

## **INFORMAL FINANCE- A CASE STUDY OF NORTH EAST INDIA**

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### **ABSTRACT**

*Based on the various 'All India Debt and Investment Survey' reports, NSSO survey and primary data conducted in Indo-Myanmar border area, this study reviews the nature and domination of informal finance in the study area. In addition, by using logistic regression model this study analyses the factors influencing the borrowing decision of the household in the study area. The study found the non-existence of bank loan and domination of relatives and friends as a loan giver in the study area, which signals the presence of vicious circle i.e. borrowing money → and loss → borrowing money. Apart from that, the study provides an indication whether the rural family's employment or self-employment is related with money borrowing.*

### **Introduction**

Broader access to finance helps an economy produce more, and distribute it fairly. Both consumers and producers benefit because their welfare and productivity are raised. Without access to credit, one avenue of opportunity—self-employment—is shut off. As a result, the poor are doubly damned—not only because they lose an option but also because their bargaining power, when they work for those who have resources, is weakened. Indeed, access to credit allows all those with talent to obtain the resources necessary to carry out their ideas, and society is the richer for it. But financial markets, because of their special features, often serve poor people badly, since poor people have insufficient traditional forms of collateral such as physical assets to offer. They are often excluded from traditional financial markets because transaction costs are often high relative to the small loans typically demanded by poor people. Apart from that, because of the Information Asymmetry, the bank faces two types of risk—voluntary and involuntary.

These risks make the acceptance of collateral necessary for the lenders. In case of those who are living below poverty line, have little or no asset to be provided as collateral. Thus, the poor are generally excluded from the formal financial institutions and have to depend on informal sector. This raises the question what the best opportunity informal sources are providing which can not be provided by formal sources.

In India, since the early national plans, successive governments have emphasised the link between improving finance access and reducing poverty. The need to improve financial access for India's poor motivated the establishment of a vast network of rural cooperative credit banks in the 1950s, followed by a drive to nationalise commercial banks, launched in 1969. In 1980, subsidised credit programmes were attempted, notable examples being the Integrated Rural Development Programme (IRDP) in India. The 1990s saw the partial deregulation of interest rates, increased competition in the banking sector and new micro-finance approaches that

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combine the safety and reliability of formal finance with the convenience and flexibility of informal finance. Access to finance for the rural poor has improved somewhat over the past decades. But the vast majority of India's rural poor still do not have access to either formal finance or micro-finance. The Report of the 'Task Force on Credit Related Issues of Farmers' (Gol, 2010) submitted to the Ministry of Agriculture in June 2010 looked into the issue of a large number of farmers, who had taken loans from private moneylenders. The report mentioned: "in recent years, policy interventions have led to doubling of agricultural credit, but the limited access of small and marginal farmers to institutional credit continues to be a matter of concern. What is worrying is that the proportion of such farmers is increasing and they form more than four-fifths of the operational holding". At the same time, micro-finance institutions have been criticised for seeking higher interest rate and mostly confined to the States with fairly well-developed banking system and also competing for same target group (Pradhan, 2013: 2-3). In recent times, Government of India and the Reserve Bank of India have given strong emphasis for financially including the majority of the population of the country. This is more so for the regions like the North East Region (NER) which has a large number of population still outside the fold of the formal financial agencies. More than 95 per cent of the households are financially excluded from the formal sources in the NER. Majority of these excluded households belonged to the small and marginal farmers. At a disaggregated level, the situation is much more acute with more than 70 per cent of the districts in Assam having an exclusion which ranges from 96.1-98.5 per cent. Thus, the financial exclusion is very high. The rural financial market is therefore, dominated by the informal sector institutions, offering services to the area, especially the poor. The 59<sup>th</sup> round of NSSO clearly reports that almost 80 per cent of the

households in Assam were indebted to the informal sector as compared to only 60 per cent in the country as a whole. And a large portion of these suppliers are the community based traditional financial institutions (Sharma, 2011:1-18). Thus, we can point out what are the community based traditional financial institutions working in NER and secrets behind their success.

In the light of the above theoretical literature, the researcher attempts to understand the dominance of informal finance among rural people of Indo-Myanmar border area in NER of India. The following issues have been considered as the specific objectives of the paper:

- ❖ To understand the presence of informal finance at all India level.
- ❖ Whether the situation has been changed after nationalisation of banks.
- ❖ To document the existence of informal finance in the study area.
- ❖ To identify the factors influencing the borrowing decision of rural people in the study area.

### **Materials and Methods**

**Source of Data :** The study was conducted by using both primary and secondary data. The secondary data cover both 'All India Rural Credit Survey 1951-52' (RBI, 1954) and 'All-India Rural Debt and Investment Survey 1961-62, 1971-72, 1981-82, 1991-92 and 2001-02' conducted by Reserve Bank of India and four rounds of All-India Debt and Investment Surveys by 'National Sample Survey Organisation' of the Government of India from 1971-72 to 2002-03. The primary survey was carried out during the period of March, 2013.

The north east region is connected to the rest of India by a 20 km wide land in Bengal, known as the Chicken's Neck but shares over 2,000 km of international border with Bhutan, China, Myanmar and Bangladesh. In recent

times, the Government of India had taken various initiatives to connect the north east with the ASEAN countries. By introducing 'Look East Policy', the Government of India tried to make the rural people living in the border area economically progressive. Now the question arises, are the people living in the border area financially ready to welcome the development initiatives? Do they have sufficient opportunity to access finance? The present study was carried out in four north eastern States namely, Arunachal Pradesh, Mizoram, Manipur and Nagaland which were chosen purposively

since all these four States are sharing their border with Myanmar. After selecting States, one district per State namely, Changlang in Arunachal Pradesh, Champai in Mizoram, Ukuril in Manipur and Mon in Nagaland were selected which are adjacent to Myanmar border. Four villages were selected from each district according to their distance from the border and population composition and from each village twelve households were taken randomly. Table 1 documented clearly the profile of villages chosen and sample respondents interviewed.

**Table 1 : The Villages Chosen and the Sample Covered**

Villages/ State	Age Tribe	20-29		30-39		40-49		50-59		60+		Total		
		M	F	M	F	M	F	M	F	M	F	M	F	Total
Arunachal Pradesh														
Therimka	Thangsa	0	0	6	0	6	0	0	0	0	0	12	0	12
Injan	Thangsa	2	0	5	2	3	0	0	0	0	0	10	2	12
Khonsa	Wangcha	7	6	2	0	2	0	0	0	0	0	11	6	17
Chongkow	Wangcha	1	0	14	2	0	0	0	0	0	0	15	2	17
Manipur														
Bun Kullen	Tangkhum	0	2	0	2	1	0	1	0	3	2	5	6	11
Kangpat	Tangkhum	1	1	1	1	3	1	0	0	3	0	8	3	11
Monnaph	Kuki	0	0	3	1	6	0	0	1	1	0	10	2	12
Monjol	Kuki	1	0	3	2	0	1	0	1	2	1	6	5	11
Mizoram														
Ngaizawl	Mizo	1	1	2	1	2	2	0	0	3	2	8	6	14
Zotlang	Paitei	4	1	1	0	4	0	0	0	4	0	13	1	14
Zote	Mizo & Paitei	2	0	3	0	2	1	0	0	0	0	7	1	8
Ngur	Mizo & Paitei	0	0	0	1	2	3	0	0	6	2	8	6	14
Nagaland														
Longwa	Konyak	9	2	0	0	1	0	0	0	0	0	10	2	12
Wangti	Konyak	8	4	0	0	0	0	0	0	0	0	8	4	12
Chen Moho	Konyak	8	4	0	0	0	0	0	0	0	0	8	4	12
ChLoisho	Konyak	6	6	0	0	0	0	0	0	0	0	6	6	12
<b>Total</b>	<b>Total</b>	<b>50</b>	<b>27</b>	<b>40</b>	<b>12</b>	<b>32</b>	<b>8</b>	<b>1</b>	<b>2</b>	<b>22</b>	<b>7</b>	<b>145</b>	<b>56</b>	<b>201</b>

Given the sampling design, the sample frame was modest in size as it is, is arguably representative of the situation of the Indo-Myanmar border only.

*Methodology:* The data of 'All India Debt and Investment Survey' (AIDIS) were used to know the dominance of informal finance in India and apart from that, 'Analysis of Variance Method' (ANOVA) was used to understand the situation of post- nationalisation period compared to pre-nationalisation era. A set of descriptive statistics has been used to know the variation in the share of institutional and non-institutional finance among different States of India. In addition, field data were reported to understand the depth of informal finance among the rural people in Indo-Myanmar border area. A Logistic Regression Model was developed to identify the factors influencing the borrowing decision of the rural people.

### **Persistence of Informal Credit in Rural India- AIDIS Surveys**

Although India inherited a basic network of credit cooperatives from the colonial era, the Reserve Bank's first decennial 'All India Rural Credit Survey' (AIRCS) 1951-52 (RBI, 1954) found that 92.8 per cent of rural households relied on informal financial sector. The investigation extended over to nearly 1, 30,000 families having residents in 600 villages and all types of credit agencies in 75 districts. During 1951-52, an increase in debt was recorded in all the 75 districts. The moneylenders continued dominance in the beginning of plan period (around 70 per cent of rural credit) despite all measures to control them, suppress or supplant had led to the suggestion that 'any realistic system of rural credit should seek to incorporate him in itself rather than compete with him or wishfully expect to eliminate him' (RBI, 1954). In the second survey by Reserve Bank of India (1961-62), the outstanding loans owed to agriculturist

moneylenders accounted for about 46 per cent of the aggregate outstanding of all rural households, nearly double the share compared to first survey. The share of outstanding loans owing to professional moneylenders was next highest though their share declined constituting 15 per cent of the aggregate outstanding. As per the survey findings on all-India basis, the share of cooperatives was at 9.1 per cent, 'others' at 8.9 per cent, traders and commission agents at 7.7 per cent, relatives at 6.8 per cent and government at 5.3 per cent in the total outstanding debt. The shares of landlords and commercial banks in the aggregate outstanding were negligible at 9.0 and 0.4 per cent, respectively. This fact signifies the continuance of informal finance in rural India that might have prompted the nationalisation of commercial banks in 1969 in the first phase.

Although the post-nationalisation period is different from the pre-nationalisation period, an ANOVA model with time dummy has been fitted to determine the position of institutional and non-institutional finance in post- nationalisation period as follows-

$$Y_i = \beta_0 + \beta_1 D_i + U_i$$

$$Y_j = a_0 + a_1 D_j + U_j$$

Where,

$Y_i$  is the percentage share of institutional credit out of total rural credit.

$Y_j$  is the percentage share of non-institutional credit out of total rural credit.

'D' is dummy variable such that,  $D = 1$  for post-nationalisation period (1981-2002) and  $D = 0$  for pre-nationalisation period (1951-1971)

'i' is a period of study (1951-2002)

'j' is a period of study (1951-2002)

$U_i$  and  $U_j$  are well behaved error terms.

**Table 2: ANOVA Results of Institutional and Non-Institutional Credit Agencies**

Agencies	Estimated dummy coefficients
Institutional	43.70**(6.75)
Non-Institutional	-43.71**(6.76)

Source: Self Estimates based on Various Reports of All India Debt and Investment Survey, RBI.  
Note: \*\* 5% Level of Significance.

The ANOVA results pointed out that the estimated dummy coefficient of non-institutional rural credit is negatively significant which shows the share of non-institutional rural credit decline by an average of 43.71 per cent in post- nationalisation period compared to pre-nationalisation period, whereas in case of institutional credit the dummy coefficient is positively significant which indicates the increasing share of institutional credit in post-nationalisation period.

It can be assessed that the informal/ non-institutional finance was gradually declining during the 1960s, was very nearly broken during the 1970s, with the institutional agencies making steady inroads into the rural scene. The share of institutional credit agencies in the outstanding cash dues of the rural households at the all-India level increased from 29 per cent in 1971 to 61 per cent in 1981 and then the pace of increase

was arrested rising to 64 per cent in 1991. During the following decade, the share declined by about 7 per cent points and reached 57 per cent in 2002. It seems that credit cooperatives, commercial banks, and other formal financial sector programmes in rural areas have not displaced informal sources of credit, altogether. The 2002 AIDIS revealed that 43 per cent of rural households continue to rely on informal finance, which includes professional moneylenders, agricultural moneylenders, traders, relatives and friends, and others. Thus, it remains questionable whether various government measures like nationalisation of banks (1969), coverage expansion through introduction of Regional Rural Bank (RRB) and lead bank scheme, financial sector reform (1991) and transforming banking structure from traditional brick-and-mortar branches to mechanised banking through technological upgradation are successful for transformation of banking structure from class banking to mass banking.

**Table 3 : Descriptive Statistics of Share of Institutional and Non-institutional Finance Among Various States of India**

Statistics	AP	AS	B	GU	H	H	J	J	K	K	M	M	O	P	R	T	U	W
			A	A	A	&	&	A	A	E	A	A	R	U	A	N	P	B
			R	R	R	K	K	R	R	R	M	M	I	N	J	J	P	I
Mean	0	0	42	56	58	53	63	74	57	80	66	61	31	42	50	6	52	
	29.0	47.5	.0	.2	.7	.2	.2	.0	.5	.0	.2	.2	.0	.7	75	1.	.7	
	0	0	75	5	5	5	0	0	0	5	5	0	5	5	5	7	5	
Std.	11.5	17.1	.6	.2	.9	.4	.7	.8	.9	8.	.3	.5	.9	.0	56	1.	.0	
Dev.	1	3	3	7	0	5	6	0	3	83	6	1	8	8	8	7	9	
Skew-			15	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
ness	-.66	.13	0	.8	1.	.6	1.	1.	1.	1.	1.	.7	1.	.03	4	3	81	
			0	2	66	5	71	53	41	78	90	6	76	57	49.	3	47	
Mean	0	0	58	43	41	26	36	26	42	20	33	38	69	.2	25	8.	.2	
	71.0	52.5	.0	.7	.2	.0	.7	.0	.5	.0	.7	.7	.0	5	5	2	5	
	0	0	25	5	5	0	5	0	0	0	5	5	0	5	5	5	5	
Mean			25	23	23	20	22	20	17	24	19	14	14	15	19.	2	16	
	Std.	11.5	.6	.2	.9	.8	.7	.8	.9	8.	.3	.5	.9	.0	56	1.	.0	
	Dev.	1	3	7	0	0	6	0	3	83	4	7	9	8	8	7	9	
Skew-			0	.8	1.	1.	1.	1.	1.	1.	1.	.7	.1	1.	1.3	1.	1.	
ness	.66	-.13	0	2	66	53	71	53	41	78	90	6	76	1.	03	4	3	
			6	2	66	53	71	53	41	78	90	6	76	1.	03	4	3	

Source: Self Estimates by Author from the Report of All India Debt and Investment Survey- 1961-62, 1971-72, 1981-82, 1991-92 & 2001-2002.

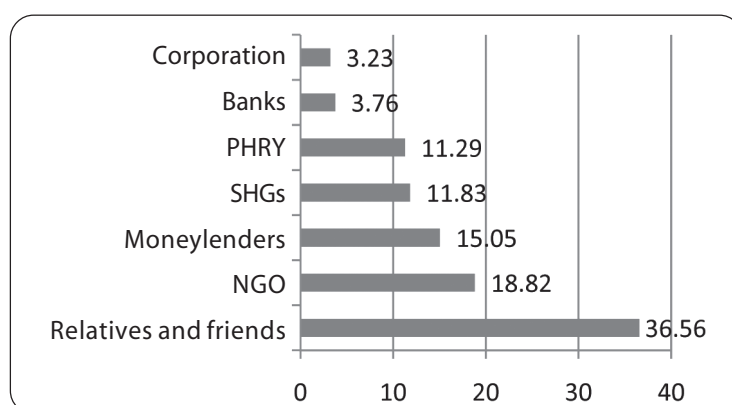
Table 3 shows that during the period of 1961-2002, the share of institutional credit was 80 per cent on an average in Maharashtra which is highest amongst all States in India whereas it is lowest (29 per cent) in Andhra Pradesh. Likewise, during the same time period, the share of non-institutional credit was lowest in Maharashtra and highest in Andhra Pradesh. This raises the question whether domination of informal finance provided an opportunity to develop micro-finance programme in India which is evident from Andhra Pradesh, most successful State for providing financial facilities to poor people by micro-finance programme.

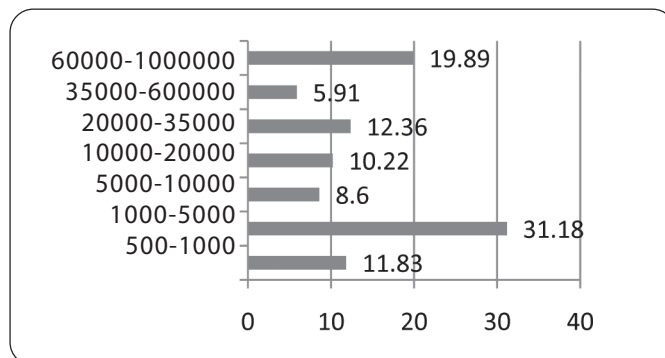
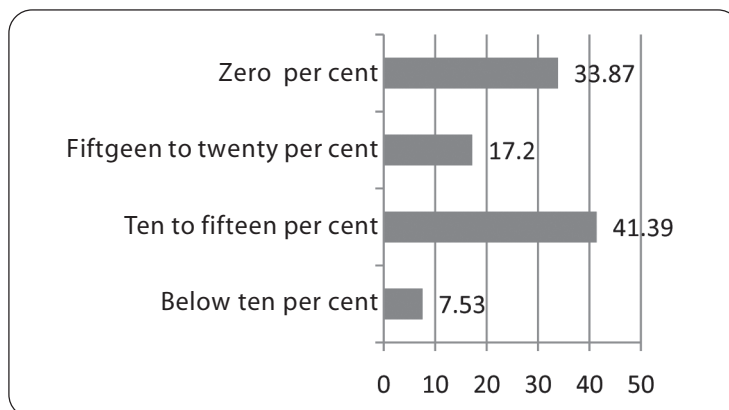
#### Depth of Informal Finance Among Rural People in Border Area

Individual respondents were asked about the amount of money they borrowed from different informal sources, in the absence of access to formal financial markets. Out of the 201 respondents, 186 (93 per cent) responded that they borrowed money. The rest 15 (8.06 per cent) have not borrowed any money and 11 of them from Manipur near Moreh where business and job opportunities exist. Is it a consequence of 'Look East Policy'? The biggest number of loans is from relatives and friends (36.56 per cent) [Fig.1] and it is true mainly about Mizoram that accounts for 27 (75 per cent) out of 36 such cases. Bank

loans are almost non-existent; only 7 (4 per cent) [Fig.1] cases were reported out of 186 respondents, who borrowed money from banks. It indicates the failure of formal agencies to introduce flexible products and services for rural masses. One sees small cooperatives emerging in two villages of Manipur while as many as 31 (11.83 per cent) persons from among the Wangcho in Arunachal Pradesh have borrowed money from self-help groups. Moneylenders are not yet a menace that they are in the rest of India but one notices a beginning of it in all four States, particularly among the Wangchoa. There is a regional difference in the pattern of moneylending but with some commonalities. Formal banking systems are all but non-existent. Where they exist they do not reach the poor. That pushes them into the hands of local informal sources, many of whom are merchants who come outside to exploit them. The fact that most lending is by relatives and friends may not change the situation much because studies indicate that much land is alienated within the tribe to relatives and friends who lend money in an emergency and get land at a low price (Fernandes & Pereira, 2005). It was found that 31.18 per cent respondents borrowed money within the range of ₹1000-5000 [Fig.2], and it indicates the domination of small borrowers in the study area. On the other side, 19.89 per cent of the respondents borrowed money

**Fig. 1: Percentage Distribution of Borrowers Borrowed from Different Sources**



**Fig. 2 : Percentage Distribution of Borrowers Borrowed Various Amounts of Money****Fig. 3 : Percentage Distribution of Borrowers Paying Different Rates of Interest**

within the range of ₹ 60,000-1,00,000 which indicates the presence of some businessmen, may be from outside. Field note indicates that most of them paid high interest and because of the delicate nature of the issue they do not want to divulge it. Field notes also indicate that most of those who paid less than 10 per cent [Fig.3] interest refer to monthly interest paid to local moneylenders and merchants. In other words, their annual rate is high. Those who paid 10-15 per cent interest are persons who got loans from the SHGs, AIDA and other civil society groups. But one significant point is that 33.87 per cent respondents do not pay any interest while repaying loans. This may be because most of the borrowers borrowed money from relatives and friends. The amount

of interest paid gives an indication of the type of problems faced by the people because of the loan. Out of 77 (41.39 per cent) persons who faced some problems while or before repaying the loan, 36 (46.75 per cent) lost some of their land. Most of it happened not while repaying the loan but while borrowing the money which was mainly for health emergencies or to send children away for college studies. 24 (31.16 per cent) borrowers lost other assets and 17 (22.08 per cent) others were forced to give free labour under business persons and moneylenders. Moneylenders who exploit them are coming slowly into their villages. Their number is bound to grow if alternatives are not provided.



**Factors Influencing Borrowing Decision**

What induces rural household to borrow money? It was found from the field note that rural people borrow money to finance their low income, children's education, for medical checkups, for daily needs, etc. Apart from that, they borrowed money for agriculture and small business, for marketing their products, to compensate their land lost, to get government job and it provides an indication whether there is a link between their

employment and money borrowed i.e. with self-employment. Incorporating the above mentioned explanatory factors, a logistic regression model has been developed to explain the decision of borrowing money of sample households.

**Construction of the Variables-Dependent Variable :** Decision of borrowing money (Y): whether the particular family borrowed money or not.

**Table 4: Explanatory Variables Included in the Regression Model for Borrowing Decision**

Explanatory Variables	Notation	Definition	Expected Sign
Income	INC <sub>b</sub> "	Income of the family in terms of rupees	-
Dependent members	DMF <sub>b</sub> "	Number of dependent members in the family	+
Education expenses	EoEb"	Expenditure of the family in education per month	+
Medical expenses	EoMb"	Medical expenditure of the family per month	+
Occupations	AGR <sub>b</sub> "	Dummy variable, D=1 if the household depends on agriculture and 0, otherwise	+
Small business	SBUS <sub>b</sub> "	Dummy variable, D=1 if the family depends on small business and 0, otherwise	+
Land lost	LLOS <sub>b</sub> "	Dummy variable, D= 1 if the family lost any land and 0, otherwise	+
Education dummies	E <sub>1b</sub> ", E <sub>2i</sub> ", E <sub>3b</sub> "	Education of the respondent. Illiteracy has been taken as reference category, thus E <sub>1</sub> = 1 if primary education, 0 otherwise; E <sub>2</sub> = 1 if upper primary, 0 otherwise; E <sub>3</sub> = 1 if matriculate and undergraduate, 0 otherwise	+/-

Here  $Y_i = 1$ , if the household borrowed money and  $Y_i = 0$ , if the household has not borrowed money.

**Explanatory Variables:** Table 4 shows the explanatory variables included in the model along with their notations, definitions and the expected signs of the coefficients.

**Functional Specification of the Model:** Since the dependent variable is dichotomous, we cannot predict a numerical value for it using logistic regression, so the usual regression least squares deviation criteria for best fit approach of minimising error around the line of best fit is inappropriate. Instead, logistic regression employs binomial probability theory in which there are only two values to predict: that probability ( $p$ ) is 1 rather than 0, i.e. the event/person belongs to one group rather than the other. Logistic regression forms a best fitting equation or function using the maximum likelihood method, which maximises the probability of classifying the observed data into the appropriate category given the regression coefficients. Incorporating the explanatory variables mentioned above, the logistic regression model can be fitted as follows.

$$L_i = \ln \left\{ \frac{P_i}{1-P_i} \right\} = \beta_0 + \beta_1 \text{INCb}'' + \beta_2 \text{DMFb}'' + \beta_3 \text{EoEb}'' + \beta_4 \text{EoMb}'' + \beta_5 \text{AGRb}'' + \beta_6 \text{SBUSb}'' + \beta_7 \text{LLOSb}'' + \beta_8 \text{E}_{1b}'' + \beta_9 \text{E}_{2i} + \beta_{10} \text{E}_{3b}'' + \text{Ub}''$$

Where,

$L_i$  is the Logit function

$P_i = 1$  if the family borrow money  
 $= 0$  otherwise

$U_i$  is well behaved error term

Here,  $\left\{ \frac{P_i}{1-P_i} \right\}$  is the odd ratio in favour of money

borrowed i.e., the ratio of the probability that the household borrowed money to the probability that the household did not borrow money. Each slope coefficient in the above equation is a partial slope coefficient and measures the change in the estimated Logit for a unit change in the value of the given regressor (holding other repressors constant). Finally, the maximum likelihood estimates of the parameters have been obtained using SPSS 16. Results of the regression analysis have been summarised in Tables 5 & 6. In Table 5, classification table<sup>a</sup> presents the results with only the constant included before any coefficients are entered into the equation. The Table suggests that if we knew nothing of our variables and guessed that a household would not borrow money, we would be correct 60.2 per cent of time. Likewise, classification table<sup>b</sup> shows how the classification error rate has changed from the original 60.2 per cent. By adding the variables we can now predict with 100 per cent accuracy. We have used Omnibus tests of model coefficients to test whether the constant only model is good fitting model or not. Here;  $H_{0=}$  the model is a good fitting model,  $H_{1=}$  the model is not a good fitting model (i.e. the predictors have a significant effect).

**Table 5: Classification Table and Goodness of Fit of Logistic Regression Model**

Classification table <sup>a</sup>			
Observed	Predicted		Percentage correct
	Decision to borrow money Money not borrowed	Money borrowed	
Decision to borrow money	0	80	.0
	0	121	100.0
Overall percentage	---	---	60.2
Classification table <sup>b</sup>			
Observed	Predicted		Percentage correct
	Decision to borrow money Money not borrowed	Money borrowed	
Decision to borrow money	80	0	100.0
	0	121	100.0
Overall percentage	---	---	100.0
Omnibus test of model coefficients			
Chi-square	df		Sig.
270.223	10		.000
Goodness of fit by Cox & Snell, Nagelkerke R <sup>2</sup>			
-2Log Likelihood	Cox & Snell R <sup>2</sup>		Nagelkerke R <sup>2</sup>
150.00	.539		.783
Hosmer and Lemeshow test			
Chi-square	df		Sig.
85.00	5		.630

In our case model chi square has 10 degrees of freedom, a value of 270.22 and a probability of  $p < 0.000$ . Thus, the indication is that the model has a poor fit, with the model containing only the constant indicating that the predictors do have a significant effect and create essentially a different model, whereas Nagelkerke R<sup>2</sup> in our case it is 0.783, indicating a moderately strong relationship of 78.3 per

cent between the predictors and the prediction. Apart from that, H-L goodness-of-fit test statistic is greater than .05, as we want for well-fitting models; we fail to reject the null hypothesis that there is no difference between observed and model-predicted values, implying that the models estimates fit the data at an acceptable level.

**Table 6: Wald Test and its Significance Value**

Variables	$\beta^s$	S.E	Wald	df	Sig.	Exp( $\beta$ )
INCb <sup>''</sup>	-.005	3.81	6.53	1	.032	.070
DMFb <sup>''</sup>	.010	10.71	8.32	1	.132	3.01
EoEb <sup>''</sup>	.083	60.90	4.26	1	.042	10.08
EoMb <sup>''</sup>	2.626	2.25	10.98	1	.053	13.81
AGRb <sup>''</sup>	22.926	1.01	5.72	1	.001	9.05
SBUSb <sup>''</sup>	33.304	2.62	12.47	1	.023	6.04
LLOSb <sup>''</sup>	7.56	2.73	7.58	1	.000	2.92
E <sub>1b<sup>r</sup></sub>	-3.89	9.14	3.42	1	.001	.020
E <sub>2i</sub>	-.741	8.38	11.39	1	.004	.099
E <sub>3b<sup>r</sup></sub>	.950	9.79	17.38	1	.350	4.38
Constant	-50.85	2.10	14.13	1	.052	.000

In Table 6 Wald statistic and associated probabilities provide an index of the significance of each predictor in the equation. Here variable 'dependent members' in the family and one dummy coefficient 'E<sub>3i</sub>' are not showing statistically significant. Thus these two variables do not provide any influence in borrowing money. Besides, all the variables bear the expected signs. From the value of EXP ( $\hat{\alpha}$ ) we can say that family expenditure on medical purposes influences more for borrowing money. Hence when medical expenditure is raised by one unit, the odd ratio is 13.81 times as large and therefore, householders are 13.81 more times likely to belong to the category of money borrowing. Likewise, expenditure on children's education showing as one unit increase in expenditure on education leads that householders are 10.08 more times likely to belong to the category of money borrowing. Thus, people are borrowing more money for financing their children's education and health. This questions the government social sector policy, specially education and health policy. The third largest influencing factor is whether the family's occupation is agriculture or not and it indicates one unit increase of family whose occupation

is agriculture, leads to 9.05 more times likely to belong to the category of money borrowing in comparison to non-agriculture occupation families. Similarly, one unit increase in the number of family members whose primary occupation is small business, leads to 6.04 more times likely to belong to the category of money borrowing compared to other families. These findings provide an indication whether the rural family's employment or self-employment is related with money borrowing. One significant point is that the families who have lost their land because of some reasons were forced to borrow money for their livelihood. There may be a signal of vicious circle i.e. borrowing money  $\rightarrow$  land loss  $\rightarrow$  borrowing money. As per expectation, the variable income of the family is negatively related with money borrowing. This indicates that most of the people borrow money for financing their daily needs. In addition, the results of education dummies show that one unit increase of household where the head of family's education is primary level, leads to .020 more times likely not belong to the category of money borrowing in comparison to illiterate household, whereas one unit increase in the number of respondents with

upper primary education leads to .099 more times likely not belong to the category of money borrowing in comparison to illiterate household.

### Conclusions with Policy Implications

The continuance of domination of informal finance in rural areas has questioned the measures the government of India have taken during various times to reach the unreached people. The beginning of plan period (around 70 per cent of rural credit) and lead to the suggestion that any realistic system of rural credit should seek to incorporate him in itself rather than compete with him or wishfully expect to eliminate him. One significant point is that in north east India, unlike formal institutions, the community based traditional financial institutions are working successfully and this raises the question what is the story behind their success. During the period of 1961-2002 Andhra Pradesh has shown highest share of non-institutional finance and indicated the positive link between domination of informal finance and progress of micro-finance programme. In study area we found that out of 186 households, only seven households borrowed money from formal sources which shows how informal sources are dominating in these

places. Most of the borrowers borrowed money from relatives and friends, and they are small borrowers to fulfill their small needs. The fact that most of the lending is by relatives and friends may not change the situation much because studies indicate that much land is alienated within the tribe to relatives and friends who lend money in an emergency and get land at a low price. One important point is that out of the total number of households who borrowed money (8.06 per cent), 83.33 per cent are from Manipur near Moreh where business and job opportunities exist.

Apart from that, people are borrowing more money for financing their children's education and health. This questions the government social sector policy, specially education and health policy. In addition, most of the people are borrowing money for financing their livelihood, i.e. agriculture, small business etc. These findings provide an indication whether the rural family's employment or self-employment is related with money borrowing. One significant point is that the families who have lost their land because of some reasons are forced to borrow money for their livelihood. There may be a vicious circle of sustainable livelihood i.e. borrowing money → land loss → borrowing money.

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