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A 'Tangled Jungle of Disorderly Transactions'? Informality and Trust in Quotidian Finance in Late Colonial and Contemporary Banaras

Sebastian Schwecke[1]

Introduction

Vasudha Dalmia, referring to the work of Bernard Cohn, identified the city of Banaras in the late 18th and early 19th century as the 'inland capital of Indian commerce' (Dalmia 1997). The commercial and especially financial aspects of the city have tended to be overlooked except for this short period of time which has been studied extensively by Cohn (1960; 1969), Bayly (1983) and Mishra (1975). The rapid rise of the city from one of the religiously important centers of the north Indian hinterland to one of the main financial centers of the sub-continent is linked to the emergence of a specific system of financing overland trade which had its own ramifications for the evolution of everyday financial markets in the locality. Similarly, the on-going decline of the city was set in motion not only with the disappearance of river-based long-distance commerce which is typically dated to the late 19th century but also to the emergence of a competing system of finance, the 'modern' system of banking. In a typical way of depiction of this narrative, a pre-capitalist or at the very least unmodern and unsophisticated system of finance was supplanted by capitalist finance, starting with the extension of 'modern' banking to the *mofussil*. Under the impact of the Deccan Riots which formed a rationale for the nationalist movement to showcase a nexus between colonial state power and the market power of the moneylenders – and reinforced by the abandoning of Benthamite thought on informal financial transactions in Britain in the 1890s – informal, everyday finance was turned into an obstacle to modernization and an agent of oppression.[2] The moneylender (and eventually the indigenous banker) was transformed into an antipode of the new, modern Indian nation that found its expression in a gradual process of legislation which climaxed between 1917 and the last years of colonial rule. Stereotypically, this antipode of modernity found its imagery in the character of Sukhilala in the Hindi film 'Mother India' and in similar films from the early post-colonial period. Gregory (1988: 52), writing on both formal and informal indebtedness in rural central India, has summarized this stereotypical image:

> *The popular image of the village money lender is of a rapacious scoundrel who impoverishes people by lending money at exorbitant rates. The World Bank model of development employs this stereotype. From the Bank's perspective the village money lender is a monopolist who retards the development of free market forces and is, therefore, someone to be eliminated in the name of progress. This line has been uncritically adopted by many progressive organizations in India. The actual practice of village money lending is much more complex, however, and we must be wary of oversimplifications.*

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[1] I would like to thank Ravi Ahuja for support during my research. This project would not have been possible without the extraordinary help I received from friends in Banaras, especially from Rakesh, Pinku, Anup and Chandu. Furthermore, I would like to thank the debtors and the moneylenders and other financial entrepreneurs in Banaras who allowed me to study their financial dealings which often included intrusions into their everyday lives. The regime of informal finance is surrounded by and embedded into discourses which amplify notions of shame, criminality, and secrecy. Under these circumstances the willingness to co-operate and openness of many of the people I met is all the more notable.

[2] The relationship between money lending and informal finance in agrarian western India is discussed by Hardiman (1996) among others.

Rather than the old system being supplanted or eliminated, it would be more accurate to speak of a superimposition of modern banking onto a system of informal financial transactions that continues up to the present and has been increasing again in scope since at least the mid-1990s.[3] In any case the onset of formal finance was much slower than is often anticipated: According to the District Gazetteer of Benares, the first office of the Imperial Bank was opened in the city in the mid-1820s, but according to the U.P. Banking Enquiry Committee Report (UPBECR; 1930) they started their operations only in the 1840s and were, at the time, marginal competitors to the informal sector. Until well into the 1860s large amounts of 'Shroff-marked coins' were accepted into the colonial treasuries of the Benares division and there is evidence of this practice continuing until 1887, in spite of the introduction of the unified currency in the early 19th century.[4] Both the opinions gathered by the Lt. Governor of the United Provinces on the proposed Usurious Loans Bill in 1917 (henceforth: Opinions) and the UPBECR give ample evidence of an elaborate system of informal transactions which easily rivalled the formal banking sector in the scope of its lending activities at the time. My own research on present-day Banaras shows significant changes in the functioning of this system, but also shows its resilience throughout the almost seven decades after independence.

The Indian Moneylenders' Vanishing (from Official View) Act, 1946 – 2007

The historical evolution of informal financial arrangements after the late colonial period and their resilience have mostly been disregarded in historiography and social science. Partially, this can be explained by a severe lack of reliable sources which, in turn, is linked to an ideological project of modernization in which the persistence of informal financial transactions must have been perceived as a misfit: an anachronism which, at best, formed a temporary obstacle in the process of India's development; an increasingly marginal legacy of 'pre-capitalist' times; a feature of socio-economic backwardness in the hinterland; an inheritance of colonial (or even pre-colonial) oppression and exploitation of the masses. Apart from informal credit and speculation, Martin has shown an equivalent official as well as public perception on the *hundi* which remained in use well into the 1970s but was perceived to be anachronistic despite this resilience (Martin 2012). Following the emphasis of late colonial public perception the topic, if it comes up at all, is linked to rural India throughout the post-colonial period, emphasizing agricultural backwardness, farmers' suicides or bonded labor. There seems to be no space for informal finance in the narratives of modern (and urban) India.

The crucial year for this shift in official perception is 1946: On the one hand the passing of the Bombay Money Lending Act brought the regime of informal finance under extensive state regulation in one of the largest remaining areas that had not been covered by such legislation in the late 1930s. On the other, the subject of money lending (including indigenous banking) was transferred from the Home Department which had up to that point taken an active interest in the topic (though often only to prepare for legislative measures or to debate mendicant Pathan moneylenders as disturbances to law and order)[5] to the Finance Department in 1946 without much debate.[6] The Finance Department,

[3] Reserve Bank of India (2007). Report of the Technical Group to Review Legislations on Money Lending. Online available: rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/78893.pdf (last found on 05 June 2014).

[4] Letter to the Secretary, Government North-Western Provinces, dated 26th April 1887, no. 5034/XII-35; Varanasi Divisional Archive, file no. 35-15, 1887 on withdrawal of Shroff-marked coins from the treasuries.

[5] Exemplified by Home Department debates concerning questions on this subject raised in the Legislative Assembly which occurred at irregular intervals. See, e.g., National Archives, Delhi, Home Department files, 1935, F. no. 19/24/35-Judl; 1927, F. no. 11-9-Police.

in turn, disregarded the subject as merely an obstacle to the development of 'modern banking'. The All-India Rural Credit Survey (carried out in the early 1950s) provided highly detailed information on the regime of informal finance but focused exclusively on indebtedness in rural India (and does not include local data for Varanasi district).

Publications by the Ministry of Finance and the Reserve Bank of India (until 2007) or the National Sample Survey Organisation typically refer to informal lending only as a relatively marginal phenomenon as opposed to the spread of 'modern banking', if at all.[7] Official neglect is mirrored by a lack of public awareness: An analysis of reports on informal finance in the Times of India shows a glaring absence of media coverage of the topic after 1946. The predominant local newspapers in Banaras (*Aaj* until the late 1960s, *Dainik Jagran* afterwards) continue to feature occasional articles, but mostly only after incidences of violence related to money lending. Judicial attention to the subject has dropped significantly after the early 1950s. The RBI Technical Group to Review Legislations on Money Lending in 2007 noted that registration officials in Uttar Pradesh asked for significant increases in manpower and infrastructure to effectively implement the law.[8]

The purpose of this paper – given the difficulties in finding informative sources for the post-colonial period – is not to provide a stringent historical narrative but, rather, to compare the scope and functioning of the social regimes of informal finance in Banaras in the two periods for which I have reliable sources, from archived material for the early 20th century and from ethnographic research and oral histories for the recent past. In this way, what I aim to show is the evolution of the system of informal finance under two very differently functioning regulatory regimes, and the resilience of a market that by now operates mostly outside a legal framework and is – in this – based as much on local notions of trust and reputation as on underlying threats of violence or other repercussions. The paper is divided into three sections. The first two sections discuss the most important characteristics of the regimes of informal finance in Banaras in the 1920s and the contemporary period. The third section focuses on the changes in the regime regarding the underlying economy of reputation.

Improper Transactions: Quotidian Finance in UP and Banaras in the 1920s

The focus of this paper is on the key characteristics of the regimes of informal finance in Banaras in the 1920s and the present. Before coming to this, however, a necessarily concise and abridged timeline on the most important events which shaped the development of the local regimes of quotidian finance and financial markets from the outside, mostly associated with legislation, needs to be provided. As mentioned above, the advent of formally organized banking started in the 1820s, although the local impact of this should rather be traced back to the 1840s. It is a commonly held assumption that indigenous banking suffered from the introduction of the uniform silver rupee in the first half of the 19th century, as the indigenous bankers lost the lucrative trade of money exchange. However, the core features of large-scale finance in Banaras were tied rather to financing overland trade through *hundis* and lending. The collapse of the river-based trade in the late 19th century affected the Banarsi bankers, though Banaras remained well-connected to other urban centers by road and railways. Co-operative banking as an alternative to informal lending activities emerged

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[6] Decision whether money lenders and money lending matters should be dealt with by the Home Department or the E. H. & C. Department. National Archives, Delhi, Home Department files, 1945, F. no. 224/45 – Pub (C). The transfer to the Finance Department took place on 2 August 1946.

[7] The Progress of Banking reports of the RBI, for instance, do not appear to be concerned with informal finance at all.

[8] Reserve Bank of India (2007). Report of the Technical Group to Review Legislations on Money Lending. Online available: rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/78893.pdf (last found on 05 June 2014).

mostly in the 1920s, but did not have a local impact until the 1960s[9] and – crucially – never extended to the artisanal industries of Banaras in a significant way, though it helped to supplant informal lenders in the rural areas around Banaras.

In terms of legal history, the first of the major milestones which affected the regime of informal finance in Banaras was the repeal of the usury laws in 1855, based on Bentham's dictum that laws regulating usury had historically failed to prevent excessive interest rates. In effect, this repeal constituted the first important step towards the regulation of informal financial arrangements: The repeal of the usury laws brought the imperial state into a social regime which before had been governed by locally negotiated custom rather than law. Financial transactions became governed by contractual law and, therefore, needed to be upheld by the colonial state. The regime of informal finance, accordingly, became subject to the colonial attempts to define propriety in economic behavior as outlined by Ritu Birla (2009). Continental European experience with renewed efforts to regulate financial transactions in the second half of the 19th century formed the basis for a paradigm shift in British policy towards the subject which led to the formulation of the legal doctrine of unconscionable bargains in the 1890s that formed the rationale for the English Money-Lenders Act of 1900. The preparation of legislation along similar lines for British India started in 1913 but was delayed by the outbreak of the war and a lack of administrative zeal. Deliberations were taken up again in 1917 and resulted in the Usurious Loans Bill which was passed in 1918 and granted complete discretionary powers to the courts to take up any financial transaction outside the formally organized banking sector under the doctrine of unconscionable bargains.

The Usurious Loans Act deliberately transformed the courts of British India from agents of upholding contractual law, however exploitative, into 'active instruments of relief' (Opinions), even though the legislative measures proved insufficient in many ways. This initiated a period of legislative activism which gathered momentum until 1939. For the United Provinces, the key cornerstones of legislation in this period are the UP Money Lenders Registration Bill, 1925; the Usurious Loans (Amendment) Act, 1926; the UP Agriculturalists Relief Act, 1934; the Usurious Loans (United Provinces Amendment) Act, 1934; the Agriculturalists' Loans (United Provinces Amendment) Act, 1934; the United Provinces Debtors' Relief Bill, 1937; and finally the U.P. Regulation of Agricultural Credit Bill, 1939, and the U.P. Moneylenders Bill, 1939, which was copied word-by-word from the strident Punjab Moneylenders Bill up to the extent of having forgotten to replace the word 'Punjab'.[10] The subsequent turbulent phase of the independence movement, coupled with the outbreak of World War II prevented this Bill from being passed. In the event, while legislation on money lending was taken up again elsewhere, notably in Bombay, the state of Uttar Pradesh only passed a watered-down money lending act in 1976. The period of legislative activism in the United Provinces, therefore, ended somewhat prematurely. By the end of this period, all transactions and dealings which remained within the social regime of informal finance had been defined as 'improper transactions' according to Birla's argument, though after an initial period of corresponding juridical activism, the subject ceased to be of continuing importance in the courts.

Informal financial transactions, in the words of Lt. Governor Lyell quoted in the UPBECR, formed a 'tangled jungle of disorderly transactions.' The disorderliness and impropriety of these transactions constituted a surrogate for their disavowal as either oppressive and exploitative or anachronistic and inefficient, depending on the positioning of the critics of informal finance within the spectrum of 'modern' political thought. The effects of the legislative and juridical activism of the late colonial state on the regime of informal finance in U.P. and Banaras were uneven, differing across segments

[9] Govt. Of Uttar Pradesh (1988). Uttar Pradesh District Gazetteers, Varanasi (Supplement), 41.
[10] National Archives, Delhi, Home Department files, 1939, F. no. 33/6/39-Judl

within the regime, and mostly affected a change in the precise practices of the lenders rather than leading to the supplanting of informal by formally organized finance.

The time between 1917 and 1929 (the year the evidence for the UPBECR was collected) constitutes the historical period for which the most detailed accounts in terms of archived material are available, with the most important and most detailed sources – the Opinions and the UPBECR – forming the starting and end point of this phase. Historically, this period marks the beginning of the peak period of legislative activism while, at the same time, ending before the effects of the global economic crisis in the early 1930s were being perceived by the administrators debating legislation and collecting evidence. The economic crisis, in turn, very likely reinforced the stridency of legislative measures of debt relief and prohibiting informal financial activities in the second phase of the period of legislative activism. The absence of a premonition of the ensuing economic crisis is clear from the official documents. They almost uniformly describe indebtedness within the informal financial regime as one of the greatest calamities facing the population of the United Provinces, yet nevertheless as a predicament which is ensuing within a relatively robust economy despite competition from cheaper textiles which had led to a decrease in employed artisans,[11] especially when compared to other artisanal industries both in Banaras or in nearby urban centres, for instance carpet-weaving in Mirzapur.[12]

Functional specialization in informal finance in the 1920s

The social regime of informal finance in both periods analyzed here is highly complex and the descriptions given necessarily need to be seen as approximations. The 'rules' of the business vary greatly according to individual circumstances and the precise location of lenders and debtors within the local socio-economic context. Roughly, we need to distinguish between various types of actors and their respective target groups among clients. The UPBECR is particularly instructive for the 1920s in the way it attempts to provide an overview of the different types of lenders: It dissects lenders first into 'amateur' and 'professional' categories based on a consideration of the extent to which financial dealings form substantial parts of their income and work activities, before going on to classify different types of lenders within the two categories based on a functional segregation of lending activities. Both categories are present in the rural as well as the urban areas of U.P., though rural lenders are not considered here. The relatively high degree of functional specialization among lenders concerning the financing of commerce in the 1920s is surprising when seen from the perspective of the present context where specialization only takes place in terms of services provided to lenders. This forms one of the most important differences between the two periods discussed here.

The distinction in the UPBECR between 'amateurs' and 'professionals' indicates that the regime of informal finance at this time comprises enclaves of sophistication but, at the same time, also includes a high number of occasional lenders. The degree of specialization on lending as depicted in the UPBECR is related to the lending objective which is typically interconnected with the primary or secondary line of business. This can be seen in the differentiation of the various types of lenders: *arhatias*, *sahukars*, *sarrafs* (or shroffs), and *qistwalas*.

[11] See S.N. Majumdar Choudhury, Extracts from a survey of the small urban industries of Benares, UPBECR 371-391, especially 371 – 374.

[12] Letter no. 162 from F. S. P. Swann, District Magistrate Mirzapur, to Lt. Governor, United Provinces, dated Mirzapur, 21 November 1917; *Opinions*.

The lender specializing in linking rural and urban commerce is classified in the report as an *arhatia*. At the most basic level, this is an urban commission agent of *mahajan* or *zamindar* lenders in the villages, an intermediary between rural lenders and landlords and the town-based *sahukars*. *Arhatias* operated as lenders in the grain trade who would not lend directly to the farmers but to specialized lenders in the villages (*beoparis*) with low interest secured by *hundis*, promissory notes or pledged land, often just to tie the *beopari* to the respective *arhatia*. While the *arhatia* was typically involved in the grain trade, they were occasionally involved in a similar fashion as commission agents and lenders in the cloth retail trade. The UPBECR depicts an *arhatia* as a 'middleman-financier', noting that their importance has increased with the spread of organized banking, as banks would cooperate with them, thereby enabling them to circumvent higher level informal lenders and even replace the latter (UPBECR, 62). As this type of lender is not anymore present in contemporary Banaras to any significant degree, their decline in relevance is likely to have happened in the post-colonial period.

Professional lenders below the level of indigenous banking who operate solely in urban areas according to the UPBECR include four different types: *sahukars*, *sarrafs/*shroffs (with two sub-types according to the scale of their transactions), *qistwalas*, and pawn-brokers. It is important to note that the only term which is still widely used in contemporary Banaras for lenders is *sahukar*, though the contemporary meaning of the term has become generic, signifying either *all* informal lenders, or specifically lenders cum traders. The UPBECR depicts *sahukars* as 'respectable' moneylenders, specializing on loans secured against immovable property, gold, or on the basis of promissory notes. *Sahukars* were known to take cuts and charge relatively high interest rates, but are depicted as reliable credit agencies, especially in terms of financing small-scale commerce, including artisanal industries.

Sarrafs according to the UPBECR comprise two sub-groups – 'small *sarrafs*' and '*kothiwal sarrafs*' – distinguished primarily by their scale of business which brings with it a difference in orientation towards distinct target groups and practices. Small *sarrafs* are described as working in a similar manner to *sahukars*, except that they tend to focus on gold and precious metals as security rather than immovable property and also advance gold and silver to artisans, probably again with the objective of binding artisans and controlling prices, though this is left unspecified. In this respect they are described as 'bullion brokers' (UPBECR, 63). Their main role in the financial regime, however, is described as discounting, rediscounting and dealing in *hundis*, a practice which is still prevalent in contemporary Banaras among lenders especially in the traders' credit segment (though related to checks, not *hundis*), but is carried out mostly by 'amateur' lenders. These practices do not technically form a loan but, rather, an advance on the security of the *hundi* or check which involves the lender taking a 'cut' instead of interest. Small *sarrafs* were giving loans on the security of promissory notes as well which in practice is relatively similar but involves interest.

Larger *sarrafs* are honorifically classified as '*kothiwal sarrafs*' in the UPBECR and described as handling the credit needs of bigger businesses. Similar to the small *sarrafs*, they are depicted as preferring gold and precious metals as security and as dealing in *hundis* (not as discounting these, though this may be an omission in the report.) Occasionally they even take deposits, though the UPBECR later on when inserting the rather technical difference between *sarrafs* and indigenous bankers makes it clear that this seemed to be the case only in rare circumstances. The report describes larger *sarraf* businesses as increasingly unprofitable due to competition from organized banking and depicts a shift towards other kind of commercial activities.

Qistwala is a term which the UPBECR took from the rural areas of the United Provinces (in rural areas in the east of the U.P. these were also called *hundiwalas*) which covered the lower classes in urban areas as well. For Banaras, the report outlines two kinds of loans given by *qistwalas*:

> *Four new types of loan are reported from Benares: in two cases the principal is repayable in monthly instalments of one rupee, in the other two it is repayable in daily instalments of one anna. The amounts are respectively Rs. 16 repayable in 20 monthly or 330 daily instalments; and Rs. 20 repayable in 25 monthly or 395 daily instalments.* (UPBECR, 64)

Monthly instalments were used by better off debtors – '*small shopkeepers, artizans* [sic!] *of all kinds, and persons in receipt of fixed wages or salaries*' (UPBECR, 64). Daily instalments were used by hawkers and similar groups. The report also mentions loans of one or two rupees which would be expected to be repaid by the end of the day, but does not offer interest rates for these loans. The system reported here is depicted in a misleading way as the monthly or daily *qists* (instalments) are payments of interest only and do not include the repayment of the principal. Monthly interest rates in this system come up to 3.7 % which is still very low for loans to the poorer sections of society, as compared to the present, and might indicate that the lenders would have taken a cut of the principal at the outset, though the report describes the (equivalent) interest rate for rural areas as 'enormous' (UPBECR, 51). What is interesting is that the costs of borrowing do not differ significantly between the two segments of debtors mentioned, despite their different socio-economic positioning. The description of the *qistbandi* system in rural areas (UPBECR, 51-52) also makes it clear that it refers to simple instead of compound interest and that loans would tend to be unsecured.[13]

Apart from the *qistbandi* system, pawning of gold and jewelry was reported by the UPBECR to be widespread in urban areas and one of the segments of informal finance in which women were substantially operating as lenders. Despite insisting on the importance of the distinction between amateurs and professionals, the report is largely silent on the former in urban areas, simply stating that there are '*many occasional moneylenders*' who would lend on mortgages or any other kind of security, the total amount of their lending being '*probably large*' (UPBECR, 65).

As mentioned above, the distinction between *kothiwal sarrafs* and indigenous bankers in the UPBECR is technical and appears rather arbitrary. What it points out is the mindset in which the report was composed: While the members of the committee treated any large-scale lender with relatively high respect, lenders who did not correspond to (at least a 'primitive' form of what was supposed to be) a 'modern' bank needed to be classified differently. The report goes on to distinguish between 'indigenous bankers of the old kind' (UPBECR, 65) and 'modern indigenous bankers' (UPBECR, 66) who were depicted as at least trying to emulate modern organized banking by taking deposits. The distinction based on the willingness to accept deposits appears all the more arbitrary as the report points out clearly that many *sarrafs* were, in fact, doing so, though '*generally speaking, the* sarraf *is somewhat averse to this type of business, either because he considers it to be risky or because he regards it as damaging to his personal credit*.' (UPBECR, 65) The information from the UPBECR on indigenous bankers, estimated to number approximately 250 in the entire province and concentrated in eight cities including Banaras (with 50 indigenous bankers; UPBECR, 124), is very detailed, but mostly when concerned with the *hundi* business, not lending.

In terms of an identification of distinct sub-regimes of lending in Banaras, the functional segregation of lenders points to distinctions between (a) the use for credit (investment, consumption, emergency needs, bridging seasonal or other recurring phases of economic depression) and (b) a specialization on the needs of particular target groups. In the latter case there are also discernable differences

[13] It is also interesting to note that the report of the RBI Technical Group in 2007 mentioned above refers to very similar transactions it observed in some areas of India – even including the same interest rate of 44 % p.a. – as a 'new' system of informal loans, not as a continuity of a 'traditional' arrangement of informal finance (Reserve Bank of India (2007) Report of the Technical Group to Review Legislations on Money Lending, 32).

between lenders having a specialization which corresponds to the level and type of security provided by the debtor.

Organizational principles of informal finance in the 1920s

As the Opinions make clear, lending without security did not form a major concern for the colonial administration. Legal cases from the same period and earlier appear to strengthen this observation, as lending without security is rarely coming up in court cases.[14] This said, the major concern of the parties to a court case in this time almost invariably is directly related to the security, to a significantly larger extent than a mere payment of outstanding loans or interest. Security is furnished with gold or by pledging immovable property. The emphasis on the importance of security can be interpreted as an influence of the continued prevalence of contractual law in the regime of informal finance, especially when compared to the present situation which will be discussed later in this paper.

It is unlikely that lending without security did not take place though the UPBECR in particular dismisses this by repeatedly stating that the types of lenders described by it would only lend on security. But as it would typically concern mostly the urban poor as the only social group unlikely to possess any of the two desirable securities in sufficient quantity to matter to the lender, the colonial administration remained largely unconcerned. From a detailed reading of sources, it becomes apparent that much of the rationale for the legislative activism in late colonial India stemmed from a concern for land-owning farmers (from small cultivators up to the level of *zamindars* and *taluqdars*) being forced off their land by the lenders, a possible threat to the entrenched social order in the countryside. This corresponds to Sugata Bose's argument that the concentration of land in late colonial Bengal was related rather to the link between land ownership and increased lending opportunities (Bose 1986). At the same time, we have to keep in mind that land in much of the United Provinces formed one of the very few profitable investments, at least before the decline in the prices of agricultural produce in the last decades of colonial rule.

The rural bias in the lawmakers' concern on indebtedness which resulted in special legislation for 'agriculturists' in contrast to a neglect of urban indebtedness was based on a highly conservative logic. The object of concern on urban indebtedness for the colonial state – the mendicant Kabuli or Pathan moneylenders who specialized on lending to the emerging industrial labor force – did not have any significant presence in Banaras, as the city did not have any larger industrial units until the 1950s.[15] In the countryside around Banaras there was an equivalent influx of mendicant moneylenders, so-called *harhias* from Bihar who did not, however, have a similar reputation for violence (UPBECR, 124). The regime of artisanal indebtedness in the city, at this time almost exclusively based on advances paid by *sahukars*, did not lead to any major concern despite concerns on artisanal indebtedness (UPBECR, 118 - 120). The advance system served to bridge seasonal fluctuations in the demand for artisanal products, especially in silk weaving, and accordingly was thought to bring stability to social relations in the city by tying the (mostly Ansari) artisans to the trading community, while providing (meagre) means of livelihood during times of low demand. As the artisanal industries of Banaras remained comparatively robust (Kumar 1988) and were perceived

[14] Cf. the digest of cases from the North-Western Provinces provided by Bellot (1906).

[15] Census of India 1961. District Census Handbook Uttar Pradesh, 53 – Varanasi District. Lucknow: 1965.

accordingly by the colonial rulers,[16] the socio-economic impacts of artisanal indebtedness there did not figure prominently in the colonial discourse.

For all its partial sophistication and elaboration, lending to different social segments followed similar principles of organization. The principal social units within which the functional differentiation was taking place in Banaras were clearly related to community, especially caste and ethnicity. There is no clear indication of the neighborhood as a principal social unit. The *qistbandi* system, for instance, is strongly de-linked from the neighborhood as an organizational unit. Ethnicity and caste played a major role in financing trade, especially long-distance trade but also investment in the bazaar (UPBECR). With regard to money lending the role of caste and ethnicity seems to have been significantly less prominent as neither the Opinions nor the UPBECR place any emphasis on this, although Bayly reports a significant role of caste in the negotiation of interest rates in money lending for the late 18th century, with specific castes (notably Ahirs) having to pay significantly higher rates due to their caste's reputation (Bayly 1983).

Information on the cost of borrowing in the 1920s

Rates of interest in this period are fairly sophisticated, especially when compared to the present. Particularly in the rural areas there is a notable prevalence of 'customary' rates of interest: Often, loans are depicted to be negotiated as either *deorha* or *sawai* loans, i.e. loans which require a repayment by the end of their duration (typically the end of the respective harvest period) of 150 % or 250 % of the principal including interest. In the 1920s, *sawai* loans appear to have been much more widespread than *deorha* loans, indicating the general rise in rates of interest over the preceding decades as mentioned by a number of experts asked for recommendations in the preparation of the Usurious Loans Bill (Opinions). Both types of loans are present in urban U.P. as well, though there appears to be a much larger variation in prevalent interest rates. When not making use of the 'customary' rates, interest rates in this time are commonly quoted as X annas to the rupee, with the number of annas always being a natural number, except for the commonly used numbers 1.5 and 2.5. The anna/rupee system therefore generally leads to leaps between interest rates of 6.25 %. Common interest rates of this kind are 1.5, 2, 4, 8, 9 and 12 annas to the rupee (Opinions), although there is ample evidence of different rates being used as well.

While the anna/rupee system is fairly widespread, the recourse to it does not indicate a specific period for which the interest is charged. While the 'customary' rates referred typically to seasonal and occasionally to yearly rates, rates denoted in the anna/rupee system were often referring to shorter periods, but varied significantly from weekly, fortnightly, to monthly and bi-monthly rates and occasionally to rates quoted for durations of up to 6 months. I have not come across daily or hourly rates of interest in this period (excepting the short reference in the UPBECR mentioned above for the *qistbandi* system), though these play a significant role in specific segments of the regime of informal finance in present-day Banaras. What is more, even 'customary' rates were at times quoted alternatively according to the anna/rupee system. The large variations in the ways in which rates of interest were quoted is probably related to the predominance of compound over simple rates of interest, especially when concerning secured loans for which the available data is much more detailed.

The predominance of compound rates of interest in the 1920s (as opposed to the present) indicates three major characteristics of the regime of informal finance at the time: (1) the prevalence of

[16] See for instance: The Industries of Benares, Journal of the Royal Society of Arts, March 5, 1915, 63, 3250, p. 344; *Periodical Archives Online*.

relatively long-term loans as compound interest for short-term loans does not significantly increase the profit of the lender; (2) the importance of acquiring the security after the debtor's default as an objective of lending; (3) the tendency for strong comparative informational advantages of the lender over the debtor.

These characteristics indicate the reasons for the wide variations in the way interest rates were quoted in the 1920s: As compound rates of interest tend to increase the possibility of debt traps when applied to relatively long-term loans, the lenders would often attempt to cover their long-term impact by referring to different systems of quotation which the (according to the report assumedly less skilled) debtor might not fully understand. As the western Indian tradition of *damdupat* which limits the accumulation of interest in a single loan to the amount of the principal was (and is) neither used nor widely known in the United Provinces, compound interest rates would tend to become extremely profitable to the lender once they ran for a long duration.[17] Even the 'customary' rates which give an impression of including a cap on the eventual repayment by referring to the total repayment amount after the specified duration did not, in fact, do so. While referring to the loan as *sawai* for the specified duration, the actual contract would tend to specify a rate of interest according to the anna/rupee system compounded at specified rests which would be equivalent to a repayment of 250 % of the principal after the described period, though obviously repayment would escalate afterwards if not completed in time. By introducing rates which would have appeared low according to the anna/rupee system of quotation but were compounded at more frequent rests, the lender was capable of achieving a similar effect. Obviously, such forms of misdirection would not work under all circumstances and it is important to desist from indiscriminate attributions of a general lack of knowledge or skills among debtors.

The archived sources of the time are replete with colonial administrators' pleas that the uneducated debtors (of whatever social class, notably including *zamindars*, especially 'the Rajput') needed to be protected from sly lenders, a typical argument in much of the literature on money lending. Babu Brij Nandan Prasad, a strident critic of the Usurious Loans Bill, even though he supported a reform of the financial system in general, complained in his recommendations to the Lt. Governor that:

> *The object of the Bill is 'to save the foolish from the extortions of the money-lenders.' So before a person can avail of its provisions he should satisfactorily prove that he was a fool.* […] *Is there any reason to think that persons who can look after their ordinary business in life, who can purchase and sell property and do other work somehow lose their understanding when they enter into a loan transaction?* […] *I don't think legislation should encourage men to break their contracts and to put themselves forward as idiots and imbeciles.*[18]

The tendency to paint debtors as fools which needed the help of their betters, especially the colonial rulers, certainly needs to be questioned, related as it is to sentiments of superiority in both racial and class terms – the same sentiment is widespread in the discourse on the English Moneylenders Act[19] as well and it is as widespread among Indian as among British officials in the Opinions and among Indian and British members of the U.P. Banking Enquiry Committee. The objection quoted above, in turn, relates strongly to the earlier prevalent Benthamite notions of the sanctity of contractual law.

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[17] For an observation of the effects of *damdupat* on lending from the perspective of economics, cf. Swamy/Oak (2010).

[18] Letter by Babu Brij Nandan Prasad, Vakil at the Allahabad High Court and former Member of the U.P. Legislative Council to the Lt. Governor, U.P., dated Moradabad, 3 December 1917 (Opinions).

[19] See for instance: Bellot, Hugh H. L. (1906) The Legal Principles and Practice of Bargains with Money-Lenders in the United Kingdom of Great Britain and Ireland, British India, and the Colonies. 2nd enlarged edition. London: Stevens and Haynes Law Publishers.

However, in the context of the predominance of compound interest and the presence of a highly complex system of quoting rates of interest, it seems acceptable to assume a significant informational advantage of the lenders over many debtors which was exploited in the way depicted above.

Legal documents especially from before the enactment of the Usurious Loans Bill in 1918 are concerned even more strongly with the extraction of penalties for defaulting on repayments which would complement the interest rate and were in many cases exorbitant, even if the interest rate itself was not.[20] The matter of penalties constituted a significant concern in the Opinions as well, but was not anymore addressed to a significant extent in the UPBECR which probably illustrates a decrease in their usage after the Usurious Loans Act came into force.

The prevalence of compound interest for comparatively long-term, secured loans with specified penalties has to be interpreted as an indication of the extent to which the regime of informal finance in the United Provinces in the 1920s was still based on a notion of legally valid contractual obligations – despite the enactment of the legal doctrine of unconscionable bargains in 1918 – which could rely on state enforcement in cases of default. In its reliance on law and law enforcement, the regime of informal finance at this time still remained rather sophisticated, though in contravention of the *spirit* of legislation passed between 1918 and the late 1920s. The use of the legal system in contravention of this spirit by the lenders forms a major concern in the Opinions on other related matters, such as the use of (faulty) promissory notes and bonds for loan transactions or the suggestion to include an exemption from the law for transferees who had bought outstanding loans from the lenders (which was widely held to open an avenue for evading the prescriptions of the Usurious Loans Bill). H. E. Holme, District Judge of Bareilly, commented upon the proposal to exempt 'bona fide transferees':

> *No one but a trafficker in litigation (a pest who should in my opinion be discouraged by every possible means) ever buys up any of these usurious claims, and if anyone else did, he would deserve to lose his money. The only result of this clause is extensive putting forward of 'bona fide transferees'* [by the moneylenders].[21]

While certainly 'tangled' and disorganized at the level of the participating plethora of lenders, the regime of informal finance in Banaras and the United Provinces in the 1920s was far less 'disorderly' and much more sophisticated in its relation to the law than its British and Indian critics pretended.

Debt in Banaras: The Contemporary Regime of Quotidian Finance

Arjan's[22] grandfather was a primary school-teacher in Banaras in the early 1950s in an area of town in which a large number of Sindhi refugees after Partition were re-settled. As a teacher, he possessed the comparative advantages of social respectability with easy access to the resettled refugee families and a small, but regular income which led him to believe that he could substitute his earnings by money lending to the Sindhi refugees. By the end of the 1950s, he had become sufficiently successful as a moneylender to give up his job as a teacher and become a full-time moneylender. Arjan's father carried on the new family business, but expanded it in terms of its original ethnic exclusivity. Instead,

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[20] The importance of penalties for legal opinion on money lending legislation comes out clearly in the *Opinions* and can also be observed in the digest of legal cases from northern India provided by Bellot (1906).

[21] Letter no. 825/XV by H. E. Holme, Esq., District Judge Bareilly, to the Lt. Governor, United Provinces, dated Bareilly, 29 November 1917 (Opinions).

[22] All names of moneylenders and other financial entrepreneurs given in this paper for the post-colonial period have been changed to protect their identity and all locations in Banaras in which specific moneylenders mentioned here are operating are described in a deliberately vague fashion.

he became a neighborhood moneylender who built an extensive circle of clients within the neighborhood, focusing on small- and medium-scale traders, shopkeepers and hawkers. Arjan himself took over the business from his father, but he does not seem to possess any drive to further expand or even change the way in which his money lending business is working. While lending constitutes his only source of income, he does not accept new clients from outside the neighborhood and, in fact, normally shies away from accepting any new clients at all. He professes that the rates of interest he charges (20 % *per mensem* simple interest[23]) are the same that were charged by his father, and that he never adapts the rates to the specific circumstances of his clients. His clients, he says, know what they will get when they ask him for loans, and he knows what to expect from his clients. In fact, what he really likes about his business is that it allows him to saunter through the *galis* of his neighborhood or hang around chatting at the local tea stalls. Essentially, Arjan has become a rentier who makes an easy living of the business built by his father and grandfather.

It is extremely difficult to bridge the gap between 1946 and the present by oral histories, as most of the moneylenders and other informal financial entrepreneurs I have met in Banaras are relatively recent entrants to the regime of informal finance. Those whose families have a history in the business, in turn, speak much more freely on their own conduct than on the activities of their parents and, anyway, often seem incapable of recollecting many details of their parents' business practices. Arjan's family history, however, illustrates two of the many changes which happened between the late colonial period and the present: The opening up of the regime of informal finance to new entrants and the by and large 'amateurish' mode of functioning of much of this regime, though not necessarily in the sense of the word as used by the UPBECR as Arjan's entire livelihood depends on lending.

The remaining amateurs and the enclaves of sophistication in contemporary informal finance – moneylenders

The period of legislative activism in late colonial India and the gradual progress of organized banking and co-operative finance, despite their overall incapability to supplant the regime of informal finance, neatly removed the system of indigenous banking which had formed the most sophisticated element of informal finance before. Similarly, many 'professional' moneylenders must have discontinued their business in the decades after independence, as the majority of informal financial entrepreneurs who are still engaged in lending and other financial dealings are clearly 'amateurs'. This is true even in the heart of the bazaar (Chowk and the adjacent areas like Godowlia and Kotwali) which otherwise forms an enclave of sophistication within the regime of informal finance. Sophistication here is mostly based on the specialization of some financial entrepreneurs on services to a range of amateur lenders, including the facilitation of larger loans by financial brokers and informal arrangements of insurance by guarantors which will be described later in this paper.

Instead of depicting types of lenders, as the UPBECR does, it seems more promising to describe the social regime of informal finance in Banaras by its various and often quite distinct sub-regimes. Setting aside pawn-brokering which will not be dealt with in this paper, there are five of these and, in addition, the ubiquitous speculative 'game' of *bisi* which takes different shapes depending on the respective players but also can take on functional roles in some of the sub-regimes.

The sub-regime which still resembles the context of the 1920s the most is the system of credit to the silk weavers for production purposes which, to quite some extent, is still based on a system of

[23] Unless otherwise specified, all interest rates given here for the post-colonial period are monthly rates of simple interest.

advances paid to the weavers by *sahukars* (traders cum moneylenders) in the low demand seasons. These advances do not necessarily involve payments of interest, though they do at times, but will almost invariably involve a 'cut': The lender will provide an advance in cash or kind, but only hand out a reduced amount, often by 10 % or more. The advance payment, in fact, does not *depend* on interest payments and does not normally lead to debt traps. Instead, the motive for lending here is to tie the weavers to particular traders and as a price control mechanism. The seasonal fluctuations in the demand for silk products are linked to the religious calendar and its most important holidays as well as the marriage seasons. The regularity of seasons of low demand means that the lender can fix prices in the off-season which has a debilitating effect on the bargaining power of the producers. As mentioned above, the system is highly familiar from earlier periods and areas (among others: Haynes 2012) and it has been studied in detail by research on the weavers and other artisan groups in Banaras (Kumar 1988; Raman 2010; 2013) and is also depicted in the fictional account of weavers' everyday lives by Abdul Bismillah, *jhini-jhini bini cadariyan*.[24]

The only major changes in this sub-regime appear to be of fairly recent origin, i.e. the last two decades: The relatively recent tendencies of social differentiation within the weaver community which are also leading to an increasing spatial displacement of poorer weavers from the original centers of production like Madanpura to neighborhoods on the outskirts of town, have also had an impact on the lending regime. Relatively successful 'master craftsmen', a term which originally signified weaving skills rather than economic success, have emerged as employers of other weavers in *karkhana*-style small- and medium-scale enterprises both operating hand- and power looms. Similarly to the commerce-based *sahukars*, master craftsmen are increasingly emerging as lenders to poorer weavers in their own rights, though in their case the lending objective emphasizes control of labor rather than prices and tends to diminish the barrier between a production-based credit system of advances and the general consumption-based credit system for the poorer sections of society.

The consumption-based sub-regime targeting the poorer sections of society is the part of the financial regime in which the vast majority of moneylenders in the narrow sense of the term are active. In comparison with other sub-regimes, it is easily accessible for an ethnographer in the present, although there is a distinct lack of informative sources about its functioning in the past. Bayly mentions this type of lending already for the late 18th century but, again, without providing a similar degree of detail than in his discussion of (indigenous) banking. In terms of classification, this sub-regime has to be clearly distinguished from any type of lending which emphasizes secured loans (and therefore often tends to have the acquisition of the security by the lender as the lending objective). In this sub-regime, loans are invariably unsecured and for short durations; principals are small; interest rates are simple, but highly exploitative; and recovery of interest and the principal is uncertain. This results in a sub-regime which is effort-intensive for the lender and includes a relatively strong element of intimidation and low-scale violence. Debtors typically borrow short-term for consumption purposes, especially to sustain their families' livelihoods in times of crisis, when incomes drop through accidents or sickness, or for short-term spending necessities related to the maintenance of family status: a death in the family rather than dowry for a wedding.

Contrary to the system of secured loans to the poorer sections of society, this sub-regime cannot conclusively be interpreted as an exploitation of the poor by the petty bourgeoisie, let alone the rich. Rather, it often constitutes an exploitation of the very poor by the slightly better off poor. One of the first observations in my field research was that when dealing with this sub-regime, the lenders I would be speaking to frequently were employees of the people I originally assumed to be the lenders: not shopkeepers, but the shopkeepers' assistants. Having relatively few time constraints and

[24] Abdul Bismillah (1986) *Jhini-jhini bini cadariyan*. New Delhi: Rajkamal Prakashan.

the added advantage of a shop which can be used as a base for their operations (and which adds to their social status vis-à-vis the typical debtors) constitute significant advantages, especially when lending to a relatively immobile clientele where the neighborhood forms the standard social unit on which the operation of the regime relies. Moneylenders targeting rickshaw-drivers, for instance, tend to have a different mode of operation which focuses on urban spaces regularly used by their clientele (rickshaw stands, tea and food stalls). Again, it is rarely the better off sections of society which act as lenders in this sub-regime, partially because of the necessity to remain in close contact with their clients in the spaces frequented by the clients. More importantly, given the relatively small number of clients that can be handled by a single moneylender in this effort-intensive context at any given time and the small principals involved, there is an economic rationale for any lender who owns sufficient resources to shift to a higher level of lending, even though relative returns on investment are significantly smaller there.

Shopkeepers' assistants typically earn about 2,000 to 2,500 Rs. per month which often enables them to save small sums. Most moneylenders of this kind I spoke to had had a starting capital of between 10,000 and 20,000 Rs. when they started lending small sums, typically between 500 and 2,000 Rs. Once they had gathered a circle of clients, their lending activities soon become much more profitable than their real job, as interest rates in recent times at this level of lending are typically 1 % *per diem*[25], with interest often collected on a weekly basis. Moneylenders at this level benefit from a public perception of lending as an anti-social activity, magnified by stereotypical images of moneylenders in popular culture. The lenders themselves often glorify this perception of themselves as 'tough guys', even social misfits. Social ostracism (though often relatively mild) and the need to keep up a corresponding 'image' prevents many people from starting to lend and, at the same time, leads to a bonding effect among lenders at the neighborhood level. In contrast, in their actual dealings with their clients the moneylenders typically prefer to be relatively lenient. Delays in repayment are common, sometimes even without interest for the additional duration of the loan. However, as one lender put it: "There always needs to be a price" for lenience, preferably by the debtor paying a smaller sum up-front, but (considering the economic situation of the client) often simply by a show of intimidation and low-level physical violence on the part of the lender. Intimidation as performance needs to be calibrated; a lender who oversteps the unwritten code of how far he[26] can go, will soon lose clients.

Lending at this level forms one of the most accessible avenues for social upward mobility, though the rise in social status is restricted by the negative public perception of the business. Successful lenders often give up their activities after accumulating enough capital, for instance to start their own small commercial business, or else shift to higher levels of lending which have a much better public image. Lenders who stay on either enter businesses in close contact with the target clientele, eventually becoming (small- or medium-scale) businessmen cum lenders, or often remain in their original profession, indulging their acquired 'image' which, in turn, often goes hand in hand with conspicuous consumption. Accordingly, the composition of lenders fluctuates enormously, and it is rare for a lender to remain in business for long periods of time.

In comparison with general consumption-based credit targeting the poor, lenders specializing on secured loans to the same target group form a tiny minority (though a much more affluent one). Rates of interest in this segment of lending are significantly lower – often at 20 % or even lower – and in strong contrast to all other segments of lending at times include compound interest. Loans are

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[25] According to the lenders I spoke to interest rates used to be lower, at around 20 %, in earlier times, typically referring to the first half of the 1990s which often forms a threshold of clear recollection even among older lenders.

[26] Lenders at this level are typically male.

often relatively long-term and principals significantly higher than those given in the preceding section. Debtors in this segment often seek loans for quasi-investments linked in some ways to upward mobility: dowry, housing maintenance, bribes for getting a job or access to an educational institution for a family member, or education in general. It is at this level of lending that alcoholism and drug addiction become major factors for debt traps. This sub-regime of lending, however, is losing relevance in Banaras in the last two decades. This is partially due to active development policy – state-run micro-finance schemes combined with development policies in the city's *bastis* which have upgraded housing conditions but at the same time prevent the recipients of this assistance to transfer their property and therefore prevents real estate from being used as security – and partially for economic reasons: Rather than in central locations of the city, the real estate market driven by lending activities has shifted to the peri-urban area. There, however, the ownership of comparatively large plots of land and the general appreciation of prices for this land strengthens the bargaining position of debtors. Relationships between lenders and their clients in this segment appeared to me much less acrimonious in the peri-urban area than in the city itself. Debtors related that they were using parts of their land as security for loans to improve their socio-economic conditions while at the same time keeping other parts of their land as objects of speculation, counting on an on-going appreciation of land prices once urbanization proceeded further into the countryside.

The remaining amateurs and the enclaves of sophistication in contemporary informal finance – traders' credit

The second-largest sub-regime in terms of participants, and likely the largest one in terms of the amount of money involved is the sub-regime of traders' credit. This is centered on the main *bazaar* area – Chowk and the adjoining neighborhoods – where it reaches the highest level of sophistication, but spreads to all major commercial areas, though typically the neighborhood remains the principle unit of social organization. Inter-linkages between commercial areas are frequent, but still much less pronounced than within the respective commercial areas.

Traders' credit in Uttar Pradesh is not illegal *per se*, the rates of interest typically involved as well as a number of associated practices, however, clearly fall under the doctrine of unconscionable bargains. What is more, many traders choose to borrow informally rather than at the organized credit sector in order to evade taxation, so that the entire system of transactions remains outside state control, similarly to money lending. While the *bazaar* forms an enclave of sophistication in many ways, most participants in this sub-regime remain amateurs: Sophistication increases disproportionally wherever transactions are handled by specialists – facilitators and guarantors – who separate the lenders from the debtors and take over the management of the transactions for a share in the profit (typically 1 % of the profit for each of the two types of specialists). Facilitators acquire knowledge through informal information channels on the supply and demand for credit among traders, negotiate the conditions of the transaction, and manage the process of repayment. Their services are reliable for the traders and exceedingly fast. Loans of several *lakhs* can be arranged within a few hours, for principals above 20 *lakhs* the money would more often be available on the next day. The delivery of the principals can also be arranged for areas outside the city, so that there is at least a rudimentary system of long-distance finance available. Interestingly, the means to do this, based on delivering numbered codes via telecommunication, is still called *hundi* and in cases where documentation is thought to be necessary functions very much like a *darshani hundi*.

If a guarantor is involved, the system of traders' credit is supplemented by an informal insurance arrangement. Guarantors are highly affluent and often politically influential persons who take over the risks of the transactions in case of default, but have their own networks of ensuring eventual

repayment although they often are relatively lenient initially without necessarily extracting a (visible) penalty. The presence of specialists does not prevent traders from entering into transactions without their involvement, and even traders who make significant amounts of their income from lending do not necessarily involve specialists at all. For the lenders, however, a transaction involving both facilitators and guarantors is both risk- and effortless. The economy of reputation which supports this sub-regime is discussed in more detail in the subsequent section of this paper.

Traders' credit involves principals starting from about 2 *lakh* Rs. and rarely goes beyond sums of about 2 *crore*. Loans are almost invariably short-term, as it is here that the regime of informal finance has the greatest comparative advantages over the formal credit sector. Rates of interest depend largely on the principals involved: 10 % for smaller loans, 5 % for larger loans (typically above 20-30 *lakhs*). As far as I was able to make out, interest rates are invariably simple.

The system of traders' credit reaches its highest level of sophistication where it relates to speculation and insider trading in the gold market. There, interest rates are fluid (though still almost invariably simple) instead of customary and fluctuate strongly according to the precise characteristics of the transaction, including loans with interest on an hourly basis. 1 % per hour was related to me as a typical rate when involving 'speculation', though I believe that the term would rather relate to insider trading instead. Similar rates of interest can also be found among large-scale gambling rackets.

In terms of its legality, the system of traders' credit is the closest approximation of the system of financing Indian commerce which survives the phase of legislative activism in late colonial India. The differentiation among participants in this segment at present, however, is purely functional. The earlier professionals have disappeared and been replaced with specialists providing sophisticated but still in scope rudimentary services to a large group of remaining amateurs in the sense of the term used by the UPBECR. In the 1920s the two roles performed by specialists in present-day Banaras were instead carried out through a much higher extent of specialization along target groups of debtors, linking different segments of commercial activity, and the continued presence of indigenous bankers. The latter group have entirely disappeared and so has the respectability these bankers endowed on the system of informal finance both as role models and as arbitrators in disputes as analyzed by Bayly (1983). Present-day informal finance, in fact, does have a high-end segment, but this segment has been de-linked from the systems of traders' credit and money lending.

High-end informal finance is based on hermetically sealed networks which I have not been able to penetrate. The little information I have, I received from lenders who were involved with it on the margins, as they had acquaintances inside these circles, and in one case, of a former lender who had been able to enter these hermetically sealed circles but soon decided to quit the business. Where I do have reliable information is on the role of the speculative game of *bisi* in governing access to these circles. *Bisi* takes on different functional roles in the different sub-regimes of informal finance in contemporary Banaras and will be discussed in greater detail in the final section of this paper. Though it does not form part of the typically interest-based informal credit system in itself, and can even be used to circumvent this system, it serves as a functional element in the economies of reputation which underlie the different segments of the regime of informal finance.

The 'simplification' of informal finance in contemporary Banaras

Compared to the period of the 1920s in which informal finance (and especially the professional segments of it) throve on differentiations in the distribution of knowledge and skills between (professional) lenders and borrowers, the regime of informal finance in contemporary Banaras has been acutely simplified. The most obvious example of 'simplification' is, of course, the large-scale

disappearance of compound interest. Interest in contemporary Banaras is simple wherever loans tend to be of short durations and the objective of lending is tied to accumulation through interest only, not to use interest in order to acquire the securities pledged by the debtors. The disappearance of compound interest also simplifies the system of quoting rates and therefore of reference to the costs of borrowing.

The disappearance of the anna/rupee system of quotation linked to the rapid extension of the metric system of the Indian currency did not lead to the institutionalization of an equivalent system of quotation. Instead, rates tend to leap disproportionally, often in relation to the differently classified amounts of principals: from 1 to 1.5, 2 and 2.5 % for the highest level of lending; from 5 to 10 % in the traders' credit segment; from 20 to 30 (1 % *per diem*) to 40 % for the poor. These rates form new 'customary' rates of interest which have supplanted the old *deorha* and *sawai* rates as well as the anna/rupee system of quotation. They may be adjusted to provide for penalties or inducements for borrowers with especially bad or good track records, but they provide a system of information for prospective borrowers on the cost of informal loans which makes these costs easily understandable. Among poorer debtors I have frequently encountered a complete neglect of expressing the costs in terms of rates of interest. The expressions used instead are often: This loan (of e.g. 1,000 Rs.) will cost me 300 Rs. by the end of the month, or even 70 Rs. a week until the end of the month (the assumption being that the money will be paid by that time which is often enough correct).

Information and Trust in Quotidian Finance. An Economy of Reputation

The gap between the 1920s and the present is characterized by the disappearance of the state as a regulatory force with regard to the regime of informal finance. The state disappeared both as an agent for the recovery of outstanding loans which it formed before the enactment of the legal doctrine of unconscionable bargains and as an 'instrument of active relief' as it was envisioned by many of the proponents of legislative activism. The absence of the state has resulted in a situation which is characterized by pervasive informality. The regime of informal finance in Banaras has adapted to the changed situation by morphing into a market where the licit has supplanted the legal as a point of reference for all participants in the way described by van Schendel and Abraham for border areas (van Schendel/Abraham 2005). In the process, it has shed its pre-occupation with contractual law as the fulcrum of economic relationships. Instead, trust between lenders and borrowers is governed by notions of reputation which change according to the level and type of lending involved: Reputation is increasingly related to notions of hierarchical superiority and correspondingly perceived capacities for physical violence at the lower end of the regime; it becomes increasingly consensual towards the higher end. In both cases, there are unwritten rules to the 'game' of financial transactions, the observance of which acts as a check on misuse and in this way forms a substitute for law.

While the ensuing situation may appear as a reversion to the pre-colonial patterns of finance prevalent in 18th century Banaras, the major characteristics of the regime are, in fact, quite different. It has, for instance, shed its connections with community as a feature of collective bargaining. Informal finance in Banaras has become much more atomized, while the segmentation of the regime that has emerged is based to a significant extent on differentiations between and within classes (instead of between and within communities). In part this is related to legislation and the progress of organized banking which removed the indigenous bankers. Indigenous bankers in Banaras in the 1920s still worked to some extent as a governing apex of the informal aspects of quotidian finance wherever these were not dealt with by law and relied on their social embedment through community ties in vertical and class commonalities in horizontal social relations for information and

authority. The shift from a system based on hierarchical relationships between classes and communities to a segmented system based on hierarchical differentiations within classes cannot merely be explained by the removal of the governing apex of the system but has to relate to a much broader change of entrenched social relationships.

Reputation and access in contemporary informal finance

The regime of informal finance in contemporary Banaras relies on an economy of reputation as a means of assessing the relative standing of lenders and borrowers but cannot anymore correlate this to the traditionally prevalent forms of social differentiation. In segmented, atomized and amorphous markets based on differentiations within classes and on individual instead of collective agency, information on reputation as the prerequisite for generating trust needs to be acquired in different ways than in the 'traditional' system of lending studied by Bayly. This is reflected in (1) the emergence of the neighborhood as the principle social unit of quotidian finance, (2) the creation of a new, 'simplified' reference system within quotidian finance which generates a broad outline of the 'rules of the game', and (3) changing modes of governing access to the regime of informal finance. The first two aspects have been discussed in the previous section.

Access to the regime of informal finance is governed pervasively by various ways to gain and maintain reputation. Obviously, the system is much more complex than can be outlined here. As reputation forms the pivot of the system, transactions depend on familiarity. This can be readily available, especially at the neighborhood level, or it can be acquired, for instance through reference to 'known' actors – being introduced or being vouched for, possibly even involving a professional guarantor. These examples play an increasing role in generating trust for many of the lenders I have observed. Babu, a young low-level professional who is currently in the process of taking over the lending business of his father after the latter's sudden demise, is exemplifying this tendency.

Babu's initial attempts to recover outstanding loans left by his father were largely unsuccessful, as he did not have any clear idea of how to operate as a lender and was perceived accordingly by his father's clients who tried to default or at least to delay payment. Eventually he entered into an agreement with a local tea vendor, catering to rickshaw drivers – his father's clients – and subsequently others like him. In return for an interest-free loan of 7,000 Rs. the tea vendor started to serve as Babu's agent, collecting information (and visibly performing this collection of information) on the whereabouts and situations of Babu's clients. Once he managed to recover his father's loans in this way he found lending too lucrative to give up, though he still professes he will in the near future, the year after or so. However, he did not have any long-term experience in judging the reliability of prospective debtors and initially gave loans to debtors who continued to 'make problems'. When I first met Babu, he was trying hard and only partially successfully to develop the kind of menacing presence he seems to associate with the image a moneylender should show to his clients. However, he eventually shifted his business model to one exclusively relying on introductions and vouching. He does not anymore take on clients who have not been introduced to him by other clients which, he says, generates a sense of importance and familiarity among the latter and spreads the risk of default or delayed repayment: The clients tend to receive benefits in various ways from those they are introducing, and therefore have an interest in enforcing repayments themselves in order to maintain this direct relationship with the lender. In particularly risky cases Babu has started to insist on somebody vouching for the good conduct of the prospective debtor which reinforces the effect outlined above. By now, Babu claims that his father had had significant problems in the last years of his life in recovering loans, and that it was this shift which made the business lucrative again.

In an often anonymous regime of lending (which, after all, elicits public condemnation and individual shame and mostly operates outside the law), being vouched for or introduced form sub-optimal avenues for gaining reputation in many cases. One of the larger arenas available for the communication of reputation is formed by the ubiquitous speculative 'game' *bisi* which forms a particularly instructive example for the economy of reputation underlying the regime of informal finance.

Bisi can be seen as a variant of what in other parts of India is known as chit funds. Traditionally, these speculative games were known in the area as *bisis*, a term which is acknowledged in law, as in the Prize Chits and Money Circulation Schemes (Banning) Act of 1978. With increasing awareness in Banaras of the more generic term, *bisi* is being used to refer to unregistered and therefore illegal practices, while the term chit funds as locally used refers to openly conducted and larger schemes. In *bisi*, a group of traditionally 20 people are pooling specified amounts of money contributed by all players at regular intervals. Each member eventually gets one slot at which he/she receives the pooled amount of money. The game is widely played in Banaras and can be used to circumvent the need for borrowing either informally or at the level of organized finance. There are many variations of *bisi*. Rules are agreed upon in advance by all players, but can differ significantly between circles of players. I have come across one circle which played the game in its most simple form, with the slots for the players decided by lot and no further complications.

Typically, however, there are significant additions to the game which increase its speculative characteristics. These include among others reducing the amounts paid to the players in the first few (often seven) rounds, and introducing an element of auction in the first rounds of the game, often corresponding to the rounds in which reduced amounts are paid. In the auction system, players compete for the slot by offering to take a lower than previously agreed upon amount, thereby reducing the amount paid which is re-distributed among the players and increases their profit. The reduction typically is possible up to a fixed minimum amount which gets successively higher with each subsequent round. The system of auctioning is interrupted for the second round in which the head of the *bisi* circle receives the entire pooled amount as he/she carries the greatest risk as discussed below.

The objective of the game is, obviously, to receive the pooled amount (even with reductions) as early as possible in order to use the money for profitable investment for the rest of the circle's duration which is relatively long: Intervals are typically on a monthly basis. The profitability of the game therefore rests on the ability of the respective player to invest the money rapidly and profitably. In the rather stagnant economy of Banaras, however, there are very few opportunities for such an investment, one of the greatest of these being informal lending. *Bisi* is extremely attractive to lenders as they normally possess enough resources to carry the risks of playing, while being able to profit at exorbitant rates if they get the pooled amount soon. As the head of the circle carries the greatest risk but is assured the pooled amount in the second round and – crucially – selects the players for which he/she needs information on the prospective players' reliability, lenders have strong advantages as heads. In turn, the ability of the head to carry the risks of a *bisi* circle is important for many players in their decision whether to join a circle and lenders typically have a good reputation in this regard.

What makes *bisi* risky (and socially disruptive) is the possibility of default. A player who got the pooled amount early on in the game does not necessarily have an incentive to keep on contributing to it and even when the players are *bona fide* there are instances in which players are forced to default on their contributions during the circle's lifetime by outside circumstances or misjudgment. The head of the circle carries the risk of stepping in whenever there is a risk of default, by trying to

persuade or intimidate the player if possible, and by taking over the contributions of the defaulting player if this is unsuccessful. The first default in a circle enormously increases the risk of further defaults, setting in motion a chain reaction which destabilizes the circle. Circle heads will try to introduce safeguards in this respect by having at least some especially reliable players as part of the circle, and will even share profits with these to stabilize the circle. If a circle collapses through early defaults, the last option of the head is to default him-/herself which may force the rest of the players to continue contributing but would seriously impact the head's reputation.

Apart from its general profitability for lenders, what makes a *bisi* circle attractive for many informal financial entrepreneurs is directly linked to this risk of default. *Bisi* constitutes one of the greatest opportunities to gain and maintain reputation, especially for circle heads but also for the other players. Firstly, it forms a social arena in which (perceptions of) economic standing and reputation can be communicated. Secondly, it forms an arena in which a good track record can easily be established, even without incidences of default: A player who accepts a late slot in good grace is communicating reliability as well as relative prosperity. A player who collaborates with the head can gain a more intimate relationship with an informal financial entrepreneur from which he/she may profit later on. Thirdly, and most importantly, in case of defaults the behavior of the players will be closely scrutinized. Continuing to contribute to a circle in danger of collapsing can lead to significant losses but it can gain sufficient reputation to be seen as a profitable investment in the long run despite the initial risks. For the head of a circle, the impact of defaults on his/her reputation are even more intricate.

The importance of *bisi* for the regime of informal finance is highest at the level of traders' credit and high-end informal finance. While the game is played as much among the lower classes, lending in this (lower) segment relies on notions of reputation which are concerned much more with projecting an image of being able to recover outstanding payments under any circumstances than at the higher levels where lending is much more consensual. Correspondingly, it is at the higher levels of lending that *bisi* forms an important arena for gaining access to quotidian finance which, in turn, is much more pronounced when concerning high-end illegal finance. *Bisi* constitutes a door-opener, not only for borrowers but especially for lenders who want to shift from traders' credit to the hermetically sealed financial networks which control this level of the regime, at least outside the segment of 'old money' access to which still seems to be entirely governed by class prejudice. Even at the lower levels, however, the game enables upward mobility for lenders wanting to cross thresholds into a higher sub-regime of informal finance by allowing a successful lender at a lower level of lending to establish credentials among a new set of entrepreneurs and debtors.

The impact of *bisi* on upward mobility through generating access to higher segments of lending can be illustrated by the career of Murli. From a poor upper caste family, Murli at a relatively young age became employed by a shopkeeper who was heading several circles, and was tasked with collecting information on prospective players for his employer, a task which allowed him to acquire the necessary skills as a financial entrepreneur. He himself became part of the shopkeeper's circles under the latter's patronage which acted as a safeguard against the risks involved. After accumulating enough capital to buy his own shop, Murli started to head his own circles and simultaneously became a moneylender to the poorer people in his neighborhood. He was successful enough to buy several shops and, subsequently, switched from money lending to the poor to traders' credit, initially by starting to play *bisi* with other traders, then starting to head circles among traders and simultaneously lend money at this level. After a while he sought new avenues for investment and prepared to switch to the real estate sector as the only economic sector which offered similar returns on investment as lending, only at a much higher scale. Once again, he used *bisi* as an opportunity to gain access to the networks operating at high-end illegal finance. His new acquaintances which he

described as 'politicians, bureaucrats and organized crime' (though he probably exaggerated to reinforce the image he was projecting towards me) helped him to eventually buy several buildings in town. However, he did not start heading his own circles or lending at this level, as – according to his narrative – he started to realize that this line of business was too risky. Eventually, he stopped his financial operations, sold most of his houses and shops and started to patronize traditional arts in a move reminiscent of an attempt to gain cultural capital – something that his (publicly reviled) financial entrepreneurship would prevent him from acquiring.

The historical development of *bisi* is opaque. It was well established at the time legislation against these speculative practices was passed in the 1970s, but its relationship to the informal credit regime did not form an area of concern at all for late colonial legislation. Older *bisi* players I talked to recollected that the game was widespread in Banaras in the 1960s and probably earlier, but were unable to give any further information. It does not seem unlikely that the practice evolved earlier but that its strong links with the regime of informal finance in Banaras developed only after the period of legislative activism when the informality of the regime became reinforced by the disappearance of the state as a regulatory force.

The regime of informal finance in Banaras is based on an economy of reputation which comprises various moralities that have to be kept in mind when studying its historical resilience. In an improvised discussion group of two lenders and two debtors indebted to lenders not present I once asked the group to discuss a case I had been told about earlier about the underlying morality: A lender had raided the shop of a debtor and taken away saris claimed to be of equivalent value than the outstanding amount on which the debtor had defaulted. The debtor who related this to me accepted the loss of the saris in general but complained about the lender taking too much, instead. The group's discussion was intense and covered arguments about lenience, the sanctity of contracts, socially acceptable behavior in the neighborhood and the need for consensual behavior in business practices outside the law in a surprisingly sophisticated way. The discussion resulted in a detailed statement under which circumstances the behavior of the lender was acceptable: Provided that the claims of the outstanding payments were correct, no physical violence was involved on the part of the lender and the value of the goods not higher than the outstanding payments, the lender's behavior was morally acceptable once he had shown lenience by offering the debtor to delay payments twice for a sufficient time of at least one month each without asking for any interest or penalties during the periods of delay.

The result of this discussion would differ strongly if the situation related to a different sub-regime of lending where reputation was less consensual. What it illustrates is a perceived need to behave according to an unwritten code of norms underlying everyday financial transactions in Banaras which differs strongly from a reading of available sources on the regime of informal finance in the period characterized by the presence of the state as a regulatory force. To revert to Birla's argument, while the late colonial state had defined the impropriety of informal financial arrangements, the actual propriety of the remaining practices is being re-negotiated through notions of reputation on an everyday basis by those involved in the regime. The state's manner of 'seeing' the regime of informal finance, in reference to James Scott's seminal work (Scott 1998), resulted in a regulatory approach which in contradiction to its intention reinforced the informality of everyday financial transactions. Everyday financial transactions became increasingly amateurish. Where enclaves of sophistication exist, they constitute services for amateur lenders.

The costs of borrowing have increased significantly between the 1920s and the present, despite the 'simplification' of interest, although the causes for this increase cannot be solely related to the disappearance of the state. Informal finance in the 1920s was concerned primarily with extracting

precious metals and (even more so) immovable property through escalations of loan repayments through compound interest and in this way constituted a social regime which necessarily relied on the intervention of the (colonial) state. Informal finance in contemporary Banaras, on the contrary, has reverted to a much less sophisticated manner of accumulation through interest only which corresponds to the amateurish nature of the regime. The participants of this regime are 'uncivil' in Gudavarthy's terms (Gudavarthy 2013), relying on behavioral codices unrelated to law, and follow strategies of accumulation and upward mobility which correspond to the absence of the state (and similar institutions and bodies which prevailed in pre-colonial Banaras) as the apex of market governance.

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