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## CONTENTS

# How Does an Informal Credit System Affect Lives and Livelihoods! Case of Fishermen of Chilka Lagoon, Odisha

**Soumen Ray** *


## Abstract

*This note on fishermen of Chilka region of Odisha substantiates how the fishermen have been subjugated by the external forces - middlemen and money lenders. Field interactions reveal a distinct informal financial market, where entities with commercial interest are providing credit facilities. The fishermen, who take loan primarily for economically productive purposes, effectively keep bondage to part with their earnings from the next season's fishing. This finally limits their marketing opportunities, to place the catches at a remunerative market of their choice. The outcome is unsustainable use of open sources under constrained situation.*

*The issue is that such form is operating in the presence of a distinct formal credit market. It is an odd question how the moneylenders have their presence felt in front of the formal institutions, which have the business strategy to lend, a pre-determined budget, investment planning and accountability to be responsive to clients' needs (social responsibility). It also appears that the opportunity cost for negotiating with the formal institutions for loan is high compared to the interest rates paid under the informal credit systems.*


## Introduction

Small-scale fishermen largely depend on open sources for livelihood. Subjugated by external forces for the money required for day to day operation and high interest rates force the fishermen to go for over exploitation and unsustainable use of open sources. This note describes

* Soumen Ray (soumen.wfp@gmail.com) is with UNICEF. The views expressed in this paper are those of the author alone and do not necessarily reflect the policies of any organisation.






the dynamics of informal financial support among the poor fishermen of Chilika Lake of Odisha. Assumption is that requirement of credit largely emerges because of lack of access to sell in the right market and subsequent poor returns; which in turn is determined by certain institutional constraints.

To cope up with complex situations in day to day life and to meet the basic needs, in absence of a decent livelihood, common men often gets into perpetual debt. In India, informal credit market is more visible in the rural areas. Lamberte (1987) classified informal credit markets into mainly five sub-sectors: Rotating savings and credit association, landlord moneylenders, traded miller moneylenders, farmer lenders and professional moneylenders. Kwack et.al (1981) classified the rural credit markets into friends, relatives and neighbors, farmers, landlords, input dealers, output dealers, professional money lenders and prawn shops. Schrader (1993) explained that the literature of sociology of development labeled moneylenders with two stereotypes for the most part. The first one considered them as 'loan sharks' who sucked the poor and innocent peasants. The other stereotype reflected the dominant opinion in development theory literature that moneylenders were traditional forces, which prohibited progress of common men and need to be eliminated for the sake of development and replaced by banks and other formal savings and credit institutions. It is however observe that despite the presence, formal financial institutions in our country fail to include the poor and needy.

To strengthen the institutional credit, government of India in initial period focused on Cooperative Credit Societies. In 1971, the share of cooperatives in rural credit went up to 20 percent (Shah et al, 2007). In later periods, the cooperative societies had been seen to suffer from many shortcomings. The mutual concept between savings and credit functions, which is very important for the successful functioning of the cooperatives societies had been lacking in India. Only after 1969, the provision of credit in the countryside and to the needy was brought under a proper government policy (Ramachandran and Swaminathan, 2005). In the early 1980s employment generation and poverty alleviation were recognised as very important objectives in the policy. In order to benefit the weaker sections of the society, credit was directed towards the intended segment of the society. In later phase, during 1969 and 1990, however saw unprecedented growth of commercial banking in terms of geographical spread and functional reach in India (Shetty, 1997 cited in Ramachandran and Swaminathan, 2005).

The All India Debt and Investment Survey of 1980-1981 showed the expansion of institutional credit and reduction in the share of landlords, traders, friends and relatives and a consequent reduction in the share of moneylending to about 16 per cent in the rural credit markets (Gadgil, 1986; Binswanger and Khandker, 1995). The phase of liberalisation after 1991 came up with banking policy which is guided more by the market than by the regulations set by the public authority. After 1990 mergers and swapping of rural branches became the norm. The share of agriculture in total bank credit had fallen from 19 per cent in 1990 to under 11 per cent in March 2005 (Shah, et al., 2007). The small cultivators were the worst affected by the post-1991 decline in credit to agriculture. In contrast advances to large cultivators have risen in the same period (Ramachandran, and Swaminathan, 2005, Shah, et al., 2007).

It is know that in the formal sector lending, banks and other financial institutions generally require significant collateral, have a preference for high income and high loan clients, and have lengthy and bureaucratic application procedures, which are difficult for a petty person. It is also known that bank incurs substantial costs to manage a client account, regardless of how small the sums of money involved are and there is a break-even point in providing loans or deposits below which banks lose money on each transaction they make. Poor people usually fall below that breakeven point. This affects delivery of financial services to the poor people. In addition, most of the poor people have few assets that can be secured by a bank as collateral. This means that the bank will have little recourse against defaulting borrowers. The final result is that poor take recourse to informal sector for credit requirements.

Fisheries-related activities provide sources of livelihoods to nearly 14.5 million people in India (Livestock Census, 2003) and this group is largely one of the poorest and marginalised. A regional workshop on Microfinance and Credit Programmes in Support of Responsible Inland Capture Fisheries Practices, held in Malaysia, during April 2004, identified some major threats to the fishery sectors. These threats were the lack of capital needed for developing and rehabilitating inland fisheries, and related to this, the lack of awareness of financial institutions on the investment and credit





needs of inland fisheries, and exploitation of fishers and primary producers by traders. In a fish marketing economy, some studies illustrate that middlemen put pressure on small-scale fishermen to sell their entire catch at a lower price in every possible way (Flaherty and Samal 2005; Iwakiri and Neaz 1982; Misra 2002; Rubinoff 1999). It is commonly argued that middlemen exploit small-scale fishermen in the fish marketing process in combination with money lending (Iwasaki and Shaw, 2008).

**The study area**

Against the backdrop this note presents a case of fishermen of the Chilka lagoon of Odissa, India.

Chilka Lake is the largest brackish water lagoon along the east coast of India which shelters thousands of families who depend on fishery business. The lake is surrounded by about 130 fishing villages. The fishing population consists of sub-groups such as Kandaras, Khatias, Niary, Nolia, Tiaras, etc. who uses different fishing gear and catch different species of fish (Patil, 1970). However, fishing communities confront several issues that constrain their life choices. The traditional fisher folk around the Lake are frequently hard hit by several factors - socio-political, economic to environmental fronts. Catching juvenile prawn and crabs, social conflicts, over-exploitation of lake water, growth of weeds, declining salinity, and shrinkage of lake have also adversely affected the biodiversity of the Lake. Incomes of the fishermen being seasonal, credit are needed to smoothen out the irregularity between the flow of earnings and level of expenditure. Majority of the local fishermen thus are in interminable debt because often they are unable to pay the loans taken from the money lenders on time. This is largely because of the declining fish catch. Moreover, there is heavy load on the fishermen to address their basic needs of health and education in the depleted State, apart from ensuring the working capital as well as long-term investment requirements in their trade.

A survey of 450 households in 30 villages carried out in 2008 around Chilika covering Puri, Khurda and Ganjam districts of Orissa revealed that limited earnings from fishing activities leaves very little surplus. Even those households that generate some surplus income use it up during the lean periods or for consumption needs. This puts majority of fishers under debt trap.

The note summarises the findings of the survey and shows the existing financial support systems among the fishermen community to absorb shocks and ensure a decent living.

**Summary of the findings**

The family structure of the sampled households reveals predominance of nuclear family (68 percent). Most of the households (67 percent) have 4 to 6 members. There is not much intergenerational occupational changes in the households as 85 percent fishermen households are involved in the occupation for last four or more generations. Earning of more than 75 percent fisherman households is found to be less than Rs.4000/ per month. Earning of about 7 percent households is found to be more than Rs. 8000/ per month, revealing somewhat skewed distribution of income in the sampled households. Overall, however it reveals that the lower income group is predominant in the study area, which is close to the poverty line figure (Rs. 3364/- for a five member family in the rural areas) of our country.

**Existing credit system and impact on livelihood**

As indicated earnings from fishing activities is meager and this leaves limited surplus beyond their subsistence needs. Even the households able to generate some surplus income use it up quickly during lean periods or spend it for social purposes. The outcome is that fishermen are left with the only option to take credit at high rates of interest. Sometimes credit is taken even by guaranteeing their future fish catch. Field visit tried to get the opinion of fishermen on the availability of financial support during the dire needs. Altogether 79 percent fishermen households revealed that it is easy for them to get loans from the local money lenders. Just five percent households reveal convenience to avail loan from banks. Friends and relative are reportedly source of loan in case of six percent households. Only four percent households reveal receiving some form of favourable support from government schemes.






Financial supports and loan from banks though come with low interest rates, people prefer borrowing from moneylenders because it is hassle free (70 percent sampled households believe this). This is also because the opportunity cost for negotiating with the formal institutions for loan are too high compared to the interest rates paid under the informal credit systems. This means the credit provided by money lenders is timely available when it is most needed and there are minimum procedural formalities. Overall it was found that 56 percent of the respondents' households have taken loans from the money lenders, whereas 20 percent have taken loan from bank, 9 percent have taken loan either from self help groups, relatives or friends and about 3 percent have taken loan from other sources. It may be mentioned that there are a few self help groups engaged in providing credit and it is not possible for them to meet large scale credit demand for the fishermen. About 13 percent households have so far not taken any loan. Information reveals that the fishermen seek financial support during crisis. A panchayat member of Mahisha village of Puri district views, it is not easy for small-scale fishers to access credit. There is lack of awareness among fishing communities about microfinance services and other formal credits available. This, however, also re-establishes the notion that fishermen are prone to seasonal poverty, which leads to taking loans from various traditional money lenders, who either charge high interest or take the fish catch against the loan.

The difference between formal and informal systems of credit delivery is that the formal sources give credit once for long term and expects to be repaid regardless of the ability of the fishermen to repay. The informal system on the other hand, being more profit concerned, ensures that fishers continue fishing to be able to repay their loans and the sizeable interest on them. Thus the respondents inexorably informed that the margins that traders tend to maintain are unjustified but unavoidable. About 67 percent fishermen believe that the formal credit system has been made without understanding the credit needs of the fishermen. Respondents feel that the effects of seasonal hunger and deficiency on the overall livelihood systems of the poor fishermen were never looked into in the institutional credit system. This proves that the traditional credit structure at the fishing village has established a value chain, which has resulted in setting up a strong bondage in the fishing communities. One of the most important components which were explored during the field visit was the purpose of loan. The findings show that out of the total respondents who have taken loans, 22 percent have taken loan for buying fishing boats, 53 percent for buying fishing gears, 0.7 percent for buying motorised engine for the boats, 3.2 percent for other fishing materials. The study also shows that about 2 percent have taken loans for buying land or ponds for fishing and 1.2 percent for buying live stocks. In terms of social cause, 6.2 percent have taken loan for marriage and 10 percent have taken loan for other purpose. This shows that the maximum fishermen have taken loans for economically productive purpose. This also means when a fisherman takes loans for domestic needs or for regular livelihood, he effectively keeps bondage to part of its earnings from the next season's fishing. This also limits his marketing opportunities (to place the catches at a remunerative market of his choice), as the lender may enjoy special rights to the catch at pre-decided prices. This can also lead to the fishing family being virtually bonded to a trader, with the trader becoming the possessor of the family's productive assets.

Interactions with the money lenders on the dimensions of credit structure reveal two types of loans; one-day loans are provided for a day and returned in the same day or the day after, and interest was charged accordingly and the second one is loan for a particular period. There are various sizes of loans (ranges from Rs. 100 to Rs. 50,000), duration of credit and the interest rates which are dependent on the amount of credit and the type of borrowers. The banks usually provide start- up capital to initiate fishing activity, whereas the money lenders provide working capital to meet recurring costs in the activities as well as loans for consumption purpose.

On the other hand the marketing structure in Chilka lagoon is also managed by the *Mahajans* (money lenders) through their commission agents. Fishermen in general sell their catch to commission agents and the agents then hand over the catch to the money lenders. The prevalent poverty among the fishermen and the debt bondage strongly influence the sell at the hands of commission agents. The money lenders provide advance money to the commission agents as well as to the fishermen and procure the catch. The focus group discussions with the fishermen reflects that the dealings with the money lenders through the commission agents has compelled them to comply with minimum or less profit, as they are left





with no other options. The situation forces the poor fishermen to get trapped into long term dependency and a vicious circle from where it is difficult to break away. This also has created a window of opportunity for the commission agents, who mostly use their negotiation power and selling capacity at the upper ends to make good money. Substantial profits, mostly made during the harvesting seasons have attracted many middlemen into this business. It is found that the commission agents play an additional role by supplying grocery items such as rice, water, vegetables, fuel wood, other food, etc. to the fishermen on the boat (Samal and Meher 2003a) enabling them to stay on water for additional days and raise the haul. It appears that the network and hold of the middlemen is so strong that they provide the minimum necessities so that the catch is not missed and the supply is assured.

## Conclusion

In the study region there exists a distinct informal financial market. The issue is that such form is operating in the presence of a distinct formal credit market. It is an odd question how the moneylenders have their presence felt in front of the formal institutions, which have the business strategy to lend, a pre-determined budget, investment planning and with a responsibility to be responsive to clients' needs (social responsibility).

There is need that formal credit institutions ensure credit to the marginal and oppressed sections of the village communities (including women) and paves the ways for sustainable livelihood. It is understood that banks have tools to understand the absorption capacity of the people who could climb up the layers of their life with financial provisioning. Moreover, there are other mechanisms to facilitate financial services with the help of CBOs and NGOs. Formal institutions unlike the informal lenders are not run entirely by commercial interests- a minimum risks in dispersion could serve interests of a large section of the poor people, creating a model in intervention for wellbeing. Number of NGOs who are working in the sector of micro financing, can be brought in, to oversee the situation and provide support and there are many such successful cases in India. Similarly, the financial services can also be provided by establishing grameen (village) banks and cooperatives. In the past, private and government banks provided loan to the fishermen for the purpose of cutting off the negative dependency with fish merchants. The attempts however failed due to loan defaults with psychology of 'loan waiver' (Samal and Meher 2003); the debtors could easily escape their responsibility for loan repayment taking recourse to several ways. Such contexts are apparent and universal, and the banks need to find ways to prevent a handful of such defaulters. More number of small fishermen associations can be created and linked with micro finance provisions. Moreover, the financial services must be complemented with other services like improving access to basic literacy level, nutrition and health care. Such approach will not only ensure a healthy financial structure within the fishing community, but will also ensure that the fishermen have alternate livelihood options (to certain upper end jobs with better human capital formation, taking the insights that there is overcrowding in fishing sector and depletion of the resources) through the linkage to effective credit structure in the area.

Taking into account the poor socio-economic condition of fishermen of Chilika, as discussed, it has become clear that no attention has been paid in capacity building or awareness generations of the fishermen that would have encouraged fishermen to think and act in a more rational way to develop fishing activities in sustainable manner. Without a strong socio-economic foundation, the debtors may find it difficult to operate the fisheries that are highly exposed to constant changes in the environmental and socio-economic sphere. Putting it all together, this note argues to have a more regulated credit structure in the region to ensure decent livelihood for the fishermen.

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# Journal

The journal Social Change and Development intends to provide an academic platform to scholars belonging to the northeastern region of India as well as outside to project issues focused particularly on the region, express their views and analyse the issues putting them in proper perspective, both historically and as guidelines for the future. However, issues cutting across the region's border are also welcome.

The unique diversity of the region in terms of ethnicity, culture, language and social institutions makes the region a challenging area of study for the researchers. Although, there has been a prolific growth of literature on the region, it is still lacking discussions with academic rigour. It is therefore, strongly felt that the social scientists would take up issues for academic debate and the journal acts as a platform for the exercise. This is expected to create a better understanding amongst the people of the region and the rest of the country. The geographical seclusion of the region from the rest of the country is sought to be broken through vibrant academic interactions.

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