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GOVERNMENT OF KERALA

**REPORT ON INDEBTEDNESS  
AND  
PRIVATE MONEY LENDING  
IN  
KERALA**

**DEPARTMENT OF ECONOMICS  
AND STATISTICS**

**TRIVANDRUM**

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DEPARTMENT OF  
ECONOMICS AND  
STATISTICS  
TRIVANTRUM  
MARCH, 1984.



## P R E F A C E

Studies on debt and Money lending are conducted by the Reserve Bank of India. The latest Survey was conducted by them during 1982. This data are being analysed only. In the absence of reliable data on indebtedness and private money lending, the Estimates Committee of the Kerala Legislature Assembly wanted the Department to collect sufficient data and submit a report within a period of one month. The data presented in this report are collected from the different sources by the officers of the Department on a top priority basis, within the short period. Hope that the results of the survey would provide necessary information, for taking policy decisions on the matter.

DIPECTORATE OF ECONOMICS  
AND STATISTICS  
TRIVANERUM.  
22-3-1984.

K.RAMAVARMA  
DIRECTOR







REPORT ON INDEBTEDNESS AND PRIVATE MONEY LENDING IN KERALA

In a subsistence economy like ours, the requirement of credit for undertaking economic and other activities need not be emphasised. The savings and other resources available with individuals and other institutions are being issued as credit for undertaking these activities. Even though there are a large no. of public, co-operative and private institutions in the state for providing credit to the needy, they are not in a position to get the same, as and when required, either because these persons cannot provide necessary security for the loan amount or due to the cumbersome procedure to be followed by them for getting loans from the public and co-operative institutions. In such a situation the borrowers are compelled to approach the private money lending agencies and fulfill their needs by paying higher rates of interest for the sum borrowed.

The estimates committee of the Kerala Legislature Assembly, realising the problem, therefore desires to make proper legislation in this direction. Accordingly the committee requested the Director, Economics and Statistics to undertake a quick survey, on the various aspects of private money lending in the state and submit its report within a period of one month. As the time at the disposal of the Department was very short, it had to depend upon the various materials available in the Department as well as other materials available quickly. Besides this the Department also undertook a quick survey on the various aspects of private money lending in the various Districts, utilising the services of the District level Officers. The data used in this study relate to the following.

- (1) Report on the survey of household, savings and investments in Kerala - 1977-78.
- (2) Data collected through the state samples of the 37th Round National Sample Survey on Debt and Investment 1982 and
- (3) Data collected from the Districts on private money lending.

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(2) Data collected through the State samples of the 37th Round National sample survey on food and nutrition in Kerala.

(3) Information from the various sources regarding the activities of the various departments of the Government in Kerala.

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PART - I

During the survey on household savings and investment conducted by the Kerala State Planning Board, in 1977-78 it was found that about 53 per cent of the households in rural areas and 46 percent of the households in urban areas are indebted, which works out to about 52 percent for the entire state. The total indebtedness of the households in the state was of the order Rs.250 crores of which about 20 percent was in the urban sector and the remaining 80 percent in the rural area. The average indebtedness per indebted household was about Rs.1133. The total loan amount when classified according to the recipients reveals that more than 80 per cent was availed of by Government employees, cultivators and other miscellaneous types of persons. Nearly 10 percent was availed by traders. Table (1) below gives the distributions of the total loan amount availed of by the different categories.

Table (1) Distributions of loan amount availed of by different categories

Category of household	Loan amount Rs. (crores)			Percentage of amount		
	Rural	Urban	State	Rural	Urban	State
1. Government employees	40.38	24.45	64.83	20.07	50.28	25.96
2. Industrial workers	5.73	3.18	8.91	2.85	6.54	3.57
3. Other regular employees	6.58	3.80	10.38	3.27	7.82	4.16
4. Traders	19.49	5.40	24.89	9.69	11.11	9.96
5. Cultivators	72.58	2.01	74.59	36.08	4.14	29.86
6. Rentiers	..	0.70	0.70	..	1.44	0.28
7. Professionals	0.75	1.35	2.10	0.37	2.78	0.84
8. Pensioners	0.12	0.57	0.69	0.06	1.18	0.28
9. Others	55.54	7.15	62.69	27.61	14.71	25.09
10. Total	201.17	48.61	249.78	100.00	100.00	100.00

Agencies distributing the loans

Private money lenders, co-operatives, commercial banks, Land Mortgage Banks and Government are the most important





institutions, which distributed the total loan amount. The first and foremost lending agency was the private money lenders, who have distributed about 64 crores, accounting for more than 25 percent of the total as can be seen below.

Table (2) Distribution of loan amount according to the agencies

Agency	Loan amount in (crores)			Percentage of amount		
	Rural	Urban	State	Rural	Urban	State
1. Government	16.72	3.67	20.39	8.31	7.55	8.16
2. Co-operatives	40.76	11.17	51.93	20.26	22.97	20.79
3. Land mortgage Banks	22.35	1.85	24.20	11.11	3.80	9.69
4. Commercial Banks	32.81	8.58	41.39	19.81	17.66	16.57
5. Money lenders	52.85	10.89	63.74	26.27	22.40	25.52
6. Traders	6.86	2.91	9.77	3.41	5.98	3.91
7. L.I.C.	1.49	0.59	2.08	0.74	1.22	0.83
8. P.F.	7.56	2.03	9.59	3.76	4.17	3.84
9. Others	19.77	6.92	26.69	9.83	14.25	10.69
10. Total	201.17	48.61	249.78	100.00	100.00	100.00





## PART - II

In the 37th round of the National Sample Survey conducted during the period from January to December 1982, information on household debt and investment was one of the items of enquiry. The Department of Economics and Statistics participated in the collection of data relating to the items of enquiry covered by the National Sample Survey on a full matching basis, covering 156 census villages and 76 urban blocks. From the selected census villages two households each were selected after stratifying them into 4 sub strata according to the extent of land possessed by them. In the urban sector, the households were classified into three groups according to their monthly per capita expenditure and two households each were selected from each substratum. Information on debt and investment was collected from the selected sample households in two visits to each of them.

In block 10 of the schedule canvassed in the survey on ~~Household~~ debt and investment, particulars of dues payable by the household together with that on loans taken and repayments made during the period (1) from July 1981 to the date of survey & (2) from 1st January 1982 to the date of survey, respectively were collected in the two visits. The data presented in this report relate to the second visit and refers to 31st March 1982. Since data on household indebtedness were urgently required for preparing this report, information relating to the dues payable by the households was extracted from the schedules of the second visit and the data presented in this section are the quick estimates based on sample values.

Household indebtedness: It was found from the survey that about 47 percent of the households in the State was indebted, as on 31st March 1982, with an average amount of Rs.8507/- per indebted household. The outstanding principal due was Rs.6903/- and interest due was Rs.1604/- per indebted household.





The total indebtedness works out to Rs.1745 crores, Rs.1416 crores by way of principal and Rs.329 as interest.

Purpose of taking loans: The percentage distributions of the loans and their total amount reveals that about one fourth of the total amount was taken to purposes not adequately classified. Among the specified purposes, about 36 percent was for capital and current expenditure in non farm activities and about 23 percent for capital and current farm expenditure. About 12 percent was for meeting household expenditure. Table (3) below gives the details of the loans.

Table (3) percentage Distributions of no. of loans and their amount classified according to purposes and average amount of the loan for each purpose.

Purpose of taking loan	Percentage of loan		Average loan amount
	no.	amount	
1. Capital expenditure in farm business	11.35	12.75	5480
2. Current expenditure in farm business	18.60	9.71	2547
3. Capital expenditure in non farm business	6.72	22.41	16268
4. Current expenditure in non farm business	4.63	13.51	14239
5. Household expenditure	27.41	12.15	2163
6. Litigation	0.07	..	600
7. Repayment of debt	5.68	2.55	2192
8. Financial Investment	1.34	2.55	9267
9. Others	24.20	24.37	4910
All	100.00	100.00	4879

Outstanding amount by purpose

The distributions of the outstanding loans and their total amount according to the purpose also reveals the position stated above. The details of outstanding loans are furnished below:-



Table(4) Percentage distribution of no. of outstanding loan and their amount according to purpose and average amount of loan outstanding for each purpose

Purpose of taking loan	Percentage of out standing loan		Average amount outstanding
	no.	Amount	
1. Capital expenditure in farm business	11.35	13.74	4723
2. Current expenditure in farm business	18.60	11.25	2365
3. Capital expenditure in non farm business	6.72	20.44	11869
4. Current expenditure in non farm business	4.63	16.23	13679
5. Household expenditure	27.41	11.51	1639
6. Litigation	0.07	..	400
7. Repayment of debt	5.68	2.73	1875
8. Financial investment	1.34	2.65	7679
9. Others	24.20	21.45	3460
All	100.00	100.00	3903

Credit agency

The following table gives the distribution of the loans, their amount and average amount of loan distributed by the different credit agencies working in the state. Commercial banks and co-operative societies or their Banks have distributed about two thirds of the credit required. The percentage share in the credit supplied by private agencies like Land lord, Agricultural money lenders. Professional money lenders, traders and other comes to about 7 percent and nearly 12 percent goes to friends and relatives as can be seen below.





Table (5) Percentage distributions of no. of loans, their amount and average amount of loan distributed by the credit agencies

Credit agency	Percentage of loan		Average amount of loan
	no.	amount	
1. Government	5.45	11.01	9855
2. Co-operative Society/banks	31.22	19.61	3065
3. Commercial Banks	25.91	47.22	18888
4. Insurance	0.52	1.16	10857
5. Provident fund	6.50	2.57	1932
6. Land Lords, Money lenders Traders and others	15.31	6.76	2153
7. Friends and relatives	15.09	11.67	3774
8. All	100.00	100.00	4879

Rate of interest

Of the total loan amount distributed, more than 13 percent was given, interest free and about two thirds was at rates below 17% per annum and about 20% at rates above 17%. Nearly 4% of the amount was issued at rates above 24% per annum.

Table (6) Percentage distributions of no. of loans, amount of loan and average amount of loan

Interest rate in (Rs./annum)	Percentage of loan		Average loan amount
	No.	amount	
No interest	20.61	13.36	3163
1-11	20.24	36.31	8753
12-17	31.96	29.66	4528
18-23	17.93	16.80	4572
24-35	4.41	2.13	2354
36-47	2.61	1.27	2368
48-74	1.79	0.42	1132
75 and above	0.45	0.05	633
All	100.00	100.00	4879





PART - III

Results of the survey on private money lending

The quick survey on private money lending activities in the state was under taken in all the districts, using the services of the Deputy Director, District officers (Economics and Statistics) Additional District Statistical Officers and the Research Officers in the districts. They contacted the different categories of loanees who have availed credit from private money lenders in their area and collected details from the loanees. The results presented below give the consolidated picture of private money lending activity in the state.

Purpose of taking loans

Current and capital expenditure in non farm and capital expenditure of the household are the main purposes for which the loanees have approached the private money lenders. About one fourth of the total loans availed, accounting to more than one third of the total amount of the loans was for current expenditure in non farm business. About 17 percent of the loans accounting to twenty seven percent of the total loan amount was for capital expenditure in non farm business. Even though a large number of loans have been availed for household consumption, the amount reported was comparatively small.

Table (7) percentage distributions of loans and their amount according to purpose of loan

Purpose of taking loan	Percentage distribution of loan	
	no.	amount
1. Capital expenditure in farm business	6.00	6.95
2. Current expenditure in farm business	6.36	2.83
3. Capital expenditure in non farm business	17.09	27.21
4. Current expenditure in non farm business	23.46	35.44
5. Capital expenditure of the household	6.36	4.27
6. Current household consumption	14.36	1.90
7. Ceremonies	4.55	3.45
8. Litigation	1.09	0.05
9. Repayment of debt	9.27	6.88
10. Others	11.46	11.02
Total	100.00	100.00



Amount of loan taken for each purpose, and amount recorded in the document

The average amount of credit availed by the loanees and the average amount shown in the document is given in following table.

In general the amount shown in the document is 5 percent higher than the actual credit issued. For purposes relating to farm and non farm activities, the amount shown in the document was higher than the actual loan amount. In the case of loans relating capital and current expenditure of household and ceremonies the amount shown in the document was less than that of the amount taken.

Tables (8) Averages of actual loan amount and that recorded in the document.

Purposes of taking loan	Average amount of loan		Percentage of actual amount shown in document
	actual	in document	
1. Capital expenditure in farm business	4118	4425	107.46
2. Current expenditure in farm business	1582	1640	103.67
3. Capital expenditure in business	5657	6640	117.38
4. Current expenditure in non farm business	5370	5416	100.86
5. Capital expenditure of the household	2382	2282	95.80
6. Current household consumption	470	458	97.45
7. Ceremonies	2698	2299	85.22
8. Litigation	167	167	100.00
9. Repayment of debt	2637	2660	100.87
10. Others	3417	3418	100.03
All	3553	3731	105.01

Outstanding amount of the loans taken for the purposes

Repayment of loans was effected only up to about one fifth of the total loan as on date of survey. Loans taken for capital expenditure in non farm business, that for the household and that taken for repayment of debt was repayed more





quickly than that taken for other purposes,

Table (19) Average amount of loan taken, outstanding and percentage of average amount outstanding to original amount according to purposes.

Purposes of taking loan	Average amount of loan		Percentage outstanding
	taken	outstanding	
1. Capital expenditure in farm business	4118	3675	89.24
2. Current expenditure in farm business	1582	1355	85.65
3. Capital expenditure in non farm business	5657	3566	63.04
4. Current expenditure in non farm business	5370	5275	98.23
5. Capital expenditure of the household	2382	1577	66.20
6. Current household consumption	470	427	90.85
7. Ceremonies	2698	2526	93.62
8. Litigation	167	167	100.00
9. Repayment of debt	2637	1501	56.92
10. Others	3417	2590	75.80
Total	3553	2868	80.72

Rates of interest and mode of repayment of loan

A lower rate of interest is seen recorded in the document furnished by the loanees than that actually paid by them. About ninety percent of the loan amount was issued at rates higher than 23 per cent per annum. The proportion of amount issued at rates above 36 percent was about two thirds. The loans are issued on the condition that they have to be repayed in lump or in instalments. It was found that about 46 percent of the total loan amount had to be repayed in lump and the remaining 54 percent in instalments.



Table(10) Distributions of the total loan amount and that shown in the document according to rate of interest

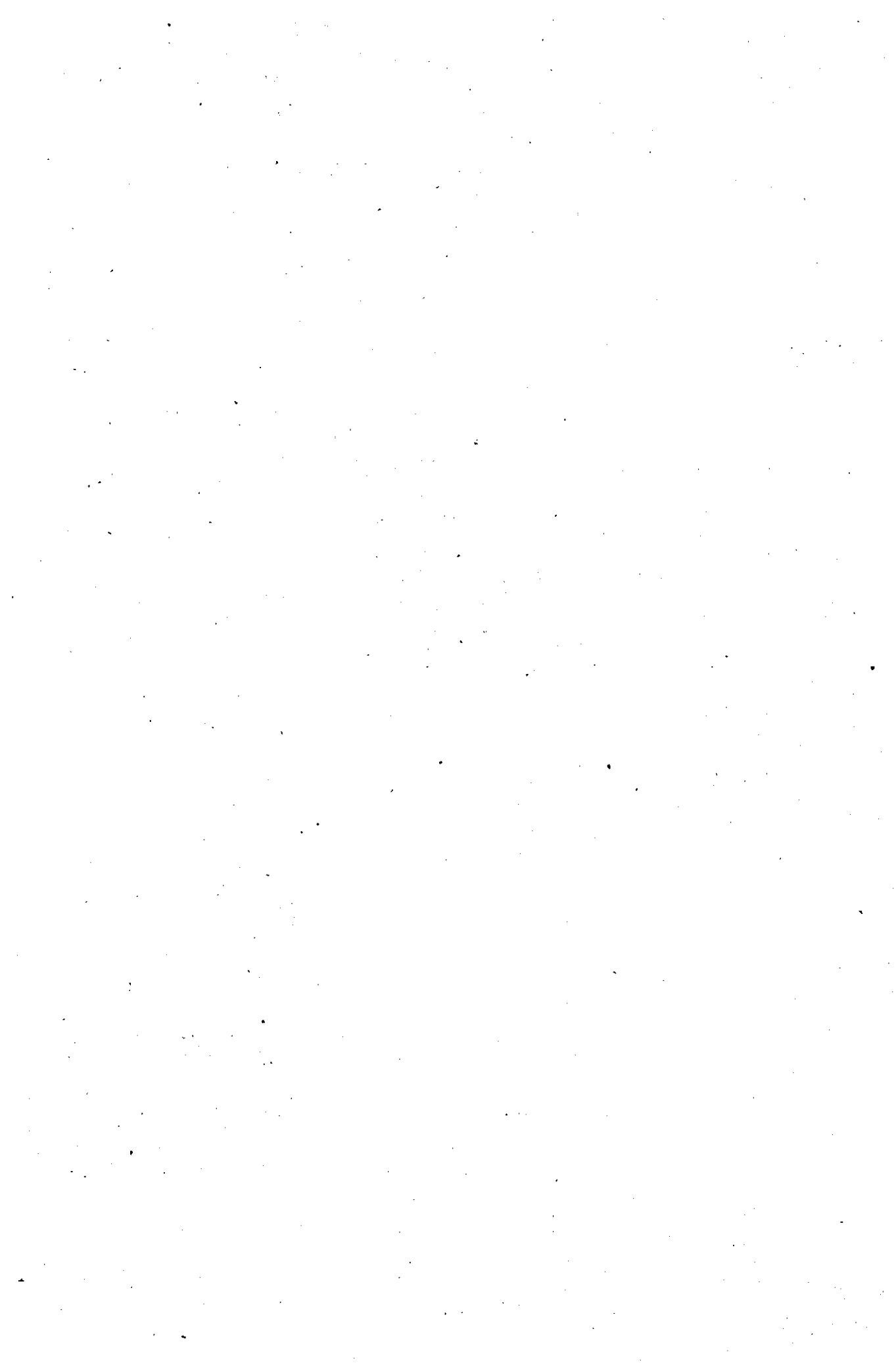
Rate of interest in %	Percentage of amount	
	Actual	in document
1. No. interest	0.36	0.33
2. 1-11	0.85	1.09
3. 12-17	5.26	25.40
4. 18-23	4.50	5.43
5. 24-35	23.04	19.83
6. 36-49	48.75	31.82
7. 50-74	12.33	12.04
8. 75 and above	4.91	4.06
Total	100.00	100.00

Type of money lender

About 62 per cent of the total loan amount relating to the same proportion of the no. of loans was distributed either by licenced money lenders or registered money lending institutions and the remaining 38 percent by the persons with no licence.

Table (11) Percentage distributions of no. of loans and total loan amount by type of money lender

Type of money lender	Percentage of loan	
	No.	Amount
1. Licenced money lender	22.18	15.19
2. Registered institutions	40.18	46.60
3. Others	37.64	38.21
Total	100.00	100.00





Security for the sum borrowed

Nearly 65 percent of the loan amount issued by the money lenders was without any written document. Only the remaining 35 per cent of the loan amount have any written document for the sum borrowed. Nearly eighty percent of the loan amount was issued on the basis of personal security or surety of persons other than the borrower.

Table (12) Percentage distribution of loan amount distributed according to security

Type of security offered	Percentage of loan amount
1. Personal surety (Borrower)	58.69
2. Persons other than borrower	31.80
3. Gold and other valuables	12.63
4. Crop	0.10
5. Land	2.38
6. Building	1.36
7. Merchandise	0.62
8. Others	2.42
9. Total	100.00

Period of loan: The period for repayment of loan amount was fixed from 3 months to more than 3 years, in the case of a large portion of the amount advanced. For about two thirds of the total sum advanced the period was below one year and for the rest it was one year and above. The distribution of the total loan amount according to the period of loan is given below.

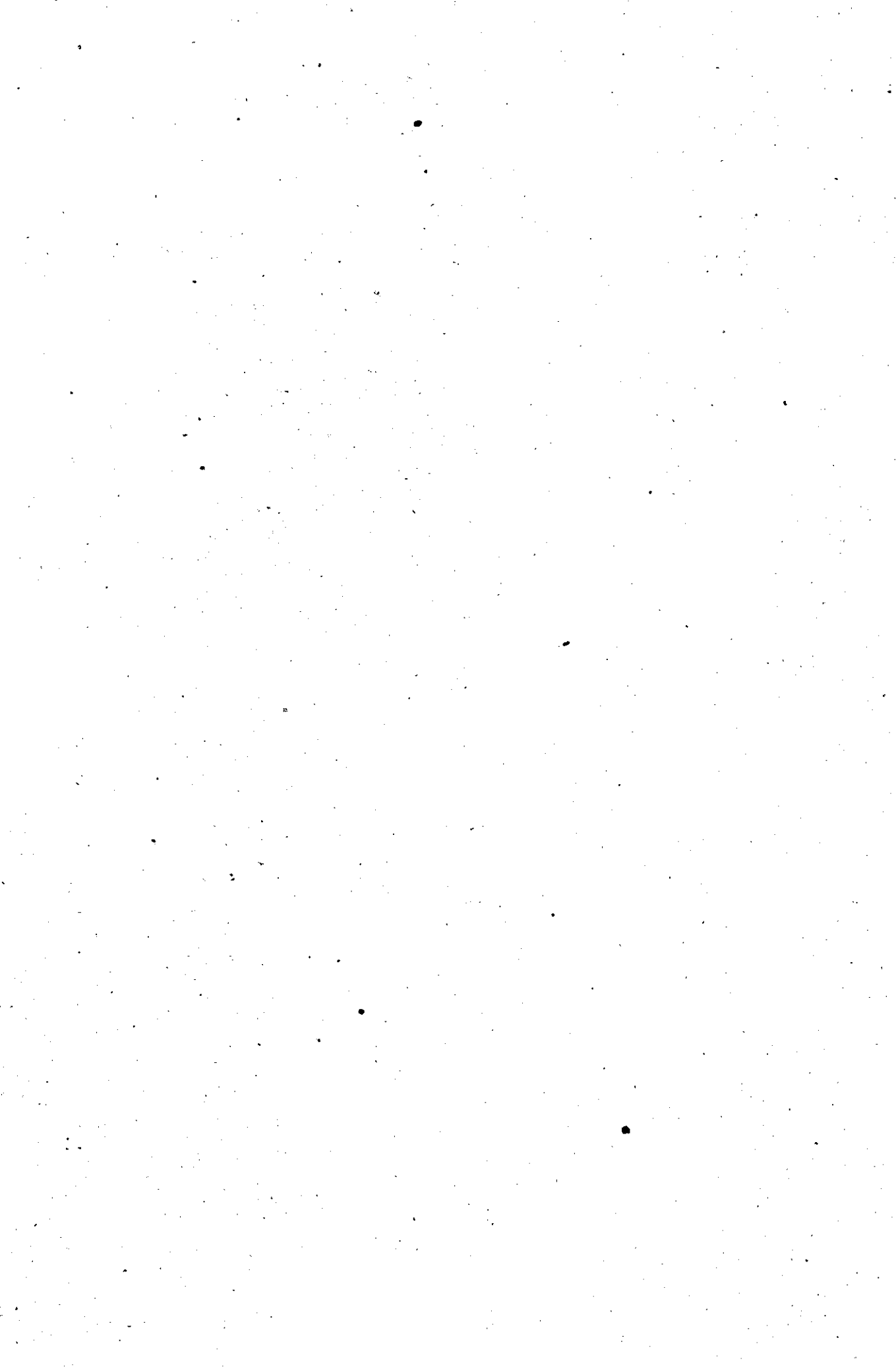


Table (13) Distribution of total loan amount according to the period fixed for repayment

Period of loan	Percentage of amount
1. One day	..
2. One week	2.88
3. One month	3.81
4. Three months	14.55
5. Six months	34.09
6. Six months to one year	8.05
7. One year to 3 years	28.76
8. Above 3 years	7.86
All	100.00

Reason for approaching private money lenders

About 96 percent of the loans from private money lenders were issued without surety and at short notice. Perhaps this is the main reason for the growth of private money lending in the state.

Table (14) Percentage distributions of the total amount availed from private money lenders according to reasons for approaching them.

Reason for approaching private money lenders	Percentage of amount received
1. Surety not required	6.82
2. Easy to get the loan at short notice	84.17
3. Surety not required and easy to get the amount at short notice	4.98
4. Others	4.03
5. All	100.00





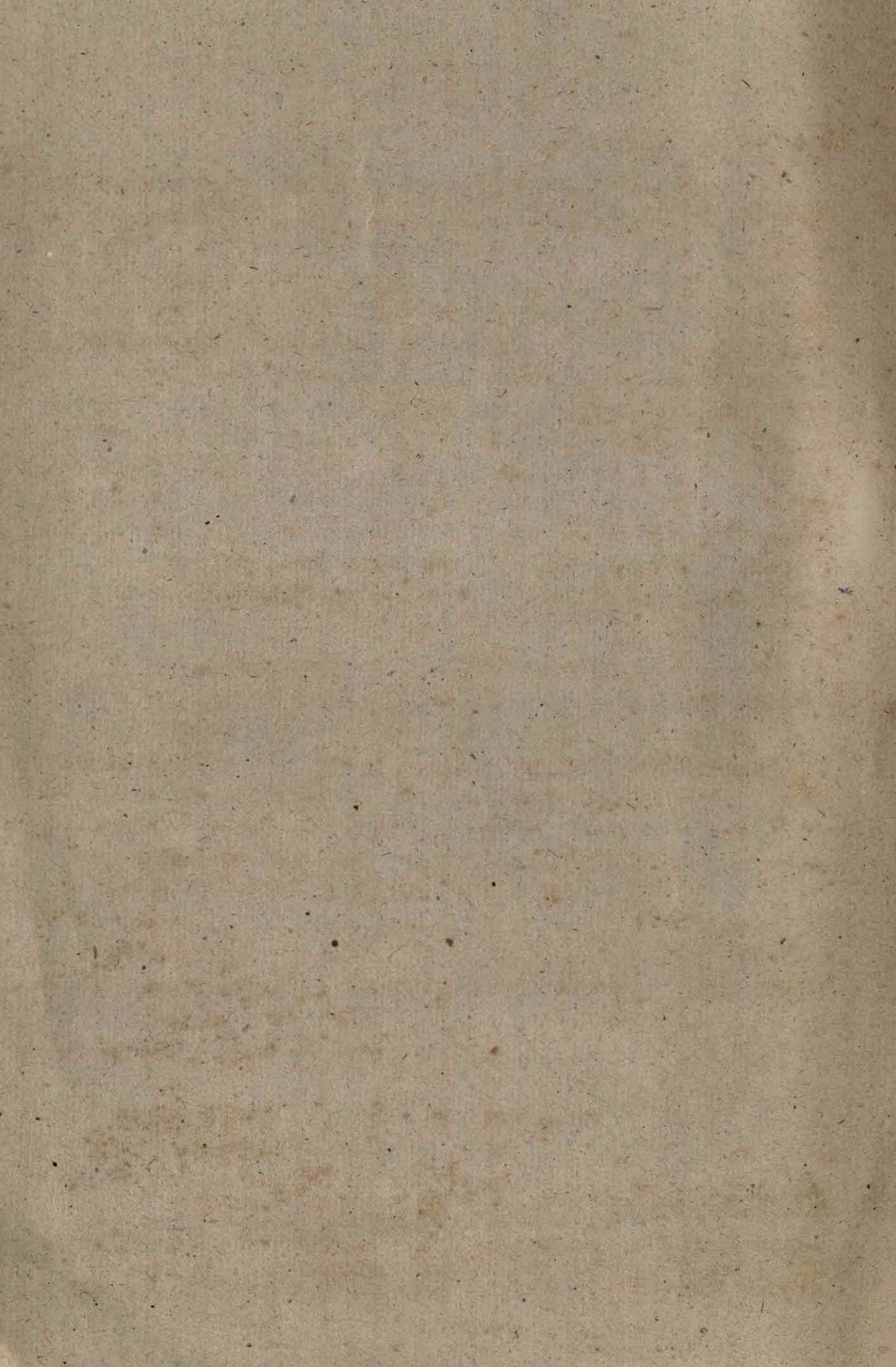
Summary and conclusion

Nearly 47 percent of the households in the state were found to be indebted as on 31st March 1982. The total outstanding debt of the household was of the order of Rs.1713 crores. About 36 percent of the loan amount was taken for capital and current expenditure on non farm business. Re-organised agencies like Commercial banks, Co-operative societies and their banks, Government, Insurance and employees provident fund could cater only about 81 per cent of the loan advanced. Private agencies provide the remaining 19 percent of the total of which about one third goes to money lending agencies and two thirds to friends and relatives. The loans advanced by the above two agencies together works out to Rs.326 crores. About 21 percent of the total loans availed was at rates above 17 percent per annum, which works out to Rs.366 crores.

About 63 percent of the loan amount advanced by private agencies was for capital and current expenditure in non farm business. Fifty four percent of the total loan amount was to be repayed in instalments. The private parties charge very high rates of interest. Nearly two thirds of the total loan amount issued by the private money lenders was at more than 35 percent per annum. About thirty eight percent of the total loan amount issued belongs to persons other than registered institutions. Nearly two thirds of the loan issued was without any written document and for short term. Eighty percent of the amount was issued on the basis of individual or collective surety. Since it is easy to get the loan at short notice without any material surety the borrowers approach them.

Rates of interest charged by the private agencies are very high. Source of finance of these agencies are mainly their own savings and that of other individuals, who are eager to get higher rates of interest for their savings. The deposits of these individuals collected at higher rates of interest in turn fetch much higher rates from the borrowers. The loanees approach the private agencies, because of the simple procedure of availing loan without proper security.

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