It is argued that the exploitation of landless labour households in the credit market has intensified with the introduction of financial reforms. Lastly, the policy envisaged as an alternative to the formal credit sector in the countryside – the establishment of micro-credit projects – is examined critically.*

*Keywords*: financial liberalization, rural credit, agricultural labour, India, village studies

## INTRODUCTION

Financial liberalization is a crucial component of the programmes of globalization that are being imposed on the people of less-developed countries. The demand that financial markets be liberalized quickly is high on the agenda of imperialism; in India as well, advocates of economic 'reform' see financial liberalization as being at the core of structural adjustment.[1] This paper attempts to examine the effect of financial sector reforms on rural banking in India. There are many components

V.K. Ramachandran and Madhura Swaminathan, Social Sciences Division, Indian Statistical Institute, 203 B. T. Road, Calcutta 700108, India. e-mail: madhura@isical.ac.in

This paper is part of a larger project on agrarian change in Gokilapuram village directed by V.K. Ramachandran. He is grateful to ActionAid India for financial support for the collection and processing of survey data. Vikas Rawal has been associated with the preparation and management of the database, and we are very thankful to him for his continued help and advice. We are grateful to Anamitra Saha for helping us to obtain part of the official data on banking and to R. Ramakumar and Jesim Pais for research assistance. We thank Terry Byres for his detailed comments.

[1] See, for example Sen and Vaidya (1997) and the references in it.

of the package of reforms associated with financial liberalization in India,[2] but the policies that have had an immediate and direct effect on rural credit are those pertaining to directed credit and controls on interest rates. Specifically, liberalization has involved the weakening of programmes of directed credit by means such as lowering of targets for the sector-wise allocation of credit and removing ceilings on interest rates.

It is well known that the burden of indebtedness in rural India is very great, and that despite major structural changes in credit institutions and forms of rural credit in the post-Independence period, the exploitation of the rural masses in the credit market is one of the most pervasive and persistent features of rural life in India. Rural households need credit for a variety of reasons. They need credit to meet short-term requirements of working capital and for long-term investment in agriculture and other income-bearing activities. Agricultural and non-agricultural activities in rural areas typically are seasonal, and households need credit to smoothen out seasonal fluctuations in earnings and expenditure. Rural households, particularly those vulnerable to what appear to others to be minor shocks with respect to income and expenditure, need credit as an insurance against risk. In a society that has no law of free, compulsory and universal school education, no arrangements for free and universal preventive and curative health care, a weak system for the public distribution of food and very few general social security programmes, rural households need credit for different types of consumption. These include expenditure on food, housing, health and education. In the Indian context, another important purpose of borrowing is to meet expenses on a variety of social obligations and rituals.

If these credit needs of the poor are to be met, rural households need access to credit institutions that provide them with a range of financial services, provide credit at reasonable rates of interest and provide loans that are unencumbered by extra-economic provisions and obligations.

Historically, there have been four major problems with respect to the supply of credit to the Indian countryside. First, the supply of formal sector credit to the countryside as a whole has been inadequate.[3] Secondly, rural credit markets in India themselves have been very imperfect and fragmented. Thirdly, as the foregoing suggests, the distribution of formal sector credit has been unequal, particularly with respect to region and class, caste and gender in the countryside. In particular, formal sector credit needs to reach backward areas, income-poor households, people of the oppressed castes and tribes, and women. Fourthly, the major source

[2] Chandrasekhar and Ghosh (2002) classify the policies of financial liberalization in India into three types: first, policies to curtail government intervention in the allocation of credit; secondly, policies to dismantle the public sector and foster private banking; and thirdly, polices to lower capital controls on the Indian banking system.

[3] The formal sector of rural credit is the sector in which loan transactions are regulated by legislation and other public policy requirements. The institutions in this sector include commercial banks, cooperative banks and credit societies, and other registered financial institutions. The informal sector of credit is not regulated by public authorities, and the terms and conditions attached to each loan are personalized.

of credit to rural households, particularly income-poor working households, has been the informal sector. Informal sector loans typically are advanced at very high rates of interest. Further, the terms and conditions attached to these loans have given rise to an elaborate structure of coercion – economic and extra-economic – in the countryside.

That these constitute what may be called the 'problem of rural credit' has been well recognized; recognized, in fact, in official evaluations and scholarship since the end of the nineteenth century. Given the issues involved, the declared objectives of public policy with regard to rural credit in the post-Independence period were, in the words of a former Governor of the Reserve Bank of India, 'to ensure that sufficient and timely credit, at reasonable rates of interest, is made available to as large a segment of the rural population as possible' (Rangarajan 1996, 288). The policy instruments to achieve these objectives were to be, first, the expansion of the institutional structure of formal-sector lending institutions; secondly, directed lending; and thirdly, concessional or subsidized credit (Rangarajan 1996). Public policy was thus aimed not only at meeting rural credit needs but also at pushing out the informal sector and the exploitation to which it subjected borrowers.[4] Rural credit policy in India envisaged the provision of a range of credit services, including long-term and short-term credit and large-scale and small-scale loans to rural households.

In order to identify the impact of changes in banking policy on the rural economy, the paper first reviews trends in selected indicators of banking in India over the last three decades. We then use longitudinal data from a village in Tamil Nadu to analyse the impact of rural banking policy on credit transactions and indebtedness among landless rural labour households. We also examine the viability of micro-credit as an alternative solution to problems of rural credit in India.

## INSTITUTIONAL REFORM IN INDIA'S BANKING SECTOR AND ITS IMPLICATIONS FOR RURAL CREDIT

The period of our study covers, broadly speaking, three phases in banking policy *vis-à-vis* the Indian countryside. The first was the period following the nationalization of India's 14 major commercial banks in 1969. This was also the early phase of the 'green revolution' in rural India and one of the objectives of the nationalization of banks was for the state to gain access to the new liquidity, particularly among rich farmers, in the countryside. The declared objectives of the new policy with respect to rural banking – what came to be known as 'social and development banking' – were the following:[5]

(1) to provide banking services in previously unbanked or under-banked rural areas;

[4] On this, see the review in Chavan (2001), Ch. 1, 5–7.
[5] Wiggins and Rajendran (1987).

(2) to provide substantial credit to specific activities, including agriculture and cottage industries; and
(3) to provide credit to certain disadvantaged groups such as, for example, Dalit[6] (or Scheduled Caste) households.

The Reserve Bank of India (RBI) issued specific directives regarding 'social and development banking'. These included setting targets for the expansion of rural branches, imposing ceilings on interest rates, and setting guidelines for the sectoral allocation of credit. Along with the new farming practices associated with the 'green revolution', the first post-nationalization phase of expansion in rural banking saw growth in credit advances for agriculture.[7] Specifically, a target of 40 per cent of advances for the 'priority sectors', namely agriculture and allied activities, and small-scale and cottage industries, was set for commercial banks. In addition, a decision was taken in 1972 to introduce regional rural banks, institutions that would specialize in social and development banking for rural areas. Advances to the countryside increased substantially, although they were, as was the green revolution itself, biased in respect of regions, crops and classes. The two main crops that gained from the green revolution, as is well recognized, were wheat and rice, and the application of the new technologies was primarily in the irrigated areas of the north-west and south-east of India, with the benefits concentrated among the richer classes of cultivators.[8]

The second phase, which began in the late 1970s and early 1980s, was a period when the rhetoric of land reform was finally discarded by the ruling classes themselves, and a period when the major instruments of official anti-poverty policy were programmes for the creation of employment. Two strategies for employment generation were envisaged, namely wage-employment through state-sponsored rural employment schemes and self-employment generation by means of loans-cum-subsidy schemes targeted at the rural poor.[9]

Thus began a period of directed credit, during which credit was channelled towards 'the weaker sections'. The most important new scheme of this phase was, of course, the Integrated Rural Development Programme or IRDP, a scheme for the creation of productive income-bearing assets among the poor through the allocation of subsidized credit. The IRDP was initiated in 1978–9 as a pilot

[6] Dalit: oppressed caste.
[7] On the impact of the expansion of rural banking infrastructure and directed credit policy on agricultural investment and fertilizer demand, see Binswanger et al. (1993), cited in Narayana (2000).
[8] On the unequal impact of the green revolution and the 'region-wise, crop-wise and class-wise concentration of production' as a result of the green revolution, see Prabhat Patnaik (1975). See also Griffin (1975), Bhalla and Chadha (1990), Bharadwaj (1990), Dhanagare (1990).
[9] See Osmani (1990) for a summary of rural employment programmes as anti-poverty policy in south Asia. There has been extensive debate in India on the merits of wage employment *vis-à-vis* self-employment, with some scholars arguing strongly for wage-labour schemes on the grounds that the poor lack the appropriate entrepreneurial skills, resources and organization required for successful self employment (Rath 1990), and others arguing for both types of employment.

project and extended to all rural blocks of the country in 1980.[10] There is much writing on the failure of IRDP to create long-term income-bearing assets in the hands of asset-poor rural households. Among the many reasons for this failure were the absence of agrarian reform and decentralized institutions of democratic government, the inadequacy of public infrastructure and public provisioning of support services and the persistence of employment-insecurity and poverty in rural society.[11] Nevertheless, the IRDP strategy did lead to a significant transfer of funds to the rural poor.

The second phase also involved an expansion and consolidation of the institutional infrastructure for rural banking. 'Even ardent critics of India's growth strategy,' wrote a noted scholar of India's banking system, 'would admit that what the country achieved in the area of financial sector development before the present reform process began, particularly after bank nationalization, was unparalleled in the financial history of the world' (Shetty 1997, 253). According to Shetty, there was, after bank nationalization, 'an unprecedented growth of commercial banking in terms of both geographical spread and functional reach' (Shetty 1997, 253).

The third phase was that of liberalization, particularly after 1991. The policy objectives of this phase were encapsulated in the Report of the Committee on the Financial System chaired by M. Narasimham (RBI 1991). In its very first paragraph, the report called for 'a vibrant and competitive financial system . . . to sustain the ongoing reform in the structural aspects of the real economy'. The Committee said that redistributive objectives 'should use the instrumentality of the fiscal rather than the credit system' and accordingly proposed that 'directed credit programmes should be phased out'. It also recommended that interest rates be deregulated, that capital adequacy norms be changed (to 'compete with banks globally'), that branch licensing policy be revoked, that a new institutional structure that is 'market-driven and based on profitability' be created, and that the part played by private Indian and foreign banks be enlarged. In short, the Narasimham Committee recommended that banking policy be guided more by the market than by regulations set by the public authority.

Let us make it clear that, before the 1990s, the banking system was open to much criticism, particularly of its bureaucratic failures and its insensitivity to the social and economic context in which it functioned.[12] The reforms proposed in

[10] Two similar schemes implemented in the 1970s were the Small Farmers' Development Agency (SFDA) and the Marginal Farmers' and Agricultural Labourers Agency (MFAL) programmes.

[11] The problems with the IRDP included misidentification of beneficiaries, high initial costs involved in the acquisition of the loan to the borrower, small loan size leading to purchases of relatively low quality assets or small changes in working capital. Consequently, the programme failed to generate sustained long-term improvements in incomes. Almost all evaluations of IRDP concur that a major factor in the failure of income generation has been the lack of infrastructure and other support services. On the failures of the IRDP, see MIDS (1980), Osmani (1990), Dreze (1990) and Swaminathan (1990).

[12] Some of the problems of the financial system were noted in periodic evaluations by banking commissions; see Shetty (1997).

1991, however, were not attempts to bring rural banking closer to the poor, but to throw the entire structure of social and development banking overboard.[13]

The third phase inevitably saw a reduction in rural banking in general and in priority sector lending and preferential lending to the poor in particular. The new policies, we believe, also contributed to other distortions in the financial system (although these are not the focus of this paper).[14]

### *Record of Progress of Rural Banking*[15]

This section documents changes in rural banking at the national level with respect to five indicators: total deposits mobilized and credit advanced in rural areas; the share of priority sectors in total advances; credit advanced to agriculture and allied activities; and the scale of credit disbursed through the IRDP.

Table 1 documents the growth of bank offices, deposits and gross bank credit in rural areas as well as the share of rural areas in the all India total[16] from December 1969 to March 2000, for all scheduled commercial banks. The impact of bank nationalization on the growth of scheduled commercial banks in rural areas is clear: the share of rural bank offices in total bank offices jumped from 17.6 per cent in 1969 to 36 per cent in 1972. The share rose steadily thereafter, and attained a peak of 58.2 per cent in March 1990. From 1990 onwards, there was a gradual decline in the share of rural bank offices, and the share fell below 50 per cent in 1998, 1999 and 2000. In fact, the absolute number of bank offices fell in the 1990s: 2706 rural bank offices were closed between March 1994 and March 2000 (most of these closures were in 1995 and 1996).

Secondly, rural deposits grew rapidly after nationalization: their share of aggregate deposits doubled in the 1970s, from 6.3 per cent in 1969 to 12.6 per cent in 1980 and continued to grow, although at a slower pace, in the 1980s. Once again, the peak was reached in 1990, when rural deposits accounted for 15.5 per cent of aggregate deposits. The pace of deposit mobilization in rural areas fell in the 1990s.

[13] Shetty (1997) shows how the present strategy fails to take account of the structural features of the Indian economy. First, the strategy aims for the 'most premature and operationally infeasible goal . . . of globalization' for the financial sector in India (Shetty 1997, 261), a goal that has not been set even by industrialized countries. This goal has resulted in the costly and 'forced application of capital adequacy and other supervisory norms'. Secondly, a monetarist approach guides the new policy. This has meant 'primacy to the control of money supply' and monetary targeting at the cost of neglecting the 'size and distribution of bank credit' (Shetty 1997, 261–2). Thirdly, the 'uncritical acceptance of the free-market philosophy has blinded the government to the needs of a genuine reform of the financial system' (Shetty 1997, 263).

[14] See Shetty (1997) on this issue.

[15] The data in this section refer only to the transactions of scheduled commercial banks. They do not include cooperative credit. For an examination of data on cooperative credit, see Chavan (2001) and NABARD (2001).

[16] There are four area categories used by banks: rural areas, semi-urban areas, urban areas and metropolitan areas.

As we have indicated, the period after nationalization was characterized by an expansion of bank credit to rural areas. The amount of credit disbursed in rural areas tripled in the 1970s, and continued to rise in the 1980s. After 1988, however, the share of total bank credit that went to rural areas declined, from 15.3 per cent in 1987 and 1988 to 11 per cent in March 1999, and 10.6 per cent in March 2000.

Given the pattern of growth of aggregate deposits and gross bank credit, it is no surprise that the credit–deposit ratio in rural areas rose after 1969 (Table 1). The ratio peaked at 68.6 per cent in 1984 and remained above 60 per cent until 1990. For a few years in the 1980s, 1985–8 in particular, the share of the rural sector in gross bank credit was higher than its share of total deposits, and in these years, the rural credit–deposit ratio exceeded the all India credit–deposit ratio. In the 1990s, the credit–deposit ratio fell sharply.[17] We note here that the credit–deposit ratio fell after 1984 at the national level as well. In the metropolitan areas, however, the decline has been reversed significantly in recent years; the data thus reveal a relative shift of credit from rural, semi-urban and urban areas to metropolitan areas.[18]

One of the objectives of banking policy after nationalization was to expand the flow of credit to agriculture and small industries, or what were termed 'priority sectors'. As Table 2 shows, the share of priority sectors in the total advances of scheduled commercial banks rose from 14 per cent in 1969 to 21 per cent in 1972 and then went up to 33 per cent in 1980. The RBI set a target of 40 per cent for priority sector lending and by the mid-1980s this target was met. From 1985 to 1990, in fact, the target was over-achieved, that is, more than 40 per cent of total advances went to priority sectors. From 1991 to 1996, the share of priority sector advances fell, in line with the recommendations of the Narasimham Committee. From 1990–1 to 1996–7, loan accounts to agriculture fell by 5 million (Narayana 2000). While 52 per cent of bank credit in rural areas went towards agriculture in 1985, the proportion fell to 38 per cent in 1998 (Nair 1999). At first glance, the direction in priority sector lending appears to have been reversed over the last five years. This is, however, a reversal by redefinition: 'priority sector' lending now includes advances to newly created infrastructure funds, to non-banking finance companies for on-lending to very small units, and to the food processing industry.[19] Loans to multinationals like Pepsi, Kelloggs, Hindustan Lever and ConAgra now count as priority sector advances.[20] When data for scheduled commercial banks are disaggregated by type of bank (public sector banks, regional rural banks, private banks and foreign banks), we find that there was no lending

[17] Interestingly, the credit–deposit ratio for rural Tamil Nadu has generally been higher than the national average. In the late 1980s (1988–1990 in particular), the rural credit–deposit ratio in Tamil Nadu was greater than one. However, the impact of liberalization has been felt strongly: the credit–deposit ratio fell after 1991 and was down to 0.68 in 1999.

[18] See Table 2 in Shetty (1997).

[19] An examination of the components of priority sector lending shows that the share of lending to agriculture has declined steadily after 1986–7 (*Report on Currency and Finance*).

[20] Report on the Finance Minister's budget speech (*Business Standard*, 1 March 1999).

*Table 1.* Number of offices, aggregate deposits and gross bank credit of all scheduled commercial banks, India, 1969–2000

| *Year* | *Number of bank offices* | | *Credit advanced* | | *Deposits* | | *Credit–deposit ratio (%)* | |
|---|---|---|---|---|---|---|---|---|
| | *Rural (number)* | *% to total* | *Rural (in Rs 10 million)* | *% to total* | *Rural (in Rs 10 million)* | *% to total* | *Rural* | *All areas* |
| 1969 | 1443 | 17.6 | 115 | 3.3 | 306 | 6.3 | 37.6 | 71.9 |
| 1970 | | | 193 | 4.5 | 400 | 7.3 | 48.3 | 78.1 |
| 1971 | | | 159 | 3.1 | 378 | 5.2 | 42.1 | 69.7 |
| 1972 | 5274 | 36.0 | 257 | 4.6 | 540 | 6.5 | 47.7 | 67.2 |
| 1973 | 6024 | 36.5 | 379 | 5.3 | 741 | 7.4 | 51.1 | 70.3 |
| 1974 | 6447 | 35.9 | 483 | 5.9 | 923 | 8.0 | 52.3 | 71.0 |
| 1975 | 7112 | 35.5 | 608 | 6.0 | 1171 | 8.5 | 51.9 | 73.5 |
| 1976 | 8588 | 36.6 | 870 | 6.4 | 1539 | 8.7 | 56.5 | 77.0 |
| 1977 | 10,856 | 40.3 | 1105 | 7.2 | 2010 | 9.4 | 55.0 | 71.7 |
| 1978 | 12,534 | 42.5 | 1530 | 8.4 | 2664 | 10.1 | 57.4 | 69.1 |
| 1979 | 14,171 | 44.0 | 2003 | 9.3 | 3559 | 11.4 | 56.3 | 68.9 |
| 1980 | 16,111 | 46.9 | 2643 | 10.7 | 4644 | 12.6 | 56.9 | 66.9 |
| 1981 | 19,453 | 51.2 | 3600 | 11.9 | 5939 | 13.4 | 60.6 | 68.1 |
| 1982 | 21,626 | 53.0 | 4473 | 12.5 | 7414 | 14.2 | 60.3 | 68.2 |
| 1983 | 23,782 | 52.4 | 5576 | 13.6 | 8828 | 14.4 | 63.2 | 67.0 |
| 1984 | 25,541 | 52.9 | 6589 | 13.5 | 9603 | 13.4 | 68.6 | 68.3 |
| 1985 | 29,408 | 54.6 | 7489 | 14.1 | 11,722 | 13.6 | 63.9 | 61.9 |
| 1986 | 29,700 | 55.7 | 9387 | 14.5 | 14,375 | 14.0 | 65.3 | 63.0 |
| 1987 | 30,585 | 56.2 | 11,127 | 15.3 | 17,527 | 14.7 | 63.5 | 61.0 |
| 1988 | 31,641 | 56.2 | 13,452 | 15.3 | 20,907 | 14.7 | 64.3 | 61.9 |
| 1989 | 33,572 | 57.3 | 15,546 | 14.8 | 24,383 | 15.0 | 63.8 | 64.7 |
| 1990 | 34,867 | 58.2 | 17,352 | 14.2 | 28,609 | 15.5 | 60.7 | 66.0 |
| 1991 | 35,216 | 58.1 | 19,688 | 14.7 | 33,163 | 15.1 | 59.4 | 60.9 |
| 1992 | 35,218 | 58.0 | 20,587 | 14.5 | 35,058 | 15.0 | 58.7 | 61.0 |
| 1993 | 35,301 | 57.6 | 23,156 | 14.0 | 40,672 | 14.8 | 56.9 | 60.5 |
| 1994 | 35,379 | 57.2 | 25,074 | 13.9 | 47,776 | 15.0 | 52.5 | 56.6 |
| 1995 | 35,008 | 56.2 | 28,183 | 12.7 | 57,399 | 15.3 | 49.1 | 59.2 |
| 1996 | 33,092 | 52.7 | 29,122 | 11.1 | 61,106 | 14.3 | 47.7 | 61.9 |
| 1997 | 32,909 | 50.5 | 32,525 | 11.4 | 73,769 | 14.7 | 44.0 | 56.8 |
| 1998 | 32,854 | 49.9 | 37,598 | 11.4 | 86,706 | 14.5 | 43.4 | 55.3 |
| 1999 | 32,840 | 49.2 | 42,090 | 11.0 | 102,697 | 14.7 | 40.0 | 54.8 |
| 2000 | 32,673 | 48.7 | 48,753 | 10.6 | 120,539 | 14.7 | 40.0 | 56.0 |

*Sources*: Shetty (1997) for 1969–1996 and RBI (various years), *Banking Statistics: Basic Statistical Returns*, for 1997–1999, and RBI (2001b).

*Note*: Data refer to December each year till 1989 and to March thereafter.

*Table 2.* Share of priority sector in total credit disbursed by all scheduled commercial banks, India, 1969–2000 (in per cent)

| *Year* | *Share of priority sector advances in total credit* | *Year* | *Share of priority sector advances in total credit* |
|---|---|---|---|
| 1969 | 14.0 | 1985 | 39.9 |
| 1970 | – | 1986 | 41.0 |
| 1971 | – | 1987 | 42.9 |
| 1972 | 21.0 | 1988 | 43.8 |
| 1973 | 23.1 | 1989 | 42.6 |
| 1974 | 24.2 | 1990 | 40.7 |
| 1975 | 25.0 | 1991 | 37.7 |
| 1976 | 24.5 | 1992 | 37.1 |
| 1977 | 25.9 | 1993 | 34.4 |
| 1978 | 28.6 | 1994 | 36.5 |
| 1979 | 30.9 | 1995 | 33.7 |
| 1980 | 33.0 | 1996 | 32.8 |
| 1981 | 35.6 | 1997 | 34.8 |
| 1982 | 36.4 | 1998 | 34.6 |
| 1983 | 36.1 | 1999 | 35.3 |
| 1984 | 38.1 | 2000 | 36.8 |

*Sources*: RBI, RBI (1999b) *Banking Statistics 1972–1995*, *Basic Statistical Returns*, and RBI (2001b).

*Notes*: Figures for 2000 are provisional. See text for recent changes in the definition of priority sectors.

to rural areas or agriculture from foreign banks.[21] Further, foreign banks failed to meet their priority sector targets through the 1980s (although these were lower than for other banks in India) (Ramachandran and Swaminathan 1992).

Table 3 documents the term loans issued by scheduled commercial banks to agriculture between 1980–1 and 1997–8. In real terms, advances rose from 1983–4 to 1990–1, fell in the first four years after 1991, and showed some recovery in 1995–6. It is instructive here to look at the distribution of advances to cultivators by size classes of land holdings. The smallest cultivators, i.e. those with land holdings of less than 2.5 acres, were the worst affected by the post-1991 decline in credit to agriculture. The cutback in advances to small cultivators persists: in 1997–8, in real terms, aggregate credit to small cultivators was less than the amount advanced in 1984–5. By contrast, advances to cultivators with more than 5 acres of land (the largest category) have risen in the last few years and are higher in real terms than before liberalization. To put it another way, agricultural credit to small cultivators accounted for 30 per cent of total agricultural credit from commercial banks in 1990–1; its share fell to 24 per cent in

[21] See also Narayana (2000, Table 10).

*Table 3.* Direct institutional credit for agriculture from commercial banks (term loans issued during the year), by size class of household land holding, India, 1980–1 to 1997–8 (in constant 1980–1 prices in Rs 10 million)

| *Year* | *Size class of land holding (in acres)* | | | |
|---|---|---|---|---|
| | *<2.5* | *2.5–5* | *>5* | *All* |
| 1980–1 | 63.2 | 64.8 | 369.5 | 497.4 |
| 1981–2 | 36.8 | 37.8 | 131.2 | 202.9 |
| 1982–3 | 71.1 | 56.4 | 218.6 | 346.1 |
| 1983–4 | 82.4 | 95.7 | 323.5 | 501.6 |
| 1984–5 | 118.4 | 123.6 | 409.8 | 651.8 |
| 1985–6 | 121.7 | 142.8 | 398.9 | 663.3 |
| 1986–7 | 147.5 | 158.3 | 486.8 | 792.6 |
| 1987–8 | 128.9 | 141.5 | 464.9 | 735.3 |
| 1988–9 | 141.9 | 145.3 | 472.6 | 759.7 |
| 1989–90 | 152.1 | 156.2 | 496.1 | 804.4 |
| 1990–1 | 187.1 | 145.7 | 496.7 | 829.4 |
| 1991–2 | 117.0 | 123.9 | 429.0 | 669.9 |
| 1992–3 | 102.8 | 109.0 | 421.6 | 633.4 |
| 1993–4 | 90.2 | 102.9 | 360.9 | 554.0 |
| 1994–5 | 104.8 | 108.5 | 468.1 | 681.4 |
| 1995–6 | 133.9 | 152.4 | 544.9 | 831.4 |
| 1996–7 | 119.9 | 146.4 | 599.2 | 865.5 |
| 1997–8 | 100.2 | 122.2 | 497.9 | 720.2 |

*Source*: RBI (various years), *Report on Currency and Finance*.

*Notes*: Nominal values have been deflated to 1980–1 prices using the GDP deflator.
The data refer to July–June for each year.
We have focused on term loans here and excluded short-term loans (of less than 18 months duration); the latter are mostly loans for crop cultivation for which landless households are not eligible.

1996–7.[22] Another indicator of the decline in credit to relatively poor rural households is the fact that the number of 'small borrowal accounts' (the term for accounts with a credit limit of Rs 25,000) fell in the 1990s (Chavan 2001).[23]

Since the IRDP was a major component of the credit-led poverty alleviation strategy of the 1980s, we turn now to some indicators of IRDP (Table 4). First, the number of families assisted annually with IRDP loans rose from 2.7 million in 1980–1 to 3.9 million in 1984–5 and 4.2 million in 1987–8. Although the programme slackened after that, the number of beneficiaries in 1990–1 remained above the level of the early 1980s. After 1991, there was a steep decline in the number of IRDP beneficiaries; only 1.2 million families were assisted in 1998–9. If we index

[22] See Chavan (2001). Note that cultivators with less than 2.5 acres of land accounted for 72 per cent of all rural households in 1992.

[23] In 1999, the credit limit of small borrowal accounts was raised to Rs 200,000.

*Table 4.* Number of beneficiaries and credit disbursed under IRDP, 1980–1 to 1998–9

| *Year* | *No. of beneficiaries* | | *Amount disbursed by commercial banks, cooperative and regional rural banks* | |
|---|---|---|---|---|
| | *(in 100,000s)* | *Index* | *(Rs million, 1980–1 prices)* | *Index* |
| 1980–1 | 27.27 | 78.9 | 2890.50 | 48.2 |
| 1981–2 | 27.13 | 78.5 | 4240.78 | 70.7 |
| 1982–3 | 34.55 | 100.0 | 5998.47 | 100.0 |
| 1983–4 | 36.82 | 106.6 | 6001.11 | 100.0 |
| 1984–5 | 39.82 | 115.3 | 6185.75 | 103.1 |
| 1985–6 | 30.61 | 88.6 | 4889.53 | 81.5 |
| 1986–7 | 37.47 | 108.5 | 6372.36 | 106.2 |
| 1987–8 | 42.47 | 122.9 | 6789.46 | 113.2 |
| 1988–9 | 37.72 | 109.2 | 6581.22 | 109.7 |
| 1989–90 | 33.51 | 97.0 | 6016.69 | 100.3 |
| 1990–1 | 29.00 | 83.9 | 5286.31 | 88.1 |
| 1991–2 | 25.40 | 73.5 | n.a | n.a |
| 1992–3 | 20.69 | 59.9 | 3702.98 | 61.7 |
| 1993–4 | 25.38 | 73.5 | 4594.46 | 76.6 |
| 1994–5 | 22.15 | 64.1 | 4307.77 | 71.8 |
| 1995–6 | 20.90 | 60.5 | 4667.66 | 77.8 |
| 1996–7 | 18.89 | 54.7 | 5044.65 | 84.1 |
| 1997–8 | 16.97 | 49.1 | 4864.81 | 81.1 |
| 1998–9 | 12.68 | 36.7 | 2761.55 | 46.0 |

*Sources*: RBI (1990, 1999c) *Report on Trend and Progress of Banking in India 1989–90, 1998–99* and *Seventh Five Year Plan 1985–90*, vol. 2.

*Notes*: Figures for 1998–9 are provisional. The year refers to April–March. The amounts have been converted to constant price values using GDP deflators. The GDP deflators for 1997–8 and 1998–9 were estimated based on the projections of the old series of GDP (base year 1980–1) using the growth rates from the new series (base year 1993–4).

the number of families assisted in 1982–3 at 100, the number assisted in 1998–9 was a mere 36.7. The term credit disbursed by banks under IRDP followed a similar trajectory. With 1982–3 indexed at 100, total term credit mobilized for IRDP peaked at 113 in 1987–8 and went down to 46 in 1998–9.

To sum up, the period after the nationalization of banks was one of expansion of rural banking, both in terms of deposit mobilization and in terms of credit advances. The spread of banking in rural areas began in the 1970s and was strengthened in the 1980s. The trends were reversed after the introduction of policies of financial liberalization in 1991.[24]

[24] Our analysis is consistent with Shetty's observation that 'every banking indicator has shown deterioration after the reform process began in 1991–92' (1997, 265).

There are many critical features of the credit system that official sources of large-scale data on banking do not touch upon. First, they do not report the total flow of credit to specific sections of rural households, such as the rural poor, the landless, or women within such households. Secondly, they provide no information on the shares of the formal and informal sectors in the debt portfolios of rural households. Thirdly, banking statistics tell us nothing about the variety of loan transactions entered into by rural households, the terms of such transactions and, more generally, the burden of indebtedness on different classes of rural households. Such information can be collected at the village level; village surveys also help provide insights into the local-level socio-economic relations that mediate credit transactions.

In the next section, we examine village-level evidence on credit transactions. Exploitation in the credit market is a key factor in differentiation with respect to the land and asset holdings of different classes in the countryside. This paper does not consider the larger impact of the credit market on the village economy as a whole, or on the class status of different socio-economic classes in the village. The village-level data and analysis here pertain mainly to one section of the rural poor, landless labour households.

## A PROFILE OF INDEBTEDNESS AMONG LANDLESS HIRED LABOUR HOUSEHOLDS, GOKILAPURAM VILLAGE, 1977, 1985 AND 1999

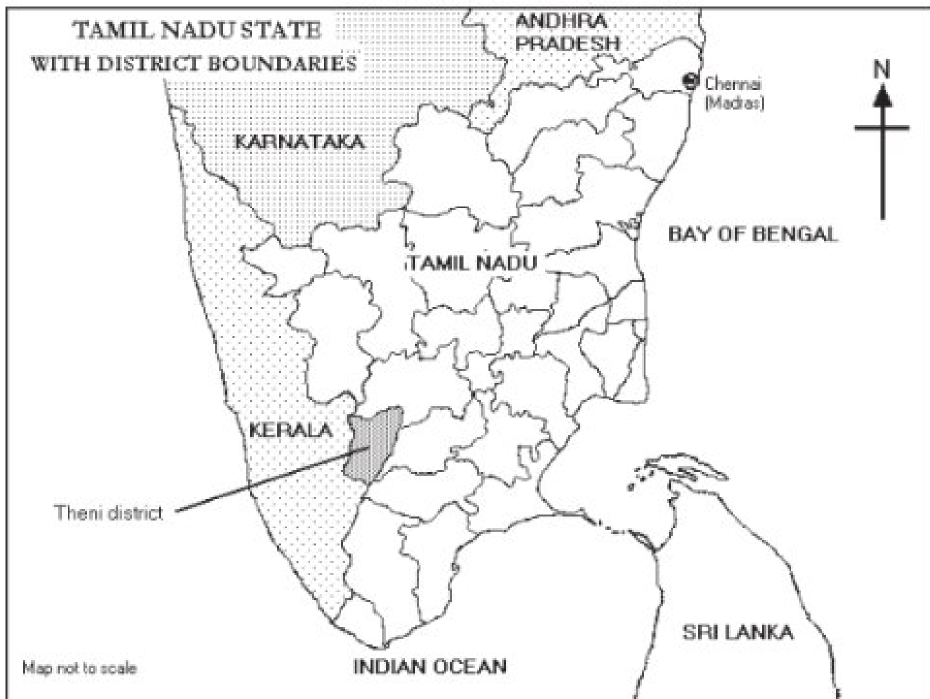
### *Study Area and Database*

Gokilapuram village is in Theni district, in the south-west of the state of Tamil Nadu. It is located in the physical-geographical area known as the Cumbum Valley, which is a distinct geographical and agro-economic region within the district. The Valley is shaped, roughly speaking, like an inverted triangle with a rounded apex, wedged between the Cardamom Hills, whose watershed marks the western and south-western wall of the Valley (and the border between Tamil Nadu and Kerala) and the High Wavy and Erasakkanayakanur Hills in the east and south-east. It is an area of much natural beauty and whose specific agro-economic features include loamy and sandy soils of comparatively high fertility and assured surface and groundwater irrigation over large parts of the region (Figure 1).

The Valley stands out in Tamil Nadu as a vanguard agrarian region. Paddy and some sugarcane are grown on surface-irrigated land (irrigated by the Periyar system) and coconut, banana, grape and vegetable crops are the main crops on groundwater-irrigated land. The cultivation of these crops is characterized, by the standards of Tamil Nadu (and, indeed, most of India), by advanced levels of agricultural techniques. The agriculture of the Valley draws on a numerically preponderant, largely settled force of hired workers.

In 1977, a census-type socio-economic survey of households (covering 650 households) was conducted in Gokilapuram village. One of the authors of this paper, V.K. Ramachandran, was a co-organizer of and participant in the survey.

*Figure 1.* Map of Tamil Nadu showing Theni district




From 1977 to 1985, Ramachandran did a series of case studies in the village, including studies of the labour process in agriculture, of employer–employee relations in the village, of farming practices, and of individual workers. In 1985, Madhura Swaminathan conducted a sample survey of assets and indebtedness in the village in 1985 and, in 1986, Ramachandran re-surveyed a sample of agricultural workers. In 1984 and 1989, Ramachandran conducted surveys of voting behaviour and levels of political information among a sample of voters in Gokilapuram. In 1999, Ramachandran and a group of colleagues completed a second census-type socio-economic survey of households, covering, this time, 908 households. This paper reports the results from the census-type socio-economic survey of 1999 and compares them with some results from the surveys of 1977 and 1985.

*The data set used in this paper*

The data from the survey of 908 households in 1999 are still being processed. We have not yet differentiated the 908 village households surveyed in 1999 into socio-economic classes (this is in fact the subject of our current research). What we do have at present, however, is a differentiation of households based on the value of assets owned by each household. The distribution of all households by asset ownership shows extreme inequality in the ownership of assets and

*Table 5.* Asset holdings of households, by size category of value of household assets, all households, Gokilapuram village, May 1999

| *Size category of value of household assets (in Rs)* 1 | *Number of households* 2 | *% of column (2) total* 3 | *Value of assets (in Rs)* 4 | *% of column (4) total* 5 |
|---|---|---|---|---|
| 0–20,000 | 263 | 29.2 | 2,255,052 | 1.2 |
| 20,000–100,000 | 390 | 43.5 | 18,644,756 | 9.7 |
| 100,000–500,000 | 169 | 18.8 | 37,155,209 | 19.1 |
| 500,000–1,000,000 | 40 | 4.5 | 26,865,313 | 13.8 |
| >1,000,000 | 36 | 4.0 | 109,161,985 | 56.7 |
| Total | 898 | 100.0 | 194,082,315 | 100.0 |

*Source*: Survey data.

asset-poverty among the large majority of households (Table 5). The Gini coefficient for all assets among all households in the village was 0.81. The poorest 30 per cent of households in terms of assets owned only 1.2 per cent of the total value of assets owned by all households in Gokilapuram. The next 43 per cent of households, with assets of up to Rs 100,000, owned less than 10 per cent of all assets. The combined assets of 73 per cent of households in the village were only twice the value of assets owned by the single richest household in the village. At the upper end of the distribution, the top 4 per cent of households owned 56 per cent of the entire value of assets of all households resident in the village.

With respect to the 1999 data, as a proxy for the class of landless rural labourers, that is, the class of landless households whose income comes mainly from the earnings of its members from hired labour, we have separated for this paper two sets of households from the rest. The first set consists of those households that are landless and whose entire income derives from hired labour in agriculture or at non-agricultural tasks (we shall call these households 'landless labour households with no other sources of income' or 'Set 1 households').[25] The second set consists of landless households whose members are hired labourers, but also gain incomes (however small) from self-employment, salaries or remittances (these households are called 'landless labour households with other sources of income' or 'Set 2 households'). Incomes in Set 2, other than wages from hired labour, generally come from dairying, artisan or service castes' earnings, small salaried jobs (as watchmen or subordinate government employees) and small remittances from the children of the household. Set 1 has 233 households and Set 2 has 326 households.

For 1977, we use data for the class of landless agricultural labour households in the village, that is, landless households whose major income came from earnings from hired labour in agriculture. This set consists of 257 households, and there is a detailed analysis of their socio-economic characteristics in Ramachandran (1990).

[25] 'Landless' here means with no ownership or operational holdings of land.

From the sample survey of 1985, we use the category of households with no ownership holdings of land for comparisons with our data for 1999 and 1977.

At all three surveys, that is, at the survey of 1977, 1985 and 1999, data were collected in similar schedules in the general questionnaire. Data were collected, serially for each outstanding loan, under the following heads: principal, collateral, principal outstanding, rate of interest, interest unpaid, source of loan and purpose of loan. Where individual loans had special terms and conditions attached to them, investigators made separate notes on them. The surveys thus provide data on the level of indebtedness of each household (a measure of the stock of debt) at the time the household was surveyed.

While the three data sets do not represent precisely equivalent categories at the three time periods, they are close enough for comparative use. The discussion here is based mainly on landless labour households in Gokilapuram; we do, however, provide some comparisons between asset-poor and asset-rich households in the village.

### *Main Results from the Field Data*

As it turned out, the reference period for each survey represented a specific phase of credit policy in the countryside. The first survey was conducted eight years after the nationalization of banks in 1969, and gives us a picture of credit policy during the high tide of the 'green revolution' in the village. The volume of short-term and term-loans coming into the village increased; the flow, however, mainly benefited those who had land on which to introduce the new technology and who were 'creditworthy', that is, mainly the rural rich (see Ramachandran 1990).

The second survey was conducted at the high point of the implementation of the Integrated Rural Development Programme (IRDP) in the village. Although the coverage of the village poor by the scheme was not complete, loans-cum-subsidies were advanced among the poor on an extensive scale, one that no previous or subsequent credit-based scheme achieved (Swaminathan 1986; Ramachandran 1990). The third survey cited in this paper was conducted in 1999, eight years after economic policy explicitly was reoriented in the direction of liberalization.

At the risk of some simplification, the three surveys represent conditions in the village during the 'green revolution' phase (1977), the IRDP phase (1985) and the liberalization phase (1999) of credit policy towards the rural poor.

#### *Sources of loans*

About 68 per cent of landless labour households in 1999 were debtor households (Table 6); the corresponding proportion for all village households was 66 per cent. The proportion of debtor households among landless labour has declined sharply since 1985 (Table 7); the reason for this, as will soon be clear, is the fact that landless worker households no longer have the same access to loans from the formal sector as they did in 1985.

*Table 6.* Landless labour households, all households and debtor households, Gokilapuram village, May 1999

| *Category* | *All households (number)* | *Debtor households (number)* | *(3/2) %* |
|---|---|---|---|
| *1* | *2* | *3* | *4* |
| Landless hired labour with no other sources of income | 233 | 161 | 69.1 |
| Landless hired labour with other sources of income | 326 | 221 | 67.8 |
| All landless hired labour households | 559 | 382 | 68.3 |
| All village households | 908 | 603 | 66.4 |

*Source*: Survey data, 1999.

*Table 7.* Debtor households as proportion of all households in the class, Gokilapuram village, 1977, 1985 and 1999 (in per cent)

| *Category and survey year* | *Proportion* |
|---|---|
| Landless agricultural labour households, 1977 | 63 |
| Landless households, 1985 | 83 |
| Landless hired labour with no other sources of income, 1999 | 69 |
| Landless hired labour with other sources of income, 1999 | 68 |
| All landless hired labour households, 1999 | 68 |

*Sources*: Survey data, 1999, Ramachandran (1990), and Swaminathan (1986).

Of the total number of loans borrowed by debtor landless labour households, only a very small proportion – 7.7 per cent – came from the formal sector (Table 8). Of the total principal borrowed, only 22.4 per cent came from the formal sector (20.5 per cent for Set 1 households and 23.1 per cent for Set 2 households) (Table 9). As expected, all households in the village taken together obtained a higher share of loans from the formal sector than did landless labour households. The share of formal sector in the total principal borrowed by all households was almost 40 per cent (or around twice the share of landless hired labour households).

From our categorization of households by level of asset ownership, it is evident that the two poorer categories have very little access to formal credit and are heavily dependent on informal credit. Among households in these two groups, 91 per cent and 80 per cent of the total principal borrowed respectively came from informal sources of credit (Appendix Table A1). Interestingly, only one asset-group, households with assets valued between Rs 100,000 and Rs 500,000, obtained more than one-half of all credit from the formal sector. While richer households borrowed more from formal sources of credit than informal, they continued to borrow from informal sources as well.

*Table 8.* Number of loans taken, by source of loan, debtor landless hired labour households and all households, Gokilapuram village, May 1999 (in numbers of loans)

| *Category* | *Source of loan* | | | | | |
|---|---|---|---|---|---|---|
| | *Formal sector* | | *Informal sector* | | *All sources* | |
| | *Number* | *%* | *Number* | *%* | *Number* | *%* |
| Landless hired labour with no other sources of income | 21 | 5.8 | 339 | 94.2 | 360 | 100.0 |
| Landless hired labour with other sources of income | 51 | 8.8 | 527 | 91.2 | 578 | 100.0 |
| All landless hired labour households | 72 | 7.7 | 866 | 92.3 | 938 | 100.0 |
| All village households | 220 | 14.1 | 1335 | 85.9 | 1555 | 100.0 |

*Sources*: Survey data, 1999 and Chavan (2001) for last row.

*Table 9.* Principal borrowed, by source of loan, debtor landless hired labour households and all households, Gokilapuram village, May 1999 (in Rs)

| *Category* | *Source of loan* | | | | | |
|---|---|---|---|---|---|---|
| | *Formal sector* | | *Informal sector* | | *All sources* | |
| | *Amount* | *%* | *Amount* | *%* | *Amount* | *%* |
| Landless hired labour with no other sources of income | 258,000 | 20.5 | 999,840 | 79.5 | 1,257,840 | 100.0 |
| Landless hired labour with other sources of income | 697,500 | 23.1 | 2,318,280 | 76.9 | 3,015,780 | 100.0 |
| All landless hired labour households | 955,500 | 22.4 | 3,318,120 | 77.6 | 4,273,620 | 100.0 |
| All village households | 8,410,000 | 39.6 | 12,760,000 | 60.4 | 21,170,000 | 100.0 |

*Source*: Survey data, 1999.

Another interesting feature of the data is the lower average size of loan among Set 1 households in relation to Set 2 households (Table 10), reflecting the lower share of loans from the formal sector, and relatedly, a lower share of loans for productive uses. The differences within landless labour households, that is, within Set 1 and Set 2, are also evident from the data on loans outstanding. While 11.8 per cent of all landless labour households had loans outstanding from the formal sector (Table 11), the corresponding proportions were 8.2 and 14.4 for Set 1 and Set 2 households, respectively. Thus landless labour households with no other sources of income other than manual labour were more dependent on the informal sector than labour households with some additional diversification of incomes.

Our data show that among landless labour households in Gokilapuram, the amount borrowed from the formal sector as a proportion of all borrowings was 17.4 per cent in the 'green revolution' phase, rose steeply to 80 per cent in the IRDP phase, and plummeted by almost 60 percentage points in the liberalization phase (Table 12).

*Table 10.* Average loan size, by sector, landless labour households and all households, Gokilapuram village, May 1999 (in Rs)

| *Category* | *Average size of loan* | | |
|---|---|---|---|
| | *Formal sector* | *Informal sector* | *All sectors* |
| Landless hired labour with no other sources of income | 12,286 | 2949 | 3494 |
| Landless hired labour with other sources of income | 13,676 | 4399 | 5218 |
| All landless hired labour households | 13,271 | 3831 | 4556 |
| All village households | 38,227 | 9558 | 13,614 |

*Source*: Survey data, 1999.

*Table 11.* Proportion of households with formal sector loans outstanding, Gokilapuram village, May 1999 (in per cent)

| *Category* | *Proportion* |
|---|---|
| Landless hired labour with no other sources of income | 8.2 |
| Landless hired labour with other sources of income | 14.4 |
| All landless hired labour households | 11.8 |

*Source*: Survey data, 1999.

*Table 12.* Principal borrowed from the formal sector as a proportion of total principal borrowed, Gokilapuram village, 1977, 1985 and 1999 (in per cent)

| *Category and survey year* | *Proportion* |
|---|---|
| Landless agricultural labour households, 1977 | 17.4 |
| Landless households, 1985 | 80.0 |
| Landless hired labour with no other sources of income, 1999 | 20.5 |
| Landless hired labour with other sources of income, 1999 | 23.1 |
| All landless hired labour households, 1999 | 22.4 |

*Sources*: Survey data, 1999, Ramachandran (1990) and Swaminathan (1986).

This trend is consistent with large-scale survey data from the Rural Labour Enquiry (RLE). According to the RLE, the amount borrowed from the formal sector as a proportion of all borrowings in the debt portfolios of landless agricultural labour households in Tamil Nadu was 0.4 per cent in 1964–5 and 5 per cent in 1974–5 (Ramachandran 1990). The proportion rose to 24.2 per cent in 1983–4, rose further to 32.9 per cent in 1987–8 and fell to 23.3 per cent in 1993–4.[26]

The low share of formal sector loans in the debt portfolios of landless labour households is mirrored in the low share of advances to landless workers by commercial banks. We studied the registers of advances of the two main commercial banks (they are both public sector banks) in Uthamapalayam, the *taluk* centre, in order to derive a summary measure of their advances to the poor. We first looked at the total amount of credit advanced by the bank. We then separated out any advances for which assetless rural workers did not qualify: these included crop loans, terms loans for the development of crop land and plantation land, loans for agricultural machinery that required the hypothecation of land holdings, loans to provide working capital to merchants and loans advanced against the deposit of gold ornaments. The balance of advances – typically, loans for the purchase of dairy cattle and draught animals and loans for small-scale self-employment – were loans to which a landless rural labour household had, in theory, access. We then calculated the proportion of such advances to all advances. We visited both banks in mid-July and data refer to total advances as on 11 July 2000 and 18 July 2000. In the branch of the State Bank of India, India's major commercial bank, the advances to which a landless labour family could possibly have had access as a proportion of all advances was a mere 8.4 per cent. In the other bank – the Lead Bank for the district – the proportion was 1.9 per cent.

To summarize, one of the stated objectives of earlier credit policy – whatever its achievements – was to provide preferential access for the poor to credit from the formal sector for production and self-employment. Current policy has reversed that objective. The share of loans from the formal sector in the debt profiles of landless labour households in 1999 was not only low in relation to other households in the village but also fell steeply between 1985 and 1999. The reversal is clear also from the pattern of advances from local branches of nationalized commercial banks; as we have shown, landless labour households had access only to a minuscule share of total advances from these branches.

*Purposes of loans*

Data on the purpose for which a household took each loan typically record the proximate reason for taking each loan. An investigator asks a respondent why he or she took a particular loan and the respondent's reply is recorded. There are two reasons why these data must be read with care. First, the respondent may have borrowed money for one purpose and used it for quite another. Secondly, the particular purpose stated may be somewhat fortuitous; the respondent may have borrowed money to buy food today because she incurred unexpected medical expenditure yesterday. The loan itself is for general household expenditure; because of the circumstances of the day it was spent to buy food at the ration shop.[27]

[26] See RLE (1990, 1997).

[27] On the fungibility of cash and its implications for separating consumption credit from productive credit, see Bhaduri (1982).

*Table 13.* Principal borrowed, by purpose of loan, Gokilapuram village, 1977, 1985 and 1999 (in per cent)

| *Category and survey year* | *Purpose of borrowing* | | *All loans* |
|---|---|---|---|
| | *For agriculture, livestock and other businesses* | *For consumption* | |
| Landless agricultural labour households, 1977 | 23.8 | 76.2 | 100 |
| Landless households, 1985 | 44.25 | 55.75 | 100 |
| Landless hired labour with no other sources of income, 1999 | 13.6 | 86.4 | 100 |
| Landless hired labour with other sources of income, 1999 | 26.3 | 73.7 | 100 |
| All landless hired labour households, 1999 | 22.6 | 77.4 | 100 |
| All village households, 1999 | 42.1 | 57.9 | 100 |

*Sources*: Survey data, 1999, Ramachandran (1990) and Swaminathan (1986).

The rural poor always need consumption credit, particularly in situations where social security systems are either non-existent or ill developed. The poor need credit for food and household subsistence, to meet social and ritual commitments, to pay for educational and medical expenses, to build and repair dwellings and for other purposes. The rural poor also need loans for productive purposes; to finance agriculture, to buy and maintain income-bearing assets, and to finance other small means of employment. The major source of formal-sector loans, commercial banks, do not lend money for other than productive income-bearing uses. Individual loans from the formal sector are generally larger than loans from the informal sector. Fluctuations in the share of loans borrowed for productive purposes in all loans in the debt portfolios of the poor generally reflect changes in the provision of formal credit to the poor; they do not necessarily reflect changes in the demand for consumption loans.

In Gokilapuram, the share of loans borrowed by landless labour households for consumption was very high, higher in fact than at previous surveys (Table 13). The sharp decline between 1985 and 1999 in the share of loans taken for agriculture, livestock and other businesses (from 44.2 per cent to 22.6 per cent) reflects the reduction in access to formal credit over the period. An interesting feature of the data when households are grouped by asset ownership is that for all households (with the exception of the richest) the major share of loans consisted of loans taken for consumption-related activities (Appendix Table A2).

*Informalization, rates of interest*

The 1990s have not only been a period during which the share of informal sector loans in the debt portfolios of the poor increased sharply; it has also been a period over which the process of informalization of the credit market intensified. A

*Table 14*. Principal borrowed by type of informal lender, debtor landless labour households, Gokilapuram village, 1977 and 1999 (in Rs at current prices and per cent)

| *Type of lender in the informal sector* | *1977* | | *1999* | |
|---|---|---|---|---|
| | *Amount borrowed (in Rs)* | *% to total* | *Amount borrowed (in 000 Rs)* | *% to total* |
| Moneylenders | 21,230 | 27.2 | 1390 | 41.9 |
| Merchants and millers | 13,710 | 14.9 | 370 | 11.1 |
| Landlords | 24,970 | 23.1 | 80 | 2.4 |
| Miscellaneous part-time lenders | 28,822 | 31.4 | 1480 | 44.6 |
| Unspecified | 3130 | 3.4 | – | |
| All lenders in the informal sector | 91,862 | 100.0 | 3320 | 100.0 |

*Source*: Survey data and Ramachandran (1990, Table 7.9, p. 156).

formal sector loan is one where the terms and conditions of the loan are regulated by the public authority. An informal loan is subject to no such regulation: it is a personalized transaction, dependent on the specific relation of power between borrower and lender. Over the study period, the personalized nature of transactions in the informal sector intensified.

There are two trends in moneylending as an occupation in the village. First, the class of persons living off moneylending or whose major occupation is moneylending has expanded. Secondly, moneylending as a part-time occupation or secondary source of income has spread in the village.

Table 14 shows the principal borrowed from different informal sector sources as a proportion of the total principal borrowed from the informal sector by landless labour households. The most striking feature of the Table is the sharp rise in the share of moneylenders in informal-sector advances, from 23.1 per cent in 1977 to 41.9 per cent in 1999. The traditional dependence of landless labour households on landlords for credit clearly became weaker; the share of landlords in informal sector advances to landless labour households fell from 27.2 per cent in 1977 to 2.4 per cent in 1999. The data also indicate that moneylending as a part-time occupation has spread in the village.

There is no clear variation across households at different levels of asset ownership in respect of access to different types of lenders within the informal sector (Appendix Table A3). The exception is large-scale borrowing from chit funds by very wealthy households.

Relatively new sources of usurious loans are moneylending associations (or *sangams*) that have appeared in the village. These are groups whose size varies from about 5 or 6 to 25 subscribers. The members of the group generally belong to the same caste (although in one case the *sangam* consists of workers on grape fields) and each member pays a fixed amount at regular intervals (say once a week) into a common fund. This fund is then given out as loans, generally at 60 per cent rates of interest. The emergence and proliferation of *sangam* loans

reflects the fact that there are small savings (among people of different classes) and no avenues of productive income-bearing investment or convenient schemes for interest-bearing institutional loans. Locally available saving-cum-loan schemes such as the *sangams* thus attract these small savings, and are profitable for the managers (see the case study of moneylenders in the Appendix).

The incidence of a type of loan called the '*kanthu*' loan has increased sharply since the first survey in 1977. An example of a *kanthu* loan is this: a moneylender gives B a loan of 'one thousand rupees'. It is not actually a loan of Rs 1000, since B is given only Rs 850. B has to repay the moneylender Rs 100 on an appointed day every week for ten consecutive weeks. The distinctive feature of the *kanthu* loan is that it is time-bound and at the end of the specified time period, the principal *and* interest are repaid. *Kanthu* loans otherwise vary greatly with respect to the amount advanced, the periodicity of repayment and the amount to be repaid each time. Some *kanthu* loans have to be repaid every day; we do not know of any such loan for which the time given for each instalment of repayment was greater than a week.

Every borrower is screened by the lender for his or her creditworthiness and lenders have a sharp-eyed assessment of the borrower's income and wage-earning capacity when they lend money. As a consequence, there has been a proliferation of different types of loans with respect to the terms and conditions attached to each loan. With the decline in the system of labour services, transactions in the informal sector of credit have become more commercialized: a lender lends primarily to earn an income or property through loans, not to be able to extract unpaid labour or to reinforce traditional patron–client relations between himself (or herself) and the borrower.

A consequence of the commercialization of transactions in the informal sector is that lenders get tougher and tougher with respect to monitoring and enforcing repayment (although physical violence is not a routine method of enforcement). Those who manage *sangams* generally get a person close to the borrower to sign on as a surety and many moneylenders regularly issue promissory notes with each loan. Much time is invested by moneylenders and their henchmen in enforcing repayment (and much scorn poured by them on fellow-lenders who are poor enforcers). In nearby Gudalur (a small town where the major occupation is agriculture), there are moneylenders who enforce repayment by announcing the names of debtors over loudspeakers fitted on jeeps that are driven through the village; the strategy is that public disgrace (and the fear of public disgrace) will force defaulters back in line. The last resort of many borrowers is flight; those defaulters who flee (individually or with their families) generally go to the industrial town of Tiruppur and its environs in Coimbatore district. They go there to seek work as casual manual workers in wretched working and living conditions rather than having their lives and property uprooted and stripped by their creditors at home.

As we have said, agricultural labourers have little – and reduced – access to formal sector loans and the determination of the terms of loans in the informal sector have become more individual-specific. These changes have had two

consequences on the level of nominal interest rates in the informal sector. First, the general level of interest rates is higher than before and a larger share of loans is borrowed at very high rates of interest. The second consequence is that the interest rates that lenders charge, while being high, can vary between households and individuals.

The issue of formation of interest rates in rural credit markets, and more specifically on why interest rates are high in the informal sector, has been of much concern to scholars and has been debated extensively. The traditional neoclassical view was that high interest rates in rural credit markets could be explained by high administrative costs (of transacting with large numbers of small borrowers), high risks of default and the monopoly power of lenders (Bottomley 1963, 1964). These factors, it was argued, resulted in informal lenders charging high rates of interest relative to, say, a bank. While administering a large number of small loans can be cumbersome and costly, the implication of monopoly and risk are not as clear. Many village studies reveal the presence of large numbers of lenders, although each lender could still wield some monopoly power on account of the fragmented nature of the credit market (Basu 1984). A more fundamental critique of the neoclassical theory,[28] however, was from Amit Bhaduri, who argued that lender's risk was not the crucial determinant of interest rates (Bhaduri 1977, 1983). Bhaduri postulated that the valuation of collateral securities could be the basis for the formation of usurious interest rates. He said that rural lenders were able to transfer the risk of default to borrowers by undervaluing of collateral securities. The 'personalized character of the unorganized credit market is reflected in the lenders' ability to place on securities of his choice an arbitrary valuation, which, needless to say, typically results in their gross undervaluation' (Bhaduri 1977, 344). By undervaluing assets and then charging very high interest rates, the lenders ensure default and a capital gain by transferring the undervalued assets. Lenders, he argued, were thus able to transfer the entire risk of default to borrowers.

Empirical evidence on credit transactions in rural India shows clearly that personalized credit transactions are complex and that a combination of factors contribute to determining interest rates on specific transactions. These factors include the restricted size of the credit market (and associated monopoly power of a lender), the personalized nature of loan transactions, the unequal relations of power between borrowers and lenders, and interlinkages with other markets.[29]

In our view, among the many factors determining interest rates, the large demand–supply imbalance is an important reason for the unequal power of moneylenders *vis-à-vis* borrowers. Belying expectations, the formal sector of credit has not expanded to meet the demand for credit in rural areas and to act as a countervailing force on interest rates. In fact, the supply of credit to rural areas, as we have seen, has shrunk. At the same time, there has been an increase

[28] This has parallels, of course, in the new literature on financial liberalization where it is argued that lenders should be free to charge an interest rate that covers their costs and risks (Mosley 1999).

[29] See, for example, Swaminathan (1991), Sarap (1987, 1990) and Ramachandran (1990).

*Table 15.* Principal borrowed, by size class of rate of interest, debtor hired labour households and all households, Gokilapuram, May 1999 (in Rs)

| *Size class of interest-rate* | *Set 1* | | *Set 2* | | *All landless labour households* | | *All households* | |
|---|---|---|---|---|---|---|---|---|
| | *Principal* | *% of column (2) total* | *Principal* | *% of column (4) total* | *Principal* | *% of column (6) total* | *Principal* | *% of column (8) total* |
| *1* | *2* | *3* | *4* | *5* | *6* | *7* | *8* | *9* |
| 0 | 63,650 | 5.2 | 202,750 | 7.1 | 266,400 | 6.5 | 620,000 | 3.0 |
| 1<15 | 71,000 | 5.8 | 394,500 | 13.9 | 465,500 | 11.4 | 4,390,000 | 21.2 |
| ≥15<24 | 187,500 | 15.4 | 313,500 | 11.0 | 501,000 | 12.3 | 4,190,000 | 20.3 |
| ≥24<36 | 39,000 | 3.2 | 97,500 | 3.4 | 136,500 | 3.4 | 1,400,000 | 6.8 |
| ≥36<48 | 253,700 | 20.8 | 413,600 | 14.5 | 667,300 | 16.4 | 4,570,000 | 22.1 |
| ≥48<60 | 4000 | 0.3 | 182,700 | 6.4 | 186,700 | 4.6 | 2,070,000 | 10.0 |
| ≥60<120 | 504,100 | 41.3 | 1,025,850 | 36.0 | 1,529,950 | 37.6 | 2,700,000 | 13.1 |
| ≥120 | 90,500 | 7.4 | 131,100 | 4.6 | 221,600 | 5.4 | 360,000 | 1.7 |
| Unspecified | 7000 | 0.6 | 86,205 | 3.0 | 93,205 | 2.3 | 360,000 | 1.8 |
| All | 1,220,450 | 100.0 | 2,847,705 | 100.0 | 4,068,155 | 100.0 | 20,660,000 | 100.0 |

*Source*: Survey data, 1999.

*Note*: This table excludes *kanthu* loans and milk-merchants' loans.

in surpluses – from commercial farming, from non-agricultural occupations including salaried occupations, and from occupations related to agriculture such as trade – that have flowed into moneylending. On the demand side, given the persistence of mass poverty, there are always high levels of demand for consumption and production credit in rural areas.

Landless labour households and other asset-poor households have little collateral to offer as security against loans, and this fact adds to the risk of potential default for lenders. It is in these circumstances of a great need for credit and the absence of collateral that coercive and usurious forms of moneylending thrive.

Table 15 shows that, in 1999, of the total principal borrowed by landless labour households, 64 per cent was borrowed at nominal rates of interest of 36 per cent per year and above. Forty-three per cent of the total principal was borrowed at rates of interest of 60 per cent per year and above. Tables 16 and 17 report the same information disaggregated for the formal and informal sector, respectively. Data on interest rates on loans from the formal sector show that landless labour households were not gaining access to specially subsidized loans relative to all other households (Table 16). In the informal sector, almost 50 per cent of the principal taken by landless labour households were at interest rates between 60 and 120 per cent per annum; for all households the proportion of principal borrowed at these extremely high interest rates was 27 per cent (Table 17). The modal interest rate category for all households was 36–48 per cent per annum; the modal category for landless labour households was 60–120 per cent per annum.

The share of principal borrowed by landless labour households at rates of interest higher than 36 per cent has doubled between 1977 and 1999 (Table 18)

*Table 16.* Principal borrowed from formal sources, by size class of rate of interest, debtor hired labour households and all households, Gokilapuram, May 1999 (in per cent)

| *Size class of interest rate* | *Share of principal borrowed %* | |
|---|---|---|
| *% per annum* | *Landless labour households* | *All households* |
| 1<15 | 48.7 | 50.7 |
| ≥15<24 | 36.2 | 45.5 |
| ≥24<36 | 14.8 | 1.7 |
| Unspecified | 0.4 | 2.1 |
| All | 100.0 | 100.0 |

*Source*: Chavan (2001, Table 4.11, p. 102).

*Table 17.* Principal borrowed from informal sources, by size class of rate of interest, debtor hired labour households and all households, Gokilapuram, May 1999 (in per cent)

| *Size class of interest rate (i)* | *Share of principal borrowed %* | |
|---|---|---|
| *% per annum* | *Landless labour households* | *All households* |
| $i = 0$ | 8.6 | 5.1 |
| 1<15 | 0.0 | 1.3 |
| ≥15<24 | 0.5 | 3.6 |
| ≥24<36 | 4.4 | 12.6 |
| ≥36<48 | 18.8 | 45.7 |
| ≥48<60 | 8.6 | 20.7 |
| ≥60<120 | 49.2 | 27.0 |
| ≥120 | 7.1 | 3.6 |
| Unspecified | 2.9 | 1.9 |
| All | 100.0 | 100.0 |

*Source*: Chavan (2001, Table 4.12, p. 102).

*Note*: This table excludes *kanthu* loans and milk-merchants' loans.

*Table 18.* Share of principal borrowed at rates of interest of 36 per cent and above, Gokilapuram village, 1977, 1985 and 1999 (in per cent)

| *Category and survey year* | *Share* |
|---|---|
| Landless agricultural labour households, 1977 | 32.3 |
| Landless households, 1985 | 50.3 |
| Landless hired labour with no other sources of income, 1999 | 69.8 |
| Landless hired labour with other sources of income, 1999 | 61.5 |
| All landless hired labour households, 1999 | 64.0 |

*Sources*: Survey data, 1999, Ramachandran (1990) and Swaminathan (1986).

*Table 19.* Share of principal borrowed at rates of interest of 60 per cent and above, Gokilapuram village, 1985 and 1999 (in per cent)

| *Category and survey year* | *Share* |
|---|---|
| Landless households, 1985 | 24.05 |
| Landless hired labour with no other sources of income, 1999 | 48.70 |
| Landless hired labour with other sources of income, 1999s | 40.60 |
| All landless hired labour households, 1999 | 43.00 |

*Sources*: Survey data, 1999, Ramachandran (1990) and Swaminathan (1986).

and the share of principal borrowed at rates of interest higher than 60 per cent has risen sharply between 1985 and 1999 (Table 19).[30] It is clear that interest rates in the informal sector rose even during the phase of expansion of subsidized formal credit (1977–1985). With the post-1991 withdrawal of the formal sector from lending operations for the rural poor, usury has intensified. Appendix Tables A4 and A5 show the share of principal borrowed at different rates of interest for all village households categorized by asset ownership. As expected, as asset ownership rises, loans taken at usurious rates of interest decline steadily. While two-fifths of the borrowing of the asset-poor was at interest rates above 60 per cent per annum, the very rich borrowed only 5 per cent of their loans at such rates of interest.

In the 1990s, some scholars expected that the formal sector would be a 'civilising influence' on rates of interest in the informal sector of credit.[31] Their understanding was based on a belief that the formal sector would serve as a countervailing force to the informal sector in the credit market. Events have clearly belied that expectation.

## THE MICRO-CREDIT 'ALTERNATIVE'

It is clear from the preceding sections that neo-liberal banking reform amounts, in theory and practice, to a reversal of the public policy objectives of extending the reach of rural credit, providing cheap and timely credit to rural households (particularly economically vulnerable households), overcoming historical problems of imperfect and fragmented rural credit markets, and displacing the informal sector from its powerful position in rural credit markets. As we have seen, there

[30] Ideally, a comparison of interest rates over time should be based on real interest rates. The computation of real interest rates, that is, nominal interest rates adjusted for expected inflation, is a complex task, as the expected rate of inflation will vary with the duration of a loan. To simplify, a common inflation rate could be applied to all loans reported in a given year/survey. However, given the relatively low and stable rates of inflation around our three survey years (4 per cent per annum in 1977–80, 6 per cent per annum in 1983–5 and 5 per cent per annum in 1997–9) we do not lose much from basing the discussion on nominal rates of interest.

[31] Athreya et al. (1990, 269).

was a large-scale retreat by the formal sector from the Indian countryside in the post-1991 period. From official policy statements, it appears that the Government envisages only one policy instrument to fill the gap left by the formal credit sector in the countryside: the establishment of micro-credit projects in rural India.

*Why Micro-credit?*

In official statements, the move to hand over banking functions in rural areas to NGOs is motivated by weaknesses in the banking system itself, most notably the 'twin problems of non-viability and poor recovery performance' of existing rural credit institutions (Rangarajan 1996, 68). The failure of financial institutions to deal with income-poor borrowers in an imaginative and sustainable way and the inaccessibility of these institutions to the poor are stated to be major disadvantages of the existing system. Micro-credit institutions are seen as being able to rectify these weaknesses; according to the Governor of the RBI, 'the main advantage to the banks of their links with the SHGs [self-help groups] and NGOs is the externalization of a part of the work items of the credit cycle, viz., assessment of credit needs, appraisal, disbursal, supervision and repayment, reduction in the formal paper work involved and a consequent reduction in the transaction costs' (Rangarajan 1996, 70).

Thus, micro-credit is the favoured alternative to the present system because, first, it is assumed that the transaction costs of banks and other financial institutions can be lowered significantly if these costs are passed on to NGOs or self-help groups,[32] and secondly, because NGOs are expected to perform better than formal-sector credit institutions in respect of the recovery of loans.

*Defining Micro-credit*

The terms 'micro-credit' and 'micro-finance' have risen spectacularly to fame in the development profession and in development literature in the last decade and a half.

The Declaration of the Micro-Credit Summit held in Washington, D.C. in 1997 defined micro-credit programmes as those 'extending small loans to poor people for self-employment projects that generate income, allowing them to care for themselves and their families'. The Declaration also stated that, 'in most cases, micro-credit projects offer a combination of services and resources to their clients in addition to credit for self-employment. These often include savings facilities, training, networking and peer support' (Micro-Credit Summit 1997). In India, the Task Force on Supportive and Regulatory Framework for Micro-Finance in India (NABARD 2000) defined micro-finance as the 'provision of thrift, credit and other financial services and products of very small amounts to

[32] Transactions costs include the costs of information collection, of screening of borrowers and of projects (by means of project evaluation), of monitoring and supervision, of co-ordination and finally, of the enforcement of contracts and collection of dues.

the poor in rural, semi-urban or urban areas enabling them to raise their income levels and improve living standards.' The Reserve Bank of India uses the same definition (RBI 1999a).

While micro-credit loans generally are advanced for self-employment projects, they are sometimes advanced for consumption as well. A distinction between consumption and production is, of course, difficult to draw, both on account of the fungibility of cash and because of the organic links between consumption and production.[33] Nevertheless, the advocates of micro-credit do consider it necessary for micro-credit institutions to get borrowers to make the transition from consumption loans to production loans (or loans for income-bearing projects) (Rangarajan 1997, 71).

The characteristic features of micro-credit operations, then, are small loans to poor households in rural and urban areas for income generation through self-employment. Micro-credit institutions may also provide facilities for savings and other financial services.

Micro-credit, as discussed in the international literature, is associated with certain other recurring empirical features.

First, micro-credit involves loans without collateral.[34] In the absence of specific policy intervention, landless and asset-poor households are deemed not to be creditworthy by formal sector lending institutions, since they cannot provide collateral that is deemed to be appropriate.

Secondly, NGO-controlled micro-credit loans are advanced generally to individuals who are members of groups.[35] The group (or 'self-help group') is, in fact, viewed as standing in the place of collateral (Hashemi and Morshed 1997, 217). The presence of a group has been called a form of 'social collateral' (Johnson and Rogaly 1997). The formation of groups, it is argued, has the double advantage of lowering transactions costs and improving repayment.[36]

Thirdly, and following from the previous paragraph, micro-credit is viewed as a way of promoting market-led growth, or, in the words of Mohammed Yunus, of 'privatising the economy' (Yunus 1997). This objective was stated in another way by World Bank President James Wolfensohn in his speech to the Micro-Credit Summit: 'Micro-credit programmes have brought the vibrancy of the market economy to the poorest villages and peoples of the world' (Micro-Credit Summit 1997).

[33] For example, it is not entirely accurate to classify an educational loan or a loan taken to meet medical expenses as purely a consumption loan; medical care and education contribute to productivity as well.

[34] In his opening speech at the Micro-Credit Summit, Mohammed Yunus, founder of Grameen Bank, Bangladesh, said that by means of micro-credit, 'we are celebrating the freeing of credit of the bondage of collateral' (Yunus 1997).

[35] For example, organizations such as BRAC and Grameen Bank in Bangladesh lend through groups.

[36] The NABARD task force, for instance, identifies three ways of banking with the poor: by means of conventional bank lending, by linking self-help groups with bank lending, and by banks lending to micro-credit and micro-finance institutions for on-lending to groups or individuals. The Task Force goes on to say that the second and third methods 'are characterized by low transactions costs and high repayments' (NABARD 2000).

Fourthly, the main target group of micro-credit projects constitute a fraction of those in need of credit: this target group is generally only those below a line of absolute poverty as determined by national estimates.

Fifthly, while all definitions concur on micro-credit as the provision of 'small loans', the scale or 'smallness' of loans varies and has to be identified empirically. Loans from the Grameen Bank had an upper limit of 5000 Taka or around US$100 (Hossain 1993). In a sample survey conducted in 1985, however, Hossain found that the loans averaged Tk 3040 (Tk 3279 for men and Tk 2843 for women; Hossain 1993). The scale is similar in other developing countries; the average loan size was US$88 in Mexico and US$157 in Pakistan (Johnson and Rogaly 1997, 88–9). The NABARD Task Force estimated the credit requirement per family as Rs 6000 in rural areas and Rs 9000 in urban areas (respectively US$128 and US$191), but recommended that the average loan given to members of self-help groups (or SHGs) be around Rs 1000 (NABARD 2000).[37] The Micro-Credit Cell of the RBI, however, has proposed a ceiling of Rs 25,000 (around US$530) for micro-finance, and suggests that the ceiling may be raised, say to Rs 40,000, for borrowers with a track record of regular repayment over two to three years (RBI 1999a).

Finally, while these are the general characteristics of micro-credit, a great deal of discussion of the 'micro-credit alternative' has been on the institutional mechanisms for the delivery of micro-credit. A very important component of the argument in favour of a large-scale micro-credit effort is that commercial banks cannot and should not directly be responsible for disbursing micro-credit loans (because of transactions costs that are allegedly very high and poor recovery). The Micro-Credit Cell of the RBI, for instance, states clearly that 'NGOs have widespread appeal as micro-finance delivery vehicles' (RBI 1999a). In the Plan of Action of the Micro-Credit Summit, the responsibility for achieving the goals of the Summit was placed clearly on 'the thousands of existing micro-credit NGOs, cooperatives, credit unions, grassroots groups, and poverty banks that at present comprise the micro-credit movement' (Micro-Credit Summit 1997). Thus 'micro-credit' as commonly used means micro-credit mainly by the private sector, including NGOs, where the private sector not only controls disbursement but also determines the terms and conditions attached to each loan.

We may summarize the characteristics of micro-credit. It is usually associated with: very small loans; no collateral; borrowers from among the rural and urban poor; loans for income-generation through market-based self-employment; the formation of borrower groups; and privatization, generally through the mechanism of NGO control over disbursement and the determination of the terms and conditions attached to each loan.

In India, as we have noted, micro-credit has been described as the way to go with respect to rural banking for the poor. However, NGO-controlled micro-credit is not yet as widespread and does not represent as general a policy towards rural credit in India as, for instance, in Bangladesh.

[37] The present (2001) rate of conversion is approximately US$1=Rs 47.

*NGO-controlled Micro-credit: An Evaluation*

It is clear that, by its very nature, NGO-controlled micro-credit does not offer a solution for the problems of rural credit listed in the introductory section of this paper. It is not an instrument for mobilizing large-scale funds for scientific and technical change in the countryside, and it does not and cannot supplant the informal sector or overcome the historical imperfections and fragmentation of rural credit markets. NGO-controlled micro-credit projects in India cannot hope to achieve the spread and reach of the rural banking system. There are also problems of accountability involved here: NGO-controlled micro-credit organizations are not accountable to public scrutiny or to local governments. Being essentially private, market-oriented organizations, their only formal responsibility is to their donors.

But what of the more limited claim made for NGO-controlled micro-credit? Do NGO-controlled micro-credit institutions incur lower transactions costs than formal-sector financial institutions and is their record with respect to the repayment of loans superior to that of formal-sector financial institutions? We examine the evidence below.

*Transactions Costs*

To begin with, it should come as little surprise – despite suggestions to the contrary – that the administrative costs of NGOs (and such costs are, of course, the major component of total transactions costs) are relatively higher than those of commercial banks. NGOs cannot match the economies of scale of a comprehensive system of banking (in the case of India, perhaps the best network of rural banks in the less developed world).

For the period 1988–92, the costs of administration of the Grameen Bank constituted 12.3 per cent of the bank's total portfolio, and the costs of administration of the Bangladesh Rural Advancement Committee (BRAC) constituted 40 per cent of its total portfolio (Hulme and Mosley 1996, cited in Chavan and Ramakumar 2002). An important finding from the work of Hulme and Mosley is that, in a cross-country study of rural credit institutions, the lowest costs of administration, 8.1 per cent of the total portfolio, were incurred by Regional Rural Banks in India.

Secondly, the costs of administration of NGO-controlled micro-credit have actually risen when NGO activity is scaled up. As the Grameen Bank expanded its activities, administrative costs rose from 8.6 per cent of liabilities in 1988 to 18.1 per cent of liabilities in 1992 (Hossain 1988, cited in Chavan and Ramakumar 2002).

Thirdly, repayment rates in NGO-controlled micro-credit projects are related directly to the level of administrative costs and mobilization efforts (Rahman 1999, and Bhat and Tang 1998, cited in Chavan and Ramakumar 2002). Organizations such as the Grameen Bank need large numbers of employees for regular monitoring and assessment, to conduct weekly visits and meetings and to collect dues. Mahabub Hossain notes that, in the case of the Grameen Bank, 'the

paperwork and the staff time for servicing a given amount of loan are higher than for a normal rural credit programme' and that 'the benefits of this intensive credit programme . . . need to be evaluated against the high costs of operation' (Hossain 1993, 119–20).

How do NGO-controlled micro-credit projects finance their high-cost operations? The evidence on this seems clear. They do so by turning to donors for funds or by raising interest rates to levels higher than those offered by the banking system or by doing both. In his review of the performance of the Grameen Bank in 1984–6, Mahabub Hossain found that although the Annual Reports of the bank reported a small profit, his scrutiny of the account books showed that 'the credit operations of the bank involve losses that are compensated for by profits from deposits in other banks of a substantial amount of low-cost funds available from international donors' (Hossain 1988, 120). It is acknowledged widely that interest rates charged by micro-credit organizations are higher than the corresponding rates charged by commercial banks or other financial institutions. Real interest rates in 1992 varied from 15 per cent per annum in Bangladesh for the Grameen Bank to 45 per cent in Bolivia for loans advanced by BancoSol, and 60 per cent in Indonesia for loans advanced by BKK (Hulme and Mosley 1998, cited in Chavan and Ramakumar 2002). In fact, the literature notes that, in the era of financial liberalization, NGOs too are 'free to charge whatever interest rates they wish in order to cover the (at present very considerable) costs of institution building, supervision, experimentation and insurance' (Mosley 1999, 377).

Thus the transfer of the task of serving the credit needs of rural borrowers from the banking system to NGO-controlled micro-credit projects does not *reduce* transactions costs but, in effect, *transfers* transactions costs – *higher* transactions costs – to donors as well as borrowers.

### *Repayments and Overdue Loans*

A record of near 100 per cent repayment is a major success of NGO-controlled micro-credit. Repayment rates are reported to be over 95 per cent in many micro-credit programmes (Hossain 1988, Hulme and Mosley 1998, cited in Chavan and Ramakumar 2002, Johnson and Rogaly 1997).

This achievement, however, is not costless. A system based on the quick repayment of very small loans does not allow for funds to go into income-bearing activities that have a gestation period of any significance. Only projects with very quick rates of return and high rates of return relative to the tiny investment can meet existing repayment schedules. The first payment on a micro-credit loan is generally to be made a very short time after the loan is given. It has been argued that this can put micro-credit out of the reach of the poorest, since the ability to pay the first few instalments depends on the initial resource base of the borrower.[38]

[38] See, for instance, Zaman (1997, 247). For a list of the design features ensuring high repayment, see Hulme and Mosley (1996), cited in Johnson and Rogaly (1997).

The repayment record of NGO-controlled micro-credit projects slackens as the size of loan rises and as the frequency of borrowing rises. To take the example of the Grameen Bank once again, the default rate was 0.4 per cent among first-time borrowers, 1.2 per cent among second-time borrowers, 6.6 per cent among third-time borrowers and 9.5 per cent among fourth-time borrowers (Hossain 1988, cited in Chavan and Ramakumar 2002). Further, when the pressure to repay is as overbearing as it often is, borrowers have had to borrow from moneylenders in order to repay NGO-advanced loans (Rahman 1999, cited in Chavan and Ramakumar 2002).

High repayment is dependent on high transactions costs. As already mentioned, NGOs invest heavily in supervising, monitoring and enforcing loan repayments. When the activities of NGO-controlled micro-credit projects are scaled up, the relative burden of administrative costs tends to increase.

### *Dealing with Overdues: An Indian Example*

Adequate data are not available for a comparative study of the problem of overdues in commercial and cooperative banks on the one hand and independent micro-credit agencies on the other. Nevertheless, two recent analyses published by the Reserve Bank of India (Ghosh 2001; RBI 2001a) permit some observations on the issue of overdues with particular reference to the performance of one of India's most distinguished micro-credit and self-employment organizations, the Self Employed Women's Association (SEWA).

SEWA, based in Ahmedabad, is an organization of working women, and has long been involved in disbursing micro-credit. It has established a bank, the SEWA Bank, which now operates in five districts of Gujarat and advances around Rs 90 million annually. Most of the working capital of the Bank comes from members' savings. A borrower's repayment record is used, in lieu of collateral, to assess her creditworthiness. A recent study of the financial performance of SEWA Bank has found that, at present, 'overdues are the major area of concern' (Ghosh 2001). In the financial years 1996–7, 1997–8 and 1998–9, Non-Performing Advances (NPAs or overdues) amounted to 28 per cent, 20 per cent and 27 per cent respectively of total loans and advances (Ghosh 2001, Table 1). For roughly the same period, 1995–6, 1996–7 and 1997–8, the RBI estimates that gross NPAs as a share of the total advances of all public-sector banks together amounted to 17.3 per cent, 18 per cent and 16 per cent (RBI 2001a). If only Priority Sector advances of public-sector banks are considered, the ratio of NPAs to total advances was 27 per cent, 26 per cent and 23 per cent in each of the three reference years.

The data thus show that the proportion of overdues to total advances of an independent micro-credit bank was actually marginally higher than the corresponding ratio for public-sector banks. Scaling-up NGO-controlled micro-credit, it appears, can generate problems similar to those faced by traditional banking institutions. The corrective measures being taken by SEWA Bank to address the problem of overdue loans involve greater supervision and monitoring

(Ghosh 2001).[39] In short, higher and better repayment requires more staff and closer monitoring.[40]

*Small-scale Credit and Rural Banks*

As mentioned in an earlier section of this paper, rural credit policy in India needs to offer a range of services and types of loans to rural households. While small-scale, short-term loans – or micro credit – constitute only one among the many services that the public authority should provide, schemes that provide such loans to rural working households do nevertheless serve as a kind of palliative reform in the countryside. For all the weaknesses in its implementation, IRDP played an important role in the 1980s in that it gave new access to millions of rural households to the formal banking system and increased levels of purchasing power in rural India significantly. Small-scale credit schemes have also been the basis for useful and socially progressive experiments in social mobilization.

It is clear that the Indian banking system – cooperative banks and commercial banks – failed on many fronts to fulfil its commitment to the people of rural India in respect of social and development banking. The banking system, we believe, can and must improve its functioning by working with local governments and local voluntary organizations. Some of the transactions costs of loans, costs for banks as well as for borrowers, can be lowered when banks work in an innovative way with panchayats and self-help groups.

Small-scale rural credit is indeed necessary, but rural credit policy should build on the strengths of the banking system in this regard.[41] We have shown in this paper that, despite assertions to the contrary, NGO-controlled micro-credit organizations do not incur lower transactions costs than banks (they are able to transfer these costs to others). Banks have many advantages over private micro-credit organizations as providers of small-scale loans. They have advantages of scale; the banking system in India has a reach and spread that NGO-controlled micro-credit cannot begin to match; banks can cross-subsidize loans; banks are better placed to provide specialized training to their employees in development banking; banks are better placed to coordinate banking activity with development administrations, local governments and self-help groups; and banks are better able than private micro-credit organizations to offer a wide range of financial services

[39] For example, daily targets for collection are being set and monitored, leaders from all areas are being called for weekly meetings, a special team of field workers has been created to regularly visit borrowers, and so on (Ghosh 2001).

[40] This is as true, of course, for commercial banks as it is for SEWA Bank. In fact, it may well be argued that one reason for the unsatisfactory performance of rural banks in India (both in terms of advances and in terms of recovery) is under-staffing in rural bank branches. In an early assessment of the performance of banks after nationalization, Shetty pointed out that rural and semi-urban bank branches are 'generally starved of staff inputs and hence have not fared well in business' (Shetty 1978, 1417). For instance, in 1974, rural areas accounted for 36 per cent of bank branches but only 10 per cent of bank employees (Shetty 1978).

[41] It is noteworthy that this issue has been recognized in an official report as well. The Expert Committee on Rural Credit set up by NABARD in its report states that 'commercial banks cannot be allowed to withdraw from rural credit' and that cooperative credit institutions need to be strengthened to meet the huge unmet needs of rural credit in India (NABARD 2001).

to borrowers. For the state to withdraw from the field and hand over small-scale credit to NGO-controlled micro-credit organizations is, in effect, to undermine and weaken a major national asset, the widespread rural banking system.

## CONCLUSIONS

We identified three broad phases of banking policy with regard to the Indian countryside: an early 'green revolution' phase that followed the nationalization of major commercial banks; an 'IRDP phase' of credit-based poverty alleviation initiatives, and the most recent phase of liberalization and market-guided banking policy. The first two phases of banking policy witnessed a significant expansion and consolidation of banking infrastructure in rural areas and, correspondingly, a rise in rural deposit mobilization and advances to rural areas. While the first phase concentrated on the expansion of credit to cultivators, particularly landlords and rich peasants in selected areas, the second phase included credit-based schemes for landless and asset-poor households. The flow of formal sector credit to the rural areas, and specifically to the rural poor, peaked in the late 1980s. The liberalization phase of banking policy has seen a sharp withdrawal of formal banking instruments and credit supply from rural areas.

The village data show that changes in national banking policy have had a rapid, drastic and potentially disastrous effect on the debt portfolios of landless labour households. Rural credit markets in India abhor a vacuum: with the withdrawal of formal sector credit for the village poor, the informal sector rushed in to fill the space that it had occupied. The village data discussed here refer only to one section of the poor, the class of landless manual labourers.

The share of the formal sector in the principal borrowed by landless labour households increased from 17 per cent in the 'green revolution' phase (that is, by our data for 1977), to 80 per cent in the 'IRDP phase' (survey of 1985) and fell to 22 per cent in the liberalization phase (survey of 1999). The share of production and business-related loans in the purposes for which all loans were taken by landless labour households was 23.8 per cent in 1977, rose to 44.2 per cent in 1985 and fell sharply to 22.6 per cent in 1999. The 1999 survey showed new forms of informalization of the credit market, a proliferation of moneylending as a whole-time or part-time occupation, and new trends in the personalization of individual loans. Usury increased over the 22-year period covered by our survey: in 1977, 32.3 per cent of the total principal borrowed by landless agricultural labour households was borrowed at nominal rates of interest of 36 per cent and above; the corresponding figures for 1985 and 1999 are 50.3 per cent and 64 per cent. Twenty-four per cent of the total principal borrowed during the 1985 survey was at rates of interest of 60 per cent and above; the share rose to 43 per cent in 1999.

Every indicator of indebtedness that has been used thus shows that the exploitation of the rural poor in the credit market has intensified in the phase of financial liberalization.

The objective of this paper is not to present a scheme for an alternative system of rural banking. It has argued, however, that current policy statements that view micro-credit as the major answer to problems of formal banking are misguided.

Micro-credit is neither a successful anti-poverty strategy nor is it an adequate response to the huge unmet credit needs of the rural population. It is not just that micro-credit by its very nature cannot meet the range of demand for credit in the rural areas but also that NGO-controlled micro-credit takes control of credit distribution and the terms of loans out of the reach of the public authority and democratic government.

It is clear, however, that chronic indebtedness among the rural poor is a problem that cannot be solved by banking policy alone, and that the abolition of usury requires agrarian reform and major public investment in the rural economy.

## APPENDIX

### *Case Studies of Moneylenders*

As part of the research for this paper, we did case studies of three moneylenders in two areas of the Cumbum Valley that are known for the spread of moneylending, and conducted some general interviews in Gokilapuram on moneylending. We interviewed one moneylender in the small town of Gudalur and two in the nearby village of NT Patti in some detail. Gudalur is a predominantly agricultural town with a population of 35,000. NT Patti is a village some 10 km from Gokilapuram.

All our respondents ran medium-sized moneylending businesses. They were men in their late twenties and thirties: one (in Gudalur) began lending money when he was unemployed; one (in NT Patti) began when he was an agricultural wage-worker working in the grape-fields in the vicinity of the village (he now owns a small shop); and the third (also from NT Patti) has a day job as an elementary school teacher. Different kinds of people have entered moneylending in recent years, they said. Some rich farmers and business people lent money on the side; the new entrants to moneylending were not, however, predominantly rich commercial farmers or big traders. Unemployed youth of different educational backgrounds have taken to moneylending, beginning with a small investment. The savings and retirement benefits of salaried employees are another important source of seed-money for moneylending, they said. In some cases, people invested money gained from the sale of unirrigated farming land in moneylending. Two important sources of start-up money are dowries, including relatively small dowries, and money gained through collections at household rituals.[42] In more than one case, we found that low-interest bank loans, such as those given through government credit programmes such as DWCRA (Development of Women and Children in Rural Areas), were used by the beneficiaries for moneylending. In Gudalur, profits from illegal trade (in marijuana and bootlegging) were also sources of funds for moneylenders.

In the Valley as a whole, and in Gudalur and NT Patti, the largest segment of moneylenders consists of persons who belong to the Piramalai Kallar caste. In

[42] This practice (*seymurai*) involves the collection of money by a household from neighbours, relatives and friends when the household conducts a ritual (related to birth, death, puberty, house-building, and so on) at home.

Gokilapuram, although the major contingent of moneylenders is from this caste, the practice of moneylending has spread to other castes as well.

The three moneylenders we interviewed all described themselves as 'middle-level' operators. In each case, the moneylender was one of a group of five, in which each contributed Rs 15,000 at the time they began operations. One (in Gudalur) began to lend money when the family sold a plot of unirrigated land, the second began operations using a 'small' dowry and money from collections at a family ritual, and the third used savings from his salary to start up.

The three advanced money mainly to agricultural workers, small peasants and small shopkeepers. A single loan to an agricultural worker never exceeded Rs 3000; the largest loan advanced was Rs 10,000 (to a tea-shop owner). These loans were given as *kanthu* loans (described below); in the course of our interviews, the lenders described a wide variety of types of loans.

### Kanthu *loans*

The lender gives the borrower Rs 900 (a loan of 'Rs 1000'). The borrower has to pay it back at the rate of Rs 10 a day for 100 days. A variant of this is when the lender gives the borrower Rs 800 (a loan of 'Rs 1000') and the borrower has to pay back Rs 5 a day for 200 days. (Another variant, practised in Gokilapuram, is described in the text.)

### *Monthly-interest loans*

These are loans given to people 'whom we trust'. They are given at 3 per cent per month (for those 'we trust more') or 5 per cent per month (for those 'we trust less'). The interest rate may also vary with the size of loan, with higher interest rates on smaller loans. In general, all moneylenders try to get back the principal advanced on monthly-interest loans within a year. In NT Patti, rich farmers and established moneylenders or moneylending groups generally give monthly-interest loans. Monthly-interest loans are the main form of loans in Gokilapuram, where the rate of interest can be as high as 10–12 per cent per month.

### *Weekly interest loans*

This has similarity with the structure of the *kanthu* loan, but has a higher rate of interest attached to it. In Gudalur, the terms of these loans work as follows. The lender gives the borrower Rs 1000; the borrower repays Rs 125 a week for 10 weeks. In NT Patti, the moneylender gives the borrower Rs 1000 and collects Rs 50 a week as interest until the principal is repaid (and he ensures that the principal is indeed repaid). This loan had its origins in the cattle trade where people need to borrow money before the weekly sales of cattle to be sent across the border to Kerala. Such loans also used to be taken by tomato merchants who bought tomatoes from the fields, sold their stocks in the nearby market town and repaid the loan in a week. It is now given more generally.

*Daily interest loans*

This was a loan type that we found only in Gudalur. The rate of interest on such loans is between 30 paise on Rs 100 to 50 paise on Rs 100 per day; the entire principal has generally to be paid back in 10 days to a month. According to one informant, 70 per cent of these loans go to people in illegal activities, marijuana smuggling and bootlegging, or, on occasion, to people who have to go to an auction (such as an auction of liquor outlets). Thirty per cent goes to people with emergency needs, such as a medical emergency or a need to make an immediate payment to meet social and ritual obligations.

The lender must know every debtor. In cases where he is not, a 'known person', who must then stand as surety on the promissory note and pay the debt in case of default, must introduce him to the lender. For every deal, the borrower has to sign his name on a blank sheet of paper on a revenue stamp. Where a surety is involved in the deal, he signs too. Two lenders told us that whenever the borrower is a married man, they make sure that the wife knows about the deal and keep her up to date with regard to the record of repayment.

One moneylender described with colourful cynicism the qualities needed of a debt-collector, and the kind of encounters that occur between debtor and collector. Taking a loan is a matter of a few minutes for a borrower. For the lender, however, getting the interest and principal back is a matter of months of walking and waiting, bicycling about and receiving rebuffs, searching out and standing firm. The collector must be firm or else he will not get his money or the interest back; he must be aggressive or else goes under; he must be willing to shame the borrower in front of his family and the public, for often this is the tactic that works. He must not overstep himself in his aggression, though: if the borrower is a very income-poor man, with nothing to lose, in fact, but his chains, he may revolt under pressure and tell the debt-collector to do what the collector will, for he cannot and will not pay. The borrower may even bolt, a most undesirable course of action from the lender's point of view, since a runaway debtor represents a bad debt for the collector. Not an easy job, being a moneylender (the moneylender told us): it needs money, patience, energy, thrift and an aptitude for dealing with difficult situations and difficult, often insulting and ungrateful people.

This moneylender's group is tough, its members have often been in public shouting matches with their debtors. They have not beaten anyone up so far, but they have, on one occasion, seized a debtor's bicycle. The debtor in question was a young agricultural worker with steady employment on the grape fields. He was unmarried then, and therefore 'without obligations or responsibilities'. He paid Rs 450 of the Rs 1000 he owed, but said, even after 200 days, that he could not repay his debt. The lenders cancelled the extra interest due; still the young man did not pay. So they seized the borrower's bicycle, which effectively meant cutting off his employment, since the fields on which he worked were some distance from the village. In a few days, the moneylenders had their money back.

If a person wants to make money from moneylending, another moneylender said, he had to be prepared to break, if it came to the crunch, close personal ties

based on friendship, familial ties or caste. Gudalur is full of stories of threats and occasional beatings and of the seizure of movable property of borrowers (televisions, utensils, cots and beds, furniture, electrical goods) by lenders. There has been a recent case of suicide by a poor peasant, his wife and daughter, members of a household unable to pay its debts. Many people who have no immovable property (or have immovable property that has already been mortgaged) just leave the area.

*Earnings*

The moneylender groups whose members we interviewed began their operations with an investment of Rs 75,000. In general, the capital had increased to Rs 140,000–145,000 in a year and to Rs 220,000–225,000 in two years. One group had Rs 15,000 in bad debts over five years; another had bad debts of Rs 20,000 in two years. It appears that in the first few years, moneylenders often reinvest all the profits. Bigger operators and established operators use the surplus to build houses, buy motorcycles or cars and for other types of consumption. They also buy land. Big moneylenders in the region have been buying dry land and converting it into groves or garden land. The ultimate objective of moneylenders is to save enough to acquire land through mortgage and purchase (moneylenders have acquired more land through mortgage than purchase).

There was general agreement among our respondents that an explosion of moneylending had occurred in the last five years. There have 'always' been *kanthu* loans in rural credit markets, but there has been a sharp growth in *kanthu* loans and other types of loans at usurious interest rates. One young moneylender made a remark that serves as an interesting commentary on the demand for credit (unmet by the formal sector) in the area: 'when people hear that a person has money to lend, they gather around like flies at a honeypot'.

*Table A1.* Percentage share of principal borrowed from formal and informal sources of credit, all households by size category of value of household assets, Gokilapuram village, May 1999

| *Size category of value of household assets (in Rs)* | *Percentage share of formal sources* | *Percentage share of informal sources* | *All sources* |
|---|---|---|---|
| 0–20,000 | 8.5 | 91.5 | 100 |
| 20,000–100,000 | 20.0 | 80.0 | 100 |
| 100,000–500,000 | 51.2 | 48.8 | 100 |
| 500,000–1,000,000 | 46.3 | 53.7 | 100 |
| >1,000,000 | 42.9 | 57.1 | 100 |
| Total | 39.6 | 60.4 | 100 |

*Source*: Survey data, 1999.

*Table A2.* Distribution of principal borrowed by purpose of borrowing, all households by size category of value of household assets, Gokilapuram village, May 1999

| *Size category of value of household assets (in Rs)* | *Percentage share of agriculture, livestock and other businesses* | *Percentage share of consumption loans** | *All loans* |
|---|---|---|---|
| 0–20,000 | 35.2 | 64.8 | 100 |
| 20,000–100,000 | 29.8 | 70.2 | 100 |
| 100,000–500,000 | 29.8 | 70.2 | 100 |
| 500,000–1,000,000 | 37.6 | 62.4 | 100 |
| >1,000,000 | 60.4 | 39.6 | 100 |
| Total | 42.1 | 57.9 | 100 |

*Source*: Survey data, 1999.

*Note*: *Consumption credit includes loans for housing, for unspecified purposes and loans for multiple uses including consumption.

*Table A3.* Distribution of principal borrowed by type of informal lender, all households by size category of value of household assets, Gokilapuram village, May 1999

| *Size category of value of household assets (in Rs)* | *Moneylenders* | *Merchants, millers, etc.* | *Landlords and other landowners* | *Miscellaneous part-time lenders* | *Not specified* | *All* |
|---|---|---|---|---|---|---|
| 0–20,000 | 50.6 | 8.7 | 6.9 | 27.8 | 6.0 | 100 |
| 20,000–100,000 | 40.1 | 11.3 | 5.6 | 32.6 | 10.4 | 100 |
| 100,000–500,000 | 29.0 | 9.4 | 5.7 | 49.6 | 6.3 | 100 |
| 500,000–1,000,000 | 39.1 | 2.8 | 27.8 | 28.9 | 1.4 | 100 |
| >1,000,000 | 39.1 | 2.0 | 9.3 | 21.3 | 28.3* | 100 |
| Total | 39.8 | 6.7 | 10.4 | 29.0 | 14.1 | 100 |

*Source*: Survey data.

*Note*: *includes large borrowings from chit funds in this category.

*Table A4.* Distribution of principal borrowed by size class of interest rate, all households by size category of value of household assets, Gokilapuram village, May 1999 (in per cent)

| *Size category of assets (in Rs)* | *Percentage share of total principal borrowed at specified rates of interest (in per cent per annum)* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Zero* | *1–24* | *24–36* | *36–60* | *60–120* | *120+* | *Other* | *All* |
| 0–20,000 | 9.1 | 8.7 | 1.1 | 24.5 | 33.2 | 7.7 | 15.7 | 100 |
| 20,000–100,000 | 5.7 | 20.6 | 4.8 | 24.6 | 30.9 | 5.9 | 7.5 | 100 |
| 100,000–500,000 | 5.2 | 53.2 | 11.7 | 16.3 | 9.1 | 0.1 | 4.4 | 100 |
| 500,000–1,000,000 | 2.8 | 47.2 | 9.3 | 36.2 | 3.7 | 0 | 0.8 | 100 |
| >1,000,000 | 1.0 | 45.5 | 2.3 | 44.3 | 5.5 | 0 | 1.5 | 100 |
| Total | 3.7 | 40.2 | 6.0 | 31.4 | 12.8 | 1.7 | 4.2 | 100 |

*Source*: Survey data.

*Note*: Other refers to loans at unspecified interest rates.

*Table A5.* Share of principal borrowed at interest rates of more than 60 per cent per annum, all households by size category of value of household assets, Gokilapuram village, May 1999 (in per cent)

| *Size category of value of household assets (in Rs)* | *Share of high interest loans in total loans* |
|---|---|
| 0–20,000 | 40.9 |
| 20,000–100,000 | 36.8 |
| 100,000–500,000 | 9.2 |
| 500,000–1,000,000 | 3.7 |
| >1,000,000 | 5.5 |
| Total | 14.5 |

*Source*: Survey data.

## REFERENCES


Athreya, V., G. Djurfeldt and S. Lindberg, 1990. *Barriers Broken*. New Delhi: Sage Publications.

Basu, K., 1984. 'Implicit Interest Rates, Usury and Isolation in Backward Agriculture'. *Cambridge Journal of Economics*, 8 (2): 145–59.

Bhaduri, A., 1977. 'On the Formation of Usurious Interest Rates in Backward Agriculture'. *Cambridge Journal of Economics*, 1 (4): 341–52.

Bhaduri, A., 1982. 'The Role of Rural Credit in Agrarian Reform with Special Reference to India'. *Economic Bulletin for Asia and the Pacific*, 3 (2): 341–52.

Bhaduri, A., 1983. *The Economic Structure of Backward Agriculture*. London: Academic Press.

Bhalla, G.S. and G.K. Chadha, 1990. 'Green Revolution and the Small Peasant: A Study of Income Distribution in Punjab Agriculture'. In *Poverty and Income Distribution*, ed. K.S. Krishnaswamy, 203–43. Bombay: Oxford University Press for Sameeksha Trust.

Bharadwaj, K., 1990. 'Regional Differentiation in India: A Note'. In *Poverty and Income Distribution*, ed. K.S. Krishnaswamy, 244–65. Bombay: Oxford University Press for Sameeksha Trust.

Bhat, N. and S.Y. Tang, 1998. 'The Problem of Transaction Cost in Group-Based Microlending: An Institutional Perspective'. *World Development*, 26 (4): 623–37.

Binswanger, H.P., S.R. Khandker and M.R. Rosenzweig, 1993. 'How Infrastructure and Financial Institutions Affect Agricultural Output and Investment in India'. *Journal of Development Economics*, 41: 337–66.

Bottomley, A., 1963. 'The Premium for Risk as a Determinant of Interest Rates in Underdeveloped Rural Areas'. *Quarterly Journal of Economics*, 57 (4): 637–47.

Bottomley, A., 1964. 'Monopoly Profit as a Determinant of Interest Rates in Underdeveloped Rural Areas'. *Oxford Economic Papers*, 16 (2): 431–7.

Chandrasekhar, C.P. and J. Ghosh, 2002. *The Market that Failed: A Decade of Neoliberal Economic Reforms in India*. New Delhi: LeftWord Books.

Chavan, P., 2001. 'Some Features of Rural Credit in India with Special Reference to Tamil Nadu: A Study of the Period after Bank Nationalization'. M.Phil Thesis, Indira Gandhi Institute of Development Research, Mumbai.

Chavan, P. and R. Ramakumar, 2002. 'Micro-credit and Rural Poverty Analysis of Empirical Evidence'. *Economic and Political Weekly*, 37 (10): 955–65.

Dhanagare, D.N., 1990. 'Green Revolution and Social Inequalities'. In *Poverty and Income Distribution*, ed. K.S. Krishnaswamy, 266–88. Bombay: Oxford University Press for Sameeksha Trust.

Dreze, J., 1990. 'Poverty in India and the IRDP Delusion'. *Economic and Political Weekly*, 25 (39): A95–104.

Ghosh, S., 2001. *Design Issues in Micro Credit*. Mumbai: Reserve Bank of India (<www.rbi.org.in/rbisitemap.htm).

Government of India (GOI), 1985. *Seventh Five Year Plan 1985–1990*. Vol. 2, New Delhi: Ministry of Planning.

Griffin, K., 1975. *The Political Economy of Agrarian Change*. London: Macmillan.

Hashemi, S.M., 1997. 'Those Left Behind: A Note on Targeting the Hardcore Poor'. In *Who Needs Credit? Poverty and Finance in Bangladesh*, eds G.D. Wood and I.A. Sharif, 249–57. London: Zed Books.

Hashemi, S.M. and L. Morshed, 1997. 'Grameen Bank: A Case Study'. In *Who Needs Credit? Poverty and Finance in Bangladesh*, eds G.D. Wood and I.A. Sharif, 217–27. London: Zed Books.

Hossain, M., 1988. 'Credit for Alleviation of Rural Poverty: The Grameen Bank in Bangladesh'. Research Report 55. Washington, DC: IFPRI.

Hossain, M., 1993. 'Credit for Alleviation of Rural Poverty: The Grameen Bank in Bangladesh'. *Tropicultura*, 11 (3): 115–21.

Hulme, D. and P. Mosley, 1996. *Finance Against Poverty*. London: Routledge.

Hulme, D. and P. Mosley, 1997. 'Finance for the Poor or Poorest? Financial Innovation, Poverty and Vulnerability'. In *Who Needs Credit? Poverty and Finance in Bangladesh*, eds G.D. Wood and I.A. Sharif, 97–130. London: Zed Books.

Hulme, D. and P. Mosley, 1998. 'Microenterprise Finance: Is There a Conflict Between Growth and Poverty Alleviation?' *World Development*, 26 (5): 783–90.

Johnson, S. and B. Rogaly, 1997. *Microfinance and Poverty Reduction*. UK and Ireland: OXFAM and ActionAid.

MIDS, 1980. *Structure and Intervention, An Evaluation of DPAP, IRDP and Related Programmes in Ramanathapuram and Dharmapuri Districts of Tamil Nadu*. Madras: Madras Institute of Development Studies.

Micro-Credit Summit, 1997. 'Declaration and Plan of Action'. Available at <www.microcreditsummit.org/decalaration.htm>.

Mosely, P., 1999. 'Micro-macro Linkages in Financial Markets: The Impact of Financial Liberalization on Access to Rural Credit in Four African Countries'. *Journal of International Development*, 11: 367–84.

NABARD (National Bank for Agriculture and Rural Development), 2000. 'Task Force on Supportive Policy and Regulatory Framework for Micro Finance in India, Summary and Recommendations'. Available at <www.nabard.org/whats/whats.htm>

NABARD, 2001. *Report of the Expert Committee on Rural Credit*, Mumbai, July.

Nagaraj, K., 1981. 'Structure and Inter-Relations of the Land, Labour, Credit and Product Markets of South Kanara'. Ph.D thesis, Indian Statistical Institute, Calcutta.

Nair, T., 1999. 'Rural Financial Intermediation and Commercial Banks: A Review of Recent Trends'. Gujarat Institute of Development Research Working Paper No. 112, May, Ahmedabad.

Narayana, D., 2000. 'Banking Sector Reforms and the Emerging Inequalities in Commercial Credit Deployment in India'. Centre for Development Studies Working Paper No. 300, March, Thiruvananthapuram.

Osmani, S.R., 1990. 'Social Security in South Asia'. In *Social Security in Developing Countries*, eds E. Ahmad, J. Dreze, J. Hills and A. Sen, 305–55. Oxford: Clarendon Press.

Patnaik, P., 1975. 'Current Inflation in India'. *Social Scientist*, 30–31: 22–42.

Rahman, A., 1999. 'Micro-credit Initiatives for Equitable and Sustainable Development: Who Pays?' *World Development*, 27 (1): 67–82.

Ramachandran, V.K., 1990. *Wage Labour and Unfreedom in Agriculture, An Indian Case Study*. Oxford: Clarendon Press.

Ramachandran, V.K. and M. Swaminathan, 1992. 'Foreign Banks' Violations'. *Frontline*, 9 (21): 118–21.

Rangarajan, C., 1996. 'Rural India: The Role of Credit'. *Reserve Bank of India Bulletin*, May. Bombay: Reserve Bank of India.

Rangarajan, C., 1997. 'Role of Non-Governmental Organisations in Rural Credit Delivery System'. *Reserve Bank of India Bulletin*, January. Bombay: Reserve Bank of India.

Rath, N., 1990. 'Garibi Hatao: Can IRDP Do It?' In *Poverty and Income Distribution*, ed. K.S. Krishnaswamy, 330–56. Bombay: Oxford University Press for Sameeksha Trust.

RBI, 1991. *Report of the Committee on the Financial System* (chaired by M. Narasimham). Bombay: Reserve Bank of India.

RBI, 1990. *Report on Trend and Progress of Banking in India 1989–90*. Bombay: Reserve Bank of India.

RBI, 1999a. 'Micro Credit Special Cell'. *Report on Micro Credit*. Mumbai: Central Office.

RBI, 1999b. *Banking Statistics Quarterly Handout, June 1999*. Mumbai: Reserve Bank of India.

RBI, 1999c. *Report on Trend and Progress of Banking in India 1998–99*. Mumbai: Reserve Bank of India.

RBI, *Banking Statistics 1972–1995, Basic Statistical Returns*. Bombay: Reserve Bank of India.

RBI, various years. *Report on Currency and Finance*. Mumbai: Reserve Bank of India.

RBI, various years. *Banking Statistics, Basic Statistical Returns*. Mumbai: Reserve Bank of India.

RBI, 2001a. 'Some Aspects and Issues Relating to NPAs in Commercial Banks'. Available at <www.rbi.org.in/rbisitemap.htm>.

RBI, 2001b. *Basic Statistical Returns of Scheduled Commercial Banks in India*, Vol. 29. March 2000. Mumbai: Reserve Bank of India.

Rural Labour Enquiry (RLE), 1990. *Indebtedness among Rural Labour Households 1983*. Shimla: Labour Bureau, Government of India Press.

Rural Labour Enquiry (RLE), 1997. *Indebtedness among Rural Labour Households 1993*. Shimla: Labour Bureau, Government of India Press.

Sarap, K., 1987. 'Transactions in Rural Credit Markets in Western Orissa, India'. *Journal of Peasant Studies*, 15 (1): 83–107.

Sarap, K., 1990. 'Interest Rates in Backward Agriculture: The Role of Economic and Extra-Economic Control'. *Cambridge Journal of Economics*, 14 (1): 93–108.

Sen, K. and R. Vaidya, 1997. *The Process of Financial Liberalization in India*. Delhi: Oxford University Press.

Shetty, S.L., 1978. 'Performance of Commercial Banks Since Nationalisation of Major Banks'. *Economic and Political Weekly*, 13 (31–3).

Shetty, S.L., 1997. 'Financial Sector Reforms in India: An Evaluation'. *Prajnan*, 25 (3–4): 253–87.

Swaminathan, M., 1986. 'Rural Credit in Two Villages in Madurai District'. Credit for Rural Development in Southern Tamil Nadu, Final Research Report No. 1. Tamil Nadu Agricultural University and University of Reading.

Swaminathan, M., 1990. 'Village Level Implementation of IRDP: Comparison of West Bengal and Tamil Nadu'. *Economic and Political Weekly*, 35 (13): A17–27.

Swaminathan, M., 1991. 'Segmentation, Collateral Undervaluation and the Rate of Interest in Agrarian Credit Markets: Some Evidence from Two Villages in South India'. *Cambridge Journal of Economics*, 15 (2): 161–78.

Wiggins, S. and S. Rajendran, 1987. 'Rural Banking in Southern Tamil Nadu: Performance and Management'. Final Research Report. Department of Agricultural Economics and Management, University of Reading.

Yunus, M., 1997. Speech available at <www.microcreditsummit.org/declaration.htm>.

Zaman, H., 1997. 'Micro-credit Programmes: Who Participates and What Does it Matter?'. In *Who Needs Credit? Poverty and Finance in Bangladesh*, eds G.D. Wood and I.A. Sharif, 231–47. London: Zed Books.