CHAPTER IV

INSTITUTIONAL FINANCE TO AGRICULTURE
PRIVATE AGENCIES
It is difficult to define precisely a money lender. This difficulty mainly arises in terms of distinguishing a money lender from an Indigenous Banker, since both of them combine money-lending with other economic activities like trading or business. The money lenders are sometimes defined as "those whose primary business is not banking but money-lending"\(^1\). In other reports, the distinction between an indigenous banker and the money-lender is made as follows: "The indigenous banker may also combine banking and business, but in his case banking is primary"\(^2\). In other writings, the distinction is made on the grounds that "while indigenous bankers mainly accept deposits and deal in hundis (i.e., indigenous bill of exchange), money lenders do not usually accept deposits or deal in hundis but are primarily concerned with money-lending"\(^3\). Ghosh agrees that "dealing in hundis and not accepting of deposits are the major features of the indigenous bankers"\(^4\).

**Money Lenders Vs Indigenous Bankers:**

The differences in the functions of money-lenders and indigenous bankers may be briefly summarised as; whereas money-lenders usually give loans to cultivators and petty

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traders in the rural areas, indigenous bankers tend to give loans to trade, commerce and/or industry; money-lenders are less organised; their loans are generally smaller; their periodical turnover is generally less than that of the indigenous bankers; money-lenders are present almost everywhere, whereas indigenous bankers operate mainly in commercial centres, and the interest rates charged by money-lenders are usually higher than those charged by indigenous bankers".1.

Indigenous Bankers vs. Modern Bankers:

Indigenous bankers also differ with the modern bankers. Deposits form only a small proportion of the total resources of indigenous bankers but those form generally a major source of the modern banker's working capital; the modern bankers specialise exclusively in the banking business, but the indigenous bankers generally combine banking with trading activities. Both allow withdrawal is usually made in cheques, while in the case of indigenous bankers withdrawal is made in cash.

The Role of Money Lenders:

It was the All India Rural Credit Survey Committee which started evaluating the performance of the money-lenders in the field of agricultural credit. It classified the money-

lenders. The performance of the money-lenders can be assessed in comparison with other agencies from the details provided by AIRCS.

Table No. 4.1
Pattern of Supply of Private Credit

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Credit Agency</th>
<th>Percentages of AIRCS Committee Report</th>
<th>Percentages in R.B.I. Bulletin</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Government</td>
<td>3.3</td>
<td>2.6</td>
</tr>
<tr>
<td>2.</td>
<td>Co-operatives</td>
<td>3.1</td>
<td>15.6</td>
</tr>
<tr>
<td>3.</td>
<td>Relatives</td>
<td>14.2</td>
<td>8.8</td>
</tr>
<tr>
<td>4.</td>
<td>Landlords (to tenants only)</td>
<td>1.5</td>
<td>0.6</td>
</tr>
<tr>
<td>5.</td>
<td>Agriculture money-lenders</td>
<td>24.9</td>
<td>36.0</td>
</tr>
<tr>
<td>6.</td>
<td>Professional money-lenders</td>
<td>44.8</td>
<td>13.2</td>
</tr>
<tr>
<td>7.</td>
<td>Traders and Commissions Agents</td>
<td>5.5</td>
<td>8.7</td>
</tr>
<tr>
<td>8.</td>
<td>Commercial banks</td>
<td>0.9</td>
<td>0.6</td>
</tr>
<tr>
<td>9.</td>
<td>Others</td>
<td>1.8</td>
<td>13.9</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

From the above table it is clear that the professional money-lenders share was 44.8% followed by Agricultural money-lenders 24.9%. Often the Landlords, traders and Commission Agents were also the money-lenders; thus aiding another 7% to this total.

The dominance of money-lenders in the village economy of India was due to many reasons, such as:

(a) The money-lender has a very good knowledge of the character and repaying capacity of the borrower.

(b) The money-lender can be both rigid and elastic in his operations.

(c) Loans are largely granted against personal security.

(d) Money-lenders generally know the borrowers personally and the borrowers can approach the money-lenders easily.

(e) In many cases, credit is granted for the borrower's family expenditure.

(f) The money-lender has different types and extents of control over the borrowers, such forces are mainly socio-economic in character. The social force can take the form of loss of face or local prestige, caste disapproval or pressure through local self-governing bodies, i.e. Panchayats. The economic force lies in the possible drying up of the source of credit.

The Evils of money-lending:

Usurious, extortion, fleecing, exploiting, anti-social, blood sucking vampire, are some of the adjectives employed when describing the village money-lenders. He adopts fraudulent practices cheating the poor, illiterate farmers.

2. Ibid., PP. 482-3.
Illiteracy, which is a bane for the country has turned out to be an asset for the village money-lenders. It is said that a farmer once indebted is never released from his clutches.

Wasteful efforts to control the evils:

The efforts to control them before the economic depression through the Deccan Agriculturists Act, 1879, the Contract Amendment Act, 1899 and the Usurious Loans Act, 1918 had been a failure. Most of the Acts provided for the compulsory registration of money-lenders and some also for the Compulsory Licensing. In many Provinces the carrying on of money lending in contravention of the above provisions was an offence punishable with fine. In some provinces, he is deprived of the right to recover the debt through a Court of Law, while in some others, he could do so if he paid certain penalties or got himself registered. Again, the acts provided for the regular maintenance of accounts of each debtor.

Money-lenders Vs. Co-operatives:

The Village Agricultural Credit Co-operatives, which were organised to wipe out the money lenders, had to become the victim of his dominant position. For a long-time, the village co-operatives were run by these elements with the result that they had to face stiff competition from them. They combined credit, trade and village administration. In this process they did not allow the co-operative to discharge their responsibilities. They penetrated into the working of the co-operatives, squandered the resources and, thus, ruined them. The all India Rural Credit Survey Committee observes
that, "When local co-operatives get into the charge of the village money-lender, and more especially the land-lord-cum-money-lender, he becomes the society, the depositor, and the borrower, all of them together or each in turn, with the case with which the one Godhead becomes Brahma, Vishnu and Siva-Creator, preserver and destroyer- in the more picturesque expressions of Hindu Philosophy".

Subordinate officials, revenue and others including those of the relatively low paid co-operative department have often no alternative but to stay with these village lenders and be dependent on them for ordinary amenities when they visit the village or camp in it for a few days. This close conformity of association and interests between the subordinate officials of Government and the more powerful elements in the village, is a matter to be borne in mind as of great significance in explaining the failure of implementation of the policies and directives regarding co-operatives or others, emanating from the higher levels of the administration.

The situation has changed a lot now, Institutional agencies like the Co-operatives and Commercial banks have come out with full steam to provide agricultural credit. Land reform measures and tenancy reforms gave protection to the cultivators. To expropriate their lands by the money-lenders has become impossible due to the enactment of innumerable Debt Relief Acts and other protection measures.
Political emancipation and economic revolution that took place after the Independence have had their impacts over the activities of the rural money-lenders.

This is evident also from the figures in Table No. 4.1 column 4, which shows the position of credit agencies for the supply of private credit in 1961-62. The percentage of borrowings from relatives, landlords and professional money-lenders has come down to 8.8, 0.6 and 13.2 respectively. The share of agriculture money-lenders, on the other hand, has increased 24.9 to 36%.

But despite legislative measures and States regulation, the money-lenders continue to occupy a dominant position in the agricultural credit scene. Co-operative credit institutions, despite of their tremendous support from Reserve Bank of India and NABARD, have not been able to drive the money-lenders out of the agricultural arena. Even the entry of the Commercial Banks in the field of agricultural finance has not disturbed the activities of the money-lenders. This is a paradox in our agricultural financing system where institutional credit is growing giving room to sustain the activities of money-lender. Despite of the 'multi-agency' approach given to agriculturists, he resorts to the money-lenders during the times of emergency. Money-lender as such, is still the last resort and sometimes a helping hand to the agriculturists. Despite of all his defects, he has earned a prestige and is still respected. How does the money-lender continue to occupy such a place has been analysed here:
1. In agriculture, expenses are recurring whereas the income is mostly seasonal. As such a gap in the financial needs is created. When he has already borrowed enough from institutional agencies, he is compelled to seek the help of the money-lenders.

2. The institutional finance is mostly "production oriented". But the farmer has to spend for social purposes and religious functions. Medical expenses and educational expenses are other additions to his needs. He is left with no other choice but to approach the money-lender.

3. Agriculture, as discussed earlier, is susceptible to natural calamities, erratic climate conditions, drought, floods etc. These are unexpected demands. Institutional agencies advance mostly "scheme based" Loans and not "need based" loans. Hence the farmer resorts to the help from the money-lenders in times of crises.

4. The institutional agencies are very rigid in loan collections. Sometimes they go to the extent of taking penal action by way of attaching the properties of their loanees. Thus, at times, to repay the institutional credit, the farmer approaches the money-lenders.
involved. The modus operandi of these financial intermediaries is expeditions and flexible. Further, the indigenous bankers provide to commercial banks a useful money market instrument in the form of hundi which possesses a high degree of liquidity with assurance for a good return.

Solution to these weaknesses, however, does not lie in displacing these institutions altogether. The fact that they are as indispensable as the organised intermediaries is well borne out by their growing volume of operations of the several NBFI's. The best course would be to help these agencies play a more dynamic role in the economy. This will require ensuring their growth on sound lines in such a way as to assign them a specific obligation in the mainstream of the organised financial system.

Along side regulation, these agencies should be made to grow in size, become more professional in operation and diversify their business, if they have to play a really dynamic role in the future development of the country. In their dealings with these institutions, the Commercial Banks should encourage them to become corporate bodies.

With their banking acumen and traditional skill the more efficient of the indigenous bankers could, therefore, transform themselves into Discount and Acceptance Houses or as mini-merchant banks oriented for financing small-scale industry. Steps in these and such other directions would help these institutions in assuming a rightful place in the changing milieu of the country.
5. The money-lender is not very much concerned about the productive or unproductive use of the money, whereas the institutions do not advance for unproductive purposes. So the farmer goes to the money-lender for borrowing for his unproductive needs. The money-lenders have not to follow any prescribed codes, practices or regulations and are eveready to help the famers in distress. Because of his quickness and promptness in disbursing the money, he is envied by the institutional agencies.

It is, therefore, next to impossible to wipeout the money-lenders from the agricultural credit scene. What can be achieved, is to link him with the organized institutional system in any measure.

Since no statistics are available about their money-lending business and/or the rate of interest charged by them, only the names and addresses of prominent money-lenders and indigenous bankers have been given in Appendix No. 2 in Etawah district, tehsil and blockwise.

To conclude, both the NBFI's and indigenous bankers perform a useful role for the advancement of our economy in as much as they mobilise savings of the community and make credit available to those sectors which are productive but which are generally not catered to by the organised financial institutions either on grounds of higher cost or greater risks.