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Small Business and Non-Institutional Credit: A Study in West Bengal[1 2]

Santanu Chakraborty
Faculty, Department of Economics
Acharya Prafulla Chandra College, New BarrackPore, Kolkata, West Bengal, India

Abstract:
This is a preliminary study looking at small business and non-institutional credit in West Bengal from a primary survey. In this paper, I want to observe the role of non-institutional credit in the development of small businesses. Volume of small business in West Bengal is relatively large and non-institutional credit is deeply entangled with small business in different modes and styles of operation. I have selected two urbanized districts Kolkata and North twenty-four Parganas, which forms the core business area in the state and I am looking at the forms and features of non-institutional credit markets be fitting to the characters of small businesses across two districts.
The study reveals five forms of non-institutional credit system, such as trade credit arrangement, unregistered chit fund, traders' association, individual moneylendig system and hundi system, each feature of its own. Small businesses favour non-institutional credit markets, because of certain advantages, such as low transaction cost, spontaneity and flexibility, mutual trust, unique record keeping system and acceptance of flexible collateral.

Keywords: *Small Business, Non-institutional Credit, Logit Model*

1. Introduction

Small businesses are normally privately owned corporations, partnerships, or sole proprietorships. The concept of small business varies widely around the world ranging from fewer than 15 employees (Australian Fair Work Act 2009), 50 employees (European Union) and 500 employees (U.S. Small Business Administration programs). Small business can also classify according to other methods such as sales, assets, or net profits. Small business is of large volume in many countries, depending on the economic system in operation. Typical examples include: small shops, hairdressers, tradesmen, lawyers, accountants, restaurants, guest houses, photographers, small-scale manufacturing, online business, internet marketing ,franchising etc. A small business can start at a very low cost and on a part-time basis.

I would prefer to define small business, which is small enough to be scattered here and there in the city as well as countryside. Some concentrate in city pockets and some are dispersed in suburban areas. Some of the businesses exist with a long historical past and some emerge with urbanization, both formal and informal in nature. Small businesses are generally sex biased with more male participants and engage people belonging to all age groups. Some of them are permanent stallholders and encroachers of government areas, while the rest are street venders. Some of the business owners are experienced and some novice, some illiterate and some highly educated, constituting immense diversity in business nature.

Adaptation is crucial in small business. As it is not tied to any bureaucratic inertia, so, they easily respond to market upswings and downswings. Small business proprietors tend to be intimate with their customers and clients, which result in greater trust and accountability. Independence is another advantage of owning a small business. Freedom to operate independently is a reward for small business owners. Many people desire to take own decisions, own risks, and reap the rewards of their efforts. Small business owners also have the satisfaction of making their own profits within the constraints imposed by economic and other (environmental) factors. However, entrepreneurs have to work very long hours and understand that ultimately their customers are their bosses. Common marketing techniques for small business includes networking, word of mouth, customer referrals, television, radio, print and email marketing.

Small business benefits the economy with improved productivity, higher employment and enhanced competitiveness. The labor-capital ratio of small businesses is much higher compared to the larger industries and therefore important from inclusive growth perspective. Small businesses are widely dispersed across the country, which also makes them highly important from a regional development perspective and as a means to promote balanced and equitable growth.

The small business in India is highly heterogeneous in terms of the size, variety of products and services and the levels of technology employed. Small businesses have a critical role to play in enhancing export competitiveness given their very significant share in exports. Several initiatives have been taken by the Government of India and the Reserve Bank of India (RBI) to enable the growth of small businesses in the overall development of the economy. The Economic Survey, 2011-12 has stated that small business nurtures entrepreneurial talent besides meeting social objectives including that of providing employment to millions of people across the country.

Credit lays an important role to play in the development of small businesses. Small businesses generally rely on multiple sources of credit that include both institutional and non-institutional credit. Institutional credit refers to bank and other formal institutional arrangements while the non-institutional credit refers to all credit transactions that take place outside authorized banking and credit issuing systems. Within the non-institutional credit markets, a wide variety of forms and multifarious arrangements between depositors, lenders and borrowers exist. Some of which, date back for centuries, rooted in customs and tradition and yet are existent today in India. Others constantly evolve in response to changing economic and social conditions, sometime legal while sometime operating by avoiding the legal system (chit funds). RBI estimates, about forty percent of credit to small businesses comes from non-institutional credit markets in India (Joshi & Little, 1998).[3]

In this paper, I want to observe the role of non-institutional credit in the development of small businesses and I have chosen urban West Bengal as my area of study. Volume of small business in West Bengal is relatively large. With respect to employment, role of small business is also significant. Non-institutional credit is deeply entangled with small business in different modes and styles of operation.

It therefore important to look into the relationship of non-institutional credit and small business and observe the role non-institutional credit plays with respect to small businesses in West Bengal. I have selected two urbanized districts Kolkata and North twenty-four Parganas, which forms the core business area, including big businesses and small businesses in the state.

I have selected Kolkata, because it is the most important business center of East and North-East India. A large section of the population of Kolkata depend on the small businesses like small shops, roadside hawkers, furniture making, electrical wiring, leatherwork, shoe making, readymade garments, masonry and various kinds of activities such as services and order supply. I selected North twenty-four Parganas, due to its rapid urbanization and closeness to Kolkata [55% of population in urban areas (Census, 2011)]. My Study area comprises Burrabazar and Sealdah in Kolkata and Barasat and NewBarrackPore in North twenty-four Parganas.

The study reveals the role of non-institutional credit markets in the development of small business across two districts of West Bengal. It includes forms and features of non-institutional credit markets be fitting to the characters of small businesses across two districts. It also includes the variation of the lending process by the type of the commodity produced across to two districts.

The paper organized in five sections. The outline of the paper is as follows. Section II analyses the features of small businesses across two districts of West Bengal as observed from the study. Present forms of non-institutional credit available to small businesses across two districts of West Bengal are analyses in Section III. Model of loan process for a particular form (trade credit) formulate in Section IV and some concluding remarks in Section V close the paper.

2. Features of Small Businesses

In Kolkata and North twenty-four Parganas, small businesses possess the following features that are befitting with non-institutional credit systems, such as,

2.1. Trustworthiness

Trustworthiness of small business owners generates credit opportunity in their business in a non-formal way. Trustworthiness propagated with the help of multiple interlinkage, personal relation, third party guarantee, clientelization and good behavior. We know *aratdar* (fish commission agent) purchases fish from *jalkar* (fish dam builder). However, in the time of dam building *jalkar* needs credit. Then *aratdar* supplies *dadon* (credit) to *jalkar* with the condition that *jalkar* sells all fish of his dam to this particular *aratdar*. This is an example of multiple interlinkages in small business. Small wholesalers attend in weeding and birthday parties as well as in any mishaps of the large wholesalers' family. This personal relation in business, help small wholesalers' to get trade credit from large wholesalers'. In the business of readymade garments, novice small wholesalers obtain trade credit from large wholesalers' on the basis of third party guarantee. Clientelization has been the basis of trade credit also in case of stationary commodities. Large wholesalers deny future trade credit to misbehaved small wholesalers.

2.2. Flexibility

Small businesses are flexible in terms of price, time and place. Vegetable sellers charge high price in the morning. However, they charge low price in the afternoon. High price also charge for frequent customers. However, low price charge for regular customers. There is discrimination between price of same commodity between permanent stallholder and street vender. In this way, small business owners try to sell all the commodities and ensure repayment of non-institutional lenders. Local moneylenders also help in this work by using his local knowledge base to ensure repayment. In roadside small tea stall, it is general nature of customers to spend spear times there. The unstable thin wooden bench creates positive externalities for the inclusion of local non-institutional lenders. In some of the businesses, place is not at all required. Year after year, a person sits on a roadside chair and operates business of bamboo as well as stall of junk foods on a van rickshaw runs since long times are the examples of these. In some of the small businesses, business owners do it as a primary activity. Others engage in various subsidiary business activities. As for example, some of the stationary shop owners engage in rented cars business and catering businesses also. Flexible credit needs of small business in terms of these flexibilities, satisfied by local moneylenders to provide credit.

2.3. Flexible Collateral

Collateral of small businesses are not fixed. They can offer gold in the form of ornaments, personal mobile phones, bi-cycle, motorbike, life insurance policy certificates (L.I.C), monthly insurance scheme certificates (M.I.S) etc. Proper forms of collateral required by institutional credit agencies are absent to the small businesses. Hence, bank like formal sector misfit with this type of collateral offered by small business owners. Sometime business requires credit without any physical collateral, as for example retail fish market. In vegetable market and fish market, future loan and self-respect are important collateral. Small business owners' specific nature of collaterals has been fitted with non-institutional lenders acceptance.

2.4. Presence of Brokers

In small businesses, brokers have solved the problem of asymmetric information. They take information of demand and deliver information for supply in another place, charging brokerage fees. Small businesses depend on the brokers, not on the market forces as in the perfectly competitive set up. Large wholesalers cater unknown small wholesalers or retailers by the recommendation of brokers. Brokers bring these two parties in same platform essentially for own interest. Brokers give the guarantees of credit. Brokers arrange credit from non-institutional lenders for small business owners.

2.5. Instant Credit Need

Credit need of small business requires urgency. Retailers of drinking water and fish trading, food stalls, roadside hotels and restaurants need credit everyday. The need satisfied with the help of known persons of the local area. Non-institutional lenders supply credit with exorbitant rate with the condition to repay on next day. Lenders minimize the credit risk by the threat of the denial of future credit. Institutional credit systems have been misfit with this feature of small business and non-institutional credit sources remain exclusive source of finance of small business.

3. Forms of Non-institutional Credit

From the primary survey on Kolkata and North twenty-four Parganas, I identify five forms of non-institutional credits operating in the market such as trade credit arrangement, unregistered chit funds, individual moneylending system, traders' association and hundi system that lend money to small business apart from formal system. These forms of lending are informal in the sense; those are unregistered to the state government, under the department of State Register of Moneylenders with pay a fee.

3.1. Trade Credit Arrangement

Trade Credit is an arrangement for borrowers to buy goods or services require for business without making immediate cash payment. It is the credit extended to businessmen by lenders who let him sell their product and is ready to accept payment later after sale. Trade credit is a unique form where credit is in the form of commodity not liquid cash to buy products. Here input suppliers exclusively serve as the role of moneylender who directly caters the trader with commodity to trade with them.

Large wholesalers provide considerable trade credit to agents lower down the trading chain. Credits for trading facilities are the flow of goods from large wholesalers to middle wholesalers, middle wholesalers to small wholesalers, small wholesalers to petty wholesalers, petty wholesalers to retailers and, occasionally, even to consumers. These numbers of hands change of commodity raise the price of the commodity successively. However, the large wholesalers constitute the apex of this credit chain. The following illustration explains the trade credit chain.

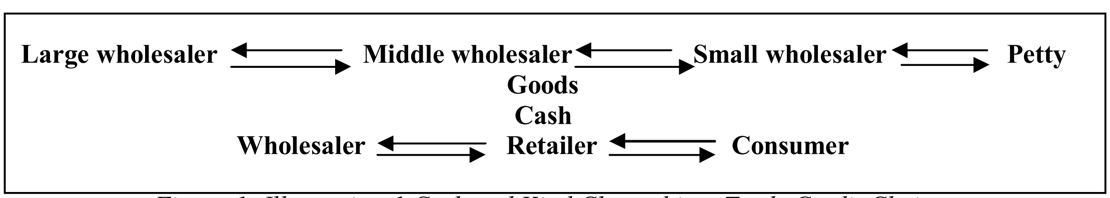

Figure 1: Illustration-1 Cash and Kind Channel in a Trade Credit Chain
Source: Based on Author's own survey

In kolkata, large wholesalers are specializing in the trading of various commodities as clothing and textiles, stationeries, food grains of different types, gold, silver, etc.[4] Large wholesalers in these markets have large holding of liquid balances. In Burrabazar, Marwari large wholesalers mostly exist and most of them have permanent residence in Burrabazar. This conforms to Timberg and Aiyar's (1984), finding that relationships between borrowers and lenders in the non-institutional credit markets are often of '24 hours' variety. This is important implication for extent and nature of information flows in these markets. Given extensive information flows and high liquidity, large wholesalers able to large volume transact in very short time.

In trade credit, credit is short term only for three months from top to bottom of credit chain. Spot transactions in the goods market form the initial contact between the two parties and are utilize overtime as the basis for determining the parameters of the trade credit. Not only spot transaction, but also strong third party guarantee acted as parameter of trade credit.

The market for trade credit has the following characteristics:

- Firstly, the transactions for trade credit occur lower down the 'trading chain' and consequently of smaller size on the average; the further down the trading chain, the lower are the amounts involved.
- Secondly, the transaction for trade credit reveals the interlinkage across the goods and credit markets.
- Thirdly, information flows in these transactions are vertical along the trading chain. A businessman of upper strata in trading chain when satisfied by the business dealings of his trading partner of lower strata, then he (businessman of upper strata) offers credit to his partner. The information regarding credit cannot skip by any step of trading chain.
- Lastly, a distinct feature of trade credit is the significant presence of brokers. Large wholesalers catering to agents lower trading chains via numerous brokers that are quite competitive; the brokers charge brokerage fees. If we rule out the possibility of collusion, this indicates a competitive market. The brokers bring together borrowers and lenders essentially through own interest. Brokers give the guarantees of trade credit. Therefore, to ensure repayment, brokers lay importance on finding reliable borrowers to maintain their business reputation.

3.2. Unregistered Chit Fund

Rotating savings and credit association (ROSCA) is known as chit fund in India. The concept of chit fund in India is a century old. An unregistered chit fund is an informal way of collecting and saving money that is based on trust. It plays a crucial role in channelling credit to poor borrowers. Many agencies now-a-days collect deposits and lend like unregistered chit funds. Unregistered chit funds are dispersing in various pockets of Kolkata and North twenty-four Parganas, most of which have no permanent office[5].

Members of chit funds invest initial capital that necessary to formation of funds and distribute dividend among them in the proportion of invested capital. In the local area, agents (engaged by the members) offer schemes of savings and lending to the businessmen. Members initially offer savings opportunity to the businessmen. Agents collect deposits from borrowers' place and issue a thin book (hand written entry system like passbook of Banks) to the businessmen. After a month members accept loan appeal of businessmen. Agents also collect installments of repayment from borrowers' place regularly and entry in that book. However, savings schemes and loan schemes of chit funds are different by the terms and conditions.

Unregistered chit funds have certain characteristics that are as follows:

- Firstly, savings are the pre-conditions for borrowing from chit funds.
- Secondly, the lending businesses of chit funds are segmented locally.
- Thirdly, Social capital plays an important role in sanctioning new loan.

Unregistered chit funds mitigate the risk of default as in case of street venders via their essential deposits. For mitigating strategic default, chit funds employ educated agents who collect daily installment from market. Agents' presence in the borrowers' place acts as a threat by the chit funds. Small businessmen satisfied with this system, because chit funds build savings habit along with loan provision, to these financially excluded poor persons.

3.3. Traders' Association

Permanent stallholders are considered as members of traders' association. Apparently, these associations protect traders from anti-social activities, legal pressures against them. These associations also help them in the time of any calamities like accidents or personal mishaps. However, all associations collect deposits from their members and offer credit mainly in the time of repayment of residual loan before puja and Bengali New Year to the wholesalers.

3.4. Individual Moneylendig System

The fourth form that caters to small businesses is the individual moneylending system. The individual moneylenders exist in the world since remote past. This form always fills the gap of the non-institutional credit markets for necessity. Kolkata and North twenty-four Parganas are no exception. Somewhere it acts as a primary activity, somewhere as a subsidiary activity. Individual moneylenders operate and make own important position and thus forms the financial backbone of the districts' economy. Some of individual moneylenders are registered according to the Bengal Moneylenders Act, 1940 and some are unregistered. However, most of the registered individual moneylenders are small in number compared to unregistered individual moneylenders in urban West Bengal; most of them are goldsmiths, who mainly provide consumption loans, according to unpublished official records of the department of the State Register of Moneylenders. A large number of unregistered individual moneylenders provide production loan to small businessmen in the two districts. Kabuliwallah, housewives and unemployed persons are the examples of individual moneylenders who act lending as a primary activity. Whereas, working men and women, tailors, teachers and retired government servants, pursue it as a subsidiary activity. The need of the two types rises with the flourishment of new businesses that emerge with rapid urbanization in these two districts. According to West Bengal Human Development Report, Kolkata faces more than two-third urbanization of West Bengal (Ghosh, 2004). Hence, to support demands of huge urban population, new business opportunity develops. As for example, the market for stationary goods under the *vidyapati setu* (the fly over near the Sealdah rail station), fish market of NewBarrackPore and *arat* of fish at Barasat. Individual moneylenders carry some important characteristics which are absent in other forms. These characters can be explained by the following way.

- Firstly, they charge high and exorbitant rate of interest, excepting friends and relatives who charge zero or minimum rate.
- Secondly, working area of individual moneylenders is fragmented. They are always reluctant to work, outside the local areas. Social network enclaves their jurisdiction in a tight local circle, beyond that network they do not work. They are reluctant to lend outside the local area due to asymmetric information (Stiglitz & Weiss, 1981).

- Thirdly, they accept flexible form of collateral (personal mobile phones, ration cards, life insurance policy certificates, monthly insurance scheme certificates, gold in the form of ornaments, bi-cycles, motorbikes etc.); sometime even without any physical collateral they issue credit.
- Fourthly, terms and conditions of individual moneylenders are different. As for example, in Sealdah, moneylenders deduct interest amount at the time of sanctioning loan. Here, repayment in 100 days and mode of repayment is 100 equal installments on each day. In NewBarrackPore fish market, moneylenders give credit to the fish retailers on every night with the condition of repayment with interest on next day by 3 p.m. In arat of Barasat, retailer purchase fish in credit on behalf of cotadar (a group of moneylenders who are present in time of auction and guarantee of repayment to aratdar at stipulated time).
- Fifthly, the last important character of individual moneylenders is that money is multiplied by their operation. 100-days' loan (with10% rate of interest) is most commonly noticed method of moneylending in Sealdah. The borrower has to repay daily in equal installments. Money multiplication implies that an amount of money lent, is multiplied into a big sum after the end of the loan period. However, the borrowers are not aware of this money multiplication.

I construct a table to show money multiplication process using the same rate of interest (10%) on different sums.

Original amount(Rs.)	Amount lent(Rs.)	Likely deduction(Rs.)	Repayment(Rs.)
500	450	50	100days*50=500
1000	900	100	100days*100=1000
10000	9000	1000	100days*1000=10000

Table 1: Money Multiplication Process of Moneylending
Source: Based on Author's own calculation

3.5. Hundi System

The word hundi comes from the Sanskrit root meaning, "collect". In India, one of its most common meanings is for the collection box found in a Hindu temple (Jost & Sandhu, 2000). Hundi system refers to a financial instrument evolved in India used in trade and credit transactions. They are used as remittance instruments (to transfer funds from one place to another), as credit instruments (to borrow money), of trade transactions (as bills of exchange). Technically, a hundi is an unconditional order in writing made by a person directing another to pay a certain sum of money to a person named in the order. It was developed in India, before the introduction of Western banking practices, and is currently a major remittance system used around the world .Hundi works by transferring money without actually moving it. Hundiwala (hundi operator), performs the role of a banker or foreign exchange dealer. Hundi differs from a cheque in the sense that a cheque is only paying that person to it issued but hundi is transferable among the class of eligible payees. Rather it, hundi can be cashed at any time of the day or night. Hundi is typically negotiated several times before ultimate encashment. Hundi is preferred also because it involves low cost and is negotiating a settlement if dishonored. However, the Merchants Chamber of Commerce in Kolkata reports a sharp drop in the number of hundi cases it handles. However, the volume of hundi transactions is still considerable (Timberg & Aiyar, 1980).

Hundi system can be operated within a country vis-à-vis across two countries. As geographical proximity, hundi system operates across West Bengal and Bangladesh hugely. We can explain hundi System with the help of a typical example, suppose a businessman of Burrabazar wants to transfer money to the businessman of Bangladesh for any business dealings. Businessman of Burrabazar deposits cash and take a coded paper from hundiwala of Burrabazar. The businessman of Burrabazar discloses the code to the businessman of Bangladesh. The businessman of Bangladesh discloses it to the hundiwala of Bangladesh and if the code matches then the hundiwala of Bangladesh release the cash. Evade legal way hundi transfers money cross border and affect on international exchange rate. I sketch a typical hundi system by the following illustatrion.

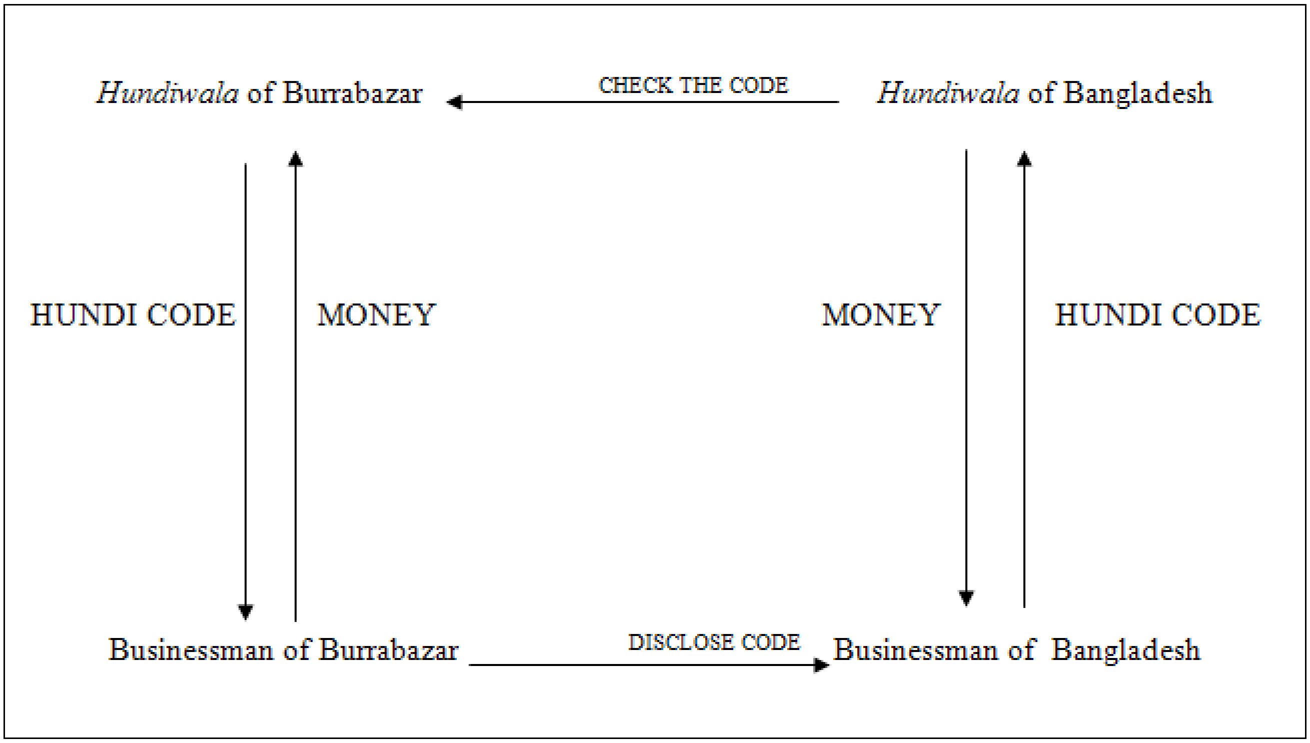

Figure 2: Illustration 2: A typical Hundi System
Source: Based on Author's own survey

4. Model of Loan Process in Non-institutional Credit Markets

4.1. Baseline Model: An Overview

There are two types of decision makers in my model economy: small wholesalers and large wholesalers. Two types of small wholesalers - low risk and high risk, constitute the production sector. Both types of small wholesalers have same level of return when they succeed or fail. However, their probabilities of success are different and that information is unknown to the large wholesalers making them *ex ante* identical to the large wholesalers. Small wholesalers are lack of endowment and therefore they take trade credit from large wholesalers. In my model, large wholesalers are risk neutral and single source of trade credit is the non-institutional credit markets.

4.2. Model Specification

4.2.1. Small Wholesaler

The degree of risk makes small wholesalers heterogeneous in our model. Small wholesalers' do not have any initial endowment. Therefore, they have to borrow for their capital. Small wholesalers' capital follows this relation:

$$K_t = T_{i,t} \text{ ----------------------------- } (1)$$

Where K_t is the total amount of capital produced. $T_{i,t}$ represents volume of raw material taken as trade credit from large wholesalers in period t. Also, i = HR, LR when HR represents high-risk small wholesalers and LR low risk small wholesalers.

Small wholesalers convert their capital into consumption good. Small wholesalers produce it in their workshop. The output of the small wholesalers is a random outcome, ranging zero to ψ percent. ψ percent implies more output above mean level irrespective of type of small wholesalers.

I define the small wholesalers with higher rate of success as the low-risk small wholesalers (LR) and small wholesalers with lower rate of success as the high-risk small wholesalers. With corresponding rate of success (φ_i), the expected production function can be written as:

$$E_t [f (k_t)] = \square_{i,t} A k^{\alpha}_t L^{1-\alpha}_t \text{----------------------------- } (2)$$

Where

$$\square_{i,t} = \varphi i \, (1 + \psi_t) \text{--------------------------- } (3)$$

I assume no technological difference between these two types of small borrowers. Given the above production function, the profit function for the ith small wholesaler can be written as:

$$E_t \pi_t = \square_{i,t} A k^{\alpha}_t L^{1-\alpha}_t - k_t - w_t L_t \text{---------------------------- } (4)$$

$$= \square_{i,t} A T^{\alpha}_{i,t} L^{1-\alpha}_t - T_{i,t} - w_t L_t \text{-------------------------- } (5)$$

As in trade credit, no explicit interest on capital, so I ignore interest coefficient of $T_{i,t}$ in equation 5[6]. I also ignore i from the subscripts of w and L for obvious reason that there exist no difference in wage bills by the type of small borrowers.
Maximizing profit for the ith small wholesaler with respect to Ti,t, I get the corresponding unconstrained demand function as follows:
For ith small wholesaler: $T_{i,t}^{D*} = (\square_{i,t}A\alpha)^{1/1-\alpha}$-------------------------------- (6)
$i = LR; HR$
Restricting wage bill constant, I exclude labor market from my model.
Since, $\varphi_{LR} > \varphi_{HR}$ therefore, between the two types of small wholesalers
$\square_{LR,t} > \square_{HR,t}$ -------------------------(7)
Now from the above equation, I can say that, $\square_{LR,t}$ being greater than $\square_{HR,t}$ due to higher value of φ_{LR}, the demand for trade credit of the low risk small wholesaler is greater than that of the high risk small wholesaler at any price. However, since the value of φi for different types are unknown to large wholesaler. Large wholesaler cannot differentiate between two types of small wholesalers' based on demand.

4.2.2. Large Wholesaler

- Econometric Specification

The desirability of issue trade credit by large wholesalers is a binary variable. Since the dependent variable is binary, an OLS regression may not be the most appropriate method for identifying the determinants of the desirability of issue trade credit. The logit model may take care of the problem (Maddala, 2003).
Given these specifications, the model under consideration is as follows:

$$Y^*_i=\beta_0+\sum_{j=1}^{m}\beta_jX_{ij}+u_i \text{------------ (8)}$$

Where Y^*_i can be assumed to be an unobserved latent variable. Here β_j is the vector of unknown parameters; Xi's are the set of explanatory variables and ui represents the error term that is logistically distributed. The relation between the $Y^*_i$and observable Yi can summarize in the following way:

$$Yi=1 \text{ if } Y^*_i>0$$
$$=0 \text{ otherwise-------------------- (9)}$$

Based on these assumptions one can obtain the following probabilities:
$\Pr (Yi =1) =\Pr [u_i>-(\beta_0+\Sigma\beta_jX_{ij})]$ ------------------------- (10)
Under the assumption that u_i symmetric, I can write

$P_i=F (\beta_0+\Sigma\beta_jX_{ij})=\exp (\beta_0+\Sigma\beta_jX_{ij}) /1+ \exp (\beta_0+\Sigma\beta_jX_{ij})$ --------------------------------- (11)
Hence,
$\text{Log } P_i/1-P_i =\beta_0+\Sigma\beta_jX_{ij}$--- (12)
The estimation of β_j does by using the maximum likelihood method. Here, if β_j is positive, it implies that the probability of desire to issue trade credit increases with an increase in the value of the explanatory variable. As Y_i is the realisation of a binomial process with probability P_i and varying from trial to trial depending on X_{ij} , the likelihood function will be
$L=\Pi P_i \ \Pi (1-P_i)$-------------------- (13)
The likelihood function is concave and does not have multiple maxima. This is the estimated equation (12) for the logit model. The left hand side is the log-odds ratio in favour of the large wholesaler i being issue trade credit. Maximisation of the likelihood functions for the logit model accomplished by nonlinear estimation methods.

Selection of Explanatory Variables

One can subdivide the factors that influence the desirability of issuing trade credit into eight factors. These briefly explained by the following way.

- Mutual trust between small wholesaler and large wholesaler:

Most important parameter of the desire to issue trade credit is mutual trust. Mutual trust enhanced mainly by clientelization. A large wholesaler must not entertain an unknown new small wholesaler for trade credit. However, for a regular customer he is willing to give greater importance on long-lasting business opportunity and issue trade credit. Thus, repeated transactions that expected to continue over a long time have the power to protect small wholesalers from the pitfall of the credit excludability.

- Good behavior:

Large wholesalers lay importance on good behavior of small wholesalers towards them in time of issuing trade credit. My Survey revealed that large wholesalers stop to issue further trade credit in case of misbehavior although no defaulter case, but the converse is not necessarily true.

- Regular and timely repayment prior to trade credit:

Large wholesalers watch crucially to the new wholesalers in time of cash payment. Small wholesalers who pay timely and regularly make own position on the good book of large wholesalers. Large wholesalers then mentally prepare self to provide trade credit to the trader concern.

- Time of repeated cash transactions:

Generally large wholesalers watch small wholesalers at least one year in terms of repeated cash transactions. In this time stipulation large wholesaler, choose the small wholesaler concern for long-term business dealings in terms of trade credit.

- Money value of creditable commodity:

Large wholesalers sometime demand some percentage of the money value of trade credit. Generally, it would be fifty percent. Hence, those small wholesalers who provide this amount can insure trade credit to large wholesalers.

- Reputation in the market:

Small wholesalers who reputed in the market in terms of business dealings are able to get trade credit from large wholesalers. Fraud small wholesalers cannot revive themselves from the close and intense observation of large wholesalers. Hence, business reputations construct an important parameter of issuing trade credit.

- Presence in personal occasions:

Personal relations between large wholesalers and small wholesalers strengthen business transactions. Small wholesalers have been attending regularly in wedding and birthday parties as well as funerals in large wholesalers' house strengthen the possibility of trade credit.

- Third party guarantee:

A new small wholesaler in the market may avail trade credit from large wholesaler if he is backed by the strong third party guarantee. Large wholesalers' issue of trade credit depends on guaranteed known person for new clients. As a social capital third party guarantee plays an important role to construct the parameter of issuing trade credit.

5. Conclusion

I conclude

- Firstly, Small business and non-institutional credit in Kolkata

Burrabazar is the place where trade credit and hundi operate to finance small business. These exclusive forms identify Burrabazar as well known all over India. Indigenous forms of business and non-institutional credit are intermingled here. Burrabazar is the root of the business network all over West Bengal. Burrabazar maintains its position in the business world of West Bengal, as it was in its economic history.

Sealdah is a flourishing business centre because of its location advantage. Therefore, naturally, the numbers of small business owners are high and their increasing financial need establishes new forms of non-institutional lending system in Sealdah. Money multiplication through this system propagates future business opportunity here.

- Secondly, Small business and non-institutional credit in north twenty-four Parganas

NewBarrackPore is a suburban area where mainly consumer goods business as well as service is rendered. Small business owners are engaged in trading of perishable and non-perishable consumer goods in local market. Their urgent credit need satisfied by individual moneylenders, small traders' association and unregistered chit funds. Unregistered chit funds cater mainly street venders and traders' associations cater exclusively permanent stallholders. Individual moneylenders only fill the gap as per need of small businessmen.

The rising economy of Barasat mainly depends on small business. Individual moneylenders and small traders' associations satisfy credit need of wholesalers'. A group of individual moneylenders of Barasat exclusively provide production loan in the wholesalers' market. However, individual moneylenders and unregistered chit funds cater credit need of retailers.

Existence of urban non-institutional credit markets in developing countries focused by existing literatures. Using primary data generated in West Bengal, this study has attempted to provide a broader understanding of the workings of these markets in West Bengal in the development of small businesses in West Bengal. The terms and conditions, type and volume of loans significantly differ from district to district. However, small businesses of West Bengal totally depend on the non-institutional credit markets of West Bengal.

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[2] I am thankful to all participants of 3rd IIFT Conference on 'Empirical Issues in International Trade and Finance', January 10th -11th, 2013, Science City, Kolkata, West Bengal.

[3] In Peoples Republic of China (PRC), about forty-five percent of credit to small businesses comes from non-institutional credit markets (Liu & Yu, 2008). In Southeast Asian country like Indonesia despite the establishment of many government credit institutions, small producers and traders (particularly retailers) are still forced to rely on the non-institutional credit markets for short-term credit.

[4] The large wholesalers in these markets are found to be concentrated in specific localities, especially in Burrabazar for example, 'Sutapatti', 'Tulapatti', 'Sonapatti', 'Pagiapatti' etc. These wholesale markets have long and rich histories and the wholesalers often have had a presence lasting across several generations.

[5] They use their houses as the office for their operations.

[6] Although there may exist hidden interest rate in the form of future commodity price rise in case of delayed repayment from stipulated date.