

## **Report of the Committee on Informal Financial Sector Statistics (A Summary)**

### **Introduction**

1. The National Statistical Commission (Chairman: Dr. C. Rangarajan) set up by the Government of India, constituted various sub-groups and the sub-group on External and Financial Sector Statistics was one of them. This sub-group decided in turn to set up five committees, *viz.*, i) Trade in Services, ii) E-Commerce and its regulatory mechanism, iii) Insurance Sector Statistics, iv) Informal Financial Sector Statistics and v) Fiscal Sector Statistics, with officials from Government, RBI, and academics as members for an expert analysis of the statistical issues.
2. In pursuance of the above, the Reserve Bank of India had set up the Committee on Informal Financial Sector Statistics with Prof. P. Venkataramiah as Chairman. The main objective of the Committee was to critically examine the current status of statistics on the informal financial sector and recommend a statistical system for instituting/improving collection of statistics on the sector.
3. The terms of reference of the Committee were as under:
  - i) To assess the currently available sources of information in the informal sector;
  - ii) To assess the current systems by which information is being identified and collected in the informal sector both on a regular as well as ad-hoc basis;
  - iii) To assess methods by which the National Accounts Statistics incorporate data relating to informal sector;
  - iv) To obtain information about other country experiences to assess the data gaps in our system;
  - v) To evolve a statistical system for collection of regular or periodic and reliable data on the informal sector.
4. The Committee deliberated on two interrelated issues: (i) the definition of Informal Financial Sector Statistics and (ii) the type of institutions to be covered in this sector. Although there is no accurate definition of 'informal sector', the UN System of National Accounts (SNA) had broadly characterised the informal sector as consisting of units engaged in production of goods and services with the primary objective of generating employment and incomes to the persons concerned.
5. Broadly, the Committee identified two purposes for which data are to be collected on various aspects of Informal Financial Sector, *viz.*, (i) to measure the extent of informal credit and to understand the dynamics of informal financial markets and (ii) to facilitate generation of inputs for the compilation of National Accounts.
6. For the purpose of identifying the informal financial sector enterprise, the Committee adopted the criterion of 'incorporation' as a guiding factor. That is, those that are so 'incorporated' constitute the formal financial sector and those that are not so incorporated constitute the informal financial sector.
7. As per the terms of reference given to the Committee, they deliberated on the status

of availability of data in respect of two components, viz., (a) that part of the formal financial sector consisting of incorporated enterprises for which complete data are not collected in the existing statistical system taking note on the institutions covered by the Sub-Group on External and Financial Sector Statistics and (b) the informal financial sector, consisting of 'unincorporated financial enterprises', and made recommendations for instituting/ improving collection of statistics on the two components.

8. Before assessing the current status of the availability of data and making recommendations for collection of data from informal financial sector, the Committee made an overview of the studies undertaken in India on Informal sector (Chapter III) and also on the international practices followed on concepts, methods of collection, etc. (Chapter VI); and presented in its report different concepts followed internationally.

### **Current Status of Data**

#### ***(a) Formal Financial Sector***

9. Under formal financial sector, major data gaps were observed in respect of Non-Banking Financial Companies (NBFCs) and capital market related institutions like the Securities & Exchange Board of India (SEBI), the National Stock Exchange (NSE), the Discount and Finance House of India (DFHI), etc.

10. The Non-Banking Financial Companies, a segment of the formal financial sector, covers companies engaged in activities like Equipment Leasing, Hire Purchase Finance, Loans, Investments, Mutual Benefit Finances (Nidhis), Miscellaneous Non-banking (Chit funds), Housing Finance and Residuary Non-banking.

11. Studies on Financial & Investment Companies published annually by RBI in its monthly Bulletin form one source of data. The source provides the statistics on liabilities and assets, income, expenditure and appropriation accounts based on a sample of about 700 companies belonging to different categories of NBFCs stated above. These data relate to annual accounts and are available with a lag of one to one and half years. These data are used to obtain the estimates of saving and investment of NBFCs and these are worked out for the entire segment of the NBFCs sector, through blowing-up procedure, based on the coverage of sample in the population of companies, in terms of paid-up capital.

12. The second source of data is the survey on 'Growth of deposits with non-banking companies' conducted by RBI. The survey results are also published annually. The survey collects data on public deposits accepted by them, exempted deposits, net owned funds and other borrowings, from the above category of NBFCs. A few additional details are collected from 1997-98 onwards. These data are utilised to derive the estimates of financial saving of households in the form of deposits with non-banking financial companies. According to the survey for March 1999, total public deposits held with 1547 NBFCs amounted to Rs.20,429 crore as at the end of March 1999 while their total assets stood at Rs.47,048 crore.

13. According to the Department of Company Affairs (DCA), there were 65,382 non-banking financial companies as on March 31, 1999. The Reserve Bank made the registration of companies with it compulsory for all non-banking financial companies, in January 1997. As many as 37,274 NBFCs conducting financial business applied for

Certificate of Registration (CoR) with RBI as on June 2000. Of these, 14,986 NBFCs were rejected for issue of CoR while the remaining were either issued the CoR or at different stages of scrutiny for registration with RBI. The Reserve Bank had set out certain norms for registration, such as net owned funds of Rs.25 lakh as on January 9, 1997, which had been revised upwards to Rs.2 crore effective from April 21, 1999 for new applicants. The companies, which comply with these norms are registered with RBI with provision to accept public deposits or to function as finance companies without accepting deposits. The companies, which do not comply with the prescription within a stipulated period, including the extension period, have to close down their business activity. This category of companies is referred to as “rejected” companies.

14. Besides, many companies have been exempted from registration with RBI, which are: (i) engaged in micro-financing activity, (ii) not accepting public deposits, (iii) licensed under Section 25 of the Companies Act and (iv) mutual benefit companies having net owned funds of Rs.10 lakh. Thus, these companies conduct the financial activity without CoR of RBI.

15. The NBFCs can, therefore, be grouped into three categories, *viz.*, (i) companies registered with RBI, (ii) companies applied for CoR but rejected and (iii) companies exempted for registration. Although RBI will have a list of NBFCs in respect of the first two categories, companies registered with RBI submit an annual return, in the form NBS4, on different aspects of their operations such as growth of deposits, other borrowings, net owned funds, outstanding loans and advances, investments, other fixed assets, income and expenditure, and based on these details some consolidated data are published in the Bank’s publication. The data collected through these returns are more from the regulator’s point of view and are mainly required for the purpose of regulating these companies. The rejected category of companies is also supposed to submit annual statement on assets and liabilities in Form NBS4.

16. Although all NBFCs incorporated with DCA are supposed to be registered with RBI, there is a big chunk of these companies, which are not yet registered with RBI. The details collected through NBS4 return do not cover all liabilities and assets and as such the format needs to be suitably modified. The response from the rejected category of companies to submit the NBS4 return is very low, as only about 25 per cent of these companies comply with, which cannot be considered as a source of regular data. The data base in respect of exempted category of companies needs improvement.

17. The other category of institutions in the formal financial sector for which regular flow of data are not disseminated are Capital Market related Institutions, *viz.*, Mutual Funds, Venture Capital Funds, DFHI, SEBI, NSE, the Stock Holding Corporation of India, the Securities Trading Corporation of India (STCI), Depositories, Stock Exchanges, etc.

18. In the case of mutual funds, certain information on resources mobilized, etc., are published by RBI and SEBI as referred in the Report of the Sub-Group on External and Financial Sector Statistics and they have recommended for some more information of mutual funds to be disseminated. However, liabilities and assets, income and expenditure account of the funds have not been considered.

Further, no data are available in respect of venture capital funds. Information similar to that of mutual funds is also required to be disseminated for venture capital funds.

***(b) Informal Financial Sector***

19. The structure of informal financial market is extremely heterogenous. This sector comprises partnership firms, sole proprietary concerns, own account enterprises, financial auxiliaries such as share broking firms, loan brokers, Non-Governmental Organisations (NGOs) helping Self-Help Groups (SHGs), share brokers and traders, *multani shroffs*, *pawnbrokers*, *chettians*, etc.

20. Data on this segment are neither available regularly nor on ad-hoc basis except that certain pieces of information are collected/ available from various sources. Among different sources of data on informal financial sector, the data from All-India Debt and Investment Survey (AIDIS) are available at decennial intervals and provide information on composition of assets, capital formation, and indebtedness of rural and urban households. A distinguishing feature of the AIDIS is the collection of loan-wise details such as credit agency (institutional and non-institutional), rate of interest, duration of loan, purpose, etc. The non-institutional agencies refer to the landlords, moneylenders, traders, relatives and friends, doctors, lawyers, etc. The data collected through AIDIS are used in the compilation of National Accounts.

21. The NSSO conducts quinquennial Enterprise Surveys in respect of the unorganized sector, covering Directory and Non-Directory establishments and own account enterprises pertaining to the activities such as trade, transport, manufacturing, hotels and restaurants, storage and warehousing. The CSO conducts Enterprises Survey in respect of service enterprises in the unorganised sector. These surveys collect certain details on the number of enterprises, the value of output, the emoluments/wages and salaries paid, the value added, the place of location, and a few others.

22. Further, certain aspects of informal financial sector are available from other sources, such as Basic Statistical Returns (BSR) on details of commercial banks' credit (BSR-1), ownership of deposits held with commercial banks (BSR-4). The financial auxiliaries covered under 'finance activity' relate to those of informal financial sector, *viz.*, shroffs, moneylenders, stockbrokers, share brokers, dealers in bullion, etc., besides those of formal sector.

23. The Non-Governmental Organisations (NGOs) and Self-Help Groups (SHGs) are another category of institutions working in the informal financial sector for implementing special programmes and formulating development policies. Most of these NGOs / SHGs are credit-linked by banks. These organizations receive funds from Indian financial institutions as also from abroad. There are 1,14,775 SHGs credit-linked by banks as on March 31, 2000, bringing an estimated 19 lakh poor families within the fold of formal banking services. NABARD publishes certain data on total credit extended by NABARD to these organizations. The NABARD also publishes state-wise number of SHGs being financed by banks.

24. Data collected in AIDIS, however, relate only to pure households and as such quasi-corporations of business households, *viz.*, partnerships, proprietary concerns, etc., in trade, transport and other activities are not covered. The survey collected details on the occupation of the head of the households and "finance, insurance, real estate and business" is one of the occupation groups.

This information would provide the flow of funds within the informal sector from the financial to the real sector. But the data classified by this occupation group are not published by the NSSO. These surveys provide a truncated picture of the assets and liabilities and also exclude receipts and payments of the households.

25. No data are available on the transactions of the share brokers/share broking firms.

26. Though the surveys of NSSO/CSO are supposed to have covered informal financial services, no data have been reported separately for this sector. The enterprise surveys do not collect loan-wise details such as interest rate and duration of the loan. As such, it is not feasible to measure the extent of financial accommodation and interest paid on these loans to the informal credit agencies.

27. The data collected and published by NABARD relate only to a particular aspect, namely, the credit disbursed to NGOs/ SHGs by banks and NABARD. As NGOs/ SHGs intermediate large amount of funds between banks/financial institutions and households, it is necessary to build database of these organizations. Data on operations of SHGs/NGOs are not available although banks submit "Micro-credit progress Report" to RBI and NABARD providing certain particulars of credit extended by them to these NGOs under different schemes on half-yearly basis.

## **Recommendations**

### ***(a) Formal Financial Sector***

28. The data collected through NBS4 by RBI should be published for all major components of assets and liabilities, income and expenditure account by type of financial company besides the analysis of public deposits as being published at present.

29. Census of NBFCs may be conducted, at quinquennial intervals, covering all NBFCs incorporated with DCA. The census should collect data on "assets and liabilities" and "income and expenditure" of companies, besides certain important characteristics to get the size of NBFCs and an insight into the working of NBFCs.

30. Sample surveys may be conducted annually in respect of those NBFCs, which are (a) not registered with RBI and (b) exempted from registration. The DCA frame (or RBI census frame) adjusted for companies registered with RBI should constitute the sampling frame.

31. The studies on Financial and Investment Companies hitherto being published by RBI, should be continued till the data collected through census and sample surveys get stabilized.

32. Institutions like SEBI, NSE and many other capital market related institutions on which no systematic data are available, are to be fully covered from the view-point of generation of output and as providers of financial services. Data should be collected on their operations of working, value added, savings, capital formation and stock of capital assets. SEBI should be the central agency for collection and dissemination of data from institutions under its control and jurisdiction.

33. The Committee cautioned about the emergence of new financial instruments, such as financial derivatives, electronic funds transfer, payments through credit/debit cards, the

volume of which would increase over the next decade. The committee viewed that the present statistical system to capture data on such transactions has not been formulated. They recommended that RBI should evolve a statistical system for collection of such statistics from institutions including NBFCs.

***(b) Informal Financial Sector***

34. The NSSO should continue to conduct the All-India Debt and Investment Surveys at decennial intervals. The coverage of the AIDIS needs to be improved by pooling the estimates of central and state samples on the one hand and by increasing the sample size on the other. It is necessary that the RBI and the NSSO should have close collaboration in the conduct of AIDIS.

35. The CSO should conduct Enterprise Surveys separately for financial service enterprises and provide data needed to derive value added details as also the details of credit.

The RBI should closely liaise with CSO/ NSSO on the technical aspects of these surveys and ensure the coverage of all known household financial enterprises like, *multani shroffs, chettiars, marwari kayas* and *pawnbrokers* and various kinds of other moneylenders.

36. The details collected under various returns of RBI, in particular BSR-1 and BSR-4, need to be tabulated against informal financial sector to understand the extent of linkages between the formal and informal segments.

37. SEBI should also bring out consolidated data of share brokers and share broking firms in respect of their income, expenditure, volume of transactions, and sources and uses of funds. A suitable format for collection of data may be developed by RBI in consultation with SEBI and CSO.

38. Financial data in respect of all NGOs and SHGs involved in micro-financing need to be collected. It is suggested that a sample survey of NGOs/SHGs should be undertaken by NABARD at quinquennial intervals. NABARD should also prescribe half-yearly return to be submitted by all NGOs/ SHGs.

39. Apart from nation-wide surveys, which provide macro estimates, it is necessary to promote regional and micro level studies on the informal financial sector activities considering the diversity across the regions.

40. The Committee emphasizes the need for nationwide surveys for collection of data on Informal Financial Sector. Having in view that (i) RBI is a regulator of the financial sector, (ii) RBI is an organization which has done some work in the area of informal financial sector, like the Rural Credit Survey, and (iii) that no other organization is as much concerned as RBI about the working of the Informal Financial Sector, the Committee feels that ideally RBI should be the nodal agency entrusted with the responsibility for ensuring the collection and dissemination of data.

41. The Committee submitted its Report to the Reserve Bank of India on March 29, 2001 and it had become a part of the Report of the National Statistical Commission.