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SMALL BORROWERS' INDEBTEDNESS & REPAYMENT OF LOANS IN THE DISTRICT OF DARJEELING, INDIA

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ABSTRACT

The present study assesses the depth of indebtedness of the small borrowers and their propensity and capacity to repay the loans obtained from various formal and informal credit providers in the district of Darjeeling, West Bengal, India. The study also makes an attempt to explore the relationship between the above two factors relevant in accessing the credit by small borrowers. The study is based on primary data, collected from 189 households in the four blocks (Matigara, Naxalbari, Phansidewa, Khoribari) and 55 households of Siliguri Municipal Corporation area situated in the plains of the district of Darjeeling. These 244 households of small borrowers comprise of different social communities whose indebtedness was less than Rs. 2,00 thousand per lender were considered as small borrowers. The processed data have been presented in tabular form with comparative analysis and a correlation between the variables has also been shown. The Primary findings of the study are: i) more than 94% of total loans taken by small borrowers are repaid regularly. ii) The percentage of absolute non-repayment in case of informal loans is more than the percentage of non-repayment of formal loans. Iii) The percentage of number of defaulted loan repayment in case of formal loans is higher than the percentage of defaulted loan repayment of informal loans. It is observed that the number of non-repayment of loan and the total number of loans taken by the small borrowers is found insignificantly correlated. It is also observed that the quantum of indebtedness of small borrowers is not correlated with number of defaulted loans. The study thus provides an understanding of indebtedness of the small borrowers and their propensity to repay loans. The findings are relevant for policy making by financial providers in order to assess their asset situation and while making provisions for loans to creditworthy small borrowers.

KEYWORDS: *Small Borrowers, Indebtedness, Repayment Of Loans, Formal Loans, Informal Loans, Darjeeling*

INTRODUCTION

The Indian banking policy changed the way of the banking operating system and reoriented their working activities in respect of social orientation in banking, vis a vis control in administration in respect to obligation of target, guaranty of credit, inclusion of priority sector for extension of credit to the needed agriculture sector, small industries and business etc., retail trade, transport operators on priority basis after the nationalization of commercial banks in the year 1969. The priority sectors of advance included small borrowers with a specific credit limit. Prior to nationalization of commercial banks in India, there were other various schemes of commercial banks as well as of other financial institutions for extending loans to small borrowers. As per the report of Reserve Bank of India regarding the scheduled commercial banks, the small borrowal accounts predominated in respect of number of accounts since 1975 to 2018 (RBI Bulletin, various Issues). The amount of credit that was extended to the small borrowers was found relatively low since 1975 though the loans to small borrowers were included in the priority sector advance of commercial banks. The quantum of loans to small borrowers was only Rs. 10,000/- in 1975 and the limit was extended twice in the year 1984 (when the limit of advance/ loans increased to Rs. 25,000/- per account) and in the year 1999 when the limit of loans was extended to Rs. 2,00,000/- per account. Since the year 1999, as per the Reserve bank of India norms, the credit limit of small borrowal account has been fixed to Rs. 200,000/- per account (CCIL). In this study the quantum of Rs. 2,00,000/- taken as loan from any lender has been considered as small borrowing, and, the borrowers of less than Rs. 2,00,000/- per account from lender have been considered as small borrowers.

In this study ‘Indebtedness’ refers to the state of owing money by the small borrowers and being in debt. Borrowers borrow money for various needs. When need felt for which money is required, then that need can be mitigated by own source of fund or by taking credit/ loans from lenders. The borrowers take loans when they find no other alternative option of mitigating their financial needs except borrowing from any provider. After taking credit from any lender, the borrower becomes ‘indebted’ for the money he borrows. In this study, the total amount of borrowing of money has been considered as ‘indebtedness’ of a borrower.

Repayment of loans starts only after getting the amount of loan in hand by the borrower and after the stipulation time as fixed mutually by the borrower and the lender. The amount of instalment of loans includes principal amount along with the amount of interest. The instalment can be paid by the borrower as per the agreement of loan. It can be weekly, half-monthly, monthly, quarterly, half yearly or yearly. Generally, the instalment of loan is paid monthly but in case of loans taken from Microfinance Institutions and Self Help Groups, weekly and half-monthly payment of instalment can be seen as regular phenomena. This study will try to observe various aspects of repayment of loans by the small borrowers in the district.

The term ‘small loan’ has only two words but it has many aspects. This is so general term and embracing all in it needs to be defined more specifically. It becomes riddle to the legislator for keeping a check on its extortionate charges for the use of the money and giving a safeguard to the borrower. From the lenders’ point of view, the loan is the safe venture at a minimum loss with a maximum profit. For the needy borrowers’ family, finding loans is one of the hardest jobs without making him/ her inferior off than before. For considering this aspect from the societal angle one must understand and investigate the economic and societal

settings that gives the rise to cash borrowings and the settings in which the transaction is carried out (Kelso R.W, 1941). Generally, the small borrowers' desire for taking credit starts from his/her financial needs without having any other option for mitigating that need except by taking credit from any credit provider. Being the most economically and socially under privileged, small borrowers do not find any other way getting his desired needy money except having it from the formal and informal credit providers. If the need is for the subsistence purpose, then it becomes tougher for him to get loans from any formal providers as formal sources do not provide credit to small borrowers for their subsistence purpose. The microfinance institutions of India also do not provide loans to the needy poor borrowers for their household level expenditures such as food, education of children, minor house repairing, emergent loans for medical treatment etc. but they are interested to provide loans for productive purposes (Dhakal and Nepal, 2016). When the borrower does not get the opportunity of having the desired credit that he needs, he becomes stressed. The access of credit is associated with the reduction of depressive symptoms among men borrowers (Fernald *et al.*, 2008), though in India, small loans provided to the women borrowers only by the microfinance institutions and SHGs. Getting the desired credit gives mental relief to frantically loan searching small borrowers. The small borrowers can be indebted by taking loans only from any formal source, only from any informal sources or can be indebted from the formal and informal sources at a time depending upon the quantum of money the borrower needed, his repayment capacity of loan and the source from which the borrower applied his loan. The quantum of credit that borrower received varies from sources to sources. It is found that the credits received from the informal sources are of smaller amount than the credit received from formal sources (M. Mohieldin, 1994). The credit providers, generally, do not provide credit without taking interest. According to Aleem (1990), interest is the cost of getting loans for the borrowers and income of providing loans for the lenders. The rate of interest on credit also differs from sources to sources depending on the various issues relating to borrowers and lenders. Generally, it is found that the rate of interest charged by the informal lenders, excepts relative and friends, is higher than the rate of interest charged by the providers of formal sources. But, this high rate of interest charged by the informal lender unable to stop the borrowers from lending from informal sources (Ramachandran & Swaminathan, 2002). Apart from informal loans taken from relatives and friends, the exception of this heavy charge of interest in informal loans observed by Abharam (1985) among the fishermen families in Pooover district of Kerala (a State of India) where informal loan was given for consumption purposes and up to rupees hundred , the loan was interest free. In poor and economically marginalised families, the need for credit for satisfying their consumption need generally exists but getting credit for the consumption purpose from formal and informal sources is very tough and can be seen in rare occasion. In recent times, in India, small borrowers are offered credit by the many microfinance institutions but the amount of loan they offer is too small. Microfinance institutions do not provide large loans at the first time when borrowers borrow from them. MFIs start with giving small amount of loans and gradually increase the amount of loan. The same scenario can be seen in case of SHGs also. The small borrowers can avail the opportunity of taking loan, at a time, only from two MFIs and one SHG. The amount of loan they get from MFIs or from SHGs, in the starting days, does not satisfy the demand of loan as the quantum is small and as a consequence of that small borrowers become bound to knock the door of informal lender for the rest of the amount they need. The lender extends loan to borrowers only when he becomes sure of getting back the lending amount from the borrowers and the risk perception of providing loan to a borrower is within the ambit of his permissible limit. The lender analyse the socio-economic condition of borrowers including the cause of taking loan and the repayment capability of borrowers. After being satisfied with the socio-economic condition of the borrower the lender extends credit with an expectation that the loan amount

will be repaid in instalments within the stipulated time as settled mutually between lender and borrower. If the suitable arrangement of providing credit and accessing credit can be done systematically, then, that can be helpful for overcoming the poverty not only in one's life but also for the entire society as a whole (Latifee, 2003). In the present study the effort has been given to make an outline of issues relating to indebtedness and repayment of loans of small borrowers' in the District of Darjeeling.

Objective of the study

The main objective of the study is to analyse the issues relating to indebtedness of the small borrowers and repayment of loans by the small borrowers in the District of Darjeeling.

Profile of the Study Area

The four blocks in the plains of the Darjeeling District and the wards of Siliguri Municipal Corporation (SMC) under the jurisdiction of Darjeeling District have been considered as the as the Study area. A brief profile of the study area based on the Census data 2011.

	Matigara Block	Naxalbari Block	Khoribari Block	Phansidewa Block	Siliguri Municipal Corporation
Area in Square kilometre	132.61	188.12	144.88	312.10	20.10
Populations	1,97,278	1,65,523	1,09,251	2,04,522	2,94,546
No of Males	1,01,023	85,054	55,671	1,03,719	1,51,535
No. of females	96,255	80,469	53,580	1,00,803	1,14,,011
SC population	70,527	44,328	58,570	60,704	26,042
ST population	26,484	32,388	21,262	62,595	3,703
Literate Persons	1,29,006	1,10,663	63,540	1,13,572	2,28,688

Source: Census data -2011.

Matigara and phansedewa blocks are very close to siliguri town. The matigara block can be termed as peri-urban region of Siliguri because of connectivity and the extension of the civic amenities to this regions. Phansidewa is an agricultural area which is growing fast as a rurbanised area with four lane National Highway connecting the region with siliguri and jalpaiguri towns and a it is located in the border of Bangladesh. Naxalbari and Khoribari are also grown as rurbanised area and well connected to Siliguri town. Naxalbari is also located along the border of Nepal.

The literacy rates of the region have increased considerably in the last decade and so the non-farm activities have out-migration have been noticed in all the concerning blocks. The main recipient of these migrant populations is the siliguri corporation area and the area has become a cosmopolitan(Chatterjee & Mukherjee, 2019).

Data Collection & Methodology

The study is based on a field survey conducted during the month of November 2017 to May 2018. The survey was conducted in all the four blocks of Darjeeling plains viz. Matiga block, Naxalbari block, Phansidewa block, Khoribari block and the area of Siliguri Municipal Corporation under the jurisdiction of Darjeeling District authority. The data have been collected in a structured questionnaire from the borrowers through interview of the borrowers who have taken loans of small amount (up to rupees two lakhs from a single lender) from different sources. The data have been collected through interview of the borrowers from different places like block offices, ward offices in Siliguri, Sabala Mela-2018 conducted by the Government of West Bengal etc. The blocks of Darjeeling District can be divided into hilly regions and the plain regions. The district witnessed the political unrest during the year

2017 in the hilly blocks and due to this reason it was not possible to collect data from hilly regions and so the present study has been conducted in the four blocks as mentioned above and in the SMC area under the jurisdiction of Darjeeling. The total numbers of samples collected from the study area have been given in the table No. 1:

TABLE NO. 1. SHOWING THE NUMBER OF HOUSEHOLDS SURVEYED

Block	No. of Households surveyed	Percentage of samples
Matigara Block	47	19.26
Naxalbari Block	41	16.83
Khoribari Block	51	20.90
Phansidewa Block	50	20.49
Siliguri Municipal Corporation	55	22.54
Total	244	100%

Source: Field survey

A caste wise distribution of small borrowers are shown below in the table No. 2

TABLE 2: CASTE-WISE DISTRIBUTION OF SMALL BORROWERS

Blocks	No. of Household Surveyed	SC	ST	Others	Total no. of loans
Matigara block	47	20	0	27	68
Naxalbari Block	41	16	0	25	79
Khoribari Block	51	42	3	06	97
Phansidewa Block	50	34	0	16	93
Siliguri Municipal Corporation	55	06	0	49	105
Total	244	118	3	123	442

Source: Field Survey

In the aggregate, 244 numbers of households of small borrowers belonging to different communities were surveyed. The method of purposive sampling was applied while collecting the data and only the borrowers were interviewed. The study is empirical, i.e. descriptive in nature. After collection of data, those were processed in tabular format. Simple statistical tools have been used to present the data in comparative statement mode.

Indebtedness of small borrowers

It simply means the total amount of money owing from someone. It is the total liability of small borrowers for taking credit from lenders i.e. debtors. It is the obligation of small borrowers to return the money taken as loan to the lenders. The small borrowers are the marginalised section of the society who does not have enough money for their various needs. In this study the total amount of money the small borrowers have taken as loan from various loan providers is considered as 'indebtedness' i.e., the total amount of loan liability of the small borrowers. In this study, the information of indebtedness of small borrowers residing in plains of the district of Darjeeling, West Bengal have been collected by conducting survey in the study area with the following parameters: the sources of formal and informal loans; the amount borrowed, i.e., the quantum money that the small borrowers have taken as loan;

TABLE 3: SOURCES OF FORMAL AND INFORMAL CREDIT

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Blocks	HHs surveyed	Formal sources of Credit							Informal sources of Credit					
		Public sector bank / Private sector bank &	Cooperative bank	LIC	PF	MFI	SHG	Others	Landlord/employer	Moneylender	Trader & commission L.	organised Friend/ Relative	Others	
Total SC	244	51	1	1	2	2	80	0	0	17	0	1	14	2
Total ST		1	0	0	0	0	3	0	0	0	0	1	0	0
Total Others		80	3	0	1	2	66	1	9	17	0	1	13	0
Grand Total (SC, ST, Oth)		132	4	1	3	4	14	1	9	34	0	2	27	2
Percentage (%) ;	(244=100%)	54.09	1.6	0.40	1.23	1.8	61	0.40	3.69	13.93	0	9.01	11.06	0.82

It was found (table 3) that among 244 respondents of small borrowers it was found that around 54% were indebted to Public and Private Sector Banks, and Regional Rural banks but the most liked source of credit of the small borrowers, considering the formal as well as informal sources found to be the credit from SHGs. It was found that around 61% of the small borrowers were indebted to this source for taking their credit. The Loan from microfinance institutes had been chosen by only 18% of the respondent small borrowers and all the other formal sources like LIC, PF etc., are found to be the choice of below 5% of the respondent small borrowers. It was found among all the sources, small borrowers still keep their faith in Public and Private Sector Banks and Regional Rural banks for taking their credit. In case of informal sources, maximum small borrowers had taken loans from moneylenders which found around 14%. The maximum dependence of small borrowers, after the formal source, is found to be on moneylender. Around 11% of the small borrowers took loans from relatives and friends and loans from local organising committees found to be below 10% of the total respondent small borrowers. In 2012, as per the Report of All India Debt and Investment Survey, the total share of agricultural and professional moneylender was at around 33%, and the share of the relative was at around 8% (Pradhan-2013). A considerable decline of indebtedness to moneylenders has been observed here in this study but the inclination of taking loan from local organising committees has been observed. In the case of indebtedness to relatives and friends, only 3% deviation (11-8) has been noticed. But it is fact that among informal sources, the role of moneylenders and relatives and friends always play the important part and now the role of local organising committees cannot be ruled out. In case of Incidence of Indebtedness, as per the report Government of India, the institutional indebtedness in rural sector was at 17.2% and to non-institutional sector it was found at 19% with an overall indebtedness of 31.4% (GOI-2014). But, it is interesting to notice (table4) that while considering the number of total loans, it was found that 244

respondents had taken total 442 numbers of loans from formal and informal sources in which total loans from formal sources was 348 numbers, i.e., 79% of loans are from formal sources and total loans from informal sources was 94 numbers which comprises of 21% of total loans. The average indebtedness found around 1.81 loans per borrowers in which indebtedness to formal sources found at around 1.43 loans per borrower and indebtedness to informal sources found at around 0.39 loans per borrower. It implies that still small borrowers depend heavily on formal sources but the importance of informal sources can be ignored as around 40% of the total loans are taken from informal sources.

TABLE 4: PERCENTAGE OF FORMAL AND INFORMAL LOANS ON TOTAL NUMBER OF BORROWER

Household surveyed/ number of borrower	Sources of loans	Number of loans	Percentages	Number of loans per borrower
244	Formal Loans	348	78.73	1.43
	Informal loans	94	21.27	0.39
	Total	442	100	1.81

Source: Survey data

Number of sources of credit used by small borrowers

The small borrowers bound to borrow from different lenders due to various reasons. One of the main reasons is that when the loan provided by one lender becomes insufficient for the borrower to perform the activities for which he takes the loan. The table 5 below has been given to observe the number of sources that the borrower uses at time. It was found that around 40% of the borrowers use only one source of borrowing at a time. The maximum borrowers use two sources of loans at a time which is around 45% of the total respondent borrowers.

TABLE 5: NUMBER OF SOURCES OF CREDIT USED BY SMALL BORROWERS

No of sources of Credit	No of small borrowers				
	SC HHs	ST HHs	Other HHs	Total	Percentage
from 1 source	48	1	49	98	40.16
from 2 sources	51	2	58	111	45.49
from 3 sources	15	0	13	28	11.48
from 4 sources	4	0	3	7	2.87
Total	118	3	123	244	100

Source: Survey data.

It is clear from the above table that around 86% of the borrowers are indebted up to two sources, at a time.

Indebtedness in respect of quantum of loans

The quantum of loans is the main aspect of observing indebtedness of small borrowers. It is the total amount of loans that the small borrowers had taken from single or different lenders, at a time. It was found that around 33% of the respondent had borrowed in between Rs. 10000 to Rs. 50000 and around 66% of the total respondent small borrowers were indebted for up to Rs. 100000/- . Indebtedness for more than Rs. 1,00,000 but below Rs. 2,00,000 was found for only around 22% of the borrowers and above 88% of the borrowers were found indebted for taking loans up to Rs. 2,00,000/- . Only 11% of the borrowers were found having indebtedness for more than Rs. 2,00,000/-. Therefore, it is clear that majority of the small borrowers like to keep their indebtedness to lenders within the limit of Rs. 1,00,000/ at a time.

TABLE 6: AMOUNT BORROWED BY THE RESPONDENT HOUSEHOLDS OF SMALL BORROWERS

Range of borrowing=>	Less than Rs.10000	More than Rs. 10000 but below Rs. 50,000	More than Rs. 50000 but below Rs. 1,00,000	More than Rs. 1,00,000 but below Rs. 2,00,000	More than Rs. 200000	Total
Number of borrowers	10	81	71	54	28	244
% on total 244= 100%	4.10	33.20	29.10	22.13	11.47	100

Source: Survey data

Repayment of loans

It is one of the major issues in regard to the relation of borrowers and lenders. It is the reason of headache of borrowers for repaying the loan in instalment timely otherwise that could bring a question mark in the relation with lender. The lender always wants to get their given money back as per the agreement and if the schedule is not maintained by the borrower then the matter becomes a cause of tension of lenders for getting back the given loan money. Providing the loan to any borrower is an easy matter but collecting the same with interest on a regular basis is matter of waiting of months and years. There is every possibility of losing the given money as loan if the lenders' mode of operation is not efficient. If the borrower becomes unable to pay off the amount of loan then that loan may become bad debt for the lender, and that bad debt is not very easy thing for the lenders to digest (Ramachandran & Swaminathan, 2002). Moneylender has to face the situation of non receiving instalment from borrowers and these events are to be dealt by them very efficiently with their patience, energy, own money and at last moneylenders use power for recovering the given loan amount from borrowers. If loans are not properly recovered, moneylenders become unable to provide future loan to any borrower and the business of the moneylender hamper. Ramachandran and Swaminathan (2002) observed that for every loan, borrowers had to sign his name in a plain blank paper on a revenue stamp. If there was any guarantor of loan, then that guarantor had to sign also. The incident of taking loan and the record of repayment was informed to the wife of borrowers, in case of married borrowers. For keeping a pressure of timely re-payment, now a days, the moneylender takes account payee cheques from the borrowers as security. If the borrower does not repay the loan, the lender deposits the account payee cheque which is taken from the borrower at the time of providing loan, in his bank account. If the cheque is not honoured, the lender informs the borrower about the deposition and bounces back of the cheque and demands the loan money back. If borrower does not pay the loan money after the event of bouncing of his cheque, lenders go to file a money suit against the borrower is seen as a common example.

TABLE -7: REPAYMENT OF LOANS

Blocks	HH Surveyed	Repayment		
		Regular	Defaulted	
			Irregular	No Repayment
Matigara Block	47	40	4	3

Naxalbari Block	41	39	1	1
Khoribari Block	51	45	5	1
Phansidewa Block	50	48	2	0
Siliguri Municipal Corporation Area	55	54	1	0
Total	244	226	13	5
% on Total (244= 100%)		92.62%	5.33%	2.05%

Source: Survey data

It was found that the rate of repayment by the small borrowers who took loans from microfinance institutions in West Bengal was above 98% in 2016-2017 (Annual Report of AMFI-WB, 2016-2017) and alike result had been observed in this study where it was found that around 93% of the small borrowers paid their instalment regularly and only 2% of the borrowers did not repay their loans and the non repayment was the reason of loss in business/ profession etc. Irregular repayment was found for only 5% of the respondent small borrowers (table-7). The purview of this study was not limited only to microfinance borrowers but also borrowers of Self Help Groups, Public and Private commercial banks, Regional Rural Banks, Life Insurance Corporation (as formal sources) and borrowers from landlord, moneylenders, trade & commission agents, Relatives and Friends and Local Organising Committees (as informal sources) were also included in it. The result leads us towards the conclusion that the small borrowers inclined towards repayment of loans on regular basis, irrespective of quantum of loans they have taken and number of sources from where they have taken loans, following the schedule of repayment as agreed upon by the lender and borrower.

Now question arises how these small borrowers have repaid their loans so regularly. It was found that the repayment of loans were made by the small borrowers by taken money from various sources like generation of income by investing loan amount, disposable of their old assets and previously accumulated money or money borrowed for repayment of loans from moneylender or relatives/ friends. The application of sources for repayment of the loans, in this study, have been shown under six categories, viz. i) income generation by using loans, ii) disposal of old assets, iii) using old savings, iv) borrowing from moneylenders and v) other sources. The respondents who did not give any response regarding this have been categorized under 'No response' (table 8).

TABLE 8: SOURCES OF REPAYMENT OF LOANS

Blocks	HH survey ed	Sources of Repayment of loans						
		Income generati on by using loan amount	Dispos al of old assts	Using old savin g	Borrowing from moneylend ers	Borrowi ng from relatives or friends	Other Sourc es	No resp onse
Matigar a Block	47	31	1	7	0	1	13	1
Naxalba ri Block	41	28	0	1	0	0	14	1
Khoriba ri Block	51	40	0	7	1	2	22	1

Phansidewa Block	50	28	1	6	0	0	24	1
Siliguri Municipal Corporation Area	55	43	0	7	0	2	19	0
Total	244	170	2	28	1	5	92	4
% on total	100%	69.67%	0.82%	11.48%	0.41%	2.05%	37.70%	1.64%

Source: Survey data

It was found that maximum number of small borrowers of these blocks, around 70%, repaid their loan amount by generating income using the loan amount. This implies that these borrowers invested the loan money in productive purpose and earned enough money from there to repay the amount of loan. This observation is similar with the findings of Chatterjee & Mukherjee (2019) where it was mentioned that 78.30% of the loans taken for business purpose were actually used for business. Through the generation of income by using the amount of loan, borrowers repay their loan instalments.

Around 38% of the respondent had taken the money for repayment of loans from 'other sources'. This other sources include: taking money from spouse, son, daughter, etc., income from other business where the loan money was not invested, from salary, wages etc., of other work. The reason of applying other sources for repayment were found as: loss in business where the loan money was invested, unable to generate profit from cultivation, or investment of loan amount in unproductive purpose like home renovation, digging of well etc. One interesting observation can be cited here that though around 38% of the small borrowers had used 'other source' for repayment of instalment of their loans for the reason of facing loss in business/ cultivation or applying the loan amount in unproductive purposes etc., then also, the regular repayment of loans was made by above 92% of the small borrowers by managing payment of the amount of instalment of loan from other incomes, old savings, disposal of assets, borrowing etc.(Table- 7 & 8).

In certain case, it was observed that where the borrowers were unable to repay their loan amount by generation of income by using loans amount or by taking money from other regular income sources of the family, they sell their old assets, used their old savings or take loans from relatives and friends and at last they take loan from moneylender for repayment of their previous loan. It was found that around 12% of the borrowers had to use their old assets and savings and around 2.50% of the respondent small borrowers had to take loans for repayment of old loans. Though the of total around 16% of the small borrowers had to manage their repayment of loans by using assets, savings or borrowing money but still they contributed towards their repayment of loans which is evident in the repayment percentage of above 92%. This simply implies that the small borrowers inclined towards regular repayment of loans irrespective of generation of income by using the amount of loan they had taken.

Source-wise of repayment of loans

Interesting following findings have been observed by analysing the repayment of loans, considering the number of loans, on the basis of their broad sources i.e., formal and informal source:

TABLE 9: REPAYMENT OF LOANS BASED ON FORMAL AND INFORMAL SOURCES (CONSIDERING NUMBER OF LOANS)

Blocks	HH surveyed	Number of loans			Regular repayment		Irregular repayment		No repayment	
		Total	Formal	Informal	Formal	Informal	Formal	Informal	Formal	Informal
Matigara Block	47	68	45	23	41	18	3	2	1	3
Naxalbari Block	41	79	62	17	60	17	1	0	1	0
Khoribari Block	51	97	75	22	67	20	7	2	1	0
Phansidewa Block	50	93	78	15	76	15	2	0	0	0
Siliguri Municipal Corporation	55	105	88	17	86	17	2	0	0	0
Sub-Total	244	442	348	94	330	87	15	4	3	3
% on sub-total	442= 100%		78.73	21.27	74.66	19.68	3.40	0.91	0.67	0.67
Grand total	244	442	442		417		19		6	
% on grand total		442=100%			94.34		4.30		1.36	
% of repayment of formal loans on total formal loans		348=100%			94.83	----	4.31	----	0.86	----
% of repayment of Informal on total informal loans		94= 100%			-----	92.55	----	4.26	----	3.19

Source: Survey data

It is evident that 244 small borrowers had taken 442 number of loans and out of 442 number of loans, it was found that around 94% of these loans (417) were paid in time by 226 respondent small borrowers on regular basis in which around 75% of these regularly re-paid loans were taken from formal sources and around 20% of these regular re-paid loans were taken from informal sources. Only 4.5% of the total loans were paid irregularly. These irregular re-payments of loans were made by 13 number of small borrowers for 19 number of loans in which around 3.5% was taken from formal and just below 1% loans was taken from informal sources. Total percentage of non-repayment of loans was found below 1.5% of the total number of loans and in these numbers of non-repayments, both the percentages of loans taken from formal and informal sources was at 0.67%. It was observed that five small borrowers did not repay six number of loans in which three loans were taken from formal and three loans were taken from informal sources (read table-7&9).

- i) While considering the loans taken from formal sources, it was found that out of total 442 loans, 79% of loans were taken from formal sources and around 95% of these formal loans were paid in time on regular basis. Only around 4.5% of total formal loans taken from formal sources were irregularly re-paid and non-repayment occurred for less than 1% of total formal loans (table-9).
- ii) In case of loans taken from informal sources, it was further observed that out of total 442 number of loans, more than 21% of the loans were taken from informal sources and out of these informal loans regular repayment found around 93% of cases and non-repayment was found against around 3% of these loans. The irregular repayment of loans was found against just above 4% of total informal loans.

From the above discussion it becomes clear that the small borrowers of the district of Darjeeling incline towards repayment loans irrespective of the sources of loans they have taken as it was found that repayment of more than 99% of the formal loans and around 97% of the informal loans were made, and, as a whole the percentage of non-repayment of loans was found at less than 1.5% of the total loans.

Again, some more interesting facts can be observed by analysing of quantum of credit that the small borrowers had borrowed, i.e., the indebtedness of small borrowers and the irregular and non-repayment of loans. It was observed that total 18 numbers of small borrowers failed to re-pay the loans on regular basis (table-7). The total number of loans on which the repayment was either not made regularly or the repayment had been stopped completely was found to be 25 (table 10). The following are the finding of the initiative that has been taken to observe the effect of indebtedness of small borrowers on irregular or repayment of the loans:

- i) It was observed that 18 borrowers defaulted in repayment of 25 loans. Out of these 25 number of loans on which the repayment was either not made or completely stopped by the small borrowers, 18 loans, i.e., 72% of the loans on which repayment have been affected are taken formal sources and 7 loans, i.e., 28% of the these loans were taken from informal sources. It implies that the loans taken from formal sources are affected by non-repayment or by irregular repayment more than the loans taken from informal sources (table-10).
- ii) The maximum number of loans on which repayment was affected was 7 each related with the total indebted class ‘more than Rs. 50000 but less than Rs. 100000’ and ‘more than Rs. 100,000 but less than Rs. 200000’. There were only five respondent small borrowers who were unable to repay the loan regularly in the range of indebtedness of ‘more than Rs. 200000/- (table-10).

TABLE 10: IRREGULAR AND NON-REPAYMENT OF LOANS ON THE BASIS OF INDEBTEDNESS (CONSIDERING NUMBER OF LOANS)

Sources of loan	Less than Rs. 10,000		More than Rs. 10000 but less than Rs. 50000		More than Rs. 50000 but less than Rs. 100000		More than Rs. 100000 but less than Rs.200000		More than Rs. 200000		Total
	Irregular repayment	Non-repayment	Irregular repayment	Non-repayment	Irregular repayment	Non-repayment	Irregular repayment	Non-repayment	Irregular repayment	Non-repayment	

Matigara Block											
Formal	0	0	0	0	1	0	2	0	0	1	4
Informal	0	0	1	0	1	2	0	1	0	0	5
Total	0	0	1	0	2	2	2	1	0	1	9
Naxalbari Block											
Formal	0	0	0	0	0	0	0	0	1	1	2
Informal	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0	0	1	1	2
Khoribari Block											
Formal	0	0	2	1	2	0	3	0	0	0	8
Informal	0	0	0	0	1	0	1	0	0	0	2
Total	0	0	2	1	3	0	4	0	0	0	10
Phansidewa Block											
Formal	0	0	2	0	0	0	0	0	0	0	2
Informal	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	2	0	0	0	0	0	0	0	2
Siliguri Municipal Corporation											
Formal	0	0	0	0	0	0	0	0	2	0	2
Informal	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0	0	2	0	2
Total Formal	0	0	4	1	3	0	5	0	3	2	18
Total Informal	0	0	1	0	2	2	1	1	0	0	7
Sub-Total	0	0	5	1	5	2	6	1	3	2	25
Total no. of loans with affected repayment	0	6	7	7	5	7	5	25			

Source: Survey data

Before going for statistical analysis, a picture of comparison of average number of loan taken from formal and informal sources and the average number of loan taken by the borrowers who defaulted in repayment (absolute non repayment also) the can be observed below (table No. 10A & 10B):

TABLE 10 A: COMPARISON BETWEEN AVERAGE NUMBER OF LOANS TAKEN AND AVERAGE NUMBERS OF LOAN DEFAULTED IN REPAYMENT (SOURCE-WISE).

Blocks	Formal loan		Informal loan		Total		Average Loan Per
	No of borrowe	No of loans	No of borrowe	No of loans	No of Borrowe	No of	

	rs	taken	rs	taken	rs	loan s take n	borrowe r
Matigara Block	39	45	20	23	47	68	1.446
Naxalbari Block	40	62	17	17	41	79	1.92
Khoribari Block	49	75	22	22	51	97	1.90
Phansidewa Block	46	78	15	15	50	93	1.86
Siliguri Municipal Corporation Area	51	88	17	17	55	105	1.909
Total	225	348	91	94	244	442	1.811
Average loans per person (total loans/no of borrower)	1.55		1.032		1.811		-----

Defaulted Situation (defaulter includes irregular repayment and absolute non repayment):

Blocks	Defaulter of Formal loan			Defaulter of Informal Loan			Total		No of Loan defaulted Per borrower	
	No of defaulted borrowers	No of loans taken (including informal loan)	No of loans defaulted in formal loan	No of defaulted borrowers	No of loans taken (including Formal Loan)	No of loans defaulted in informal loan	No of defaulted Borrowers	No of defaulted		
Matigara Block	4	5	4	4	7	5	7	12	9	1.285
Naxalbari Block	2	4	2	0	----	----	2	4	2	1
Khoribari Block	5	11	8	2	5	2	6	13	10	1.67
Phansidewa Block	2	4	2	0	---	----	2	4	2	1

Siliguri Municipal Corporation Area	1	2	2	0	----	----	1	2	2	2
Total	14	26	18	6	12	7	18	35	25	1.39
No of loans taken per borrower who defaulted in re-pay (total loans/no of borrowers)	26/14=1.857 or 1.86			12/6 =2			35/18=1.944			----- -

TABLE 10 B: ABSOLUTE NON-REPAYMENT:

Blocks	Formal loan			Informal Loan			Total			No of Loan absolutely not paid Per borrower
	No of borrowers did not repaid loans	Total no of loans taken (including informal loan)	No of loans absolutely not repaid in formal loan	No of borrowers did not repaid loans	No of loans taken (including Formal Loan)	No of loans absolutely not paid in informal loan	No of borrowers not paid loans	No of loans Defaulted		
								No. Of loan Taken	No. of loans absolutely not paid	
Matigara Block	2	7	1	2	6	3	3	7	4	1.33
Naxalbari Block	1	2	1	0	0	0	1	2	1	1
Khoribari Block	1	1	1	0	0	0	1	1	1	1
Phansidewa Block	0	0	0	0	0	0	0	0	0	-----
Siliguri Municipal Corpora	0	0	0	0	0	0	0	0	0	----

tion Area										
Total	4	10	3	2	6	3	5	10	6	1.2
No of loans taken by borrower who did not repay loan absolutely (total loans/ no of borrowers)	10/4= 2.50 loans			6/2=3 loans			10/5=2 loans			-----

Note: Default refers to irregular repayment and non repayment.

It was found that loan taken per borrower, in case of formal source, is 1.55 loans which is higher than the number of loan per borrower from informal source (1.032). The overall number of loan taken per borrower, including both source formal and informal is 1.81 loans. While comparing this with the average number of loans per borrower who was defaulted in repayment of loans, it was found that in case of formal loans, there were 14 number of defaulter borrowers who had taken 26 number of total loans from formal and informal sources and defaulted in repayment of 18 number of formal loans. The number of loan taken per borrower who defaulted in repayment of formal loan was found to be 1.86 per borrower. In case of loan from informal sources, the number of loan taken per borrower who defaulted in repayment of informal loan was found to be 2 loans per borrower. In case of both sources, the number of loans per borrower who defaulted in repayment was found to be higher than the number of loans taken per borrower (table-10A).

Further, while considering the absolute non-repayment of loan (table- 10B), it was observed that number of loan taken per borrower who did not repay loan (absolute non repayment) found to be 2.5 loans in case of formal loan and 3 loans in case of informal loan which were also higher than the average loan taken per borrower. The above fact that was derived from table 10A and table 10B leads to assume the hypothesis that number of loan taken and number of defaulted loan may be correlated positively.

Statistical Analysis & Result

Now, it has been tried to observe that whether there is any correlation between the quantum of indebtedness of small borrowers and the number of defaulted in re-payment of loans. The table below has been given to observe the total amount of loans i.e., indebtedness at which these 18 borrowers who took 25 number of loans and defaulted in their re-payment.

TABLE 11: INDEBTEDNESS AND NUMBER OF DEFAULTED LOANS ON THE BASIS OF SOURCES OF CREDIT

Blocks	Amount of indebtedness of defaulter (X)	Total number of loans taken			Total number of loans defaulted in re-payment (Y)					
		Formal	Informal	Total	Formal	Informal	Total			
Matigara Block	40000	0	1	1	0	1	1			
	60000	0	2	2	0	2	2			
	70000	1	1	2	1	1	2			
	130000	1	0	1	1	0	1			
	130000	1	0	1	1	0	1			
	130000	1	0	1	1	0	1			
	340000	1	3	4	0	1	1			
Total		5	7	12	4	5	9			
Naxalbari Block	206000	1	1	2	1	0	1			
	240000	1	1	2	1	0	1			
Total		2	2	4	2	0	2			
Khoribari Block	12000	1	0	1	1	0	1			
	12000	1	0	1	1	0	1			
	45000	2	1	3	1	0	1			
	70000	2	1	3	2	1	3			
	115000	1	1	2	0	1	1			
	140000	3	0	3	3	0	3			
Total		10	3	13	8	2	10			
Phansidewa Block	35000	2	1	3	1	0	1			
	50000	1	0	1	1	0	1			
Total		3	1	4	2	0	2			
Siliguri Municipal Corporation	204000	2	0	2	2	0	2			
Total		2	0	2	2	0	2			
Total : 18 Small Borrowers					22	13	35	18	7	25
% on total, 35= 100%								51.43	20	71.43
% of defaulted repayment ; for , formal: 22=100% & for informal : 13= 100%; for total 35= 100%								81.88	53.85	71.43
% on total 442 loans; 442=100%								4.07%	1.58%	5.66%

Source: Survey data

The total quantum of indebtedness is taken as one variable and the no of loans with default repayment was taken as second variable to see whether there was any correlation between two variables. While checking the correlation of these two variables i.e., number of loans defaulted in repayment and the quantum of indebtedness, the assumption of hypothesis is as under:

H_0 : There is no correlation between the number of loans defaulted in repayment and the quantum of indebtedness of small borrowers

H₁: There is significant correlation between the numbers of loans defaulted in repayment and the quantum of indebtedness of small borrowers.

The value of correlation co-efficient resulted as:

	<i>INDEBTED</i>	<i>NO OF LOANS</i>
<i>INDEBTED</i>	1	
<i>NO OF LOANS</i>	-0.033397066	1

No correlation has been found between these two variables implies that in between total indebtedness of the small borrowers and the repayment defaulted loans do not have any correlation.

But, if the correlation analysis is conducted in between the ‘number of loans taken’ by these 18 defaulter small borrowers and the ‘number defaulted repayment loans’, by taking the hypothesis as under:

H₀: There is no correlation between the number of loans defaulted in repayment and the total number of loans taken by small borrowers

H₁: There is significant correlation between the numbers of loans defaulted in repayment and the total number of loans taken by small borrowers.

then the result can be observed as:

	<i>total no. of loans taken</i>	<i>defaulted repayment</i>
<i>total no. of loans taken</i>	1	
<i>defaulted repayment</i>	0.394600669	1

Positive correlation found in these two variables implies that if the total number of loans increases then the number of repayment defaulted loan will also increase. The calculated value of correlation coefficient (r) found ‘0.394600669’. To check the significance of the correlation coefficient, a ‘t’ test has been conducted applying the formula : $t = r \times \sqrt{n-2} / \sqrt{1-r^2}$, the calculated value of ‘t’ found as ‘t’= 1.71 which is also less than the tabulated value of ‘t_{0.05}’ [for 16 degree of freedom(v), at 5% level of significance] = 2.120 directs to accept the null hypothesis that there is insignificant correlation between these two variables i.e., between total number of loans taken and the number of loans defaulted in repayment.

DISCUSSION

It is general assumption that people of the marginalised section with weak financial condition need loans for their livelihood and giving loans to this lower strata people is risky in regard to recovery of loans due to their heavy indebtedness and as these people do not have any sources of fixed regular income. From the survey data obtained to observe the indebtedness of small borrowers vis a vis the repayment of the loans they took, the following conclusions can be drawn:

It is known to all of us that Indian banks have been suffering from its non productive assets. The non productive assets in banks rose due to non payment of loans taken from the banks by their customers and in scheduled commercial banks (including Regional Rural Banks), out of their 138.8 million borrowal accounts, the number of small borrowal account was 109.2 million with a credit limit of Rs. 200000/- per account which constituted 78.7% of all borrowal accounts (Chatterjee & Mukherjee, 2019). Maximum small borrowers of this district like to be indebted to formal credit sources instead of informal credit sources. They take their loans from SHGs (61%) and then from public and private sector banks and Regional Rural Banks (54%) in case of loans from formal sources. In case of informal

sources the moneylenders still are playing their major role in the district and then 'relatives and friends'. The nature of repayment of loans by the small borrowers in the district found in order and only 2% of the small borrowers did not repay their loans and defaulted repayment found around 7% of total borrowers (including irregular and non repayment), around 6% of the total loans were found with default repayment in which non-repayment found for 1.36% of total loans (6/442 x 100). ***The study unable to establish any significant correlation between the total indebtedness of borrower and number of repayment defaulted loans, i.e. the cause of repayment defaulted loans is not the quantum of money taken as loan, but, the number of loan taken and the number of repayment defaulted loans have been found positively correlated, but the correlation is found insignificant i.e., increase in number of loan taken does not increase the number of repayment default loan.***

By considering the total number of formal and informal loans, the percentage of non-repayment in case of informal loans on total number of informal loans (3.19%, table-9) is more than the percentage of number of formal loans on total number of formal loans (0.86%, table-9), but in case of defaulted repayment, it can conclusively be stated that number of default repayment of loan is more in case of formal loans (around 82%, table-11) than informal loans (around 54%, table-11). It can also be taken as conclusion that the maximum small borrowers of this district repay the loans by generating the income by utilising the loans amount which implies that loans were invested to productive purpose through which the investors / borrowers fetched profit and from the part of profit they paid the instalment of loans. But, the interesting observation is that the repayment of loan is not correlated with profit only, if borrowers unable to fetch profit/ income by investing the loan amount, then also the re-payment of loan was made out of their other income of the family (around 38% of the total respondents) implies the sincerity of the borrowers towards the payment of loans irrespective of their indebtedness. The finding of this study validates the results found in 'the yearly performance report of MFIs in West Bengal for 2011 to 2016-2017 (Annual Report of AMFI-WB, 2016-2017).

CONCLUSION

On the basis of the findings of the study relevant policy regarding the quantum of loans in case of formal sources should be implemented, and, the limit of Rs. 2, 00,000/- of small borrowal account, which has been stagnant since 1999, be increased and the restriction on number of loans in case of Microfinance and SHG be turned down.

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