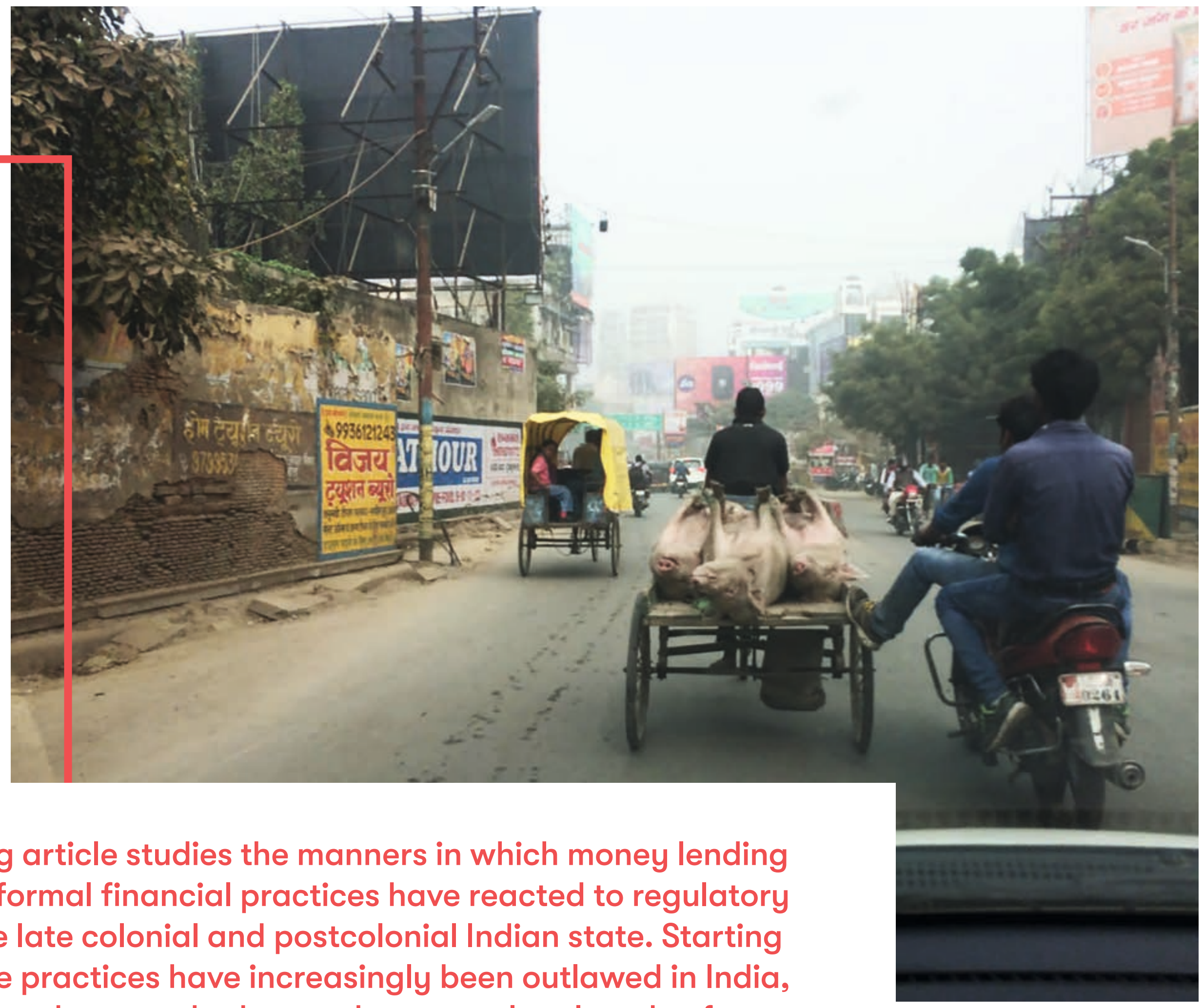
A rickshaw driver transporting pigs in western Banaras. Image: Anoop Sharma.



Urban space, reputation and entrepreneurial transgression

Informal finance in a North Indian city

Sebastian Schwecke

The following article studies the manners in which money lending and other informal financial practices have reacted to regulatory policy by the late colonial and postcolonial Indian state. Starting in 1918, these practices have increasingly been outlawed in India, or have at least been pushed toward an extra-legal mode of operation. Using socio-spatial patterns and reputational means, informal financial practices have remained an important everyday feature of rural areas, but even more so of Indian cities.

There is a tea stall attached to a rickshaw stand next to one of the busier roads running through the western neighbourhoods of the north Indian city of Banaras (Varanasi). In the early evenings, this stall is one of the nodal points at which Babu[1] is engaged in the type of business that the Indian state for well over a century has sought to displace through regulation, while at the same time failing to provide a functioning alternative. Babu – a young professional with a college degree and a relatively well-paying job – becomes a moneylender in the evenings, predominantly targeting rickshaw drivers. He offers small loans that his clients need to tide them over during crises in their everyday lives, charging the locally prevalent interest rates: 30% per month simple interest. Babu's business is illegal, though even in this small area around the tea stall there are several other moneylenders plying their trade, in addition to several thousand lenders throughout the city of Banaras who provide financial services for a variety of target groups ranging from the destitute to successful shopkeepers, traders, and manufacturers. What they do centres on an entrepreneurial transgression of the law, yet at the same time provides a necessary element of India's 'informal economy', as catalysts of a subsumption under capital that differs in crucial ways from historical blueprints for development and from the definition of the 'proper swindle'[2] underlying the Indian state's modernization project or, in global terms, the 'magicality' of ever-increasing procedural codification that forms the hallmark of modern capitalist finance.[3]

Improper transactions and the production of informality

The study of informality (in line with Keith Hart's original emphasis) is related to visible failures of economic segments to comply with predictions based on Weberian notions of rationalisation. Pronouncedly in the South Asian context, it revolves around failures or even the absence of regulation. It has attracted wide-ranging criticism: originally from Marxist perspectives, and more recently in that it produces conceptual binaries that presuppose clear distinctions through its mode of categorization, in the process obscuring gradations and overlaps between the formal and the informal.[4] Especially in historical studies on labour, the emphasis on the subject has also turned toward the study of processes 'producing' not only formality but also informality, implying an active role of the state in shaping the informal sector.[5] However important these criticisms are, they tend to engage with the concept in ways that still follow the original logic of Weberian modernity, depending crucially on an ever-increasing elaboration of codified procedure, rather than seeking to address what makes the informal work. To simplify matters to some extent, the study of informality – especially in the South Asian context – focuses on the absence or gradation of state-led regulation of economic activity, but it should be emphasizing to a much greater extent what is replacing regulation within the informal sector.

Concerning informal finance in South Asia, the most important historical rupture in the evolution that defines its operation concerns the removal of contractual law from what in the process emerged as the informal segment of credit markets in the early twentieth century. Historiographic literature has tended to emphasize an earlier period, following the abolition of usury laws in India in 1855, and the replacement of 'moral economies' of debt by a system relying on contractual law as a step to bring money lending into Indian capitalism.[6] At the same time, subsequent developments have shaped the operation of informal credit markets in contemporary India to a much greater extent. Starting with the enactment of the Usurious Loans Bill in 1918 that bestowed wide-ranging discretionary powers to Indian courts in cases of money lending and proceeding into the post-colonial period, a significant share of credit providers in India withdrew from this 'formalization' in a complex and gradual process, and started to operate beyond the reach of the Indian state.

In the process, the operation of contractual law in a significant segment of Indian credit markets was replaced by economies of reputation, providing a basis for the continued operations of moneylenders that differed both from the emerging 'formal' credit sector and 'traditional' credit practices that centred on loosely scripted mercantile ethics, 'moral economies', and on caste and community networks.[7] Considering the highly exploitative nature of contemporary money lending – with interest rates that are significantly higher than in late colonial India – and the resulting frequency of default by the debtors, the enforcement of contractual obligations remains of paramount importance within the economic segment, but cannot anymore rely on contractual law or 'traditional' forms of social organization.

Money lending as an economy of reputation

Reputation, occasionally depicted in Hindi as *vishvaas* (lit.: faith), constitutes one of the fundamental features of urban money lending in contemporary India, though its precise mechanisms differ across segments of informal credit markets. Within the trade credit segment that underlies much of the business activities in the bazaar and the informal sector, reputation strongly correlates to a mutual endeavour by lenders and borrowers alike to prevent (temporary) default on interest payments. It acts as an impediment to both the strident enforcement of contractual obligations by the lender and the incentive to delay repayments for the debtor. Communication flows, primarily through gossip, ensure that the behaviour of both sides to a transaction becomes widely known. Maintaining a good reputation, for the debtor, therefore may secure advantages in facilitating good terms for future contracts, establish the debtor's status as a reliable entrepreneur and, most importantly, ease access to future credit by a 'good' moneylender who can be relied upon not to transgress the unwritten behavioural codes applying to renegotiations of obligations in the face of future need. For the lender, in turn, maintaining a good reputation not only facilitates the eventual recovery of outstanding liabilities, but increases social standing and maximizes the number of (potential) 'good' borrowers and thereby reduces the efforts involved in the recovery of loans. As interest rates are high, typically ranging from around 2% to 10% per month simple interest, the maintenance of high levels of reputation thus produces a relatively conflict-free market in which both sides co-operate: for instance, lenders are lenient to the extent of offering to defer interest payments even for relatively long periods, and borrowers notify lenders in advance of impending defaults and studiously avoid giving the impression of paying less than they are capable of.

Reputation constitutes one of the fundamental features of urban money lending in contemporary India.

In lending to the poor this mutual assistance to avoid default would be futile because the high frequency of temporary defaults constitutes one of the main elements of this financial segment. Interest rates here are highly exploitative, with small unsecured loans frequently being provided against monthly rates of 30% simple interest. Similarly, debtors are much less likely to be able to repay instalments of the principal, and the accumulation of interest over several months is debilitating for the borrowers. Instead, lending to this target clientele involves practices of intimidation and petty violence that are almost entirely absent in trade credit, though they are still embedded into a discourse of reputation that in this case centres on a performance of supplications for lenience for a 'price' for this lenience. The need to maintain a reputation in petty money lending, rather than avoid conflict, emphasizes the calibration of transgressions of contractual obligations on both sides. The creditor, aware of the limits to extracting even higher payments, is likely to eventually show lenience but will strive to make the process of supplication sufficiently difficult to discourage frequent defaults. In turn, the debtor may seek to evade the lender, thereby increasing the effort involved in lending. Communication flows through gossip remain as significant

Gossip at a *paan* shop. Image: Anoop Sharma.

as in trade credit when it comes to establishing both side's reputations. But once the transactional terms have been agreed, the communication of reputations becomes more strongly related than in trade credit to inter-personal exchanges in renegotiating contractual obligations. Lenders who fail to calibrate their recourses to intimidation will fail to attract 'reputable' borrowers in the future, leading to a vicious circle in which the higher likelihood of defaults and evasion by debtors requires higher levels of intimidation, while frequently defaulting or 'troublesome' debtors will have difficulties in approaching 'good' lenders.

Entrepreneurial transgression and urban space in Banaras

As informal finance in Banaras has become centred on economies of reputation as a means of facilitating entrepreneurial transgression, informal credit transactions have become embedded in a variety of socio-spatial patterns. Some of these are directly related to the processes of communicating *vishvaas*, while others originate from different socioeconomic aspects underlying money lending that may even contradict the spatial ordering of informal credit markets.

As the United Provinces Banking Enquiry Committee of 1930 noted, the emerging segment of informal finance was increasingly becoming the preserve of 'amateurs'. While informal finance in contemporary Banaras still has some enclaves of sophistication – which will be discussed later – most of the market operates in 'amateurish' manners that set limits on its socio-spatial ordering. The relatively strong reliance on gossip and inter-personal forms of communication, combined with the extra-legality (or even illegality) of the businesses, set boundaries for the accessibility of information that can rarely be overcome by the lenders. For much of petty money lending this boundary correlates with a loose definition of the neighbourhood, which forms the limit of accessible and 'reliable' local gossip. In similar ways, the neighbourhood frequently even sets the boundary for businesses in the trade credit segment, though the precise localities tend to be larger commercial clusters.

In petty money lending, especially to the poor, there are two major distinct socio-spatial patterns that can be distinguished according to the degree of accordance with this neighbourhood pattern of ordering markets and the relative mobility of clienteles. By far the larger of the two serves the credit needs of relatively immobile clients. Here, the neighbourhood pattern is reinforced by the requirement for business locations. Contrary to significant parts of public perception, petty money lending, especially targeting the poor, is not typically a form of exploitation of the poor by the petty bourgeoisie but, rather, an exploitation of the really poor by the somewhat better-off poor. Quintessentially, lending to the poor is more likely to be carried out by shop workers than by shopkeepers. The reasons for this are simple: starting capital requirements for petty lending are very low and given the relatively small number of clients that an 'amateur' lender can handle at any given time, and the small principals in petty lending, there are much more lucrative (as well as relatively effort- and risk-free) forms of informal finance for the petty bourgeoisie in the bazaar.

These lenders of relatively low socioeconomic standing benefit from the availability of a location for their businesses that, on the one hand, heightens their hierarchical status vis-à-vis the borrowers and that, on the other hand, forms an environment for the characteristic renegotiation of contractual obligations that can be controlled by the lender. The most important location for this is the shop (or, to a lesser extent, office space). Workloads for shop workers tend to be relatively low – especially in the absence of the shopkeepers – giving ample time to engage in side-businesses like lending. Many shopkeepers are frequently absent from their shops, especially in the mornings as much of the shops' business tends to be conducted in the early evenings, which raises the degree of control over the environment for negotiating obligations by the shop workers as well as their relative social standing during these times. The benefits of the shop as a location for petty lending, however, go together with a disadvantage of relative immobility, making it more difficult to lend to target clienteles that are highly mobile – for instance rickshaw drivers – and who can accordingly evade lenders more easily.

For the more mobile clientele the neighbourhood principle in ordering informal credit markets collapses to some extent. Here, lending and especially the renegotiations of contractual obligations take place primarily along a series of nodal points, specifically at places that the clients cannot easily evade in the long-term, such as rickshaw stands, especially those that are attached to stalls catering to the needs of the drivers. The likelihood of more affluent lenders being engaged in lending in this segment is even lower, considering the need to share social space with their customers. Moneylenders rely on these nodal points to access information just as much as to be able to meet their clients, but will frequently visit several of these points during the course of the day (or, frequently, evening). As rickshaw drivers are able to evade the lenders in the short term by shifting routes, and the whereabouts of the lenders at certain times of the day are familiar to them, the performative aspect of renegotiating obligations is enhanced. Lenders and debtors alike are well aware of the likelihood of encountering each other at these nodal points, so they are often prepared to enter the performance of supplications for lenience against the extraction of a 'price' from the outset.

Communication flows, primarily through gossip, ensure that the behaviour of both sides to a transaction becomes widely known.

A similar variation on the neighbourhood pattern takes place in lending from homes. Creditors engaged in this type of lending prefer to serve stable circles of clients, often by offering better terms, or at least better treatment. In turn, borrowers seek to maintain access to these circles by going to great efforts to maintain good relations with the lenders, visiting them on their own volition even in cases of default in order to uphold their reputations. To some extent, the stability of client groups (and the resulting familiarity) negates the necessity for the lender to gather information, though many lenders continue to spend some of their time hanging out at various centres for local gossip. In one particularly evocative case I have come across, the lender admitted that this was hardly necessary and that he was simply engaging in these activities as it formed an agreeable way to spend time in the late afternoons and early evenings.

In contrast, the neighbourhood pattern of petty lending is significantly compromised by a geography of shame, though this reinforces the central notion of communicating reputations. Infrequent borrowers occasionally seek out moneylenders in distant locations, primarily to avoid gossip carrying news of their need for loans within the locality. Yet, approaching distant lenders is difficult as the lenders need to assess the debtors' reputations, so that these efforts invariably rely on introductions and vouching for good conduct by relatives and friends. In turn, this tends to diminish the rationale of keeping the transaction secret. The rationale, accordingly, is less to keep their misfortunes from becoming public knowledge through gossip but rather to save face through the difference between gossip on (supposedly) secret and (arguably) well-known information.

Reinforcing the neighbourhood pattern are cases of secured lending to the poor defined by the value of the collateral and its acquisition rather than direct accumulation through interest, for instance, in cases in which property rights in poor neighbourhoods are acquired by lenders for the purpose of real estate development. In the city proper, however, cases like these have become increasingly rare as the business increasingly shifts to the peri-urban areas. The main exceptions to the neighbourhood pattern of urban informal finance instead originate from the trade credit segment and its enclaves of sophistication. While most lenders in the trade credit segment, especially in retail trade, conform to the 'amateurish' characteristics of informal lending, the bazaar areas of Banaras and specifically the neighbourhoods that make up the 'heart' of the bazaar comprise a number of entrepreneurs engaged in specialist roles. These either facilitate loans by acquiring information on larger borrowing needs and pooling capital available for lending as well as taking over the management of transactions and recovery, or (much more rarely) act as guarantors, the informal equivalent to an insurance scheme. The presence of these specialists and the resulting enclaves of sophistication – their density receding significantly in non-bazaar commercial areas – does not negate the principle of communicating reputations, but significantly increases the sophistication of these credit market segments.

This pattern, in turn, is mirrored in another important aspect of informal finance in Banaras: *bisi*. *Bisi* is the local variant of what is more commonly known in India as chit funds, though in colloquial usage of the term it only refers to the locally played variety, rather than large registered money circulation schemes. While *bisi* can be used to circumvent the need for borrowing, especially in its more sophisticated forms prevalent in the bazaar it forms a temporally set up arena for communicating reputations in informal finance. As the risks involved in setting up a *bisi* are carried by the head of a circle, while its profitability depends on the capacity for rapid returns on investment, moneylenders are almost pre-destined to become circle heads, and the behaviour of the 'players' during the course of a *bisi* allows various ways of communicating reliability and solvency as well as a willingness to comply with the unwritten behavioural norms of informal finance. Constituting a temporarily set up and bounded social space following rules that deviate from accepted behavioural norms in the remainder of urban society in India, *bisi* in its role for informal finance forms a type of heterotopia, though certainly not one leading to the establishment of a Foucaultian conception of modernity. In the process, these temporary social enclaves highlight the manifold uses of spatial organisation in urban north Indian society that differ significantly from 'traditional' patterns as well as the 'modern' formal sector of Indian finance.

Sebastian Schwecke is an IIAS Research Fellow at IIAS. He taught South Asian history and politics at Göttingen and Leipzig before joining IIAS sebastian.schwecke@cemis.uni-goettingen.de

Workshop in the heart of the bazaar. Image: Anoop Sharma.

Notes

1 The name has been changed to a frequently used 'pet name', and the location is depicted in a deliberately vague manner in order to ensure confidentiality.
2 Birla, R. 2009. *Stages of Capital. Law, Culture, and Market Governance in Late Colonial India*. Durham: Duke University Press.
3 Appadurai, A. 2015. 'Afterword. The Dreamworld of Capitalism', *Comparative Studies of South Asia, Africa and the Middle East* 35(3):481-485.
4 Basile, E. & Harriss-White, B. 2010. 'India's Informal Capitalism and Its Regulation', *International Review of Sociology* 20(3): 457-471.
5 Dietrich Wielenga, K. 2016. 'Repertoires of Resistance. The Handloom Weavers of South India, c. 1800 – 1960s', *International Review of Social History* 61:423-458.
6 Hardiman, D. 1996. 'Usury, Dearth and Famine in Western India', *Past and Present* 152:113-156.
7 Rudner, D. 1989. 'Banker's Trust and the Culture of Banking among the Nattukottai Chettiars of Colonial South India', *Modern Asian Studies* 23(3): 417-458.