Caste-ing Wider Nets of Credit:

A Mixed Methods Analysis of Informal Moneylending and Caste Relations in Bihar

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Abstract

In rural Bihar, the literature and policy initiatives targeting informal credit continue to be informed by narratives of usurious moneylenders, bonded labour and limited credit access for Scheduled Castes. Despite dramatic shifts in caste and economic relations in the past two decades, few studies have examined how credit networks are organized in this new reality. Combining extensive survey data from rural Bihar with four years of in-depth qualitative data on the supply and demand side of moneylending, we advance a first-of-its-kind analysis of informal credit relations in Bihar. Our quantitative analysis demonstrates that despite the similarity in borrowing purpose, Scheduled Castes are less likely to borrow within their kinship network and are charged a higher interest for smaller principal amounts. Unpacking this using qualitative data, we argue that ties of kinship, neighbourhood, and shared caste affiliation remain crucial to debt transactions. There is no evidence to suggest that the same lender charges Scheduled Castes a higher interest rate than others, instead Scheduled Castes are systematically sorted into higher interest and low principal markets. Our findings challenge some of the underlying assumptions made by anti-poverty interventions that tackle these informal and socially embedded credit relations and replace them with formal microcredit.

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1. Introduction

Informal moneylending is one of the most resilient phenomenon in rural India. According to a Reserve Bank of India working paper, "…of the 20 major states in 2002, as many as 15 have shown a fall in the share of institutional agencies, notable among them are Bihar, Punjab, Haryana and West Bengal. This indicates that the cooperatives, commercial banks, and other formal financial sector programs in rural areas have not displaced informal sources of credit altogether as 43 per cent of rural households continue to rely on informal finance in 2002" (Pradhan 2013). In a country where moneylending has been the declared objective of state intervention, where micro-finance institutions and self-help group programs have attempted to liberate the rural poor from the grip of moneylenders for decades, the narrative around them remains surprisingly singular, and persistently negative (Hulme and Mosley 1996).

Not only do moneylenders constitute a majority of informal credit sources, they are also regarded as one of the major contributing factors to rural poverty in India. Under the *jajmani*[i] system, a credit transaction between a general caste moneylender, who is also the landlord of the Scheduled Caste (SC)[ii] borrower, would place the borrower in an adverse financial position (Bardhan 1980, Basu 1987). These interlinked ties of dependence between lower and general castes, and the inherent disadvantage for SCs that stems from the institution of *jajmani*, have considerably weakened (Srinivas 2003). Land is no longer the only basis of power, and the 'consciousness of caste' is dying down (Beteille 2012). In this context, development and policy practitioners have been forced to revise their thinking and interventions. The moneylending narrative, however, is largely untouched and very little has been said about how these broader changes have shifted caste relationships within informal rural credit markets.

Bihar most of all has seen a massive shift in caste relations, as a series of progressive movements have constantly challenged general caste hegemony from the 1960s till the present (Witsoe 2013). However, our understanding of caste relations within informal credit markets still continues to be informed by theories of interlinked transactions. Few studies have systematically looked at how informal credit markets operate against the backdrop of the new caste realities in contemporary rural Bihar.

Using a unique dataset that combines extensive survey data on informal credit in Bihar, with four years of qualitative data on the supply and demand side of moneylending, we advance a holistic analysis of the informal moneylending landscape. From our qualitative data we find that in rural Bihar, the ‘stranglehold’ of moneylenders has reduced substantially owing to out-of-state migration and major shifts in land ownership. Traditional forms of patronage based on debt and extreme dependency are fading away, and debts are rarely sustained over long periods of time, and even less so over generations. The caste and class of moneylenders has expanded, and inter-village lending has grown. Many migrants and new elites, particularly Other Backward Classes (OBCs), use their cash surpluses to invest as loans – initially to SCs, but gradually to those belonging to other castes. With an increased availability of informal credit especially for SC households, one would expect that the high interest rate regime for SCs will not be sustainable. On the contrary, our survey reveals that despite having similar loan portfolio in terms of credit use, SCs pay a higher interest rate, with the gap being the highest when compared to general category households.

The literature on credit markets typically builds on the imperfect information paradigm to suggest that the difference in interest rate across groups reflects unobservable characteristics of the underlying contract (Braverman and Stiglitz 1982). Drawing on sociological theories of relational inequalities (Tilly 2001), we offer a more nuanced explanation – one that explains creditworthiness and outcomes not by the attribute of individuals or groups, but shifts the lens to relationships *between* status categories. On doing so, we find that it is not the interlinkages in credit and labour markets – a general caste landlord who also lends to his SC tenants at unfavourable terms to influence the tenant’s labour choices – that explain the higher interest rates paid by SC households. Instead, the explanation lies in a systematic sorting of SCs into higher interest and low principal markets. In other words, despite the expansion of a seemingly depersonalized market with more suppliers trickling in, ties of kinship, neighbourhood, and shared caste affiliation remain crucial to debt transactions.

2. Why is debt costlier for some groups?

Imperfect information about the borrower, and a lack of mechanisms to enforce the credit contract are given a central role in the descriptions of credit markets in developing countries. The lender advances a loan against the promise of return of that amount and an additional interest at a later date. Ex-ante, she has limited capacity to verify the credit-worthiness of the borrower. Ex-post, she cannot always ensure that this amount is used for the stated purposes, and is eventually repaid. Under these conditions of imperfect information and limited contract enforceability, the lender can screen the borrowers, monitor their efforts and enforce the terms of the contracts in the following ways. First, the lender can design the terms of the loan to charge differential interest rates to different groups of borrowers (Banerjee and Duflo 2010), or ration the amount of the loan (Stiglitz and Weiss 1981). Second, she can use contracts in other interlinked markets – land, labour and product – to affect the probability of default (Braverman and Stiglitz 1982; Bardhan 1980; Basu 1987). Finally, she can restrict the pool of the borrowers within her socio-economic network (Aleem 1990; Siamwalla et al., 1990; Udry 1990). On the demand side, the borrower does not have information about the terms of contract offered by other lenders in the village, exacerbating the interest rate differential (Aleem 1990).

In this framework, unequal equilibrium outcomes (interest rate in our case) across socio-economic categories can emerge insofar as these categories act as a proxy for some underlying characteristics of the contract between the lender and the borrower, that are unobservable to the researcher. The persistence of this equilibrium in the face of the changing role of the ascriptive identity of caste is not tackled in the literarure. Social relations when part of the explanation, make a backdoor entry, and are seen as ‘affecting the economy from the outside’ (Krippner and Alvarez 2007).

In order to explain the persistence of unequal outcomes in credit markets we turn to theories of inequality in sociology and anthropology. Whether describing Polynesian clans (Mauss 1952) or describing debt among sovereign nations (Dodd 2014), the literature is unanimous on the proposition that the acts of borrowing and lending are much more than a pure financial transaction between two parties. They have strong social underpinnings in that they contribute as much to building group solidarity as they do to creating inequalities and practicing discrimination.

To fully interpret the changing credit relations, we turn to relational theories of inequality. In this theoretical framework, social categories like caste are not treated as a static attribute of an individual but as a continuously negotiated feature of her interactions. In effect, in order to explain the changes in credit markets we have to first understand the nature of asymmetric social relations that underlie credit relations, and then consequently unpack how they change over time. As famously defined by Tilly (2001), in a relational view, inequality emerges from asymmetrical social interactions in which advantages accumulate on one side, and are fortified by construction of social categories that justify and sustain unequal advantage. We argue that the acts of lending and borrowing in rural Bihar are both constructed by social relations, and social relations are in turn constructed by these acts (Muldrew 1998). The relevant unit of analysis is not credit per se, but the web of relationships that credit is embedded in, and the nature of lending and borrowing practices.

3. Data and Methodology

The data and methods we used are unique in the following ways. First, we collected quantitative data on the detailed loan portfolio of a representative sample of 8,989 households from 333 villages covering seven[iii] districts across Bihar. This data was drawn from the baseline survey for impact evaluation of a World Bank funded anti-poverty project called JEEViKA between June and September, 2011. Second, our data has sufficient representation across caste groups to allow a detailed comparative analysis. Third, we integrated the quantitative findings with detailed qualitative data which yielded insights that neither approach could have produced on its own. The qualitative data was collected over four years (from January 2012 to September 2015) and comprised over 1000 in-depth interviews and focus group discussions in four villages purposively selected from four surveyed districts. We conducted interviews with village heads, council members, subsidized food shop dealers, landlords, and other public officials. Based on the broad patterns uncovered in the preliminary quantitative analysis, we designed a qualitative data collection module to specifically probe deeper into the mechanics of informal borrowing and lending. Notably, we also conducted interviews with informal moneylenders and borrowers to map the interest rates caste-wise - this type of information is sensitive and hard to collect both through surveys and qualitative interviews (Aleem 1990). However, our long association with these communities through repeated interactions over four years allowed us to elicit open and frank responses. With a mixed methods approach, we have a unique vantage point in that we can compare the loan portfolio of SCs a) to their non-SC counterparts through both the quantitative and qualitative data and b) to their past portfolio through the qualitative data.

In the quantitative sample, 71.68 per cent of the households were SCs, 15.05 per cent were OBCs, 5.38 per cent were Extremely Backward Castes (EBCs), 3.64 per cent were Muslims and the rest belonged to the general caste category. 39.13 per cent households had at least one household member who migrated for work in *Kharif*[iv] season. In 19.02 per cent households, the head of the household migrated for work in *Kharif* season. As many as 48 per cent of SC households worked as agriculture labourer; cultivation and animal husbandry was the most common occupation among the general caste households. The annual average per capita consumption expenditure (PCE) was the highest for general caste households (1.18 times the average of other households) and the lowest for SC households (0.85 times the average for other households). Landholding patterns across caste groups also present a similar picture: 83.29 per cent of SC households did not own any land as opposed to the sample average of 71.69 per cent.

For the qualitative data collection exercise, we purposively selected four villages from four districts to give us variation on caste and religious composition, distance to the nearest commercial centre, and patterns of socio-economic and political hierarchies. For the purpose of keeping their identity anonymous, we named these villages Ramganj (Madhubani district), Virganj (Muzaffarpur district), Saifpur (Saharsa district) and Shahpur (Madhepura district). In Ramganj, general castes (*Brahmin*) were the dominant caste, owned a majority of the land and occupied most leadership positions in the local government. SCs (*Ram* and *Musahar*) and OBCs (*Yadav* and *Madal*) made up 10 per cent of the population each. Agriculture and allied activities, especially cattle rearing, were the main livelihood activities. Virganj was a remote village with limited access to local markets. Muslims (*Pathan* and *Khan*) were the dominant group, and owned most of the land in the village. OBCs (*Kalwar*) were the *nouveau riche* group. Many SC (*Ram* and *Paswan*) households in Virganj migrated to Delhi and Punjab for work. The third village, Saifpur, was markedly different for the other villages in that one of the oldest and the most important markets in the district runs along the village and habitations have grown around it. This market was an important pull factor for the trading communities in the district. The source of livelihoods across castes was market based, for example, tailoring, running coaching institutions and bangle making. The dominant caste was OBC (*Chowdhary*). In Shahpur, on the other hand, the nearest market was 3 kilometres away. The majority caste was OBC (*Yadav* and *Kurmi*), but Muslims (*Sheikh*) were economically and politically dominant. SCs made up a quarter of the population in Virganj, Saifpur and Shahpur.

4. Describing the Debt Portfolio

A close look at the debt portfolio for these households shows that once key socio-economic characteristics are accounted for[v], no one caste group was more likely to have an outstanding loan. At the same time, the number of outstanding loans did not vary across caste groups (Table 1).

Table 1: Outstanding Loans (%)

	Any loan	One loan	Two loans	Three Loans	Four loans	Five loans
SC	86.73	11.23	29.83	28.67	15.55	14.72
OBC	83.36	12.17	26.98	29.16	16.38	15.31
EBC	82.39	13.55	28.89	27.21	17.02	13.33
Muslim	81.85	16.85	34.44	22.78	14.81	11.11
General	78.18	9.66	29.79	29.38	16	15.17
Total	85.30	11.59	29.53	28.51	15.73	14.64

Although SC households were as likely to have an outstanding loan, the average amount they borrowed was 11 per cent lower. Almost two-thirds of all the loans in the data were taken to either meet health needs (49.16 per cent) or for buying food (25.12 per cent). The stated purpose of the loan did not vary across castes (Table 2).

Table 2: Purpose of loan (%)

	SC	OBC	EBC	Muslim	General	Total
Buy food	26	23.86	25.28	27.75	24.00	25.63
Repay old debt	0.2	0.38	0.56	0.37	0.28	0.26
Education	0.41	0.69	0.45	0.56	1.66	0.51
Migration	0.47	0.23	0.34	0.00	0.41	0.41
Household durables	0.38	0.23	0.00	0.56	0.28	0.34
Jewellery	0.02	0.04	0.00	0.00	0.14	0.03
Health	50.18	45.48	49.66	48.04	44.41	49.16
Social Expenses	17.39	16.39	15.24	14.71	17.24	17.04
Farming	1.13	5.43	2.71	1.68	5.79	2.05
Housing	2.65	4.54	3.84	4.28	2.9	3.04
Business	0.89	2.19	1.81	1.3	2.34	1.20
Livestock	0.27	0.54	0.11	0.74	0.55	0.33

The survey collected information on the type of lender rather than the specific caste of the lender. Therefore, it is not possible to match lenders and borrowers belonging to the same kin group. A conservative approximation will be to consider relatives, who are a subset of the kin group; a coarse approximation would include friends, neighbours and relatives. A crucial role for intra-kin lending is suggested by the large proportion of loans taken from friends, neighbours and relatives. These intra-kin credit ties, however, were weaker for SC households as only 43 per cent of the total number of loans and 41 per cent of the total volume of loans of were taken from their friends, neighbours or relatives as opposed to 53 per cent of the total number and 51 per cent of the total volume taken by non-SC households. On disaggregating this category of ‘friends, neighbours and relatives’ we find that the lower incidence of intra-kin borrowing among the SC households was driven by lower lending by relatives.

Table 3: Source of Loan (%)

Source	SC	OBC	EBC	Muslim	General	Total
Commercial bank	0.79	2.77	0.79	1.31	3.61	1.22
Moneylender	52.08	37.99	39.64	43.74	29.26	48.07
Shopkeeper	2.24	2.65	3.83	4.49	3.61	2.51
Gramin Bank	0.53	1.69	0.68	0.37	3.47	0.82
Friends, neighbours and relatives	43.12	53.4	53.04	47.85	58.39	46.02
SHGs	0.75	0.65	1.01	0.75	0.28	0.72
Other Sources	0.48	0.85	1.01	1.5	1.39	0.63

In addition to the friends, neighbours and relatives, local moneylenders were a crucial source of informal credit. Both the incidence and the depth of credit taken from moneylender lender credit were higher among SC households- moneylenders accounted for 52.7 per cent of the total volume and 52.08 per cent of the loans taken by SC households. The corresponding averages for the entire sample were 48.50 per cent and 48.07 per cent, respectively. An interesting feature of the debt portfolio is that while most of the loans were not collateralized (3.57 per cent), the level of collateralization was even lower for loans taken by SC households (2.2 per cent).

The average annual interest rate was 57.9 per cent per annum. While the interest rate for the general caste households was the lowest (42.8 per cent per annum), SC households paid 61.1 per cent per annum. The two primary sources of credit for SCs – moneylenders, and friends, neighbours and relatives – charged a significantly higher interest rate as compared to the interest rates charged by these lenders to other caste groups. This difference was in the range of 7–10 percentage points.

The equilibrium interest rate is determined by a multitude of household/loan level factors, which may systematically differ across caste groups. Perhaps the large differences in the interest rate across caste groups capture the differences in the contract offered to SCs. For instance, a household's proclivity to engage in risky behaviour could be one such important aspect factor that would lead to a different loan contract. We included a rich set of household level variables that would capture the household's creditworthiness and risk aversion. These variables are land ownership, indices from ownership of agricultural assets and livestock, monthly per capita consumption expenditure, and an indicator for the SC household is residing in an SC majority habitation (*tola*). We include the number of years for which the loan had been outstanding, the age-rank of the loan in the credit portfolio, and indicators for history of borrowing for consumption exigencies and their repayment status. We also include the source, purpose, and type of collateral (if any) of the loan. We also control for gender and education of the household head along with his/her age and age squared. Finally, we include village fixed effects that capture the degree of competitiveness of local credit markets.

We begin by looking at the effect of caste on interest rate with only village fixed effects (see Model (1), Table 4). SC households paid a higher interest rate than all other caste groups, with the differential being the highest when compared to the general caste households. Next, we include household level and loan level covariates. The result from this specification is described in Model (2) in Table 4.

Table 4: Dependent variable- annualized interest rate

	(1)	(2)
OBC	-9.236***	-4.032***
	(-10.002)	(-4.069)
EBC	-8.085***	-3.969***
	(-7.373)	(-3.827)
Muslim	-8.663***	-5.887***
	(-4.940)	(-3.411)
General	-15.20***	-6.076***
	(-9.195)	(-3.591)
Constant	59.79***	80.22***
	(178.727)	(23.783)
Household's demographic control	No	Yes
Household's wealth controls	No	Yes
Loan characteristics	No	Yes
Household’s borrowing history indicators	No	Yes
Village Fixed Effects	Yes	Yes
Observations	17,591	16,994
R-squared	0.031	0.110
Number of villages	333	333

Results indicate that there is SCs are charged a higher interest rate when compared to other caste groups. Once we control for relevant household-loan level information, this narrows, but does not disappear. To put this interest rate differential in perspective, the difference between the average annual yield of corporate backed AAA[vi] bonds and junk bonds[vii] in the American stock market around the time of the survey was 10 percentage points. The difference in the riskiness of lending to SC households and general caste households would have to be almost 60 per cent of the differential in the riskiness of assured return bonds and non-investment grade junk bonds in volatile post-recession recovery period to justify the persistent interest rate differential[viii].

5. Why is debt costlier for SCs? A Qualitative Deep-Dive

The findings from the quantitative analysis of credit markets in rural Bihar help us delineate some themes that are the starting point for the qualitative analysis - why is it that despite the similarity in distribution of borrowing purpose, SCs are less likely to borrow within their kinship network, and are charged a higher interest for smaller principal amounts?

We begin this section with an excerpt from an interview with Sitaram Thakur, an old-timer in the business of moneylending in Ramganj. When we approached him, he denied being a moneylender by profession anymore, “Look, these days moneylending as a business has shut down. Everyone has access to banks and bank accounts. I only deal in small money now”. He then went on to talk at length about his lending networks, “I only lend to railway porters anymore. Those are the only guys that come to me and repay with an interest of about 3–5 per cent per month”. On being asked about cases of default he said “Earlier, I had more muscle power, I could extract the principal with interest; now it is not that simple anymore. Now the government is on their side, and if I do or say anything they can work the Caste Atrocities Act[ix] against me. So a lot of people don’t give them loans anymore”. And when asked how is this business viewed in the village? “Just helping out” he said, indicating that he saw it more as an act of charity than a purely financial transaction. It is worth mentioning that in our interviews with villagers in the four years that preceded this interview, Sitaram Thakur was often described as an altruistic and principled man by his existing network of borrowers. He even advanced interest free loans to those who were already in his network. However, new borrowers considered him to be shrewd and deceitful. They thought of him as a corrupt man who did not care for those who did not belong to his *jati* (or sub-caste).

We begin with this excerpt because it illustrates a number of interesting aspects of informal credit transactions in rural Bihar – their social embeddedness most of all, the shifting nature of caste relations and their impact on transactions, and finally the persistent inequalities in informal credit markets. Sitaram Thakur, a general caste lender (belonging to the *Kshatriya* caste), occupies the highest position in the local caste hierarchy. Thirty years ago, Thakur had exclusive control over land and labour and offered 'inter-linked' deals to his borrowers whereby they could work as labourers at a wage below the normal rate and also take credit at high interest rates. Along with these inter-linked transactions, Thakur also derived power from the use of force (or threat thereof) in the event of a default. His position was further cemented by the fact that inter-village lending was limited.

Thirty years hence however, Thakur explains that he does not have that kind of market or muscle power. He has weak social ties with those outside his caste. With the breakdown of the *jajmani* system he cannot enforce credit contracts through inter-linked transactions in land and labour markets. This exacerbates the distance between him and those outside his caste category, weakening the credit ties. Thakur now lends only to those who were already in his network of borrowers. This network also happened to be those of his own caste. Inequality emerges therefore not from explicit discrimination, but from initial asymmetrical social interactions where advantages accumulate on one side, and are fortified by construction of social categories that justify and sustain unequal advantage.

Some lenders enforce the loan contracts by asking for a collateral against the loan. In Virganj for instance, a *sonar* (goldsmith) when asked about whether people of all castes came to his shop, he replied saying he does not know if everyone can come to his shop because they do not have gold to give as collateral, but whoever does come to his shop is never denied a loan: "We are not a relationship-based business, I can give loans to anyone, as long as they have something valuable to give me as a collateral". On rare occasions, he lends to those he knows even if they do not have gold – but they must have a guarantor, someone known to the *sonar* already. Few of his clients are therefore from SC families, as they usually do not have gold to give as collateral or guarantors known to both them and the *sonar*. This is another mechanism through which caste-based inequalities manifest and persist to the disadvantage of SCs within credit markets.

Which brings us to a third kind of moneylender in rural Bihar, most of whose borrowers were SCs. Generally, a migrant, who resided most of the year in Delhi, Punjab or Kolkata and lends his newly acquired disposable income. We met with one such individual in Shahpur, a small village in the district of Madhepura. Much like the *sonar*, Govardhan Yadav was open about his credit transactions, and he gave credit to all individuals within as well as outside the village that sought a loan from him. Unlike the *sonar* however, he lent much smaller amounts. As a migrant, he had neither time nor resources to carefully assess the creditworthiness of his borrowers, monitor them or enforce social pressure in the event of default – all good reasons why he lent smaller amounts but at larger interest rates. His wife conducted most of his transactions in his absence. Yadav represents a newly available line of credit to SC households – which while easily available, but are smaller in amount and have higher interest rates.

Sitaram Thakur, the *sonar* and Govardhan Yadav represent three very different types of moneylenders typically seen in rural Bihar. The first category of traditional moneylenders are wealthy, unlicensed, home-based lenders, who deal in money or land collaterals. They lent money at anywhere between 48–60 per cent per annum interest rate. The second category are shopkeepers who are market based, licensed moneylenders – *sonaars* and *telis* (traditional lending and / or business castes) – who set up shop in the main market area of the village. They lent based on the value of the gold or other valuable item being collateralized, and they charge interest rates between 24–48 per cent per annum. And finally there is the third category of new small-scale, home-based and unlicensed lenders. These are mostly SCs and OBCs, migrants with newly accumulated wealth who are gradually lending small amounts on high interest rates. Table 5 describes the distribution of these three types of lenders across the four villages.

Table 5: Three Types of Moneylenders and Caste Compositions in the Four Villages

District	**Madhubani**	**Muzaffarpur**	**Saharsa**	**Madhepura**
Village	**Ramganj**	**Virganj**	**Saifpur**	**Shahpur**
Population (2001 Census)	1464 (445 HHs)	2056 (337 HHs)	3546 (715 HHs)	3975 (718 HHs)
Number of hamlets	4	10	10	5
Traditional Moneylenders	Brahmins (36%)	Sheikhs, Pathans (24–48%)	Telis, Marwaris (36–60%)	Sheikh
Shopkeepers	Sonar (24%)	None	Telis, Marwaris, Sonar, PDS dealer (24%)	
New home-	Yadavs	Choudhurys	Rams, Yadavs,	Yadav,

based lending	(60%)	(60%, 120%)	Musahar (60%,120%)	Halwai (120)

These three types of moneylenders and their lending practices highlight a few trends on the supply side of credit in rural Bihar – first, that Basu's (1987) Disneyland monopolist, who offered inter-linked contracts in credit, land and labour markets is no longer a valid representation of rural credit markets, and there are far many lenders in the market than ever before. In all four villages, very few SCs reported performing agricultural labour on lands owned by general caste. Migration and diversification in occupations has meant that both general castes and SCs work a range of different jobs, and traditional clientelistic structures have weakened. However, far from levelling the playing field, inequalities persist. Moneylenders being primarily general castes have more information about general castes – both the *sonar* and Thakur lent mostly to general castes. The new moneylending class – OBCs and a handful of SC migrants– offer smaller loans to a larger clientele that goes beyond their kinship networks. Rather than offer big loans at low interest rates to their inner circle like their general caste counterparts, they offer smaller loans at high interest rates to a far larger client base. Overall hence, despite greater supply of credit in the market, SCs are now sorted into borrowing from sources that charge higher interest rates like Govardhan Yadav.

In order to develop a fuller understanding of how SC borrowers are sorted into these credit transactions, let us now look at the demand side of credit. Consider the following two quotes from two neighbours in Ramganj – one general caste and one SC:

Researcher: Can anyone get loans in the village?
Respondent 1 (SC): Those who know you will give you a loan. If I ask you for 50 rupees will you give me the money? This Panchayat spreads over 6 km. Not everyone recognizes me here.

Researcher: Can anyone get loans in the village?
Respondent 2 (General caste): I can. From rich people... If someone is sick or if there is a marriage, I can take a loan.
Researcher: And who gives loans here in the village?

Respondent 2 (General caste): Subodh Jha gives, *Mukhiya* (or village president) also gives, Jagannath Jha, Chandu Jha (these are the names of all the general caste, *Brahmins* in the village).

These two quotes are from two men – the former a *Dhobi* (SC), and the latter a *Brahmin* (general caste). The first respondent runs his own shop in the village successfully and is considerably better off than his Brahmin neighbour. However, he is still aware that his ability to raise credit depends entirely on who knows him and his networks. This is one of the fundamental truths of the debt landscape in rural Bihar – a household's credit rarely depends on its material possessions or its cash on hand. It depends instead on relations to other households, so much so that people commonly speak of each other's credit-worthiness in terms of their ability to raise money from other people on short notice. Respondent 2 on the other hand, who is *Brahmin*, is able to easily access networks of *Brahmins* and other general caste moneylenders and can avail loans at lower interest rates.

There are two explanations for the shift of SC borrowers towards the third kind of lenders. Some SCs voluntarily seek loans from the new crop of moneylender because it is less humiliating than borrowing from migrants of similar caste than from general caste moneylenders because face-to-face interactions are less humiliating. "We take loans from outside the village and pay it back once we have earned some money. The ones who give the money are from different castes. We take it at about 10 per cent. Nobody gives it for less than that. But the good thing is if we are unable to repay it back, they are less likely to threaten us"[x]. Others however claim that they are often rejected for large amounts by general castes and are forced to borrow small amounts from the new moneylenders who seldom make assumptions about their creditworthiness (which is consistent with what we see in the quantitative evidence that the average loan amount is 11% smaller for SCs). "We rarely get the required amount from one lender, and are forced to look for multiple lenders and break up the amount we need into smaller loans from multiple lenders", say *Ansari* (Muslim, SC) women in an FGD in Virganj. One *Ansari* woman in Ramganj explains one of her loans, "… someone in my family was unwell and I needed 15,000 rupees for an operation. I had to take it from three different people, because no one person would give me so much money. It took me 15 days to arrange for the money"[xi].

While there is little evidence of explicit discrimination, and SCs today have more information about the entire gamut of interest rates across moneylenders, they continue to face higher interest rates than their general caste counterparts. As discussed before, this is an outcome of the asymmetric relations that persist in all four villages – meaningful social interactions continue to be limited within castes, and these interactions generate greater advantages for general castes than SCs. We therefore find evidence for segmented monopolies within the same village, one where general castes are able to access lower interest rates and larger principal amounts than SCs, who are left with higher interest rates.

6. Discussion

Our results question the dominant narrative of inter-linked markets as applied to informal credit markets in Bihar. Combining extensive survey data on informal credit in Bihar, with four years of qualitative data on the supply and demand side of moneylending, we advance a holistic analysis of the informal moneylending landscape. Caste relations have fundamentally changed in Bihar (in that the *jajmani* system is no longer an adequate frame of representation for caste relations), which has led to a shift in the socio-economic profile of both lenders and borrowers. However, the more things change, the more they remain the same – despite the monumental changes in land, credit and caste relations, and the fact that there is little evidence for overt discrimination, SCs still pay significantly higher interest rates and get smaller loans. Ties of kinship, neighbourhood, and shared caste affiliation remain crucial to debt transactions, albeit they manifest themselves differently – it is not the moneylender-landlord charging SCs a higher interest rate, but a systematic sorting of SCs into higher interest and low principal lending markets.

This context is important to take into account especially when designing anti-poverty interventions with the explicit aim of eliminating moneylending networks. Policy makers, particularly when rolling out a microcredit project, often make assumptions about the local credit and caste nexus – narratives of bonded labour, "usurious" monopolistic moneylenders and limited credit access for SCs are surprisingly resilient.

The assumption is that offering cheaper credit can eliminate the need for borrowing from high interest rate markets. However, these projects fail to consider the socially embedded nature of these transactions that are deeply caste-based. As Majumdar et al (2017) demonstrate, even a well-designed microcredit project can fail to deliver sustainable socio-economic impacts when a thorough understanding of the local context is not carefully incorporated into the project, especially when scaling up.

We stress not over-interpreting these results beyond Bihar, since the evolution of caste and credit relations in different Indian states is likely to be different based on other factors such as migration, proximity to urban markets etc. However, our results are an important contribution as Bihar is home to 36 million poor, which is approximately the size of Canada and greater than the population of most European countries. Moreover, understanding the persistence of unequal outcomes in Bihar is especially important because poverty and social inequality have historically been stubborn to concurrent economic progress (Ravallion and Datt 2002).

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Endnotes

[i] The word jajmani has evolved from the word Jajman which means "those of upper caste", and the system refers to a socio-economic interaction between castes at the village level, with each caste and sub-caste having its occupational specialty.

[ii] In this article, we refer to the Scheduled Castes (an officially designated group of historically disadvantaged people as recognized in the Constitution of India) as collective groupings, while keeping in mind the heterogeneity within this group. We also refer to the Other Backward Class (OBC) as a collective term used by the Government of India classify castes which are socially or educationally or economically disadvantaged. And finally, we refer to all other "unscheduled" and non-OBC caste groupings as the "General" Castes, who are typically of higher socio-economic status within the Hindu caste system.

[iii] Gaya, Madhepura, Madhubani, Muzaffarpur, Nalanda, Saharsa, Supaul. These districts are in the north-western part of the state.

[iv] Kharif is an agricultural season in South Asia that lasts from April to October.

[v] Household size, land ownership, asset index, age of household head, age of the household head squared, livelihood portfolio

[vi] An obligor has extremely strong capacity to meet its financial commitments.

[vii] An obligor is currently highly vulnerable.

[viii] The difference in the interest rates charged to general caste and SC households described in Model 2 is equal to the difference in yield across AAA bonds and junk bonds in May 2018.

[ix] He is referring to The Scheduled Castes and Tribes (Prevention of Atrocities) Act 1989, popularly known as the POA or Atrocities Act. It is an Act of the Parliament of India enacted to prevent the commission of offences of atrocities against the members of SCs and STs, to provide for Special Courts for the trial of such offences and for the relief and rehabilitation of the victims of such offences.

[x] Interview with Lalima Devi, Ram caste, Virganj village

[xi] Interview with Anjum Khatoon, Ansari caste, Ramganj village