CHAPTER V
CHAPTER V

UN-ORGANISED MONEY MARKET IN INDIA

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5.1. INTRODUCTION

In a country where poverty was general and the rainfall was uncertain, the proportion of farmers having recourse to un-organised money market or bazar market was found to play a dominant role in rural credit, because the farmers find it more expedient to resort to them than to the agencies in the organised money market. They advance money to agriculturists during the famine and flood or at the beginning of the agricultural season, to be repaid in cash or kind after the crop is harvested. The main reason for this is that their lending procedure are relatively simple, the personal relationship between the lenders and borrowers, easy business formalities, flexible arrangements and credit assistance in timely.

5.2. ORIGIN OF INDIGENOUS FINANCIAL AGENCIES

The origin and practice of indigenous banking in India dates back to vedic times i.e., 2000 B.C. to 1400 B.C. when the development of trade took place between the neighbouring countries and regions; but money lending can be said to be a universal phenomenon. The indigenous agencies originated as
the product of the local needs. During Vedic and pre-Vedic periods generally lower interest rates were charged; usury was held in contempt and also the insolvency of the parties. According to Bhargava, the banker in this period performed most of the functions which modern bank performs. He accepted deposits, granted loans, acted as his customers, subscribed to public loans by granting loans to kings, acted as the treasurer and banker to the state and issued and managed currency of the country.

During the Buddhist period which falls between seventh to second century B.C., the existence of money-lenders called "Srenis" carried on various commercial and industrial activities. They served as banks to the community receiving permanent deposits and holding them as trust properties, and paid interest on the deposits they received at the rate fixed by the general assembly of the Guild. Their main function was to finance the traders, merchant adventures, and chieftains in times of war and other financial stress. During this period Buddhist texts or writings did not specify the rate of interest. Loans were mostly advanced without any written bonds or other documents; the practice appears to have been to repay the principal and interest at fixed periods. The law regarding lending and repayment of loans seems to have been rather

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strict and it appears that both bad debts and usurious rates of interest were unpopular. Hence, during this period the business of money lending was considered to be an honest and honourable profession.

Kautilya's Arthasastra recognised the importance of money lending for the economic advance of a country and advocated that the King should regulate the rate of interest; and lay down rules for the protection of debtors and creditors. The maximum legal rate of interest on secured and unsecured loans was 15 to 16 per cent per annum respectively. The rates of interest can be varied in relation to the caste to which the borrower belonged. The credit instruments i.e., "Adesa" which means "Order" were used on a third party to pay a specialised sum to the person mentioned in it. Thus, the Arthasastra laid down rules for the hoarding and utilisation of wealth on interest; but not on deposit.

The transition of money lending to banking appears to have taken place by the Dharamasastra or second or third century A.D. At that time Manu devotes separate sections to the "Recovery of Debt" and deposits and pledges; indicates that problems relating to money lending had assumed importance. People were enjoyed upon to make deposits with respectable bankers, but there is no reference to the
payment of interest on such deposits. The elaborate rules and rates were made for safeguarding the interest of the borrowers. For instance, at any one time, interest claimed could not exceed the principal more than twice. On grain, fruit, and animal loans, the interest rate ceiling was stipulated not to exceed five times of the principal amount. The laws of Manu bestowed wide power on the creditors for the recovery of debt. In short, this period is characterised as one in which the activities of the so-called banker-money-lender were well controlled and regulated. There is no live account of indigenous banking from the sixth to sixteenth centuries. At this period, bankers were reported to lend large sums of money to the State for payments to the army.

During the Mughal period, the indigenous bankers were prominently connected with financing of trade and offering credit and the use of certain banking instruments such as hundi, was in vogue. These indigenous bankers were mainly from specified communities, such as vaishyas, marwaris, chettiyars, khatris, aroras and multanis etc. Their activity mostly centered around money lending only and was lacking any organised structure. Moreover the Mughal rulers used to employ some of the important indigenous bankers for collecting revenue. The indigenous bankers also known as
the "Jagat Seths" or "World Banker" attained an important place in the history and were well known throughout the country.

The seventeenth century witnessed the coming into India of the English traders being inconvergent with the language and trade practices of the former could not take advantage of the expanding business in the hands of English merchants. The English traders or East Indian Company established their own agency houses at the port towns of Bombay, Calcutta, and Madras. These agency houses, apart from engaging in trade and commerce, also carried on the banking business. From this time, the business and power of the indigenous bankers began to wane in India.

During the later half of the eighteenth century when East Indian Company was in power without responsibility, the foreign trade passed out of the hands of people. The inland trade also was monopolized by the servants of the company for a considerable time. As a result of this the indigenous bankers naturally lost their old predominance.

5.3. CHARACTERISTICS OF UN-ORGANISED MONEY MARKET IN INDIA

The un-organised money market consists of a group of various indigenous agencies each with different business practices and a different structure of interest rates. This
market was more imperfect and much less homogeneous than the organised money market. It is a characteristic of an underdeveloped economy and finance in this sector is not impersonalised as it is found in the organised money market, i.e., loans are granted more on personal basis. It was alleged that un-organised money market did not consist on punctual repayment and that they were willing to lend money more freely without collateral.

Another feature of this market is that, the funds in this market do not flow from one agency to another, or from one centre to another with the result that there is always an imbalance in the demand for and supply of finance. In general the money lending activities is often combined with other economic activities such as trading and manufacturing. Hence that, it will ensure the way for personal contact with customers in relation to the nature of business. It is also characterised by fairly simple system of accounts and a certain amount of flexibility in matters of loan operations. Hence, it results in the great amount of secrecy in financial transaction.

The magnitude of finance involved in this market is sufficiently large i.e., nearly 50.0 per cent of the entire money market, the activities of the agencies are certainly important from the policy point of view. Thus, in India un-
organised money market is largely, from resource point of view, made up of indigenous bankers and is very unstable.

5.3.1. STRUCTURE OF UN-ORGANISED MONEY MARKET IN INDIA

The un-organised money market is a sector which operates outside the provisions of the Indian Banking Companies Act and maintains private accounts which are not audited or subject to open inspection by official or semi-official bodies. An analysis of the structure of unorganised money market is necessary for the proper understanding of its working. There are various methods by which credit is extended to the borrowers. The class of unorganised money market can be divided into various categories according to the area, nature and other practices of their activities as shown in chart 5.3.1.1.

5.4. MONEY-LENDERS

Of all un-organised money market the mahajan or money-lender or bania or sowcar is by far the most important source of agricultural finance in India, both from the point of view of members and from volume of business. Money-lenders have the virtual monopoly over the rural finance in the country. The money-lenders has been described as an oasis of thrift in the desert of improvidence. They live among the common people, send their children to local schools, speak the local language and visit the local
temple. Hence Jacob observed, he or money-lenders seldom cares the use of the money he lends out and frequently encourages his clients to continue borrowing as long as they could give additional security.

5.4.1. IMPORTANCE OF MONEY-LENDERS IN RURAL ECONOMY

The absence of inadequacy of the organised money market like co-operatives, commercial banks and regional rural banks in rural areas, money-lenders have played in the past an important role in Indian agricultural finance and they continue to play that important role even after the country became independent and even after number of steps were taken to curb their activities and establish organised money markets. Thus in 1950-51, it was observed that money-lenders accounted for nearly 70.0 per cent of the total borrowing by cultivators and organised money market accounts for only 7.3 per cent of its total borrowing by cultivators. Even in 1981 nearly 36.8 per cent of credit was provided by un-organised money market of which money-lenders in rural areas accounted for 16.1 per cent of the credit needs of the farmers. Hence that the Agricultural Finance Sub-Committee quote, "that the money-lender is the most important constituent of the agricultural credit machinery of the country."
The money-lenders freely supply credit for productive and unproductive purposes and also for short term and long term requirements of the farmers. Similarly, the money-lenders who have been carrying on money lending business in the villages for generations have fairly adequate knowledge about the credit-worthiness of each individual borrower as also about his assets, character and his willingness to repaying capacity. Money-lenders can be broadly classified into two categories viz., professional and non-professional money-lender. A professional money-lender is one whose main occupation or profession is money lending. He combines it with trading in the village produce. He may again be divided into resident and itinerant. The mahajans or sahukars come under the category of resident money-lender, while the pathans and kabulis from north west frontier come under the category of itinerant money-lenders supply credit to poor labourers, factory workers, peons, menials and low paid clerks who can not obtain credit elsewhere. Thus, the professional money-lenders has been defined as one who earns a substantial part of income from money lending.

On the other hand, a non-professional or agriculturists money-lender is one whose main occupation is farming. They are owners of producing more than their requirements; and have enough funds with them. They combine money lending
business, along with cultivation of land. Hence, in this case the agricultural operation constitute major occupation and whereas money lending constitutes a minor occupation. Simultaneously the income from money lending is relatively less important.

On the basis of classification generally adopted in the place of operation, the money-lenders are in two, viz., village money-lenders and town or urban money-lenders.

5.4.2. ORGANISATION AND FUNCTIONS OF VILLAGE MONEY-LENDERS

The village money-lenders such as big landlords and village merchants have held sway in the countryside for centuries. They lend money to the needy inhabitants of the village and advance corn or seeds to the village cultivators and artisans. Generally, most of the village money-lenders make advance in kind loans. The size of such loan is small and the duration is for a period of 4 to 6 months. As soon as the harvest is over the money-lender collects his dues whether borrowers' crops is good or bad. Cash loans are not exceeding Rs.500 given against the security of crops. But they have to be repaid within a period of one year. They are not particular about the purpose of loans and their actual utilization.
The village money-lenders operate with their own capital and negotiable instruments such as hundi and cheques do not figure in their transactions. They do not generally accept any deposit business or the village money-lenders have hardly any deposit business.

5.4.3. ORGANISATION AND FUNCTIONS OF TOWN OR URBAN MONEY-LENDERS

Town or Urban money-lenders concentrated with their activities in urban areas or taluks head quarters or certain commercial and industrial centers. Even among the town money-lenders there are small money-lenders who confine their activities to the limits of town and make loans primarily for consumption purposes to labourers and artisans etc. But the big urban money-lenders with large resources mainly provided loans for financing trade and commerce. The loans are advanced for a maximum period of 3 months to small traders and merchants to transfer goods from one centre to another. The loans are given on personal securities. They do not advance loans for consumption purpose on a large scale. Generally these agencies require the purpose of the borrowing and watch the actual utilisation.
The urban money-lenders do not give loans in kind but always in cash loans; Grain loans, as in the village, are virtually unknown in the towns. The promissory note is one of the attractive methods through which agencies lend money to the borrowers. Moreover, the urban money-lenders accept deposits, but such deposits formed less than 20 per cent of their owned resources.

5.4.4. ORGANISATION AND FUNCTIONS OF PAWNBROKERS

Another source of credit is the pawnbrokers. They do not finance trade and commerce on a large scale. Generally, the money lending is pawning or graven; i.e., lending of money against the pledge of gold, jewellery, silver, copper or brass-utensils. Anyone in need of money goes to the money-lender with some ornaments or utensils, and pledges them as a security for loan. Normally, the borrowers get 50 to 75 per cent of the value of security as loans. So far as the lender is sure about the repaying capacity of the borrower there is no problem. But if the borrower fails to repay the loans, then the lender faces the problem of recovering the amount as he can not sell the gold in the open market. Hence, the lender may hesitate to advance on these securities to such borrowers. The result will be that borrowers may go to private money-lenders who may try to exploit them.
5.4.5. SPECIAL FEATURES OF MONEY-LENDERS

It may be mentioned here that money-lenders have some special features which place them in a better position as compared with or to alternative agencies, and enable them to provide special services to the seekers of credit. The main reasons for his overwhelming dominance over others are as follows. Being the residents of village, money-lenders have an intimate knowledge of local conditions and people. They have a perfect knowledge of the character and the repaying capacity of the borrowers and there is little that escapes his eye in the circumstances of his debtors or of those who may one day be his debtors. He has a hold on those whom he chooses to lend. They are practical and realistic in tackling the situation, i.e., their method of work are flexible. They can easily adopt themselves to the changing requirements of agriculturists. Their rules are simple and flexible to suit individual heads. They are free to follow flexible procedures as they like in regard to the actual operations of lending. There is no need for them to await some one else’s decision, which is generally the case with organised money market. They have no fixed hours of working and so one can go to them at any time. They also do not insist upon any particular type of security for the grant of loans and they are able to hand over money promptly and do not insist on any time-consuming formalities.
On account of these reasons, money-lenders have dominated in agricultural sector for centuries. Darling has rightly summed up the various services rendered by money-lenders in these words: "It is only fair to remember that in the Indian village the money-lender is often the one thrifty person amongst a thriftless people; and that his method of business, through demoralising under modern conditions, suit the happy go lucky ways of the peasant. He is always accessible even at night: dispenses with trouble some formalities, and if interest is paid, does not press for repayment of principal. He keeps in close personal touch with his clients, and in villages shares their occasions of weal or woe. With his intimate knowledge of those around him he is able, without serious risk, to finance those who would otherwise get no loan at all. And he not only finance his neighbours, but frequently keeps a small shop to supply their peasant needs and nearly always prepares to market their produce"

In short, the services of the money-lenders in the absence of any other agency for rural finance can not be ignored. It is who have always come to the rescue. The need is there and they fulfil it. If they charge a high rate of interest, it is not of their fault. Because under the existing conditions no banker would lend the peasant any sort of support.
5.4.6. DEFECTS OF MONEY-LENDERS

It is clear that money-lender has been an important source of agricultural finance. However, this agency suffers from several defects. The condition under which the money-lender works, the helplessness on the part of cultivators, their illiteracy and grip of the money-lender on them enable the former to be a virtual monopolist in the field of agricultural finance, and he fully exploits the situation. The poor villagers are permanently trapped in the net of the money-lender because of the vicious circle of poverty in which their expenses exceed their income every year. Money-lender has been responsible for many ills of Indian agriculture because his main interest has been to exploit the farmer for his benefits and grab their lands. He adopts different tactics to take from cultivators as much as possible. Some of the mal-practices followed by a money-lender are mentioned below.

The rate of interest charged by him is exorbitant. As he is the only supplier of credit in neighbouring area, he can charge almost any rate of interest. It is noticed that they have charged an interest as high as 50 to 70 per cent per year. The charges on high rates of interest, besides placing heavy burden on the debtor, tend to perpetuate him in debt, rather than enabling him to become viable at least
In the long-run. In addition to high interest, these people take advantage of illiteracy of agriculturists and manipulate the accounts regarding loans to their advantage. They do not bother about the purpose for which loans are sought and advance credit very easily without any enquiry. As a result, agriculturists usually go in for some more loan than necessary and use most of it for unproductive consumption. This in fact has been the principal cause of increasing rural indebtedness. The conditions of loan's repayments are so designed that the debtor is forced to sell his produce to the mahajan or money-lender at low prices and to purchase goods for consumption and production at high prices and he makes illegal deduction from the amount of loans given to cultivators.

In many other ways, mahajans or money-lenders take advantage of the poverty and helplessness of farmers and exploit them. Unable to pay high interest and the principal, farmers even lose their land or live from generation to generation under heavy debt. Unless their activities are controlled and alternative source of credit provided to the farmers, it would be difficult to improve the conditions of the peasants.
5.4.7. DECLINE OF MONEY-LENDERS

The business of money-lenders has declined in recent years, insolvencies among them have increased, and more than once Provincial Banking Committee has mentioned this fact. The main causes of their decline are: The money-lenders have to fight against great difficulties in securing the repayment of their debt or loans. Court proceedings for the recovery of debt are very expensive, and there is much delay in obtaining decrees of the courts as well as in executing them. Some acts passed for protecting the borrowers, such as the Land Alienation Act, the Usurious Loans Act and the Civil Procedure Code etc., have increased the difficulties of money-lenders in carrying on their money lending activities. There are several cases of persons borrowing money from them with no intention of repaying it, and taking the protection of the Insolvency Act. The growth of alternative institution such as co-operative societies, commercial banks and regional rural banks has curtailed their activities. The general economic depression has also produced the same result. Some money-lenders are tempted by the counter attraction of trade to leave their villages and to seek their fortunes as traders in the small towns and the relations between money-lenders and borrowers have been becoming increasingly strained on account of the growth of other credit agencies and the legal protection to
the borrower. This decline is regrettable because the money-lenders are still an indispensable part of the country's rural economy. They are accessible at all times of the day and even at night, and their methods of business are simple and elastic.

5.5. REGULATION OF MONEY-LENDERS ACTIVITIES

Since money-lenders adopted many objectionable practices and often charged exorbitantly high rate of interest, the Government of India took various acts and statutory rules for regulating their activities and controlled the evils of money lending. More important among these are as follows.

Attempts were made in this direction quite early by passing the Encumbered Estates Relief Act of 1876, the Deccan Agriculturists Relief Act of 1879, Land Improvement Loans Act of 1883, Agricultural Loans Act of 1884, Indian Contract of the Amendment Act in 1899 and Usurious Loans Act of 1918. But most often cultivators were illiterate and poor and could not take advantage of these acts. The Regulation of Accounts Act was passed by the Punjab government in 1930. These acts aimed at protecting the borrowers from manipulation of accounts by money-lenders.
After the introduction of the Central Provincial Money-lenders Amendment Act 1936 and Provincial Autonomy Act of 1937, a number of provinces passed acts restraining some of the objectionable practices of money-lenders. For example the Punjab Registration of Money-Lender Act in 1938, Bengal Money-Lenders act of 1938, the Bihar Money-Lender Act 1938, the U.P. and Bombay Money-Lender Act of 1938 were passed providing for registration, licensing and regulation of money-lender. The main provisions of these acts might be summarised as follow: a. Registration and licensing of money-lender, b. Maintenance of accounts in a prescribed form, c. Furnishing a receipts and periodical statement of account of debtors, d. Fixing of maximum rate of interest, e. Protection of debtors from molestation and intimidation and the Provision of penalties for violation of provisions of the acts.

The basic object of such legislative enactment can be broadly stated as : To bring about an improvement in the terms on which private credit was available to agriculturists and to place legal restrictions on the unreasonable exactions of money-lenders and to enable civil courts to do greater justice between the lenders and borrowers than was possible, under the Ordinary Code of Civil Procedure. However, such legislation for regulation
of money-lenders have not brought about and material improvement in the terms on which private credit is available to farmers. The Rural Credit Survey Committee (1951) has concluded that the control sought to be exercised through legislation has had little effect on money-lender or his operations beyond putting him to the necessity of devising a variety of legal camouflage for a whole range of illegality. The scope of amicable settlement being limited, relief was further sought to be given to the agriculturists through compulsory reduction in the claims of the creditors. Some of the relief acts are Madras Agriculturists Relief Act of 1938, Madhya Pradesh Debt Relief Act of 1939, U.P. Agriculturists Debt Relief Act of 1939 and Bombay Agricultural Debtors Relief Act of 1939.

5.6. INDIGENOUS BANKERS

In the economic history of India, the indigenous bankers have always occupied a respectable place because of their useful services to the community who received deposits from public and advanced loans to them which are very much akin to modern banking. He has larger working capital than the money-lenders. Indigenous banker deals in credit instrument which have to meet a demand on the due date. Therefore, he is reluctant to finance agriculture where fortunes are apt to fluctuate with the vagaries of monsoon.
The Study Group defined indigenous bankers "as those individual or firms who accept deposits or rely on bank credit for the conduct of their business and are close to or the periphery of the organised money market and are professional dealers in short credit instruments for financing the production and distribution of goods and services".

5.6.1. OPERATIONS OF INDIGENOUS BANKERS

Indigenous bankers is mostly confined to certain castes and it is a family business carried on in a hereditary way. The principal castes carrying on the business of indigenous banking are vaishyas, jains, chettiyars or marwaris and usually known as kathiwals, sarafs, chettis or shroffs. The vaishyas, and jains are spread all over the country. The marwaris have their home in Marwar state in Rajputana and in central India, but many of them are migrated to places like Bombay, Calcutta and other states or trading centers. The operation of chettiyars are mostly in Madras and Myanmar. Indigenous bankers receive no banking education, though they receive practical training in their own firms and thereby acquire rich experience. They accept and receive deposits from public and pay interest on them. The clients of indigenous bankers generally consist of ryots, small industrialists and traders. All the indigenous
bankers are located in big commercial and industrial centers. There is no possibility of classifying them into urban and rural bankers; but they are two types, professional known as multanis, shroffs chettiypars and others (meaning thereby pure bankers) and non-professionals such as traders commission agents, marwaris and others.

5.6.2. ORGANISATION AND FUNCTIONS OF INDIGENOUS BANKERS

The indigenous bankers operate branches in several parts of the country and managed by their agents who, as munims or gumastas, enjoy full confidence of the indigenous banker and are given wide powers. They submit regularly returns and report of work done to the head office. The account books are carefully maintained and audited periodically. In general most of indigenous bankers operate independently and their organisation known as guilds which are ancient origin. These guilds known as mahajan not only were centres of social and religious activities but they also settled disputes among the member-indigenous bankers and functioned as insolvency courts. In modern times the indigenous bankers have established a few associations such as Shroffs Association in Bombay, Calcutta, the Marwari Chamber of Commerce and Multanis and Shikarpuri Bankers Association in Bombay etc., help indigenous bankers together for discussing common matters of interest and settling of disputes.
The system of indigenous banking is an institution by itself. The banks perform functions analogous to modern banks. Indigenous banks receive deposits from the public, which are either current or fixed deposit accounts. They lend money to traders and small industrialists. The clients of indigenous bankers are mostly non-agriculturalists. They are popularly known as "Seths." Adequately financed to the requirements of production, trade, and commerce, the granting of credit or the lending of money on liquid security helps for the transfer of funds from one person to another and from one place to another.

5.6.3. ORGANISATION AND FUNCTIONS OF SHIKARPURI SHROFFS OR MULTANIS

The multanis are a community with their headquarters in Shikarpuri in Sind and Bombay. They are independent bankers and act as intermediaries between the merchants and joint stock banks. They finance a considerable portion of the inland trade and give advances to merchants largely on the personal credit of the later to be used for advances for agricultural and other producers and also a transaction covering goods in transit. Multani shroffs constitute a compact segment of indigenous bankers and among the indigenous banking classes they rank foremost being urban oriented and closest to the organised money market. However, in the earlier periods, this class of bankers was of minor importance in the country.
Since independence, the multani shroffs have been playing an important part in the credit system, because of the role of successful financial intermediaries in providing credit to certain sectors of the economy, viz., small scale industry and retail trade sectors which for various reasons did not have connection with more sophisticated institution for purveying credit. Flexibility of operation and expeditious availability of credit are the main attraction of multani finance. Advances or finances provided by the multani bankers is "instant" finance or they are truly mobilised and get their clients through personalised service rather than make the clients queue at their doors. The multani bankers do not accept deposits from public. However, they do accept deposits from friends and relatives but deposits form a small proportion of the total capital employed by the multani shroffs. Although the multani shroffs refrain from accepting deposits in cash from the public they afford facility of investment to private parties of their fund in short term bills by selling bills held by the shroffs in their portfolio. This business is commonly known as "purja" business. According to the Multani Bankers Association the scale of "purjas" led to a mopping up of idle resources of the small man who normally would not deal with banks but would prefer to deal with a multani whom he knows personally.
Their lending is based on the personal assessment of the credit worthiness of the borrower. Security hardly play any part in this, all advanced being clean advance. The multani hundis business is entirely unsecured. The multani broker set a maximum limit for each borrower and every quarter they review and reconsider this limit in the light of credit rating and past record of the borrower.

5.6.4. ORGANISATION AND FUNCTIONS OF GUJARATI SHROFFS

It constitute another ancient class of indigenous bankers and hereditary business which has been extremely popular for several generations. Some of their firms are nearly 150 to 200 years old. The Gujarati shroffs perform functions in analogous to modern banks. They can be classified into two broad categories. One, those who transact purely banking business and secondly those who combine banking with commission agency houses. The former category of shroffs accept deposits and make clean advance as also advance against security. They issue hundi to the parties against payments in cash and help to transfer their funds from one centre to another for deposits and for payment of goods. It also provides their customers with funds for purchase of goods against their sight hundis drawn on their firms or other centres.
In contrast, the commission agency business is predominant, hundi business occupying a secondary position. Moreover, the banking business of these agencies are gradually reduced or declined with the growth of commercial banks. There are two types viz., One purchasing commission agents, who purchase and provide goods to upcountry clients on credit and secondly, selling commission agents, who sell goods received from their upcountry clients. Hence, in this manner credit facilities are provided by shroffs for the distribution and marketing of agricultural produce and crops coming from the rural areas to urban centres. The form of organisation is mainly partnership with the big shroffs having branches in mofussil centres. The number of branches varies according to the quantum of business but the maximum, even in case of large shroffs, would not exceed 30 to 35 branches. The shroffs discount and accept hundis or bills for collection and issue hundis or drafts for purposes of private or trade remittances. The darshani hundi has proved to be a convenient instrument for remittance of funds. Deposits are held by Gujarati shroffs and withdrawable on demand.
5.6.5. ORGANISATION AND FUNCTIONS OF NATTUKOTTAI CHETTIYARS AND KALLIDAIKURICHY BRAHMINS

A special type of highly organised quality of indigenous banker is nattukottai chettiars who are the representatives of the highest development of indigenous banking in India. Thurston observed that the nattukottai chettiars in organisation and business methods were as remarkable as the European merchants. They are very efficient in their profession and methodical in whatever they undertake to do. A large volume of money lending business and other transactions is conducted in Myanmar and other South East Asian countries. The chettiars are lavish in making ornaments and building houses. The same remark also applies to kallidaikurichy brahmins. They also sells gold. At present the chettiars have also become the owners of tea and rubber estates, rice mills and other factories in India.

The banking business of both these two communities are organised in the joint family basis. The members of the family live together, work together and have a common mess. The profits goes to the common fund of the family. Besides Myanmar, Sri Lanka and other regions in which the nattukottai chettiars carry on their business chiefly by "Agency System". The agency system is peculiar to the nattukottai chettiars and possesses certain special
features. It enables the nattukottai chettiyars to bring down the overhead charges to a low level while it encourages honesty and devotion to work by the system of payment by result. Agents are remunerated not only by a fixed salary but also by way of a bonus calculated at a certain percentage of net profits. Another feature of chettis organisation is that they show a close business affinity among themselves. They also fix the nadappu or current rate of interest. Generally, chettiyars receive deposits both as current and fixed deposits. They advance loans or lend to agriculturist and traders. The lending rates are generally low in South India than Myanmar. The loans are mainly for unproductive purpose and seldom for employment in agricultural and industry. In short each firm operated as a mini bank.

5.6.6. ORGANISATION AND FUNCTIONS OF MARWARIS

The another class of indigenous bankers is the marwaris known as kayas in Assam. They have been operating in tea estates for over a century and general belief is that the growth of this marwaris enterprises went paripassu with the development of the tea industry. Kayas are found to be in large numbers in North East India. The kayas or mahajan or hundiwalla form an integral part of the institutional arrangements for the dispensation of short term finance for
tea estates. They specialise in financing trade, commerce and industry in foodgrains and oilseed. Hence, he can be described as a multi purpose man. Most of the loans are made in kind and the cheques and hundis are received by them in favour of third parties intending to remit funds. In times of emergency and delay in the receipt of funds from agency houses, the kayas provides cash to the hand by drawing "hath" hundis on his own agents and in turn discounting them with the banks in district head quarters.

5.6.7. TRADERS AND COMMISSION AGENTS

Generally they supply credit to the farmers just before crop season starts. They often force the farmers to sell their produce at a lower price and they generally charge a heavy commission for themselves. This source of finance is particularly important in the case of crops like cotton, jute, sugarcane etc. The share of this agency in the total agricultural credit rose from 5.5 per cent in 1950-51, to 8.8 per cent in 1960-61, but declined to 3.2 per cent in 1980-81. The agents may be bracketed with money-lenders, as their lending to farmers is also at exorbitant rates and has other undesirable effects too.

With regard to the financing by traders and commission agents a study reveals that, "traders generally followed the practice of advancing short term clean to the producer
seller and that 90 per cent of the farmers obtained credit from these traders, having made voluntary agreement to sell their produce through them”.

5.6.8. DEFECTS ASSOCIATED WITH INDIGENOUS BANKERS

Indigenous bankers occupy an important place in the unorganised money market in rural India, and despite the fact that they have been playing an important role in rural areas from time immemorial, certain grave defects have come to be associated with the institution of indigenous bankers. Of these the following defects are important: The majority of them are conservative and jealous of each other, lack adoptability and initiative and continue antiquated method of business, often in isolation and secrecy making impossible the certain to public opinion which alone can enable them to sustain their role. Indigenous bankers combine indigenous banking business with some other activities such as trading, agriculture, speculation, etc. This means that funds from one type of activities are utilized for other types of activities and that indigenous bankers do not specialise in banking or give undivided attention to the banking business. Majority of indigenous bankers in rural areas have a comparatively small deposit business or dealing in other people’s money, which is a fundamental feature of organised banking. They conduct
their trading transaction mostly in cash and hundi play an insignificant role in their business and there is no regular contact between them and joint stock banking in India. So that the two money markets exist side by side with two sets of interest rates. Moreover, the indigenous bankers conduct their business as independent units and the central authority does not yet coordinate their activities and secure team work from them.

5.6.9. DECLINE OF INDIGENOUS BANKERS

The majority of indigenous bankers combine banking with trade, and their capital engaged in banking can not be distinguished from engaged in trade. Moreover, the various Provincial Banking Committees have pointed out that this banking business has tended to decline in years, and that they are trying to make up for his loss by developing other activities. The reasons for this decline are as follows:

While the competition of co-operative banks, commercial banks including the state bank of India has been increasing, the majority of the indigenous bankers still cling to their antiquated methods of business. That there is fairly heavy stamp duty on hundis has restricted their hundi business. The legal facilities permitted under the Bankers Evidence Act are not available to indigenous bankers. The establishment of branches by exporting firms is depriving
them of agency business in the mandis of the interior and the expansion of trade or increasing opportunity of commerce, trade and business will encourage them to find more profitable than banking.

By way of summary, it might be said that according to Sunda, indigenous bankers as a one man institution guarantees all possible secrecy and such, many resort to indigenous banker, rather than risk the possible publicity elsewhere.

5.7. NIDHIS

The nidhis are one of the oldest banking financial institutions in the country. The need for the formation of these institutions was perhaps the exorbitant rate of interest charged by money-lenders. It appears to have been started about 1850, with the object of releaving a few friends from the ruinous terms of the usurper. It possess peculiar feature and they exist almost mainly in South India, variously styled as nidhis, mutual benefit societies, permanent fund etc. But in course of time, these nidhis have gradually developed into a sort of "semi-banking" institutions with great amount of respectability among the rural folk for whom ordinary banking facilities are not available. Nidhis is a method of doing business. It is defined as a group of men united to help one another.
by common contribution of funds, which are to be lent out to
the members only for their benefit. Winslow defines
nidhis as a "treasure". According to Sri Frederick
Nicholson, the nidhis are simply English building societies.
But there were added rules for certain developments in the
matter of personal credit etc. The object of these nidhis
is to enable the poorer and middle class members of the
public to save and mutually help brother members. The
relief of members from old debts and the deliverance of them
are done through the accumulation of a fund for special
purposes, etc.

5.7.1. ORGANISATION AND FUNCTIONS OF NIDHIS

Nidhis are registered under the Indian Companies Act. They receive deposits in the form of deposits proper from members or of withdrawable share capital paid in monthly instalments and they make loan for all purposes. The distinguishing feature of nidhis is that they receive monthly subscription from the shareholders for the period specified in their articles and on expiry of which the amount so subscribed is returned together with interest known as "guaranteed interest".

The organisation of nidhis is simple. Any ten or more members join together and organise a nidhi. Each member enjoys the same rights and privileges as every other member.
in his transactions with nidhis. The amount of advances
depends upon the number of shares held by the member.
Deposits are received from shareholders and outsiders. The
rate of interest on advances is varying from 7 to 9 per
cent against immovable property, government pronote or
jewels. Hence, nidhis can be regarded as an integral part
of the frame work of the society.

The Study Group makes the recommendation, since nidhis
operate like commercial banks, subjected to certain
regulations to safeguard the depositors interest. The
regulation may include the following provisions. All nidhis
which may be licensed by the Reserve Bank of India; a
minimum level of liquidity ratio may be prescribed which may
be lower than that of in the case of commercial banks; they
may be periodical inspections of nidhis and a minimum of
paid up capital and reserves may be prescribed and every
nidhi must allocate a certain preposition of its profits to
reserves. These regulation may be applicable to all nidhis,
incentives may be provided to those among them to be
designated as approved nidhis which satisfy certain
requirements such as to operate on sound lines, and affairs
are conducted in a manner not detrimental to depositors
interest. Ultimately, the deposits of approved nidhis may
also be covered by the insurance facility offered by the
Deposit Insurance Corporation. The government may also consider extending the tax concessions available to depositors of commercial and co-operative banks to the depositors of approved nidhis too. Nidhis in non-approved category will of course not be eligible for any of the benefits and facilities that will be available to those in the approved category.

5.7.2. DEFECTS OF NIDHIS

In the actual working of this scheme comes across various defects and most of them are remediable in nature. Nidhis make a loose association of persons for the attainment of definite object. It cannot by its very nature, have a continuous policy and be useful to the members for a long period of time. The withdrawable character of the share capital at any time makes the institution an uncertain and unstable. Many of them stated as their object, the banking and such other things as are incidental or conducive. They do not organise the sole object of helping agriculturists and urban workers by providing them with money at favourable rate of interest and finally the sudden decrease in the capital of the nidhis will have an adverse effect on the financial stability of the nidhis.
5.8. CHIT FUNDS

Chit funds are one of the oldest indigenous financial institutions devised by man to obtain credit known as chit funds or kuris or chitti or chit fund. Such institutions were originally confirmed to or popular on rural parts of the southern India, in which people know each other intimately. The word chit means a written note on a small piece of paper. Since, the winner of the chit amount was to be ascertained through draw of lots, it involved writing of names of eligible members on separate chits, as in a lottery. The scheme thus came to be known as "chit funds". The Travancore Banking Enquiry Committee states that chitti or kuri is a very ancient institution in the country particularly the northern taluka, i.e., Travancore. The Madras Provincial Banking Enquiry Committee says, "A very old method of raising money is to be found chiefly in the south and south east districts and to a large extent throughout the presidency in the innumerable chit or chit funds or kuries. The Rural Banking Enquiry Committee mentioned that those institutions engaged in promoting savings and functioning as mutual loan societies are known as chit funds and nidhis. The Provident Insurance Societies Act 1912 says that chit means an association carrying on chit business. Indian Companies Act 1913 opined that chit business are either solely or in common with any other business.
5.8.1. ORGANISATION AND FUNCTIONS OF CHIT FUNDS

Chit funds are comparatively loose organisation comprising of a number of members, both to promote savings and give loans to members. They are operating regularly in a large number of villages on a small or big scale. It is obviously a convenient through rather clumsy method of securing capital. Generally, there is a "promoter" who starts the enterprises of a chit fund. A number of persons who join the chit fund as members agree to make periodical contributions to the promoter who appropriates for himself as his remunerations the collection of the first instalment of members. Each successive collection of instalments is disposed off among members as loans. There are number of methods or ways in which these collections are disposed of among members. One method is the amount given as loans to members in rotation, the other being determined by lots. Another method which is popular is to auction the amount of collection, the highest bidder getting the loan amount.

5.8.2. TYPES OF CHIT FUNDS AND THEIR WORKING

Gradually, payment of instalment in kind lost popularity even in rural areas and among agriculturists. The role of trustee or foreman became more important dominant and the chit prizes, by and large, consisted of cash. There are three varieties of chit funds namely,
simple chits, prize chits and business chits. In the "Simple Chit", members agree to contribute to the fund a certain amount at regular intervals. Lots are drawn periodically and member whose name appears on the "Chit" gets the periodical collection. His name is then removed from the subsequent lots; he however, has to continue to pay his subscriptions. Thus, every member gets the whole of the chit amount by turns. There is no loss of capital and also there is no charge on commission for foreman. This is a form of mutual help and co-operative effort at saving.

In the prize chits, there is a foreman who ostensibly charges no commission and promises to return the whole of the contribution made by a member back to him at the end of certain period. Periodically, the names of 'non-period' member are put to draw and the lucky member gets the prize either in cash or in the form of an article of jewellery or utility. Once a person gets a prize, he does not have to pay further instalments.

In business chits, there is a promoter called foreman who enrolls a number of subscribers and draws up the terms and conditions of the scheme in the form of an agreement. Every subscriber has to pay his subscription in regular instalments. The foreman charges, for his service, a commission on which there is a ceiling fixed by law. He
also reserves the right to take the entire chit amount at the first or second instalment as prize. Depending on the agreements, a fixed amount is also sometimes set aside for distribution among the non-prized members. After making the provision for the above deductions the balance is put to auction and given as prize to the member who is prepared to forgo the highest discount. The amount of discount is distributed as dividend either among all the members or only among the non-prized members. Thus, chit funds can be described as a mutual recurring deposit scheme under which every member is entitled to receive prize amount as loans from the chit fund.

5.8.3. DEFECTS OF CHIT FUNDS

The chit funds are normally facing number of defects which are as follows: The productive use of the prize money in chit funds is very small, the foreman who gets their commission or discount rate is large in amount, this agency does not help in mobilising very large amount of deposit because the advertisement of newspapers by a bank is usually over subscribed in a very short time period and finally, the chit funds are indigenous in their origin.
5.9. INTEREST RATES OF UN-ORGANISED MONEY MARKET

In any money market, whether organised or un-organised, interest rates are the crux of the market. There is no such thing as a single rate interest in the economy or in a single money market; and this is more true in the case of un-organised money market. Interest rates in the money markets are characterised by their short term nature. At any movement of time a variety of interest rates rule in the entire market, i.e., there is a broad structure of interest rates for various markets. It is believed that interest rates in un-organised market are not subjected to the same kind of seasonal and cyclical fluctuations as in the organised market. The practice of quoting interest rate in un-organised market is not to say it as a per cent per annum, but as a cost or lumpsum amount. For example, two rupees per month per hundred rupees which is 24 per cent. This method is helpful in concealing the interest rate and the advantage in this is that interest rate appears to be less than what it would be otherwise.

In un-organised money market it becomes very difficult to determine the level of interest rate because of the prevalence of kind loans, other payments, advance deduction and not mentioning the actual interest rate etc., i.e. from the manner in which such loans are disbursed. For money-
lenders the commercial bank's lending rate to them can be considered as the indicators of the level of interest rate. Whereas in case of indigenous bankers the discounting rate of hundis can be regarded as a significant indicators of interest rate. Two distinct rate structures are in existence in the un-organised money market: one, rates which stand in a definite relationship to the discount rate of Reserve Bank and that of joint stock banks, and two, rates which are not directly related to the organised banking system.

The money-lenders charged high rate of interest. For cash loans, which require some tangible securities such as gold and jewelleries, the interest rate is 25 per cent per annum; the usual rate varies from 25 to 75 per cent per annum. Though the legal rate of interest on land mortgages is 10 per cent, the agencies normally charge 14 to 19 per cent. Regional differences in interest rates are explained by variations in tastes, beliefs and requirements of depositors and variations in bank policy among regions of India. From the study of regional variation of interest rate in urban and rural areas one can say that the structure of interest rate in urban centres is different from that which exists in rural areas. In rural areas because of the lack of alternative source of credit the agencies charge higher rates.
5.10. PROGRESS OF UN-ORGANISED MONEY MARKET IN INDIA

The analysis of borrowings of the rural cultivators in India according to credit agencies would indicate the extent of dependence of the cultivators on the un-organised money market and organised money market and their relative importance. The un-organised money market can be differentiated from the organised money market on the basis of the following factors. In that the un-organised money market is characterised by: combining money lending activity with other economic activity such as trading and manufacturing, considerable amount of informality in dealing with customers, flexibility in matters of loan operation, and secrecy about financial transaction.

Thus the un-organised money market stands in the method rather than in nature, in marked contrast to the organised market, which is characterised by specialisation in financial activities i.e., borrowing and lending activities by formal dealings with customers, by impersonal business like relations with customers, by comprehensive system of accounts, by loan operations strictly according to rules laid down (regarding nature of security), and by lack of secretiveness of financial transactions.
5.10.1. BORROWINGS BY CULTIVATORS IN INDIA

In India, the amount of average borrowings in un-organised money market was relatively high when compared with organised money market from 1951-52 to 1971-72 (Table 5.10.1.1). In particular, 1971-72 the average amount of borrowings in un-organised money market (Rs.159.6) was more than thrice that of organised money market (Rs.44.25). Whereas in the year 1981-82, this was very high in case of organised money market (Rs.295.0) than un-organised money market (Rs.231.0). The distribution of average borrowings according to credit agencies indicated that, the share of borrowings owed to un-organised money market were predominant one and accounted for as much as 92.7 per cent of the average borrowings in 1951-52 had their share reduced to 44.0 per cent in 1981-82. Correspondingly, the organised money market was about 56.0 per cent in 1981-82 as against a low share of about 7.3 per cent in 1951-52, representing a substantial breakthrough by the organised money market in India.

Within the rural sector, the share of organised money market was higher in case of both co-operatives (27.5 per cent) and commercial banks (24.5 per cent) together accounted for 52.0 per cent in 1981-82 as against 4.0 per cent in 1951-52 (3.1 per cent from co-operatives and 0.9 per
### TABLE 5.10.1.1. AVERAGE BORROWINGS OF CULTIVATORS CLASSIFIED ACCORDING TO DIFFERENT CREDIT AGENCIES IN ALL-INDIA

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>1. UN-ORGANISED MONEY MARKET</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Agricultural Money-lenders</td>
<td>52.1</td>
<td>73.9</td>
<td>38.8</td>
<td></td>
</tr>
<tr>
<td>b. Professional Money-lenders</td>
<td>94.0</td>
<td>27.0</td>
<td>31.9</td>
<td></td>
</tr>
<tr>
<td>c. Traders &amp; Commission Agents</td>
<td>11.5</td>
<td>18.1</td>
<td>29.5</td>
<td>121.0</td>
</tr>
<tr>
<td>d. Relatives</td>
<td>29.8</td>
<td>18.1</td>
<td>21.9</td>
<td>61.0</td>
</tr>
<tr>
<td>e. Landlords</td>
<td>3.2</td>
<td>1.2</td>
<td>11.9</td>
<td>19.0</td>
</tr>
<tr>
<td>f. Others</td>
<td>3.5</td>
<td>28.6</td>
<td>25.6</td>
<td>30.0</td>
</tr>
<tr>
<td><strong>Sub Total</strong></td>
<td>194.1</td>
<td>166.9</td>
<td>159.6</td>
<td>231.0</td>
</tr>
</tbody>
</table>

11. ORGANISED MONEY MARKET

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>a. Government</td>
<td>6.9</td>
<td>5.3</td>
<td>6.4</td>
<td>21.0</td>
</tr>
<tr>
<td>b. Co-operatives</td>
<td>6.5</td>
<td>31.9</td>
<td>34.0</td>
<td>145.0</td>
</tr>
<tr>
<td>c. Commercial Banks / RRBs</td>
<td>2.0</td>
<td>1.2</td>
<td>3.9</td>
<td>129.0</td>
</tr>
<tr>
<td><strong>Sub Total</strong></td>
<td>15.4</td>
<td>38.4</td>
<td>44.3</td>
<td>295.0</td>
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</table>

**Grand Total**

<table>
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</thead>
<tbody>
<tr>
<td><strong>Grand Total</strong></td>
<td>209.5</td>
<td>205.4</td>
<td>203.9</td>
<td>526.0</td>
</tr>
</tbody>
</table>

**Note:** Figures in brackets denote percentages to total borrowings.
1. 1981-82 data are published in 1990 only. So 1991-92 data are not available at present.

2. The separate data on borrowings owned by agricultural, professional money-lenders and traders are not available in the year 1981-82.

3. To tenants only.

Source:


cent from commercial banks). Among the un-organised money market, agricultural professional money-lenders and traders accounted for major share as 75.2 per cent in 1951-52 as compared to 23.0 per cent in 1981-82. This results that, in un-organised money markets the money-lenders and traders form more entity than other in India.

5.10.2. OUTSTANDING CASH DEBT BY CULTIVATORS IN INDIA

The distribution of average outstanding cash debt according to credit agencies by cultivators in India was relatively high in un-organised money market during 1951-52 to 1971-72. Of their average cash debt the un-organised money market owed Rs.336.1 in 1951-52 (92.4 per cent) and Rs.488.6 (74.2 per cent) in 1971-72 as against as Rs.27.6 (7.6 per cent) and Rs.169.9 (25.8 per cent) respectively in organised money market (table 5.10.2.1). Even though, the average amount of outstanding cash debt of cultivators was broadly changed in the year 1981-82 as Rs.683.0 (57.5 per cent) as compared to Rs.505.0 (42.5 per cent) in case of un-organised money market.

Among the organised money market the share of cooperatives and commercial banks to the average cash debt was relatively high in 1981-82 as at 53.6 per cent as against 3.7 per cent in the year 1951-52. Even though the cooperatives and commercial banks contributed to the average
cash debt in the year 1981-82 in equal proportion (27.0 per cent in each), the picture was different in the year 1971-72 with co-operatives financing a large of average debt (18.0 per cent) than commercial banks (2.0 per cent). The organised money markets other than co-operatives and commercial banks were relatively more important in the pattern of borrowings of the governments. Particularly in the year 1971-72, they accounted for 5.8 per cent of average cash debt as compared to 3.9 per cent in 1951-52 and 1981-82.

The fruits of expansion of bank branches, which was in its infancy in 1971, have percolated in a good measure to rural areas by 1981. This is reflected by the rise in the share of cash debt due to commercial banks by cultivators and simultaneously fall in the proportion of debt owed by them to un-organised money market from 92.4 per cent to 42.5 per cent in 1951-52 to 1981-82. The control by traders and money-lenders, as a class, also got diluted from 76.7 per cent to 22.8 per cent in the respective years. Around one-fifth of the average cash debt was accounted for by friends and relatives and other sources together.
### TABLE 5.10.E.1. AVERAGE DEBT OF CULTIVATORS CLASSIFIED ACCORDING TO DIFFERENT CREDIT AGENCIES IN ALL-INDIA

<table>
<thead>
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</thead>
<tbody>
<tr>
<td></td>
<td>Amount in Rupees</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>1. UN-ORGANISED MONEY MARKET</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Agricultural Money-lenders</td>
<td>91.6</td>
<td>222.8</td>
<td>162.1</td>
<td>--</td>
</tr>
<tr>
<td>b. Professional Money-lenders</td>
<td>170.1</td>
<td>70.4</td>
<td>98.8</td>
<td>--</td>
</tr>
<tr>
<td>c. Traders &amp; Commission Agents</td>
<td>17.2</td>
<td>34.2</td>
<td>60.4</td>
<td>271.0</td>
</tr>
<tr>
<td>d. Relatives</td>
<td>41.6</td>
<td>30.2</td>
<td>49.9</td>
<td>114.0</td>
</tr>
<tr>
<td>e. Landlords</td>
<td>11.5</td>
<td>4.0</td>
<td>49.7</td>
<td>51.0</td>
</tr>
<tr>
<td>f. Others</td>
<td>4.1</td>
<td>36.2</td>
<td>67.7</td>
<td>69.0</td>
</tr>
<tr>
<td><strong>Sub Total</strong></td>
<td>336.1</td>
<td>397.8</td>
<td>488.6</td>
<td>505.0</td>
</tr>
</tbody>
</table>

| **11. ORGANISED MONEY MARKET** |         |         |         |         |
| a. Government               | 14.1    | 26.1    | 38.4    | 47.0    |
| b. Co-operatives            | --      | 47.0    | 118.8   | 319.0   |
| c. Commercial Banks / RRBs  | 13.5    | 1.8     | 12.7    | 317.0   |
| **Sub Total**               | 27.6    | 74.9    | 169.9   | 683.0   |

**Grand Total** | 363.7 | 472.7 | 658.5 | 1188.0 |

Note: Figures in brackets denote percentages to total debts.
1. 1981-82 data are published in 1990 only. So 1991-92 data are not available at present.

2. The separate data on debt owned by agricultural, professional money-lenders and traders are not available in the year 1981-82.

3. To tenants only.

4. The separate data on debt owned to co-operatives and commercial banks are not available in the year 1951-52.

Source:


5.10.3. PURPOSE-WISE BORROWINGS OF CULTIVATORS IN INDIA

The purposes for which the borrowings were contracted by rural cultivators are classified into four broad categories viz; expenditure on farm business, expenditure on non-farm business, household expenditure and others comprising repayment of debt, expenditure on litigation, financial investment expenditure and other miscellaneous expenditure. The borrowings in respect of the first two categories are considered as those taken for productive purpose. The purpose-wise average borrowings of cultivators in India are given in table 5.10.3.1.

For the rural cultivators, the distribution of average amount of cash borrowings according to purpose-wise increased with Rs.191.0 in 1951-52 to Rs.526.0 in 1981-82. For that, the borrowings for productive purposes (expenditure incurred on farm and non-farm business) increased progressively with 44.4 per cent (Rs.84.9) in 1951-52 to 67.7 per cent (Rs.356.0) in 1981-82. Borrowings for expenditure on farm business too showed a steady increase from 39.8 per cent in 1951-52 to 55.9 per cent in 1981-82. Non-farm business was comparatively less important, but the share of borrowings was increased from 4.6 per cent in 1951-52 to 11.8 per cent in 1981-82. Thus, the borrowings incurred for productive purpose accounted for major share in their average borrowings. The household
### TABLE 5.10.3.1. AVERAGE BORROWINGS OF CULTIVATORS CLASSIFIED ACCORDING TO PURPOSE-WISE IN ALL-INDIA

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Expenditure on farm Business</td>
<td>76.1</td>
<td>(39.8)</td>
<td>76.7</td>
<td>(37.6)</td>
</tr>
<tr>
<td>2. Expenditure on non-farm Business</td>
<td>8.8</td>
<td>(4.6)</td>
<td>5.7</td>
<td>(2.8)</td>
</tr>
<tr>
<td>3. Household Expenditure</td>
<td>36.2</td>
<td>(18.9)</td>
<td>95.7</td>
<td>(46.6)</td>
</tr>
<tr>
<td>4. Repayments of Old debts</td>
<td>4.9</td>
<td>(2.6)</td>
<td>5.4</td>
<td>(2.6)</td>
</tr>
<tr>
<td>5. Expenditure on Litigation</td>
<td>41.4</td>
<td>(21.7)</td>
<td>2.8</td>
<td>(1.4)</td>
</tr>
<tr>
<td>6. Financial Investment</td>
<td>NIL</td>
<td>(0.2)</td>
<td>1.2</td>
<td>(0.6)</td>
</tr>
<tr>
<td>7. Others</td>
<td>23.6</td>
<td>(12.4)</td>
<td>13.4</td>
<td>(6.5)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>191.0</td>
<td>(100.0)</td>
<td>203.9</td>
<td>(100.0)</td>
</tr>
</tbody>
</table>

Note: Figures in brackets denote percentages to total borrowings.

Source:
expenditure accounted for about one-fifth of average borrowings in 1951-52 had declined to one-fourth in 1981-82. The expenditure on litigation was the predominant purpose of borrowing in 1951-52, accounting for 21.7 per cent of the average borrowings as compared to 0.4 per cent in 1981-82.

The purpose-wise pattern of average borrowings as between the others and repayment of old debt in rural cultivators was different. The expenditure on others was considered as more important one because they accounted for 12.4 per cent in 1951-52 and 6.7 per cent in 1981-82. Where as the repayment of old debts accounted only 2.6 per cent in 1951-52 and 1.5 per cent in 1981-82; while the financial investment expenditure formed the balance of 1.0 per cent in 1981-82.

5.10.4. AVERAGE AMOUNT OF CASH BORROWINGS AND REPAYMENTS IN INDIA DURING 1961-62 AND 1981-82

A comparative picture providing estimates of average amount of cash borrowings and repayments of cultivators in India during 1961-62 and 1981-82 is set out in table 5.10.4.1. The average amount of borrowings of cultivators in India during 1981-82 was estimated at Rs.526.0 as against Rs.205.4 in 1961-62, the implicit around 2.5 per cent increase during period. Repayments during 1981-82 amounted to Rs.265.0 as compared to Rs.91.0 in 1961-62, the implicit over a 2.9 per cent increase in 1961-62 and 1981-82. The
amount borrowed by cultivators in 1961-62 was little higher (2.2 per cent) than repayments, in 1981-82 the borrowings were twice the repayments. As could be expected that, borrowings by cultivators in 1981-82 (Rs.526.0) were much larger than in 1961-62 (Rs.205.4); repayments made by cultivators in 1961-62 and 1981-82 were estimated at Rs.91.0 and Rs.265.0 respectively.

Although there was a substantial increase in the average amount of cash borrowings among the cultivators during the period from 1961-62 to 1981-82, the percentage of household reporting borrowings declined over a period. The decline was about 31.4 percentage. On the other hand, the percentage of cultivators reporting repayments of cash loans declined about 33.1 percentage to 13.1 per cent in 1961-62 and 1971-72, whereas in 1981-82 it increased about 2.1 percentage points from 13.1 per cent to 15.2 per cent.

Thus from the above discussion, the money-lenders, indigenous bankers, nidhis and chit funds are described as indigenous or native financial or rural financial money market in the country which have been operating for centuries. They have been catering to the needs of millions of small and big borrowers especially in rural areas and in the process have also succeeded in mobilising savings and have provided institutions where people would deposit their savings.
### TABLE 5.10.4.1. AVERAGE CASH BORROWINGS AND REPAYMENTS IN INDIA DURING 1961-62 AND 1981-82

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<tr>
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<tbody>
<tr>
<td>1. Borrowings</td>
<td>205.4 (52.0)</td>
<td>203.9 (29.3)</td>
<td>526.0 (20.6)</td>
</tr>
<tr>
<td>2. Repayments</td>
<td>91.0 (33.1)</td>
<td>178.0 (13.1)</td>
<td>265.0 (15.2)</td>
</tr>
</tbody>
</table>

Note: Figures in brackets denote the proportion of households reporting borrowings and repayments of cash dues by cultivators, (Per cent).

Source:
NOTES AND REFERENCES


23. Panandikar S.G. (1959), Banking in India, Orient Longmans, New Delhi, p.64.


