

Purpose of credit and its utilisation by the small borrowers in the district of Darjeeling

Sumon Chatterjee*¹, Prof.Sanchari Roy Mukherjee²

¹Researcher, Department of Economics, University of North Bengal, Rajarammohonpur, West Bengal – 734013, India

²Professor, Department of Economics, & Dean, Faculty Council for PG Studies in Arts, Commerce & Law, University of North Bengal, Rajarammohonpur, West Bengal – 734013, India
sumon_chatterjee@rediffmail.com¹, sancharim@gmail.com²

Abstract

Objective: This work assesses purpose and utilisation of credit taken by small borrowers and to observe whether the credit taken by the borrowers have been utilised as per the purpose stated while taking credit from different sources. This study has also made an attempt to find out the degree of such deviations between the purpose and utilisation of loans taken by small borrowers.

Methods/Analysis: This study based on primary data, collected from the four blocks and one municipal corporation area of the District of Darjeeling. In total, 244 households of small borrower of various social communities, who had taken loan of less than ₹ 200000 from lender was surveyed and the data, were collected in a structured questionnaire. The method of purposive sampling was used to collect sample and only the borrowers were interviewed.

Findings: It was found that near about 89% of the borrowers showed the cause of taking loans was businesses. The per percentage of taking loans for emergency need arising out of treatment, obsequies etc. was only around 9%. The percentage of the borrowers who were found in the vicious cycle of debt trap was around 6% of the total respondents. The deviation from the stated purpose while utilising the loans amount was observed and found that it was maximum in case of business loans.

Application: It was further found that the informal loans were utilised as per the stated purpose more than the loans taken from formal sources.

Keywords: Credit, Purpose, Utilisation, Credit, Darjeeling District, Small borrower.

1. Introduction

The new millennium, unlike the 1990s, witnessed a favourable change regarding the coverage of small borrowers by the banking system. As per RBI norms, a small borrowal account (SBA) is defined to having a credit limit of up to ₹2,00,000. The individuals holding such accounts have relatively small credit requirements. 'RBI provides disaggregated information on SBA holders by social groups and gender, that is, SCs/STs and women. RBI also classifies loans to weaker sections as part of priority sector credit, which includes loans to various socially and economically underprivileged sections - small and marginal farmers, village artisans, backward social groups, individual women beneficiaries and persons belonging to minority communities as notified by the central government from time to time [1].

The borrowers take credit only when they find no other option for mitigating their financial needs except by taking loan from any credit provider. There are two types of credit sources - formal and informal. The borrower can place his/her demand for credit either to the formal sources or informal sources or from both the sources at the same time. The quantum of credit varies with the sources. It was found that the loan derived from informal sources was smaller than the loan from formal sources and consequently the quantum of informal loan was also less than the formal credit [2]. The large borrowers with better financial conditions have often been offered loans from formal sources in better terms and condition than the small borrowers. The bank employees also help them to get the loan. The small and marginal borrowers depend heavily on informal sources for taking loans in developing countries [3], primarily because of the lack of collaterals or other assets.

Abraham defined net activity of informal credit relations among the village families for basic consumption need as subsistence credit which was free of any interest charge upto ₹100 since it had limited chance of defaulting of loans as the borrowers' social cost have been found to be much higher as defaulters of repayment of loans [4]. This 'subsistence credit' activity has been observed in Poovar district of Kerala in India but not much in rest of India. Rather the reverse has been observed in case of formal loan. The loan providers of formal source extend loans mainly for production purpose. It is very tough to get loans for consumption purpose though the consumption need always exists in the families of the marginal section of the society. Apart from the consumption need there are other needs also for which the people of the marginal section of the society borrow. The borrowers, in recent times, can take loans by becoming a member of SHGs (Self Help Groups) or by becoming a client of MFIs (Micro-finance Institutions), but in both the cases, the amount of loan is not very high, rather it starts from a meagre figure and gradually increases with the number of times the borrowers borrow. MFIs also do not provide consumption loans. The borrower cannot become a member of more than one SHG but can take loans from a maximum of two MFIs [5,6]. Thus the loans are restricted in quantum and number of providers but the need and necessities of small borrowers' families continue to increase, compelling them to borrow from informal sources. The rate of interest charged by an informal moneylender is higher than formal sources but it does not deter the borrower from borrowing at such high rates of interest [7]. The lender lends only when he assumes that the risk of providing loan is within the permissible limit of lender and after considering this, the cause of taking loan, the financial position of borrower to see how the borrower will repay the loan amount etc. are also considered by the lender. The reason for taking loans must be considered carefully, otherwise, the objective of providing loans will be in vein as it was found in case of cattle loans provided to the borrowers under the Integrated Rural Development Programme (IRDP). It was pointed out by Shah *et al.* that the cattle loans provided under IRDP was unable to fulfil its objective as majority of the borrowers reported that either they had sold off their cattle or the animals were dead. The cattle loan under IRDP was provided to borrowers without taking adequate attention [8]. It was found that corruption was there at every stage of the IRDP provided loans [9]. Given this debate, the present study will outline the stated purposes for seeking loans by the small borrowers from different credit providers and the ultimate form of utilisation of that loan.

2. Profile of the study area

The four blocks in the plains of Darjeeling district and the wards of Siliguri Municipal Corporation under the jurisdiction of Darjeeling district have been considered as study area. A brief profile of the study area based on Census data 2011 [10-12], has been stated below:

The Matigara Community Development Block has an area of 132.61 square kilometres. The block consist of one census town - Bairatisal and the rural area with five Gram Panchayets - Matigara-I, Matigara-II, Atharokhai, Pathargata, Champasari. The Block has a population of 1,97,278 persons of which 1,35,583 are rural population and 61695 are urban population. There are 1,01,023 males and 96,255 females. The number of persons of Scheduled castes were 70,527 and Scheduled Tribe were 26,484 (around 50% of the total population) are SC and ST. The total number of literate persons in the Block were 1,29,006 (65% approximately) out of which 72,352 were males and 56,564 were females.

The Naxalbari Community Development Block has an area of 188.12 square Kilometres with six Gram Panchayet s- Moniram, Naxalbari, Hatighisa, Upper Bagdogra, Lower Bagdogra, Gossainpur. As per the Census 2011, the block has a population of 1,65,523 of which 97,717 are rural and 67,806 are Urban. There are 85,054 males and 80469 females. The number of Scheduled Castes is 44,328, of which 22,808 are males and 21,520 females. The number of Scheduled Tribes is 32,388 of which 15,989 are males and 16,399 are females (around 48% SC and St of the total Population. The total number of literates are 1,10,663 (around 66%) of which 62,270 are males and 48,393 were females.

TheKhoribari Community Development Block has an area of 144.88 square kilometres with four Gram Panchayats - Binnabari, Buraganj, Khoribari Panishali, Raniganj Panishali, holding a total 23,352 households with a total population of 1,09,251, of which 55,671 were males and 53,580 were females. The rural and urban population were 97,399 and 11,852 respectively.

The number of Scheduled Castes was 58,570 in which 30,031 were males and 28,539 were females. The Scheduled Tribes were 21,262 in which 10,615 were males and 10,647 were females (64% SC and ST of the total population). The total number of literates in the block was 63,540, of which 36,566 were males and 26,975 were females. The Phansidewa Community Development Block has an area of 312.10 Square Kilometres and consists of rural area only with seven Gram Panchayats – Phansidewa- Bansgoan, Chathat- Bansgoan, Bidhan Nagar-I, Bidhannagar-II, Ghospukur, Jalas-Nijamtara and Hetmuri- Sighijhora. The block had a total population of 2,04,522 and all of which were rural population. There were 1,03,719 males and 1,00,803 females. The number of persons of Scheduled Castes community is 60,704, of which 31,321 were males and 29,383 were females. The number of Scheduled Tribes is 62,595, of which 30,744 were males and 31,851 were females (around 60% SC and ST of the total population). The total number of literates in the block were 1,13,572 of which 64,890 were males and 48,682 were females.

The area of Siliguri Municipal Corporation which comes under the jurisdiction of the Darjeeling district administration is 20.10 Square Kilometres with population of 2,94, 546 of which 1,51,535 were males and 1,14,011 were females. The number of Scheduled Castes is 26,042, of which 13,335 were males and 12,707 were females. The number of Scheduled Tribes is 3,703 of which 1863 were males and 1840 were females (only 10% SC and ST of the total population). The total number of literates in these of SMC were 2,28,688, of which 1,22,163 were males and 1,06,525 were females. Matigara and Phansidewa are in close proximity to Siliguri town. Matigara can be termed as the peri-urban region of Siliguri because of the connectivity and extension of civic amenities to this region. Phansidewa, although is predominantly an agricultural area, is developing fast as a rurbanised area with the 4-lane National Highway running alongside and establishing greater connectivity to both Siliguri and Jalpaiguri towns. Naxalbari and Khoribari, are also very well connected to Siliguri town and has also been rurbanised in the past one decade or so, causing a shift to non-farm activities in the areas. Naxalbari is located along the borders of Nepal.

Literacy rates have increased considerably in the last decade and thus inclination towards non-farm activities and out-migration has been noticeable in all the blocks concerned. SMC is the recipient of migrant population not only from the other blocks of Darjeeling district, as mentioned, but also from other districts of northern Bengal and the adjoining state of Bihar. Besides, with the blooming of the service sector many trained personnel also get their postings in SMC, giving the town a cosmopolitan demographic character.

3. Data collection and Methodology

Primary data were collected by conducting field survey. During November 2017 to May 2018, a field survey was conducted in four blocks and one corporation area of Darjeeling District, namely: Matigara Block, Naxalbari Block, Khoribari Block, Phansidewa Block and in different wards of Siliguri Municipal Corporation (SMC). Data were collected with a structured questionnaire from the borrowers by conducting interviews of the borrowers who have taken small amount of loans (less than ₹ 2,00,000 from one provider) from different sources. The places of collection of data were the block offices, ward offices under SMC and the Sabala Mela, 2018 organised in Siliguri by the Government of West Bengal. The Blocks of Darjeeling District can be divided into two regions, the hill region and the plains. Due to political unrest during the year 2017 in the hill blocks of Darjeeling district, for the present study, four blocks in the plains and the SMC (area under the jurisdiction of Darjeeling district authority) have been considered purposively for conducting the survey for collection of data. All the four blocks and the SMC in the plain region of the district have thus been selected.

Table 1. 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 households of borrowers belonging to different social communities were surveyed and the total number of loans disbursed was 442. The following Table 1 provides the demographic status of the small borrower respondents. The method of purposive sampling was used to collect sample and only the borrowers were interviewed. As stated, the primary objective of the study is to observe whether the credit taken by the small borrowers have been utilised as per the purpose stated while taking credit.

1. Purpose of credit as shown while taking credit

At the time of taking loans from formal or informal sources, borrowers had to show the reason or the purpose for taking the credit to the lender with all other necessary information. If the loan provider understands that the reason which has been shown by the borrower is not true, the loan may not be sanctioned. Borrowers show the original reason for taking loans only when they become confident that due to the particular reason or purpose, their loans will not be rejected. The purposes stated while taking loans are provided in Table 2. The inferences that can be drawn are given below:

1. It was found that out of 244 respondent small borrowers, 13 of the respondents applied for the loans showing the 'Subsistence' purpose in which 8 respondents were of SC category and 5 respondents were of other category. The meaning of subsistence purpose, here, has been considered as money required for daily food consumption, repairing of home, digging of well, etc.
2. 217 respondent small borrowers conveyed that they had applied for loans showing the reason 'Business', and out of these 217 respondents, 96 respondents were from SC category (approximately 45 %) and 118 respondents were from other category.
3. While taking loans against 'Purchasing of Cattle' had been shown as a purpose by 12 small borrowers, 9 respondents belonged to the SC community and 3 respondents belonged to other categories.
4. Recreation' and 'Education' were shown as a purpose by 6 and 4 respondents respectively out of a total of 244 respondents.
5. 22 respondents applied for loans showing that they required loans for 'emergency needs' such as treatment, obsequies etc. and out of these 22 respondents, 13 belonged to SC community and 9 belonged to other categories.
6. Only 15 respondents told that they took loans showing the reason 'Repayments of old loans, and out of these 15 respondents, 10 respondents belong to Scheduled Caste, 1 respondent belonged to ST and 4 respondents belonged to other categories. The interesting feature is that all these loans were taken from relatives/ friends with no interests rates. It is found that MFIs and SHGs also do not provide loans to small borrowers for redeeming previous loan.
7. Another interesting finding is that no respondent applied for loans for purchasing of 'home appliances' and only one respondent has been included in 'other purpose'. Other purpose, here, refers to the loan taken to lease in land for cultivation.

Table 2. Distribution on the basis of purpose of credit as shown while taking credit

Blocks	HHs surveyed		Purpose of Credit								
			Subsistence	business	Purchasing Cattle	Recreation	Education	Emergent need (treatment, obsequies etc)	Repayment of old loans	purchasing of home appliances	Other needs
			No. of Respondents								
Matigara Block	SC	20	2	14	0	1	0	1	2	0	0
	ST	0	0	0	0	0	0	0	0	0	0
	Others	27	2	26	2	0	0	3	1	0	0
	Total	47	4	40	2	1	0	4	3	0	0
Naxalbari Block	SC	16	1	12	0	1		2	1	0	0
	St	0	0	0	0	0	0	0	0	0	0
	Others	25	1	23	1	0	0	1	0	0	0
	Total	41	2	35	1	1	0	3	1	0	0
Khoribari	SC	42	2	36	1	2	1	6	6	0	1

Block	St	3	0	3	0	0	0	0	1	0	0
	Others	6	0	6	0	0	0	0	1	0	0
	Total	51	2	45	1	2	1	6	8	0	1
Phansidewa Block	SC	34	3	29	7	2	0	4	1	0	0
	St	0	0	0	0	0	0	0	0	0	0
	Others	16	0	15	0	0	0	1	0	0	0
	Total	50	3	44	7	2	0	5	1	0	0
Siliguri Municipal Corporation	SC	6	0	5	1	0	1	0	0	0	0
	St	0	0	0	0	0	0	0	0	0	0
	Others	49	2	48	0	0	2	4	2	0	0
	Total	55	2	53	1	0	3	4	2	0	0
Total SC		118	8	96	9	6	2	13	10	0	1
Total ST		3	0	0	0	0	0	0	1	0	0
Total others		123	5	118	3	0	2	9	4	0	0
Grand total		244	13	217	12	6	4	22	15	0	1

Source: Survey Data

2. Utilisation of credit

Response of small borrowers regarding the purpose of utilisation of loans was also collected during the survey. The purposes of utilisation were categorised in three categories viz. loans utilised as per stated purpose; loans utilised other than the stated purpose and loans utilised partly as per stated purpose and partly other than stated purpose. Responses of 244 respondent small borrowers were received and tabulated (Table 3) and some interesting results have been observed.

Table 3. Distribution of small borrowers on the basis of utilisation of credit

Blocks	HH Surveyed	Purpose of utilisation		
		As per stated purpose	Other than stated purpose	Partly Stated and Partly for other than stated
		No of Respondent		
MatigaraBlock	47	34	5	8
Naxalbari Block	41	28	5	8
Khoribari Block	51	32	7	12
Phansidewa Block	50	28	10	12
Siliguri Municipal Corporation Area	55	40	7	8
Total	244	162	34	48
% on total (244= 100%)	100%	66.40	13.93	19.67

Source: Survey data

It was found from Table 3 that out of 244 respondents, 162 respondents, i.e. approximately 2/3rd of the total respondents, replied that they had used the loan as per the purpose stated while taking the loans. 48 respondents, i.e. around 20% of the total respondents, stated that they used the loans partly for the purpose as stated while taking the loans and partly used for other than the stated purpose. It was observed that only around 14% of the total respondents stated that they used or utilised the loans in other than stated purpose. Thus, whether formal or informal, majority of the respondents utilised their loans as per the stated purposes.

3. Purpose of taking credit and actual utilisation of credit

Sometimes borrowers do not show the original cause of taking loans apprehending that showing of original cause may lead to the rejection of the sanction of their loan amounts as discussed earlier, and for this, they show some other causes or purposes than the actual purpose of taking loans. The purpose of taking loan, as shown while taking loan, and the actual utilisation of the amount of loan is provided in Table 4. The observations are indeed interesting as outlined below:

It was found that 244 respondent small borrowers had taken 442 loans from various sources. Out of these 442 loans, 364 loans, i.e. more than 80% of the total number of loans, as shown, was taken for business purpose. It was found that 22 loans, i.e. around 5% of total loans, were taken showing the emergent purpose. 15 loans, i.e. a little over 3% of the total loans, were taken showing the purpose of repayment of old loans.

For the purpose of purchasing of cattle, as shown while taking the loan, only 14 loans were taken which was 3.17% of the total loans. For purposes of education, recreation, only 7 and 6 loans were taken respectively. Only 1 loan was taken by showing the purpose of 'land taken on lease'. Out of the 442 loans, no loan was taken for the purpose of 'purchasing of home appliances', assets, car, bike etc. or for giving 'loan to others'.

The total number of 442 loans were utilised in 469 ways or purposes. The utilisation of these 442 loans is as follows:

1. It was found that the purpose of 'subsistence', 13 loans were taken and all these loans were utilised in subsistence purpose as it was stated while taking the loan and only 1 loan was utilised for both subsistence and emergent purposes. These 13 loans were utilised in 14 numbers of way. The percentage of loans taken for subsistence purpose and utilised for the same purpose is near 100%.
2. In total 364 loans were taken for the purpose of 'business' but the loans were utilised in a total of 388 ways or purposes. Out of these 364 loans, only 285 loans were utilised for business purposes. Loans taken for business but the utilization purpose of the loans were: subsistence purpose - 42 loans; recreation purpose - 10 loans; education purpose - 11 loans; for emergent need, treatment, obsequies etc. - 11 loans; for repayment of old loans - 10 loans; for purchasing of home appliances - 8 loans; or taking land on lease for cultivation - 8 no of loans and for giving loan to others - 3 loans. Apart from business use, the loans taken for business utilised mainly in subsistence purposes. Here it must be mentioned that near about 78.30% of business loans were utilised for business purposes.
3. For purchasing of cattle, 14 loans were taken and these 14 loans were utilised in total 15 ways. Out of these 14 loans, 11 loans were utilised for purchasing of cattle, i.e. as per the stated purpose. But these loans were utilised for other purposes also. The loans taken for purchasing of cattle but utilised in other purposes were: for subsistence purpose - 2 loans; for repayment of old loans - 1 loan; and for purchasing of home appliances - 1 loan. Here also, the deviation of cattle loans was found mainly for subsistence purpose. Here also 78.57% of the cattle loans were utilised for purchasing of cattle, i.e. as per the stated purpose.
4. Only 6 loans were taken showing the purpose 'Recreation' and all these 6 loans were utilised for that purpose only, i.e. 100% utilisation of loans was as per the stated purpose.
5. There were 7 loans which were taken for 'education' purpose and these 7 loans were utilised in 8 no of ways. Out of these 7 loans, taken for education purpose, 5 loans were utilised for education purposes and the deviations were: for emergent need - 2 loans and for subsistence purpose - 1 loan. It was found that 71.42% of the education loans were utilised for the stated education purpose.
6. Total 22 loans were taken for 'emergent' purpose like treatment, obsequies etc. and these 22 loans were utilised in total 22 ways or purposes. But out of these 22 loans which were taken for emergent purpose, 2 loans were utilised for subsistence purpose. The loans utilised as per the stated purpose was 20. The percentage of utilisation of these emergent loans as per the stated purpose was near about 90.91%.
7. There was only 1 loan which was taken for 'taking land on lease' for cultivation purpose and it was utilised for the same purpose. The percentage of utilisation was 100% in this case.

Table 4. Distribution of the purpose and utilisation of credit

Purpose of taking Credit	No of loans taken	Purpose of Utilisation of Credit										No of way of utilisation
		Subsistence	Business	Purchasing Cattle	Recreation	Education	Emergent need (treatment, obsequies etc)	Repayment of old loans	purchasing of home appliances', Assets, Car, Byke etc.	Land taken on lease	Loan to others	
Subsistence	13 (2.94)	13	0	0	0	0	1	0	0	0	0	14
Business	364 (82.35)	42	285	0	10	11	11	10	8	8	3	388
Purchasing cattle	14 (3.17)	2	0	11	0	0	0	1	1	0	0	15
Recreation	6 (1.36)	0	0	0	6	0	0	0	0	0	0	6
Education	7 (1.58)	1	0	0	0	5	2	0	0	0	0	8
Emergent need	22 (4.98)	2	0	0	0	0	20	0	0	0	0	22

Repayment of old loans	15 (3.39)	0	0	0	0	0	0	15	0	0	0	15
Purchasing of home appliances', assets, car, bike etc.	0	0	0	0	0	0	0	0	0	0	0	0
Land taken on lease	1 (0.23)	0	0	0	0	0	0	0	0	1	0	1
Loan to others	0	0	0	0	0	0	0	0	0	0	0	0
Total	442 (100%)	60	285	11	16	16	34	26	9	9	3	469
% on the basis of utilisation of loans (469 = 100%)		12.79	60.77	2.35	3.41	3.41	7.25	5.54	1.92	1.92	0.64	100 %

Source: Survey data

Note: Figure in the parenthesis in col. 2 represents the percentage of loans on total loans taken

4. Source-wise utilisation

The above utilisation of loans can be observed on the basis of its source i.e. formal source and informal source (Table 5). Out of these 442 loans, 348 loans were taken from the formal sources and 94 loans were from informal sources. Out of these 348 formal loans, it was found that above 75% of these loans were utilised as per the stated purpose and around 24% of these loans were utilised beyond the purpose stated while taking these loans. In case of informal loans it was found that out of total 94 informal loans, 92 were used as per the stated purpose. The percentage of utilisation of informal loans as per the stated purpose was near about 98%. These 2 (two) informal loans were taken for the purpose of treatment and business and were utilised for the purpose of repayment of old loan and subsistence.

Table 5. Source-wise utilisation of loans (Considering number of loans)

No of HH Surveyed	Sources of loans	Total no. of loans	Utilized as per stated purpose	Not utilized as per stated purpose	Percentage of utilisation on total loans	
					As per Stated purpose	Not as per stated purpose
244	Formal	348	264	84	75.86	24.14
	Informal	94	92	2	97.87	2.13
	Total	442	356	86	80.54	19.46

Source: Survey data

4. Conclusion

'In March 2014, out of 138.8 million borrowal accounts with scheduled commercial banks (including regional rural banks), 109.2 million accounts had credit limit up to ₹200,000 (SBAs) and accounted for 78.7 per cent of all borrowal accounts. However, in terms of amount outstanding their share was 8.4 per cent in total outstanding credit. Majority of small borrowal accounts pertains to household sector, particularly individuals, and is concentrated in a few sectors such as agriculture, small business, retail trade and personal loans. It is thus evident that small business did account for an important segment of small borrowal accounts.

From the survey data obtained to analyse the purpose of taking credit and its utilisation, the following conclusions can be drawn:

At the time of taking loans, borrowers primarily show their requirement of loan for an economic purpose like investing in their business or expansion of business etc. Taking loan for consumption purposes or to tide over a crisis period is not generally accepted by formal credit sources, since the probability of defalcation is expected to be high. In this study, it is found that near about 89% of the borrowers have shown that the cause of taking loans is for business purpose and only 9% of the borrowers have shown that they have taken loans for meeting their emergency needs arising for treatment, obsequies of family members and other emergent purposes. There are only few borrowers who have shown the cause for taking loans as 'Repayment of old loans'. The borrowers who are in a debt trap are nearly 6% of the total respondent small borrowers.

The above distribution of loans with majority of the loans obtained for business purposes is particularly because of the presence of large number of small borrowers from SMC and the other blocks that are also in close proximity to the Siliguri town. Faster rate of urbanisation and growth of Census towns display that dependence on agriculture is less lucrative when compared to investment in small businesses. The 4-lane National Highway is now providing adequate transportation infrastructure and the irreversible trend of urbanisation motivates Small borrowers to take up small business activities. It is also notable that around 45 percent of the borrowers who borrowed for business purposes belonged to the marginalised section of the society. The highest number of SC small borrowers is present in Khoribari block followed by Phansidewa, Matigara and Naxalbari. All these blocks have a high percentage of SC and ST population (varying between 48%-60% of the total population). The least number of SC households interviewed are from SMC area which has only 10% of the marginalised section in the total urban population. Matigara has almost become urbanised owing to land use changes from agriculture to urban institutions like educational institutions and small factories.

Thus, the small businesses cater to the newly urbanised areas and hence the demand for such loans. These blocks also have a dominant SC population. While considering the utilisation part of these loans, it has been observed that maximum loans, over 64% of the total number of loans have been utilised for business purpose and the maximum deviation of purpose has also been observed from business loans. Total 364 loans were taken showing the cause as business need, and out of these, 285 numbers of loans were utilised for the business purpose. The deviation from the stated purpose (Business) found for 79 loans. This implies that only a small percentage of borrowers (22%) have deviated from the stated purpose, although they are small borrowers. It has also been observed that 244 respondents have taken 442 loans from formal and informal sources, showing various causes as stated. Total 442 numbers of Loans have been utilised in 469 ways and out these 442 loans, 356 loans have been utilised as per their stated purpose. Deviation from the shown purpose of taking loans has been observed for 86 loans. These 86 loans have been utilised in 113 ways which were not as per their stated purpose. These 86 loans which were not utilised as per their stated purpose include 79 loans which were taken for business but utilised for other purpose than business. It is found that more than 80% of the loans have been used as per purpose (i.e. $356/442 \times 100$) that the borrowers have shown at the time of taking loan. While considering the utilisation on the basis of sources of loans i.e. formal and informal, it was observed that the utilisation of informal loans were more for stated purpose than formal loans.

The overall utilisation of informal loans, as per the stated purpose, was around 98% of total informal loans whereas the utilisation of formal loans for the stated purpose was around 76% of the total formal loans. Therefore, finally, considering all the aspects of purpose and utilisation of loans, and source-wise also, it can conclusively be stated that loans taken by the small borrowers are utilised as per the purpose stated by them while taking the loan and informal loans is utilised as per the stated purpose more than the formal loans. As is also evident, a large number of small borrowers interviewed are from the socially and economically marginalised section – this is in consonance to the RBI policy as stated earlier. Chavan also pointed that bank lending could not undermine the importance of informal credit from moneylender. The presence of a large percentage of informal loans also validates the study.

5. References

1. The Clearing Corporation of India Ltd. <https://www.zaubacorp.com/company/THE-CLEARING-CORPORATION-OF-INDIA-LIMITED/U65990MH2001PLC131804>. Date accessed: 22/02/2019.
2. M. Mohieldin. Informal financial transaction in Egypt: social collateral, collective arrangements and pyramid scheme, British Society for Middle Eastern Studies. 1994
3. K. Basu. The emergence of isolation and interlinking in rural markets. *Oxford Economic Papers*. 1983; 35(2), 262-280.
4. A. Abraham. Subsistence credit: survival strategies among traditional fishermen. *Economic and Political Weekly*. 1985; 20(6), 247-252.
5. Master circular on Introduction of New Category of NBFC-‘Non-Banking Financial Company-Micro Finance Institution. https://www.rbi.org.in/Scripts/BS_ViewMasCircularDetails.aspx?id=9827. Date accessed: 01/07/2015.

6. Y.H. Malegam .Report of the Sub-Committee of the Central Board of Directors of Reserve Bank of India to Study Issues and Concerns in the MFI Sector. Reserve Bank of India. 2011; 1-57.
7. V.K. Ramachanran, M. Saminathan. Rural banking and landless labour households: institutional reform and rural credit markets in India'. *Journal of Agrarian Change*. 2002; 2(4), 502-544.
8. M. Shah, D. Banerjee, V. Shankar, P. Ambasta. India's Drylands: tribal societies and developments through environmental regeneration. Oxford University Press, New Delhi. 1988.
9. J. Dreze. Poverty in India and the IRDP delusion. *Economic and Political Weekly*. 1990; 25(39).
10. Census 2011 data. <http://www.census2011.co.in/census/district/1-darjiling.html>. Date accessed: 2011.
11. Small Borrowal Accounts of Scheduled Commercial Bank, Basic Statistical Return. https://rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=15563. Date accessed: 11/05/2015.
12. P. Chavan. Bank credit to small borrowers: an analysis based on supply and demand side indicators. CCIL, Monthly Newsletter. 2017, 51-53

The Publication fee is defrayed by Indian Society for Education and Environment (www.iseeadyar.org)

[Cite this article as:](#)

Sumon Chatterjee, Prof. Sanchari Roy Mukherjee. Purpose of credit and its utilisation by the small borrowers in the district of Darjeeling. Indian Journal of Economics and Development. April 2019, Vol 7 (4), 1-9.

Received on: 25/01/2019

Accepted on: 10/04/2019