

# **Making money work for the poor in India: Inclusive finance through bank-moneylender linkages**

**A. K. Garg**

**Agricultural Financing Corporation Ltd.  
Dhanraj Mahal, 1<sup>st</sup> Floor, C. S. M. Marg, Mumbai- 400 001 India.  
Email: [afcl@vsnl.com](mailto:afcl@vsnl.com)**

**Neha Pandey**

**Agricultural Financing Corporation Ltd.  
Dhanraj Mahal, 1<sup>st</sup> Floor, C. S. M. Marg, Mumbai- 400 001 India  
E-mail: [n.pandey@livelihoods.in](mailto:n.pandey@livelihoods.in)**

**India has one of the most extensive financial systems comprising of commercial and cooperative banks, microfinance institutions and self-help groups. Yet, the vast majority of rural poor still does not have access to formal financial services necessary for poverty reduction and wealth creation. What effective measures are required to make money work for the poor? Here we draw on published research to show that neither banks nor microfinance institutions have been able to replace moneylenders in India. Indeed, the informal moneylenders have dynamically outmanoeuvred formal financial system in their reach to poor by their adaptive management skills and resilient social networks. We suggest that in order to reduce poverty and propel India towards sustainable human well-being a comprehensive financial system based on the bank-moneylender linkages is required. Without a full integration of traditional and contemporary financial innovations any attempt to expand the formal financial system in India is likely to be of limited utility to the poor.**

India has one of the most extensive financial systems comprising of banks, microfinance institutions and self-help groups. There are more than 30,775 rural branches of commercial and regional rural banks. Rural cooperative institutions have a wider outreach, with 1,08,779 primary agricultural co-operative societies (PACS). In addition, 2.24 million self-help groups (SHGs), with the credit linkages by banks are also operating in India. Furthermore, the number of Kisan Credit Card (KCCs) holders

has increased to 59.09 million<sup>1</sup>. Indeed, India compares favourably with other developing countries both in terms of the geographical area covered as well as average population served per bank branch<sup>2</sup>.

While the growth and coverage of formal financial services in rural India may seem remarkable, the vast majority of rural poor still does not have access to formal finance. This lack of access to formal credit and savings services jeopardizes India's efforts to both poverty reduction as well as wealth creation necessary to propel the nation towards ecological, social and economic well-being. This is so because the financial sector in India has failed to craft management innovations that build on the strength of the informal moneylending. No wonder then, nearly 45% of the rural lending in India is by moneylenders and the trend is actually on the rise<sup>3</sup>.

Indeed, despite concerted efforts by formal and semi-formal financial mechanisms, the informal moneylenders have dynamically outsmarted them in their reach to poor by their dynamic management skills and social networks. There is a vast literature demonstrating the importance of the moneylenders in rural economy across the world. While a full review of literature is beyond the scope of this paper some of the literature is indicated in the references<sup>4-16</sup>.

The reasons for the continuous existence of moneylenders in India have to be found both in the inadequacy of the formal financial systems as well as the efficiency and innovations of the moneylenders themselves<sup>2</sup>. Serving the rural poor is a high-risk, high-cost proposition for banks. Banks have always feared the uncertainty about the repayment capacity of poor, whose incomes are subject to numerous vulnerabilities. In the absence of reliable credit information and costly monitoring, banks fear a high default risk. This is often exacerbated by the poor people's lack of collateral. Additionally, the transaction costs of rural lending in India are high, mainly due to small loan sizes, the high frequency of transactions, the large geographical spread, the heterogeneity of borrowers, and illiteracy.

Rural poor too find the banks unattractive because of their inflexibility, high transaction costs and a time-consuming process. For a poor person the transaction costs associated

with numerous visits to bank, long wait of time, mistrust born out of bad experience, and payment of extra-legal money for the approval of loan all add up to costs which are more or less equal to the costs of obtaining loan from moneylenders with comparative efficiency.

Moneylenders are characterized as being exploitative and unscrupulous. However, less recognised is the fact that faced with the competition from the expanding formal financial system moneylenders have adapted management innovations in order to remain in business. Consequently, their description as being exploitative needs reconsideration and should be seen in comparison to rates being charged for convenience-products by formal financial establishments. There are enough reasons to set aside the notion that informal moneylenders are always bad and exploitative and the formal financial services—as operate currently—are always good.

Credit cards in India are a case in point<sup>17</sup>. Credit cards are essentially convenience-products and a profitable service industry for banks. In India banks issuing credit cards charge at an average annual rate of 34% interest on the outstanding balance. Thus, credit card loan is about 3.2 times more expensive than a home loan at an average rate of 10.5%. Even if we take the lowest credit card rate of around 20% in India, it is still twice the home loan rate in India. These rates compare well with the interest rates charged by the moneylenders, but are not considered exploitative by the financial system. Moneylenders acting similarly as service providers to the excluded segment of the society are nonetheless considered as exploitative. As noted earlier, if we compare the credit card interest rates with the home loan rates in India, moneylenders are clearly less exploitative than credit card industry.

Comparison of all-inclusive costs of obtaining SHG loan provides another illustration. First, there are numerous studies that provide insight on the challenges associated with microcredit and self-help groups. In many cases poor have faced new and additional problems in areas where microfinance and SHGs has been introduced (See box 1). These problems would require to be resolved to harness the full potential of microfinance for rural poor. Additionally, SHGs have been noted as low-cost financial instruments for the poor. State-owned banks have been lending to SHGs at interest rates

ranging from 9% to 12% annually. However, recent studies indicate that the full costs are much higher, and could range between 15% and 28% per year<sup>2</sup>. The situation is likely to remain so because unless banks charge interest rates that enable them to recover costs, the financial viability and longer-term sustainability of SHGs may be jeopardized<sup>2</sup>.

Beyond this comparative position, there are five other key arguments that emerge from the available literature. These are:

- In dealing with everyday competition with growing formal financial services moneylenders have evolved innovative mechanisms and adaptations for efficiency and sustainability that have an edge over the formal financial systems in India. Majority of moneylenders are now using socially-responsible lending practices because they make sound business sense.
- A continuous competitive advantage of moneylenders over banks and microcredit institutions in rural India suggests that moneylenders are more innovative as service providers.
- Innate and/or operational inadequacy in microfinance and SHGs often determines the sustainability of comparatively efficient rural informal credit despite high costs of borrowing. Microcredit and SHGs as practiced in contemporary times have numerous problems commonly ascribed to moneylender, plus there is also some element of inefficiency in terms of reaching to the chronic poor (Box 1).
- Destruction of informal and time-honoured moneylending innovation in rural India is expected to have the similar negative economic impact as that of destruction of informal manufacturing in the past.
- Moneylenders, banks and microfinance are imperfect substitutes for one another. These mechanisms, however, innovatively brought together to redesign a robust and effective financial systems based on the principles of complementary strengths.

It is, therefore, important to acknowledge moneylenders as legitimate constituents of financial system. They have extensive social network and substantial credibility. Banks must establish linkages with them in order to serve the poor. In addition, moneylenders

should be given the flexibility to access the deposits from the public, as any other financial institution.

The suggestion to craft bank-moneylender linkage in rural financial market has powerful support in recent literature<sup>18-23</sup> as well as emerging partnerships across Asia, Africa, and Latin America. There is evidence that linkages are increasingly used by formal financial institutions to target rural clients. Initial evidence indicates that the partnerships seem to afford both partners the opportunity to overcome a weakness in what they can achieve on their own<sup>24-27</sup>.

In conclusion, an inclusive finance can ill-afford to ignore informal moneylenders in India. An innovative redesign of financial system that legitimately works for the poor is therefore called for. In order to make the money work for the poor a comprehensive financial system based on the bank-moneylender linkages is required. Without a full integration of traditional and contemporary financial innovations any attempt to expand the formal financial system in India is likely to be of limited utility to the poor.

Now question arise what next after this? On the basis of literature review and studies across the world we can presume that moneylenders can play a crucial role in providing sustainable arrangement for financial system. We need to learn from the experiences, that use of full integration of traditional and contemporary financial innovations may improve the future of rural as well as to some extent urban population. Therefore, we propose the action coupled with research which is required to achieve the desired changes. Furthermore, action research can be backed with field implementation to strengthen the idea to promote non financial system or informal credit.

### **Box 1: Imperfections in microfinance**

*First*, microfinance is an imperfect substitute for informal finance<sup>34</sup>. The intended clients of microfinance programs continue to draw on informal finance, not necessarily because microfinance institutions are ineffective, but that microfinance is not a perfect substitute for informal finance because most areas have internal political and economic hierarchies and social networks that create market segments in the demand and supply of financial resources.

*Second*, microcredit programmes works best if it is careful in targeting to reach the poor, sustaining the performance of repayment, and ensuring that programme benefits have a real impact<sup>31</sup>. If design and implementation do not carefully take these success factors into account, the success is only partial. In such cases it is less successful at reaching the vulnerable poor who are most prone to destitution<sup>28</sup>.

*Third*, borrowers from microcredit scheme are often forced to repay their loans in tightly fixed installments in the pretext of bringing financial discipline. For this reason, informal moneylenders often thrive in a complimentary role even if they charge more interest rates, because moneylenders give liberty for more informal and flexible repayment schedule depending upon the capacity of borrowers<sup>29</sup>. In addition, borrowing peers often inflict an intense pressure on women members. Thus, women have to often maintain their regular payment schedules through a process of loan recycling that increases the debt-liability on poor households, increases tension and frustration among household members, brings new forms of dominance over women and increases violence in society<sup>32</sup>. No wonder then, those who take loans from multiple sources at the same time are found to be more likely to default<sup>35</sup>.

*Fourth*, successful groups formed among the poor often exclude the even poorer, particularly those associated with market functions. The political function of groups in helping to overcome marginalization and social exclusion experienced by the poorest is often ignored<sup>33</sup>.

*Fifth*, optimum group repayment pressures that help in loan recovery can sometimes create pressures among women, resulting in to domestic tension between spouses and loss of spousal income and support<sup>30</sup>.

Source: references<sup>28-35</sup>

**Supplementary material: Bibliography**  
**Making money work for the poor in India:**  
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Amin, R., Becker, S. and A. Bayes. 1998. NGO-promoted microcredit programs and women's empowerment in rural Bangladesh: quantitative and qualitative evidence. *Journal of Developing Areas* **32**(2): 221-236.

Nongovernmental organizations (NGOs) in rural Bangladesh are reaching out to poor women with collateral-free credit programs aimed at both alleviating poverty and increasing women's status. The present study investigated the hypothesis that participation in credit-related activities by NGO credit members leads to greater empowerment of credit members compared to nonmembers. The sample was comprised of 1164 loanees and 1200 nonloanees from the five NGO areas in Bangladesh and of 1200 nonloanees from non-program areas of rural Bangladesh with no significant NGO presence. NGO credit members had significantly higher scores on all three indices of female empowerment: inter-spouse consultation, autonomy, and authority. Moreover, nonmembers within NGO program areas had higher autonomy and authority scores than nonmembers within the comparison areas. Even after background variables were controlled in the multivariate analysis, NGO credit membership and residence in an NGO program area remained significantly and positively associated with both the autonomy and authority indices. Other variables that exerted a significant positive effect on women's empowerment were concrete or corrugated buildings, area of residence outside the southern or eastern regions, nonagricultural occupation, respondent's education, and age. In focus group discussions, NGO credit loanees reported that the program made them more confident, assertive, intelligent, self-reliant, and aware of their rights. NGO credit programs that target poor women are likely to produce substantial improvements in women's social and economic status, without the long delays associated with education or employment opportunities in the formal sector.

Amin, S., Rai, A. S. and G. Topa. 2003. Does microcredit reach the poor and vulnerable? Evidence from northern Bangladesh. *Journal of Development Economics* **70**(1): 59-82.

This paper evaluates whether microcredit programs such as the popular Grameen Bank reach the relatively poor and vulnerable in two Bangladeshi villages. It uses a unique panel dataset with monthly consumption and income data for 229 households before they received loans. Authors find that while microcredit is successful at reaching the poor, it is less successful at reaching the vulnerable. These results also suggest that microcredit is unsuccessful at reaching the group most prone to destitution, the vulnerable poor. The main contribution is to explicitly evaluate the targeting of an antipoverty intervention using the efficient risk-sharing framework.

Andersen, T. B. and N. Malchow-Møller. 2006. Strategic interaction in undeveloped credit markets. *Journal of Development Economics* **80**(2): 275-298.

This paper studies the strategic interaction between informal and formal lenders in undeveloped credit markets. In a model with adverse selection, loan seniority, market power, and differences in the cost of lending, it is shown that under general conditions a co-funding equilibrium will be a Nash outcome of the game. Authors demonstrate that a collateral requirement in connection with formal loans always generates a new co-funding equilibrium in which both lenders earn higher profits. A government subsidy to the formal lender may have the opposite effect. Authors relate their results to existing empirical evidence and the emerging discussion of how to best ensure financial viability and outreach of microfinance institutions.

Bardhan, P. and D. Mookherjee. 2006. Pro-poor targeting and accountability of local governments in West Bengal. *Journal of Development Economics* **79**(2): 303-327.

A commonly alleged pitfall of decentralization is that poverty, socio-economic inequality and lack of political competition allow local elites to capture local governments. This hypothesis is empirically examined using a longitudinal sample of 89 West Bengal villages concerning targeting of credit, agricultural input kits, employment programs and fiscal grants spanning the period 1978–98. Higher poverty, land inequality and low caste composition of the poor was associated with negligible adverse effects on targeting of private goods to the poor within villages, but with lower employment generation out of allotted funds, and significantly lower allocation of resources to the village as a whole. Political competition or literacy levels among the poor were not systematically related to targeting.

Basu, P. 2006. *Improving Access to Finance for India's Rural Poor*. The World Bank, Washington, D.C., pp 119.

The initiative, led by Priya Basu, Lead Economist in the Bank's Finance and Private Sector Unit, South Asia Region. This is a very good publication. While Basu (2006) suggests that better credit information would directly increase the amount of financing for rural borrowers by reducing transaction costs and costs related to default risk, there is no mention of how informal moneylenders fit into this system.

Basu, P. and Srivastana, P. 2004. India: Scaling-up Access to Finance for the Rural Poor. Case Study, sponsored by The World Bank Group.

Despite the large size and depth of the Indian financial system, the majority of the rural poor do not have access to formal finance and financial services. For this reason, innovative microfinance initiatives pioneered by nongovernmental organizations strove to create links between commercial banks, NGOs, and informal local groups. Better known as "SHG Bank Linkage," this model has effectively targeted poorer segments of the rural population and helped reduce



their vulnerability. The remarkable growth of SHG Bank Linkage is largely attributable to good policy and skillful and committed leadership in conjunction with a facilitating government policy and legal framework. In addition, the emphasis on quality and product customization were also key elements in the SHG Bank Linkage's success. Even though several challenges lie ahead, the SHG movement has the right ingredients to be scaled-up into offering mass access to finance for the rural poor while improving sustainability.

Basu, S. 1997. Why institutional credit agencies are reluctant to lend to the rural poor: A theoretical analysis of the Indian rural credit market. *World Development* **25**(2): 267-280.

This paper examines why institutional credit facilities remain unable to extend credit to the rural poor. Analysis indicates that poor peasants at best can offer an entitlement set as a mortgage, comprised only of future shares of their harvest, which itself is subject to risk. Consequently, lenders can not advance loans without risking extensive loss of loanable funds. As the landlords' income is subject to the same risk as that of peasants, they advance loans to ensure that their own income is not affected by the peasants' financial situation. An extension of institutional credit to peasants results only in subsidization of landlords.

Bell, C. 1990. Interactions between Institutional and Informal Credit Agencies in Rural India. *World Bank Economic Review* **4**(3): 297-327.

In an attempt to expand rural credit and displace the village moneylender, India created a system of rural cooperatives in the 1950s and expanded branch banking into rural areas in the 1970s. This article examines how these measures affected the rural market. It begins with the question of how large the expansion of institutional credit has been and the extent to which it has dislodged the village and nonresident moneylenders. A detailed comparison of three major surveys of the Indian rural credit market suggests that in various guises, the moneylender is still a major source of loans. The article also examines the (weak) evidence on intermediation between the formal and informal sectors. A formal model of the interaction between the informal moneylender and institutional lender is constructed under a variety of assumptions about the exclusivity of loan contracts and the competitive structure of the informal sector. The conclusions are drawn together in the form of five proposals for public policy.

Berger, M. 1989. Giving women credit: The strengths and limitations of credit as a tool for alleviating poverty. *World Development* **17**(7): 1017-1032.

Poor women in developing countries often turn to self-employment as a way to support themselves and their families, but these small-scale activities rarely yield enough income to lift them out of poverty. Recently NGOs and donor agencies have sought to assist these women by providing credit, which is otherwise largely unavailable to them. The broad aims of these programs vary,

as do the strategies, which range from simply offering credit (a “minimalist” approach) to providing training and technical assistance as part of the credit package (a “credit plus” approach). The channels used (bank schemes, intermediary programs, parallel programs, or poverty-focused development banks) also vary. So far, the last three channels have been more effective than the first in improving women's access to credit. However, not enough is known about which strategies have the greatest economic impact for particular groups of women, and further evaluation is needed.

Besley, T. and A. R. Levenson. 1996. The Role of Informal Finance in Household Capital Accumulation: Evidence from Taiwan. *Economic Journal* **106**(434): 39-59.

Economies that experience rapid growth also experience major changes in their consumption patterns, particularly for consumer durables. This paper studies the diffusion of durables in Taiwan between 1977 and 1991. Authors focus on the link between household accumulation of durables and participation in informal financial institutions. While growth in per capita income in Taiwan has been great, many households still rely on traditional forms of finance. Authors test the idea that rotating savings and credit associations, which are found worldwide, exist to lower the cost of saving for durables. The analysis finds evidence of that link.

Bhatt, N. and Tang, Shui-Yan. 1998. The problem of transaction costs in group-based microlending: An institutional perspective. *World Development* **26**(4): 623-637.

To be financially viable, group-based microlending needs to economize on transaction costs for both lenders and borrowers. Group lending programs vary in their transaction cost characteristics depending on their specific credit delivery arrangements and social contexts. This article illustrates these arguments by examining the challenges faced by various group lending programs Worldwide. It also examines how social capital, or the lack of it, affects the transaction costs and operations of three typical group lending arrangements — group loan with joint liability, individual loan with joint liability and individual loan with individual liability.

Bhattacharyya, S. 2005. Interest rates, collateral and (de-)interlinkage: a micro-study of rural credit in West Bengal. *Cambridge Journal of Economics* **29**(3): 439-462.

This study, based on a primary field survey in rural West Bengal, analyses the terms and conditions of the differentiated structure of rural credit with the advent of capitalist agriculture within the interventionist state. The sample households are classified according to the economic classes of Patnaik as well as the standard acreage criterion. The possibility of interlinkage between credit and all other structures is remote. The average rate of interest is inversely related to ascending class status. There is a systematic association between rate of interest and the value of collateral on the one hand, and marketability of collateral and interest rates on the other.

Bolnick, B. R. 1992. Moneylenders and informal financial markets in Malawi. *World Development* **20**(1): 57-68.

After a background review of the institutional financial services available to small and medium enterprises in Malawi, and a survey of the literature on Malawi's informal financial markets (IFMs), this paper presents a detailed report on the character and operations of a katapila moneylender in Lilongwe, Malawi. The moneylender market is then analyzed in terms of several themes from the literature on IFMs in less developed countries. For example, calculations show that the interest charges on katapila loans are not justified by economic costs of doing business. Finally, policy implications for promoting more efficient finance are discussed.

Bose, P. 1998. Formal–informal sector interaction in rural credit markets. *Journal of Development Economics* **56**(2): 265-280.

The majority of small cultivators in the less developed countries are not regarded as credit-worthy by the formal sector financial institutions, and are forced to borrow from the moneylenders in the informal credit market. This paper shows that when such borrowers differ in their likelihood of default, and the moneylenders are asymmetrically informed about the client-specific degree of risk, the policy of providing cheap credit through the formal sector can generate adverse 'composition effects' which worsen the terms of credit and the availability of loans in the informal sector.

Bose, P. 1998. Personalized transactions and market activity in the informal sector. *Economics Letters* **59**(1): 139-144.

Lenders in informal credit markets can be worse off with information that is confined to small groups of personal acquaintances than without it. Such personalized knowledge can lead to 'clientelization' and a reduction in the volume of credit transactions.

Buckley, G. 1997. Microfinance in Africa: Is it either the problem or the solution? *World Development* **25**(7): 1081-1093.

This article is based on research undertaken on microenterprises in the informal sector in Kenya, Malawi and Ghana. It seeks to provoke critical reflection on the uncritical enthusiasm that lies behind much proselytizing of microfinance for informal sector microenterprise. It questions whether the extensive donor interest in microenterprise finance really addresses the problems of microentrepreneurs or whether it offers the illusion of a quick fix. It suggests that the real problems are more profound and cannot be tackled solely by capital injections but require fundamental structural changes of the socioeconomic conditions that define informal sector activity and a fuller understanding of the "psyche" of informal sector entrepreneurs.

Chatterjee, P. and S. Sarangi. 2006. The economics of microfinance. *Southern Economic Journal* **73**(1): 259-264.

Chaudhuri, S. and M. R. Gupta. 1996. Delayed formal credit, bribing and the informal credit market in agriculture: A theoretical analysis. *Journal of Development Economics* **51**(2): 433-449.

The paper presents a theory of interest rate determination in the informal credit market in backward agriculture. The market for informal credit is created by the delay in disbursement of formal credit. The delay is controlled by the official of the formal credit agency, and he is bribed by the farmer to reduce the delay. The official and the moneylender play a non-cooperative game in choosing the bribing rate and the informal interest rate, respectively. The informal sector interest rate and the effective formal sector interest rate (incorporating the bribe) are equal in equilibrium. Agricultural price and credit subsidy policies may raise the interest rate in the informal credit market.

Chavan, P. 2003. Moneylender's Positive Image: Regression in Development Thought and Policy. *Economic and Political Weekly* **38**(50): 5301-5304.

Claessens, S. 2006. Access to financial services: A review of the issues and public policy objectives. *World Bank Research Observer* **21**(2): 207-240.

This article reviews the evidence on the importance of finance for economic well-being. It provides data on the use of basic financial services by households and firms across a sample of countries, assesses the desirability of universal access, and provides an overview of the macroeconomic, legal, and regulatory obstacles to access. Despite the benefits of finance, the data show that use of financial services is far from universal in many countries, especially developing countries. Universal access to financial services has not been a public policy objective in most countries and would likely be difficult to achieve. Countries can, however, facilitate access to financial services by strengthening institutional infrastructure, liberalizing markets and facilitating greater competition, and encouraging innovative use of know-how and technology. Government interventions to directly broaden access to finance, however, are costly and fraught with risks, among others the risk of missing the targeted groups. The article concludes with recommendations for global actions aimed at improving data on access and use and suggestions on areas of further analysis to identify constraints to broadening access.

Claessens, S. 2006. Access to financial services: A review of the issues and public policy objectives. *World Bank Research Observer* **21**(2): 207-240.

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Coleman, B. E. 2006. Microfinance in Northeast Thailand: Who benefits and how much? *World Development* **34**(9): 1612-1638.

This paper evaluates the outreach and impact of two microfinance programs in Thailand, controlling for endogenous self-selection and program placement. Results indicate that the wealthier villagers are significantly more likely to participate than the poor. Moreover, the wealthiest often become program committee members and borrow substantially more than rank-and-file members. However, local information on creditworthiness is also used to select members. The programs positively affect household welfare for committee members, but impact is insignificant for rank-and-file members. Policy recommendations include vigilance in targeting the poor, publicly disseminating the program rules and purpose, and introducing and enforcing eligibility criteria.

Coleman, B. E. 2006. Microfinance in northeast Thailand: Who benefits and how much? *World Development* **34**(9): 1612-1638.

Crosson, P. R. 1975. Institutional obstacles to expansion of world food production. *Science* **188**(4188): 519 – 524.

The paper discusses the supply of funds from rural saving and informal credit sources. Author notes that there is an underestimation of the importance of informal credit sources and provides evidence of the importance of informal credit sources despite increased government interventions.

David, C. R. 2002. Confessions of an Ex-MoneyLender. *Small Enterprise Development Journal* **13**(4): 9-11.

Debroy, B. 2004. The Indian economy in 2040. *Futures* **36**(6-7): 693-702.

Although too many unanticipated technological and political developments may occur between now and 2040, this paper tries to predict, after a quick look at the experience of last four decades. Current estimates of population below the poverty line in India range from 26–44%, with great regional variations. International experience shows that only through growth based on outward orientation and competition can a long-lasting solution to poverty and

unemployment be found. The forces of globalisation, driven by the private sector today, are not likely to be pushed back. By 2040, India will be an integral part of a much more integrated world, particularly so with the South Asian region. While external sector reforms have taken place in India, domestic reforms (in agriculture, the rural sector—credit, insurance and extension services, subsidies, legal and tax reforms and physical and social infrastructure)—which can dispel the notion that reforms are pro-rich and anti-poor—have been tardy. But the vested groups that oppose reforms are vocal, the groups who will benefit from reforms tend to be diffused and less vocal. Thus steady state rather than big bang reforms are likely to take place in India. The state's role will be to focus on governance, including social and physical infrastructure and law and order. During the next four decades, India is likely to be able to achieve a real per capita GDP growth rate of 5.5%. As a consequence, measured in purchasing power parity (PPP) terms, India—the fourth largest economy today—will overtake Japan by 2020 and the United States by 2040.

Fafchamps, M. and S. Lund. 2003. Risk-sharing networks in rural Philippines. *Journal of Development Economics* 71(2): 261-287.

Using detailed data on gifts, loans, and asset sales, this paper investigates how rural Filipino households deal with income and expenditure shocks. Authors find that shocks have a strong effect on gifts and informal loans, but little effect on sales of livestock and grain. Mutual insurance does not appear to take place at the village level; rather, households receive help primarily through networks of friends and relatives. Certain shocks are better insured than others. The evidence is consistent with models of quasi-credit where risk is shared within networks through flexible, zero-interest informal loans combined with pure transfers.

Gavan, J. D. and J. A. Dixon. 1975. India: A perspective on the food situation. *Science* 188(4188): 541 – 549.

Paper notes the importance of moneylenders especially where the risk of crop failure is high; most farmers, especially small ones, still rely heavily on local moneylenders, who charge very high rates.

Ghate, P. B. 1992. Interaction between the formal and informal financial sectors: The Asian experience. *World Development* 20(6): 859-872.

The nature of the interaction between the formal and informal financial sectors in developing countries is a subject with important policy implications. It has implications for the future of informal finance as the formal sector expands in the long term—will the informal sector wither away, as the traditional view of financial dualism assumes, or will it continue to play an important complementary role, perhaps even growing in absolute size? Second, the pattern of two major policy approaches often advocated toward the informal sector—offering it stronger competition so as to induce it to improve its terms, and promoting linkages with it so as to take advantage of its lower transactions costs

in reaching smaller and poorer borrowers. Third, the existence of a large informal sector has implications for the efficacy of monetary and credit policy in achieving stabilization objectives. Fourth, the interaction between the formal and informal financial sectors also has implications for the effects of financial liberalization through removing restrictions on the deposit rate of interest. This paper draws on the experience of Asian countries to address these issues.

Godquin, M. 2004. Microfinance repayment performance in Bangladesh: How to improve the allocation of loans by MFIs. *World Development* **32**(11): 1909-1926.

The aim of this article is to produce a comprehensive analysis of the performance of microfinance institutions (MFIs) in terms of repayment. Authors focus the analysis on the impact of group lending, nonfinancial services and dynamic incentives on repayment performance. Authors test for endogeneity of loan size and use instrumental variables to correct for it. In the second section of the paper, authors use a comparative analysis of the determinants of the repayment performance and of loan size in order to make policy recommendations on the allocation of loans by MFIs.

Gupta, A. K. 1981. A note on internal resource management in arid regions Small farmers—credit constraints: A paradigm. *Agricultural Systems* **7**(2): 157-161.

Small farmers and agricultural labourers have very limited investment opportunities in rain-fed regions. The institutional efforts to reach them through viable projects and other policy measures have not been very successful. This note describes the internal resource management of the small farmer through a paradigm that raises issues vital for more purposeful project design. Credit is one major input that largely determines the decision-making options of a small farmer vis-à-vis his entire farm family and social interaction process. The paradigm suggests that projects for bettering his lot should not only be concerned with the manipulation of the internal variables of a projects package, but would have to be so tuned as to fit in with the internal dynamics of a rational small farmer.

Gutiérrez-Nieto, Serrano-Cinca B. C. and C. M. Molinero. 2007. Microfinance institutions and efficiency. *Omega* **35**(2) 131-142.

Microfinance Institutions (MFIs) are special financial institutions. They have both a social nature and a for-profit nature. Their performance has been traditionally measured by means of financial ratios. The paper goes beyond simple financial ratios using a data envelopment analysis (DEA) approach to measure the efficiency of MFIs. Special care is taken in the specification of the DEA model. Authors take a methodological approach based on multivariate analysis. Authors rank DEA efficiencies under different models and specifications; e.g. particular sets of inputs and outputs. This serves to explore what is behind a DEA score. The results show that we can explain MFIs efficiency by means of four principal components of efficiency, and this way we are able to understand differences between DEA scores. It is shown that

there are country effects on efficiency; and effects that depend on non-governmental organization (NGO)/non-NGO status of the MFI.

Hart, G. 1986. Interlocking transactions: Obstacles, precursors or instruments of agrarian Capitalism? *Journal of Development Economics* **23**(1): 177-203.

Rural labor arrangements often change rapidly and in ways that prevailing theories cannot explain. Explicit understanding of the exercise of power in rural society sheds considerable light on how and why rural labor arrangements change in the course of economic development. This paper shows how different labor-tying arrangements embody exclusionary mechanisms that can serve as instruments of both labor management and social control. Macro political and economic conditions shape the ways in which these mechanisms operate, and are in turn influenced by them. Viewing labor arrangements in this way helps resolve problems confronted by the prevailing theories, and allows for a broader understanding of dynamic processes.

Hermes, N., Lensink, R., and H. T. Mehrteab. 2006. Does the group leader matter? The impact of monitoring activities and social ties of group leaders on the repayment performance of group-based lending in Eritrea. *African Development Review-Revue Africaine De Developpement* **18**(1): 72-97.

This paper analyses whether the effects of monitoring and social ties of the group leader and other group members on repayment performance of groups differ, using data from an extensive questionnaire held in Eritrea among participants of 102 groups. Authors hypothesize that the monitoring activities and social ties of the group leader have a stronger positive impact on the repayment performance of groups. The results show that social ties of the group leader do have a positive effect on repayment performance of groups, whereas this is not true for social ties of other group members. Authors do not find evidence for the hypothesis that monitoring activities of the group leader have a stronger positive impact on group repayment performance. All variables measuring monitoring activities, either of the group leader or the other group members, are found to be statistically insignificant.

Hoff, K. and J. E. Stiglitz. 1998. Moneylenders and bankers: price-increasing subsidies in a monopolistically competitive market. *Journal of Development Economics* **55**(2): 485-518.

In many areas of the world, a significant part of the cost of obtaining a good or service is the cost of enforcing the contracts entailed in its provision. Authors present models of markets with endogenous enforcement costs, motivated by studies of rural credit markets. Authors show that subsidies may have perverse effects under monopolistic competition, increasing prices or inducing exit. Higher prices (interest rates) result from the loss of scale economies or from negative externalities among suppliers. The models are consistent with the puzzling evidence that infusions of government-subsidized formal credit have not improved the terms offered by moneylenders.



Hollis, A. and A. Sweetman. 1998. Microcredit: What can we learn from the past? *World Development* **26**(10): 1875-1891.

Six microcredit organizations of 19th-century Europe are compared to identify what institutional designs were conducive to success and sustainability. Organizations that depended on charitable funding were more fragile and tended to lose their focus more quickly than those that obtained funds from depositors. An ability to adjust interest rates also appears important in sustainability. Examining historical microcredit is particularly useful since it offers an opportunity to explore the characteristics of organizations which were sustained over many decades, a perspective which is rare in modern microcredit banks and programs, most of which are less than 15 years old.

Inderst, R. and H. M. Mueller. 2006. Informed lending and security design. *Journal Of Finance* **61**(5): 2137-2162.

Authors examine the role of security design when lenders make inefficient accept or reject decisions after screening projects. Lenders may be either "too conservative," in which case they reject positive-NPV projects, or "too aggressive," in which case they accept negative-NPV projects. In the first case, the uniquely optimal security is debt. In the second case, it is levered equity. In equilibrium, profitable projects that are relatively likely to break even are financed with debt, while less profitable projects are financed with equity. Highly profitable projects are financed by uninformed arm's-length lenders.

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Jain, P. S. 1994. Managing for success: Lessons from Asian development programs. *World Development* **22**(9): 1363-1377.

Based on a study of 11 successful development organizations in five Asian countries, this paper summarizes their key organization design and management practices, which together seem to suggest an agenda for successfully managing development programs. A major concern of management in these organizations was the operating performance of large number of beneficiary members and field staff, which determined program success. Many policies in these organizations were different from or contrary to popular recommendations made in earlier studies regarding participation of people, role of local leaders,

autonomy of local organizations, and debureaucratization. The paper identifies some other key management concerns and aims to energize the debate and provide clarity regarding the management of development programs.

Jain, P. S. 1996. Managing credit for the rural poor: Lessons from the Grameen Bank. *World Development* 24(1): 79-89.

This paper, based on a detailed study of the Grameen Bank in Bangladesh, suggests that the credit policies of the Bank do not constitute a sufficient explanation for the Bank's success, and that its acclaimed policy of replacing individual collateral with group guarantee is in fact not practiced. The paper presents an alternate explanation for the success of the Grameen Bank. In addition, it explains how the Grameen Bank has been able to overcome typical problems of implementing development programs by sustaining good performance from its large work force, and keeping to a minimum the tendency of a few target beneficiaries to corner program benefits and flout organizational norms for their personal benefit.

Jain, S. and G. Mansuri. 2003. "A little at a time: the use of regularly scheduled repayments in microfinance programs". *Journal of Development Economics* 72(1): 253-279.

Why do informal moneylenders appear to be thriving even in regions where microfinance institutions (MFIs), such as the Grameen Bank, have established lending programs? The main reason, as authors note, is that an explanation for this well-documented observation lies in the ubiquitous use of regularly scheduled repayments by MFIs. Borrowers are typically required to repay their loans in tightly structured installments, beginning soon after loan disbursement. This little-remarked aspect of the repayment schedule is usually explained as inculcating 'fiscal discipline' among borrowers. Authors argue that an alternative rationale for this loan repayment structure lies in the difficulty of monitoring borrowers' actions. The potential for moral hazard leads MFIs to use innovative mechanisms, such as regularly scheduled repayments, which indirectly coopt the better-informed informal lenders. Conversely, this installment repayment structure allows informal lenders to survive. Further, authors show that this linkage can not only expand the volume of informal lending, but may also raise the interest rate in the informal sector.

Jain, S. 1999. Symbiosis vs. crowding-out: the interaction of formal and informal credit markets in developing countries. *Journal of Development Economics* 59(2): 419-444.

It is a common observation in many developing countries that enterprises are active borrowers in both formal and informal credit markets. Authors propose a model in which the formal sector's superior ability in deposit mobilization is traded off against the informational advantage that lenders in the informal sector enjoy. The formal sector can screen borrowers by providing only partial financing for projects, thereby forcing borrowers to resort to the informal sector for the remainder of the loan. Authors use the model to predict how the market

structure responds to changes in the environment, and authors consider the policy implications of various forms of government intervention.

Johnson, S. 2004. Gender Norms in Financial Markets: Evidence from Kenya. *World Development* 32(8): 1355-1374.

The role of institutions—rules and norms—in markets is increasingly recognized in development discourse. This paper considers the role of gender relations for rules and norms in financial markets. Using evidence from Central Kenya it develops a framework for establishing the influence of gender on the demand for and access to financial services, so explaining the gender differentiated use of rotating savings and credit associations (ROSCAs). It, first, analyzes intrahousehold norms related to income and expenditure flows and their management, so identifying gendered patterns of demand. Second, by conceptualizing financial intermediaries as operating within rules and norms, it allows the influence of gender relations on access to financial services to be more systematically investigated.

Kashuliza, A. K. 1993. Perception and role of informal rural finance in developing countries: the example of Tanzania. *Journal of Rural Studies* 9(2): 163-173.

Negative perceptions on the value of informal rural finance or credit which are prevalent in a number of developing countries are compounded in the case of Tanzania because of the country's Ujamaa and socialist policies. Consequently, informal rural finance has been neglected both in terms of research and policy planning. This paper attempts to fill part of the research gap on informal rural finance in Tanzania, and to contribute to the growing body of knowledge on this subject in the developing countries. The paper briefly investigates the policy and perception scenario on informal rural finance in Tanzania in the last two decades. Based on empirical data collected through village surveys in three regions of the country, the paper describes the sources of informal credit for smallholder farmers in those areas, and assesses the use, repayment, terms and conditions of such credit.

Khan, M. R. 1999. Microfinance, wage employment and housework: a gender analysis. *Development in Practice* 9(4): 424-436.

This paper examines the loan-use pattern of women involved in wage employment and their benefits from such loans in Bangladesh. The effects of wage employment on gender relations and how these women balance loan use, wage employment, and housework were also explored. The study was conducted among women enrolled in the Ayesha Abed Foundation (AAF) of the Bangladesh Rural Advancement Committee (BRAC) in Jamalpur district, central Bangladesh. The AAF was established to generate employment and income for poor rural women. Data were gathered through survey, interviews, and focus-group discussions. Findings revealed that women wage earners avail themselves of the BRAC loans for consumption, asset accumulation, land purchase, and other productive purposes. About 53% of their loans were used

by others and only 34 out of 341 women in the sample actually used the loans themselves. The loans were repaid by sewing or subsistence work, mainly in the subcenters (52%), through income from rickshaw pulling by their husbands (24%), and by selling vegetables, eggs, or milk. Furthermore, findings showed that the household work of women wage earners is generally taken up by other women in the family and has resulted in more men taking part in household responsibilities. In conclusion, wage employment plays an important factor in the promotion of the economic and social empowerment of women. Economic empowerment is observed in the greater degree of control women have over the money they earn. Social empowerment is manifested in the expanding mobility of women, whereby they are able to interact with other women and generate support systems.

Levenson, A. R. and T. Besley. 1996. The anatomy of an informal financial market: Rosca participation in Taiwan. *Journal of Development Economics* 51(1): 45-68.

Little is known about informal financial markets in developing countries. This paper analyzes participation in rotating savings and credit associations using a national household survey from Taiwan. Authors find that participation is highest among high-income households. There is some evidence that income stability may play a role as well. Life cycle differences suggest a role in funding durables purchases. The evidence indicates that roscas may be an alternative savings device to the formal financial sector.

Leyshon, A. P., Signoretta, D., Knights, C., Alferoff and D. Burton. 2006. Walking with moneylenders: The ecology of the UK home-collected credit industry. *Urban Studies* 43(1): 161-186.

The aim of the paper is to assess the role of doorstep credit companies in the delivery of financial services in areas affected by high levels of financial and social exclusion. In particular, the paper looks at the relationship between agents and customers using two metaphors associated with interaction between different species in an ecological setting—namely, parasitism and symbiotic mutualism. The metaphor of parasitism circulates widely within debates about moneylending in the media and among advocacy groups, such as the Consumer Association, that work on behalf of low-income individuals and households. The metaphor of symbiotic mutualism describes the depiction of the relationship between consumers and moneylenders put forward by the moneylending industry. Drawing on field work undertaken within moneylending companies, this paper argues that the relationship between the agents and customers is cultivated to overcome information asymmetries; that is, to produce information about customers' ability to repay. The paper investigates the way in which the initial knowledge about customers is developed during the weekly visits that agents make to the homes of customers. 'Friendly' relationships are cultivated by agents to retain profitable customers who have earned the agent's trust.

Malik, R. P. S. (2002). *Flow of credit to small and marginal farmers in Haryana*. Research Study - Agricultural Economics Research Centre, University of Delhi, New Delhi.

This study is undertaken in two villages of Ambala district of Haryana state, India, to review the credit experience of traditional rural financial institutions in respect of the small and marginal farmers. Particular focus is given to the role of the new generation credit institutions in meeting the credit needs of the vulnerable groups. The study is based on primary data collected from a sample of 51 rural households by using multistage stratified random sampling technique from the study area. It focuses on the credit flow problems of not only the pure cultivating households, but also of other categories within rural households owning less than 2 hectares of land. It concentrates on the degree of dependence of rural households for credit on various sources, flexibility in usage of credit and rescheduling of repayment of loans. It also highlights the relative role and performance of self help groups (SHGs) in extending credit to rural households, particularly the landless households, and small and marginal cultivators. It is noted that about 30-35% of credit to rural households is obtained from informal sources like cooperatives and informal moneylenders. With SHGs being of recent origin, their network is extremely limited. They expressed great reluctance to shift away from the current source of borrowings. Help from non-governmental organizations to such institutions is virtually non-existent. Notwithstanding the limited domain of SHGs, they have been successful in meeting approximately 15% of the credit disbursed by the formal credit institutions.

Mallik, R. 2006. Deregulation in the formal credit market and its impact on informal credit. *Hitotsubashi Journal Of Economics* 47(1): 51-68.

This paper analyses the effects of deregulation of formal interest-rate in terms of a model of strategic interaction between the formal and the informal lender, in which borrowers are differentiated in terms of their capacity to pay collateral. The formal lender is subject to interest-rate ceiling and faces the possibility of strategic default. Strategic default by the entrepreneur is however not possible in case of the informal lender, as the informal lender can fully observe the entrepreneur. It is shown that there is a range of interest-rates such that if the interest-rate ceiling lies in that range then deregulation of the formal interest-rate will cause informal lending to expand and formal lending to contract. This is in contrast with the conventional wisdom that in the face of interest rate deregulation formal lenders always gain in market share.

McIntosh, C. and B. Wydick. 2005. Competition and microfinance. *Journal of Development Economics* 78(2): 271-298.

Competition between microfinance institutions (MFIs) in developing countries has increased dramatically in the last decade. Authors model the behaviour of non-profit lenders, and show that their non-standard, client-maximizing objectives cause them to cross-subsidize within their pool of borrowers. Thus

when competition eliminates rents on profitable borrowers, it is likely to yield a new equilibrium in which poor borrowers are worse off. As competition exacerbates asymmetric information problems over borrower indebtedness, the most impatient borrowers begin to obtain multiple loans, creating a negative externality that leads to less favourable equilibrium loan contracts for all borrowers.

Metcalf, T. R. 1962. The British and the Moneylender in Nineteenth-Century India. *Journal of Modern History* **34**(4): 390-397.

Paper describes the crucial role of moneylenders in rural Indian economy.

Mohapatra, P. C. and B. E. Pattanaik. 1988. How can we improve socio-economic condition of women? *Yojana* **32**(9): 13-17.

Aspects of discrimination against women in India are summarized, a case study of a rural district in Orissa is presented, and the article follows with a suggested 3-part strategy of education, employment and appropriate technology. The economic role played by women is difficult to quantitate because of their lifestyle that combines domestic work and unpaid family or low-paid outside farm or cottage industry labor. Besides these tasks, women usually care for dairy animals, and carry water and firewood. Discrimination against women in this system is evident, however, from some available statistics. 46% of women, as opposed to 20% of men, work as agricultural laborers. Women are denied education because they are not expected to do responsible work, then they are denied employment because they are not educated. Their work is counted as worth only half that of men, and based on this assumption, they are paid less than men. The male heads of 124 households in 7 villages in the Orissa area were interviewed to study labor participation of household members. 89% of the people worked in agriculture, 94% in rice paddy and 6% in oilseed or pulses for cash crops. The average farm size was 2.29 acres. Female literacy had risen to 14.3% from 1% 10 years before. Women usually worked in transplantation, weeding, harvesting and threshing, but also in heavier farm labor, construction of roads and buildings, quarrying and forestry. In this poor, hilly region, the custom of purdah was not practiced to the extent of keeping women from doing day labor outside the home. The authors' suggested strategy for women's development included appropriate technology such as the Gobar methane gas plant, provision of credit for women's industries, retention of girls in school and literacy programs for girls and women, and higher wages for women.

Moore, F. J. 1954. Money-lenders and co-operators in India. *Economic Development and Cultural Change* **2**(2): 139-159.

Morduch, J. 1999. The role of subsidies in microfinance: evidence from the Grameen Bank. *Journal of Development Economics* **60**(1): 229-248.

The Grameen Bank of Bangladesh has been in the vanguard of the microfinance movement, showing the potential to alleviate poverty by providing credit to

poor households. Part of this success has been built on subsidies. In 1996, for example, total subsidies evaluated at the economic opportunity cost of capital amounted to about US\$26–30 million. The evidence helps to explain why institutions like Grameen have not just sprung up on their own as private commercial ventures, and it underscores the value of openly addressing the costs and benefits of subsidization. The paper also describes recent difficulties in maintaining high repayment rates.

Mosley, P. and D. Hulme. 1998. Microenterprise finance: Is there a conflict between growth and poverty alleviation? *World Development* **26**(5): 783-790.

Microenterprise finance has generated enormous enthusiasm among aid donors and nongovernment organizations (NGOs) as an instrument for reducing poverty in a manner that is financially self-sustaining. Although something of a consensus has emerged concerning the principles by which such institutions should be designed, however, we know little about their impact. The paper reports on a research project which estimated the impact of 13 microfinance institutions in seven developing countries on poverty and other target variables, and attempted to relate such impact to the institutions' design features. For each of the institutions studied, the impact of lending on the recipient household's income tended to increase, at a decreasing rate, as the recipient's income and asset position improved, a relationship which can easily be explained in terms of the greater preference of the poor for consumption loans, their greater vulnerability to asset sales forced by adverse income shocks and their limited range of investment opportunities. There are significant outliers to this general pattern (in particular, very poor people who have been able to achieve significant loan impact); but they are the exception rather than the rule, and the relationship is significant at the 1% level for all the institutions studied except the Malawi Mudzi Fund. This relationship defines, in the short term, an "impact frontier" which serves as a tradeoff: lenders can either focus their lending on the poorest and accept a relatively low total impact on household income, or alternatively focus on the not-so-poor and achieve higher impact. The position and slope of the estimated impact curve vary however with the design of the institution: for "well-designed" schemes impact, at all levels of income, is higher than for ill-designed schemes. Hence for many lender institutions the tradeoff can often be moved by appropriate innovations in institutional design, in particular modifications to savings, loan collection, and incentive arrangements for borrowers and staff.

Nadan, A. 2005. The Competitive Advantage of Moneylenders Over Banks in Rural Palestine. *Journal of the Economic and Social History of the Orient* **48**(1): 1-39.

According to the British Government in Mandate Palestine, the tendency of the fallahin (Arab peasants) to "strategic default" and the monopolistic power of local moneylenders led to high interest lending in rural areas. The government sought to remedy this by assisting banks in collecting bad debts, by guaranteeing some bank loans and by imposing the maximum legal interest rate. However, the colonial perception was incorrect. Defaults were usually

"involuntary" as a result of natural and occasionally man-made hazards (thus creating a high interest rate environment), and the moneylending market was "contestable." In such an environment, despite government assistance, moneylenders had a comparative advantage over banks. They were usually merchants who could easily utilise collateral on loans (crops and lands); they ignored the law of maximum interest rate and they had good information about borrowers. For these reasons moneylenders remained the main source of credit for the fallahin.

Navajas, S., Schreiner, M., Meyer, R. L., Gonzalez-vega, C. and J. Rodriguez-meza. 2000. Microcredit and the Poorest of the Poor: Theory and Evidence from Bolivia. *World Development* **28**(2): 333-346.

Authors construct a theoretical framework that describes the social worth of a microfinance organization in terms of the depth, worth to users, cost to users, breadth, length, and scope of its output. Authors then analyze evidence of depth of outreach for five microfinance organizations in Bolivia. Most of the poor households reached by the microfinance organizations were near the poverty line—they were the richest of the poor. Group lenders had more depth of outreach than individual lenders. The urban poorest were more likely to be borrowers, but rural borrowers were more likely to be among the poorest.

Nayyar, D. 2006. India's unfinished journey transforming growth into development. *Modern Asian Studies* **40**(3): 797-832.

This paper situates the economic performance of independent India in historical perspective to evaluate the past and reflect on the future. It shows that the turning point in economic growth was circa 1951 in the long twentieth century and circa 1980 in India since independence. Thus, it is not possible to attribute the turnaround in India's performance to economic liberalization beginning 1991. During the period 1950-1980, economic growth in India was respectable, for it was a radical departure from the past and no worse than the performance of most countries. During the period 1980-2005, economic growth in India was impressive, indeed much better than in most countries. The real failure in both these periods was India's inability to transform this growth into well-being for all its people. And India's unfinished journey in development cannot be complete as long as poverty, deprivation and exclusion persist. Even so, with correctives, it should be possible to reach the destination.

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Orlanda, R. 2002. Money mosaics: financial choice and strategy in a West Delhi squatter settlement. *Journal of International Development* **14**(2): 249-271.

This paper examines the financial services and devices used by dwellers of Kalibasti, a squatter settlement in West Delhi. It discusses to what extent people are able to put together effective money management strategies through available devices and to what extent we might perceive service or product gaps which point to where new or existing providers could step in. It highlights the embeddedness of financial devices used by residents in wider kinds of relationships with relatives, co-residents, employers, patrons and others. The paper concludes that access to adequate services does not necessarily correspond with access to formal or semi-formal services as is often presented by microfinance advocates. Rather it reflects people's awareness, job and income security, and capacity to leverage personal networks, all of which contribute to the capability of squatter residents to make financial relations and services work for them. The paper ends by making some tentative suggestions as to how these findings might be of interest to prospective microfinance providers in squatter settlements such as Kalibasti.

Park, A., Brandt, L. and J. Giles. 2003. Competition under credit rationing: theory and evidence from rural China. *Journal of Development Economics* **71**(2): 463-495.

Authors present a duopoly model of financial competition to describe the conditions under which competition leads to greater bank effort when repressed financial systems ration credit. The model features an entrant that freely sets its interest rate, and an incumbent that must charge a rate below that which is market clearing. Both players may exert costly effort to inform themselves about borrower types. Using data on rural financial institutions in China, authors test empirically the effects of competition on deposit growth, loan portfolio composition, repayment rates, and other effort measures, finding positive effects of competition on effort and financial performance.

Patole, M. and O. Ruthven. 2002. Metro moneylenders: Microcredit providers for Delhi's poor. *Small Enterprise Development* **13**(2): 36-45.

The Kalibasti slum of Delhi is virtually ignored by microfinance institutions, but well served by moneylenders. This article profiles three moneylenders and the products they offer, revealing that their background and mode of operation are quite different from each other. The article then goes on to analyse how much profit the moneylenders make. Moneylenders are obliged to remain small

in order to maintain knowledge of their clients, and also to avoid attracting unwanted official attention. Their smallness also allows them to offer great flexibility in their products and scheduling; this is what makes them ideal lenders to the poor, and MFIs should learn from these characteristics.

Perry, D. 2002. Microcredit and Women Moneylenders: The Shifting Terrain of Credit in Rural Senegal. *Human Organization* 61(1): 30-40.

This paper analyzes the new role rural Senegalese women play as moneylenders in their agrarian communities. The shifting terrain of local credit institutions parallels contemporary trends in rural development: state-led agricultural cooperatives, which were introduced in 1960, formerly bolstered the position of elite farmers who lent out cash and grain to poor farmers during the dry-season months of scarcity. Agricultural cooperatives were abolished in the mid-1980s as a result of structural adjustment, and elite farmers have now shifted to market-based activities, no longer offering credit to neighbors and kin. During the same period, nongovernmental organizations, adopting a neoliberalist ideology, created a number of village banks that target women as the principal recipients of cash loans to be invested in income-generating activities. A significant number of these women choose not to invest this money in trade activities but to recycle the cash as high-interest loans to other farmers--emulating in new guise the earlier credit strategies of elite farmers. This paper examines the institutional changes unraveling in rural Senegal that contribute to the rise of a new class of female moneylenders during the contemporary epoch of neoliberal reform and offers ethnographic descriptions of women's moneylending practices.

Premchander, S. 2003. NGOs and local MFIs—how to increase poverty reduction through women's small and micro-enterprise. *Futures* 35(4): 361-378.

Most enterprises, from the smallest to the largest, need capital. Enterprise can play a crucial role in alleviating poverty. In developing economies, women's role in alleviating poverty through enterprise has long been recognised, and they have been received as a client group. However, poor women lack the capital required for enterprise start-ups and although lending mechanisms exist in their economy, mainstream financial institutions are not oriented towards providing them with the funding they require. Microfinance generally refers to the provision of financial services (e.g.: savings, credit, insurance) to the poor, those who normally do not have access to formal financial institutions. Non-Governmental Organisations (NGOs) in India have promoted micro-finance through women's self-help groups. However, the different institutional forms are not value-neutral and vested interests are involved. The interests of people and those of micro-financing institutions (MFIs) sometimes compete and conflict. If NGOs change their direction and become MFIs, there could be serious repercussions on development work at the field level. When funding support underlines financial viability, then the MFIs have to be competitive; poverty reduction and empowerment will suffer unless the institutions are also owned and managed by the poor. In this case, more investment in building their

capacity is required. In the present phase of evolution of an entrepreneurial culture in India, financial support for NGOs to become MFIs is cheaper than policing a market economy and the real issue of the poor being left out by the market economy is ignored. NGOs can provide the leadership for greater structural reforms and do what they are best at: be facilitators, and create people's institutions for micro-finance. In this way, the holistic development of people that should precede their involvement in small and micro-enterprise is more likely to occur.

Richardson, D. 2002. Confessions of an ex-moneylender. *Small Enterprise Development* **13**(4): 9-11.

Ruthven, O. 2002. Money mosaics: financial choice and strategy in a West Delhi squatter settlement. *Journal of International Development* **14**(2): 249-271.

This paper examines the financial services and devices used by dwellers of Kalibasti, a squatter settlement in West Delhi. It discusses to what extent people are able to put together effective money management strategies through available devices and to what extent we might perceive service or product gaps which point to where new or existing providers could step in. It highlights the embeddedness of financial devices used by residents in wider kinds of relationships with relatives, co-residents, employers, patrons and others. The paper concludes that access to adequate services does not necessarily correspond with access to formal or semi-formal services as is often presented by microfinance advocates. Rather it reflects people's awareness, job and income security, and capacity to leverage personal networks, all of which contribute to the capability of squatter residents to make financial relations and services work for them. The paper ends by making some tentative suggestions as to how these findings might be of interest to prospective microfinance providers in squatter settlements such as Kalibasti.

Saha, B. 2001. Red tape, incentive bribe and the provision of subsidy. *Journal of Development Economics* **65**(1): 113-133.

An agent entitled to receive subsidy bribes the government official to reduce red tape from an exogenous level. The agent has private information on his cost from red tape. Which type of the agent, high or low cost, would be able to exploit the private information depends on the level of the exogenous red tape. At low levels of the exogenous red tape, it is the high type, and at high levels it is the low type that earns information rent. At moderate red tape, neither may earn rents. With greater red tape, the agent's profit can increase.

Saha, B. and T. Thampy. 2006. Extractive bribe and default in subsidized credit programs. *Journal of Economic Behavior and Organization* **60**(2): 182-204.

Authors present a dynamic model of subsidized credit provision to examine how asymmetric information exacerbates inefficiency caused by corruption. If a borrower and a corrupt official interact with symmetric information, credit

terms can be so designed that corruption will affect only the borrower's profit, but not repayment. With private information on the borrower's productivity this result changes. Because of dynamic information rents, the official may induce one type of the borrower to default. The government can improve the repayment rate, but will have to under-provide credit. In contrast, some allowance of default permits a greater supply of credit.

Schrader, H. 1994. Professional Moneylenders and the Emergence of Capitalism in India and Indonesia. *International Sociology* 9(2): 185 - 208.

A widely held assumption is that contemporary financial landscapes and regional differences are to a large extent the outcome of historical processes. A recent hypothesis the author put forward was that professional moneylenders are a structural phenomenon of expanding merchant capitalism, and that once the market integration of particular regions has been achieved, professional moneylenders are eventually replaced by banks. Alongside such large-scale professional moneylenders there have always been and still are various small-scale and mostly semi-professional moneylenders. In the contemporary world they are found in great numbers in developing countries. They have been interpreted as structurally supporting capitalism because they provide marginalised people who are beyond the scope of banks with purchasing power for the commodity markets based upon credit. In this paper the author compares large-scale professional moneylenders of precolonial/colonial India and colonial Indonesia. The analysis shows that particularly non-Western bankers emerged in India, while in Indonesia comparable financial agents seem to have existed only in limited numbers. What seems to speak against the above hypothesis can be interpreted as follows. While the structure of expanding merchant capitalism provides a framework in which such non-Western bankers may emerge, the particular world market integration of trade during the expansion period and colonial policy may develop different financial landscapes with regard to economic opportunities for private enterprise.

Schreiner, M. and G. Woller. 2003. Microenterprise Development Programs in the United States and in the Developing World. *World Development* 31(9): 1567-1580.

Sparked by examples from Bangladesh, Bolivia, Indonesia, and other developing countries, hundreds of microenterprise programs have been started in the United States. Will these US efforts be successful? This paper reviews the evidence and concludes that microenterprise development is much more difficult in the United States than in the developing world. The paper suggests some ways to address the challenges of US microenterprise development.

Schuler, S. R., Hashemi, S. M. and S. H. Badal. 1998. Men's violence against women in rural Bangladesh: undermined or exacerbated by microcredit programmes? *Development in Practice* 8(2): 148-157.

This ethnographic study examined the sociocultural context of domestic violence in 6 rural villages in Bangladesh, and the prevalence of wife-beating

and its association with women's empowerment in income generation programs (IGPs). Data were obtained from interviews conducted during 1990-96. Four villages had IGPs, and 2 villages did not have credit programs. Over 66% of women reported having been beaten at one time or another. In one village 87% reported beatings. 38% reported beatings in the preceding year (a range of 14-60%). Men beat their wives over trivial matters or frustrations over problems for which wives were not responsible. Beatings were attributed to men's desire to control behavior and reassert their authority when challenged or to exploit their wives for financial gain. Some of the most severe beatings were linked with dowry. Both husbands and wives considered the beatings legitimate. The highest level of violence was in villages that were experiencing the most changes in gender roles and that had the most women contributing to family support. The lowest levels of violence were in villages with the fewest contributing to family support. Interviews, case studies, and observations yielded ambivalent evidence about the influence of credit programs on domestic violence. Credit programs have the potential to increase women's status and to disseminate anti-violence messages among both men and women.

Seibel, H. D. 2005. Does History Matter? The Old and the New World of Microfinance in Europe and Asia". Paper presented at "From moneylenders to microfinance: Southeast Asia's credit revolution in institutional, economic and cultural perspective"; An interdisciplinary workshop Asia Research Institute, Department of Economics, and Department of Sociology National University of Singapore.

Moneylending is still widespread today, and remnants of its historical informal precedents are still in existence, re-emerging time and again according to demand. Many (informal and formal) moneylenders may have turned into (formal) merchant bankers at various times in history, or into organizers of (informal or formal) chit funds. India is a country, or subcontinent, where microfinance and banking have evolved over more than 3000 years and spread through trading relations over the wider region. We may know little about the dissemination process, but perhaps far more about India itself than any other country. The origins of indigenous microfinance in India predate those reported above in Ireland and Germany by around 3000 years, covering three major strands: moneylenders, chit funds or rotating savings and credit associations (ROSCAs), and merchant bankers – each with a complex and interlinked history, much of it yet to be systematized, and all still in existence today. Moneylenders are the oldest of the three strands, with a variegated and checkered history. After early efforts at regulation, they went out of control in rural areas during medieval and British India, became part of a feudal system, and destroyed the independent peasantry, relegating themselves to the role of the evil moneylender. They have remained lenders of last resort, at the opposite end of the central bank.

Sharma, S. and S. Chamala. 2003. Moneylender's Positive Image: Paradigms and Rural Development. *Economic and Political Weekly* 38(17): 1713-1720.

This article appraises the changes in development thought and practice regarding the image of moneylenders and their future role in the agricultural economy and rural development in India. The emphatic push towards a positive image of the moneylender which has become very visible internationally has not been so visible in Indian rural finance practice. This article points out that the positive image of the moneylender has survived all through the centuries of Muslim and British domination in India and the push from negative to positive paradigm in development thought needs only to resuscitate a latent image which has been lying under the dominant negative one. A historical awareness of the process of paradigm-building is essential in unravelling this development enigma and in understanding its underlying ideological investments. The question of the moneylender's socio-economic image is very important in shaping rural finance policies. It is through such interdisciplinary coordination that a more socio-economically balanced role of moneylender in rural development can emerge.

Shaw, J. 2004. Microenterprise Occupation and Poverty Reduction in Microfinance Programs: Evidence from Sri Lanka. *World Development* 32(7): 1247-1264.

The microenterprise earnings of microfinance clients in southeastern Sri Lanka are linked to their initial incomes. Poorer clients face geographic, financial and sociocultural barriers to entry to the most promising microenterprise occupations, leading them to select low-value activities with poor growth prospects. In semi-urban areas, poverty impacts could be strengthened by supplementing loans with nonfinancial interventions encouraging poor clients to select higher-value occupations. In arid rural areas, where microenterprises face severe market and infrastructure constraints, microenterprise development is unlikely to facilitate poverty exit.

Sinha, S. and I. Matin. 1998. Informal credit transactions of micro-credit borrowers in rural Bangladesh. *IDS Bulletin* 29(4): 66-80.

Through a detailed study of informal credit transactions in a village (of 49 households) in Madhupur Thana, northern Bangladesh, the research empirically establishes that increased access to credit from micro-finance institutions (MFI's) in Bangladesh has been unable to substitute for the higher-cost informal credit sources such as moneylenders. The reason for this is that MFI lending technology is insensitive to variations in household conditions. Most MFIs put all households on a treadmill of continuously increasing loan size and insist on a fixed repayment schedule. While an easily accessible loan may seem attractive to a cash-starved poor household, its resource profile and the wider economic and policy environment impose limits on the marginal return to capital. Credit escalation under these circumstances increases the likelihood of cross-financing to sustain the MFI's line of credit. Target-group households, in particular, resort to extensive cross-financing of their loans. It is agreed that cross-financing can have a deleterious effect on the household economy in the long-run if households continuously manage loan repayment without having the ability to repay. It is suggested that MFI lending technology be redesigned to be sensitive

to household initial conditions. Only then can MFI's seriously compete with the informal moneylenders.

Sinha, S. and M. Patole. 2003. Microfinance and the Poverty of Financial Services: A Perspective from Indian Experience. *South Asia Economic Journal* 4(2): 301-318.

The vast network of banking and co-operative finance institutions in India has failed to provide low-income families with significant access to financial services. In this situation, the non-governmental microfinance institutions have attempted to provide an alternative to the high-cost informal financial services that most low-income clients must rely on. The extent to which such service provision is appropriate is discussed in this article using information from the financial histories of low-income families in the slums of Delhi and two villages of one of the more economically backward areas of India. The analysis in the article shows that the needs of low-income clients would be best served by highly flexible financial services that enable the conduct of frequent transactions both for small savings and for borrowing at irregular intervals. In relation to this, both microfinance and formal financial institutions do not fully meet the needs of low-income families. The article concludes with practical suggestions for the design of products and delivery systems to meet these needs.

Siyongwana, P. 2004. Informal moneylenders in the Limpopo, Gauteng and Eastern Cape provinces of South Africa. *Development Southern Africa* 21(5): 851-866.

The article provides a critical analysis of the informal (unregistered) money-lending business and how it has served as a survival strategy for black South Africans. Using data obtained from 657 informal (unregistered) micro-moneylenders in three South African provinces, namely the Eastern Cape, Gauteng and Limpopo, an analysis is undertaken to highlight how the business is organised, conducted and marketed, and how income generated from it. Provincial spatial variations and similarities relating to this economic activity are noted. Finally, the article aims at highlighting of the informal microlenders' responses to affiliation to the Micro Lenders Association and registration with the Micro Finance Regulatory Council. I Senior Lecturer in Geography, University of Port Elizabeth, Port Elizabeth, South Africa. The financial support from the Association of Micro Lenders (MLA) for this research is gratefully acknowledged. Thanks are also due to J Jackson, an economics and senior researcher for the MLA, for his assistance in the data analysis.

Smith, L.E.D., Stockbridge, M. and H. R. Lohano. 1999. Facilitating the Provision of Farm Credit: The Role of Interlocking Transactions Between Traders and Zamindars in Crop Marketing Systems in Sindh. *World Development* 27(2): 403-418.

Formal credit institutions in Pakistan have largely failed to provide access to farm credit to small and medium-scale landowners, or zamindars. This paper examines interlocked transactions between traders and landowners in the cotton and wheat markets in Sindh that facilitate the provision of credit by traders. It is concluded that the case examined provides an example where traders lend to

landowners in a segment of the credit market that approximates competitive behavior, without surplus extraction by traders. Key conditions resulting in this favorable outcome are the existence of both competition for market share and information sharing on borrowers between traders. Whether this outcome is also beneficial for other rural groups who may borrow from landowners, in particular sharecropping tenants, is independent of market relations between landowners and traders and is not determined here.

Sriram, M. 2005. Information asymmetry and trust: A framework for studying microfinance in India. *Vikalpa* **30**(4): 77 – 85.

Sriram, M. S. 2002. Information Asymmetry and Trust: A Framework for Studying Microfinance in India. *IIMA Working Paper Series 2002-09-02*. Indian Institute of Management, Ahmdeabad, India.

Because of traditional relationships of trust, it is almost impossible to replace the moneylender, but possible to re-define the relationship by providing an atmosphere for formal competition.

Steel, W.F., Aryeetey, E., Hettige, H. and M. Nissanke. 1997. Informal financial markets under liberalization in four African countries. *World Development* **25**(5): 817-830.

This paper presents survey evidence from four countries on how informal financial agents serve market niches that banks cannot readily reach. Their methodologies are effective in keeping down transaction costs and default risk relative to banks, although informal agents exercise monopoly power in dualistic markets. Liberalization of repressive financial policies has had little effect on formal financial deepening, while informal finance has continued to grow. The paper concludes that informal financial institutions are an important vehicle for mobilizing household savings and financing small businesses, and it recommends that informal finance be better integrated into financial development strategies.

Straub, S. 2005. Informal sector: The credit market channel. *Journal of Development Economics* **78**(2): 299-321.

Authors build a model of firms' choice between formality and informality. Complying with costly registration procedures allows the firms to benefit from key public goods, enforcement of property rights and contracts, that make the participation in the formal credit market possible. In a moral hazard framework with credit rationing, their decision is shaped by the interaction between the cost of entry into formality, and the relative efficiency of formal versus informal credit mechanisms and their related institutional arrangements. The model is consistent with existing stylized facts on the determinants of informality.

Tang, Shui-Yan. 1995. "Informal credit markets and economic development in Taiwan". *World Development* **23**(5): 845-855.



Taiwan is a case which shows how informal credit markets help to compensate for the limitations of the formal financial system, especially in satisfying the needs of medium and small enterprises. Government regulations and policies affect the way participants in informal credit markets solve selection, enforcement and incentive problems. Recent changes demonstrate the continued resilience and relevance of informal credit markets during a process of financial liberalization.

Taslim, M. A. 1988. Tenancy and interlocking markets: issues and some evidence. *World Development* **16**(6): 655-666.

It is frequently asserted that the land lease markets in agrarian economies tend to be interlocked with other markets. In recent years a number of theoretical models have been constructed to explain and analyze interlinkages of various markets under cropshare tenancy. However, the empirical basis for such assertions remains very weak. This paper reviews the issues discussed in the literature and attempts empirical verification in the specific context of agriculture of Bangladesh. The evidence presented does not reveal any significant interlinkages of rural markets in Bangladesh.

Tedeschi, G. A. 2006. Here today, gone tomorrow: Can dynamic incentives make microfinance more flexible? *Journal of Development Economics* **80**(1): 84-105.

This paper presents a model of microfinance lending to individuals that uses dynamic incentives, in the form of access to additional loans, to discourage borrowers from strategic default, or the unwillingness to repay a loan once a positive outcome is realized. Authors propose an improvement on contracts currently used by microfinance institutions (MFIs) by endogenizing the default penalty, while constraining the MFI to maintain sustainable lending operations. Furthermore, accounting for the risks that the poor face by including a negative economic shock, authors show that under certain circumstances, the punishment for default need not be a lifetime without loans.

Timberg, T. A. and C. V. Aiyar. 1984. Informal Credit Markets in India. *Economic Development and Cultural Change* **33**(1): 43-59.

Discusses the critical roles played by moneylenders in Indian economy.

Tsai, K.S. 2004. Imperfect Substitutes: The Local Political Economy of Informal Finance and Microfinance in Rural China and India. *World Development* **32**(9): 1487-1507.

Banking authorities in both China and India have attempted to limit most forms of informal finance by regulating them, banning them, and allowing certain types of microfinance institutions. The latter policy aims to increase the availability of credit to low-income entrepreneurs and eliminate their reliance on usurious financing. Nonetheless, the intended clients of microfinance continue to draw on informal finance in both rural China and India. This article

argues that the persistence of informal finance may be traced to four complementary reasons—the limited supply of formal credit, limits in state capacity to implement its policies, the political and economic segmentation of local markets, and the institutional weaknesses of many microfinance programs.

Uvin, P., Jain, P. S. and D. Brown. 2000. Think Large and Act Small: Toward a New Paradigm for NGO Scaling Up. *World Development* **28**(8): 1409-1419.

Scaling up is about “expanding impact” and not about “becoming large,” the latter being only one possible way to achieve the former. The experiences of five Indian nongovernment organizations (NGOs) suggest the emergence of a new paradigm of scaling up, in which NGOs become catalysts of policy innovations and social capital, creators of programmatic knowledge that can be spun off and integrated into government and market institutions, and builders of vibrant and diverse civil societies. Authors detail the mechanisms by which NGO impact can be scaled up without drastically increasing the size of the organization.

Varghese, A. 2005. Bank-moneylender linkage as an alternative to bank competition in rural credit markets. *Oxford Economic Papers* **57**: 315-335.

This paper proposes a new method in which banks and moneylenders can link in rural credit markets. Banks and moneylenders, two of the major lenders in rural credit markets, differ in their information on borrowers and costs of funds. Due to information constraints, banks must deny further loans to borrowers who cannot repay a certain amount. In the linkage, these borrowers obtain loans from moneylenders, repay the banks, and have continuing access. Authors then evaluate conditions under which the linkage would be preferred to bank competition and find that the linkage dominates for a wide range of parameters. In light of recent proposals to liberalize Indian banking, the analysis provides a cautionary note to the limits of introducing banking competition in rural credit markets and provides an alternative.

Vigenina, D. and A. S. Kritikos. 2004. The individual micro-lending contract: is it a better design than joint-liability? Evidence from Georgia. *Economic Systems* **28**(2): 155-176.

Authors analyze the incentive mechanism of individual micro-lending contracts and authors compare its key factors with those of joint-liability loan contracts. Using the data set, authors firstly show that in the individual contract there are three elements, the demand for non-conventional collateral, a screening procedure which combines new with traditional elements, and dynamic incentives in combination with the termination threat in case of default, which ensure high repayment rates of up to 100%. Authors further show that the joint-liability approach may lead to similar repayment rates, although based on a different incentive system. Authors reveal that the target groups which can be efficiently served by either one of the two mechanisms is different. There is no better design than a combination of individually based and joint-liability loan

contracts if a micro-lender aims to reach all types of micro-entrepreneurs in a certain region.

Vogelgesang, U. 2003. Microfinance in Times of Crisis: The Effects of Competition, Rising Indebtedness, and Economic Crisis on Repayment Behavior. *World Development* **31**(12): 2085-2114.

This paper analyzes repayment determinants for loans from Caja Los Andes, a Bolivian microlender. The analysis focuses on the influence of recent changes in Bolivia. In particular, authors examine the effects of the rapidly growing supply of microloans, the increasing competition, a rising level of indebtedness among microentrepreneurs, and the recent economic crisis. The results show a twofold influence structure of competition and indebtedness. First, clients with loans from multiple sources at the same time are found to be more likely to default than others. Second, clients with given characteristics have an overall better repayment behavior in areas with higher competition and a higher supply of microloans.

Yunus, M. 1998. Alleviating Poverty Through Technology. *Science* **282**: 409-410.

Tere now exists the potential to empower the poor to attain sustenance through credit and self-employment in nearly all parts of the globe, and to link this global network of microcredit borrowers, we have found no better tool than the Internet.

Zeller, M. and M. Sharma. 1998. *Rural Finance and Poverty Alleviation*. International Food Policy Research Institute (IFPRI), Washington, D.C., pp. 32.

In many developing countries, poor rural households face severe constraints when they seek credit from formal lending institutions. Formal financial services such as those offered by banks are often not available to those below the poverty line because of restrictions requiring that loans be backed by collateral. Nor do banks welcome the small amounts the poor want to save. As a result, the poor usually turn first to informal sources such as friends, relatives, or moneylenders, who loan small amounts for short periods, or to informal, indigenous institutions such as savings clubs and lending networks to borrow enough to purchase food and other basic necessities. These informal networks are frequently successful in tiding the poor over difficult times, such as a bad harvest, and they enable poor households to build up savings for investments that can help lift them out of poverty. A recent Food Policy Report, *Rural Finance and Poverty Alleviation*, by Manfred Zeller and Manohar Sharma, examines the lessons that rural financial institutions such as banks and cooperatives can learn from the informal lending sector. It also considers the roles government should play in the provision of financial services. The report's findings are gleaned from a series of detailed household surveys conducted in nine countries of Asia and Africa: Bangladesh, Cameroon, China, Egypt, Ghana, Madagascar, Malawi, Nepal, and Pakistan. Most of the poor in these countries could benefit from credit, savings, and insurance services, but what is

available varies greatly from country to country. Lessons to be Learned from Informal Lenders: In looking at the lessons that can be learned from studying the relationship between informal lenders and their poor clients, the report finds the following: (1) A credible long-term relationship is the key to enforcing loan repayment: the borrower will repay the loan if he or she expects to be able to borrow again in the future. (2) Financial services should be tailored to the demand patterns of the borrowers. For example, farm loans that can only be used for seeds or fertilizer reduce the flexibility of the household to make the best use of the loan. (3) Decisionmaking on loans granted should be made at the local level. (4) Institutions ought to have clear plans for loan recovery before lending begins. (5) Group-based transactions hold promise, but more research is needed to compare group lending and saving activities with other member-based institutions such as credit unions and village banks. (6) Saving services should be provided. (7) Incentives for managers of rural financial programs should be built into the programs.

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