Abstract

Access by the poor to financial resources on favourable terms and conditions is a necessary pre-requisite for achieving any developmental goal for an economy. However, in India, about 50 percent of the population are financially excluded from the formal banking network. These households avail loans from informal lenders, who generally impose unfavourable terms and conditions on the borrower. This paper, based on an in-depth analysis of *National Sample Survey Organisation (59th round, All India Debt and Investment Survey, 2003)* unit record data, seeks to understand the factors that influence the formation of interest rates in the developed region vis-à-vis the less developed ones, as the latter are seen to experience higher rates of interest. Using an ordered logit model, our analysis shows how in the developed regions the lack of monopoly power of lenders brings down interest rate levels.

Keywords: indebtedness; credit market; formal lending agency; informal lending agency; interest rate; moneylender

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Acknowledgements

We wish to thank Akbar Noman, David Hulme, Michael Lipton, and participants at the 2009 Advanced Graduate Workshop on Poverty, Development and Globalisation in Manchester for useful suggestions. We are also thankful to B. P. Vani, Abdul Aziz, V. M. Rao, K. Gayithri, C. Nanjundiah and the anonymous referee for useful comments on an earlier draft of the paper. The usual disclaimer applies.