



CREDIT MARKET IMPERFECTION UNDER ASYMMETRIC INFORMATION PARADIGM: EVIDENCE FROM HOOGHLY DISTRICT OF WEST BENGAL



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ABSTRACT

In many developing countries rural credit is characterized by market imperfections due to asymmetric information. Using a primary survey covering 104 farmer households of four villages under Hooghly district of West Bengal, an attempt has been made in the paper to test imperfection of credit market under asymmetric information paradigm. The existence of credit market imperfection is resulted in formal credit rationing and spillover of excess formal credit demand to informal credit market. The paper shows that the observed phenomenon in the surveyed areas of asymmetric information between borrower and lender provide a convenient mechanism to reduce market imperfection. Based on empirical analysis, this paper highlights the role of information disseminating channels of institutional lenders in rural credit transactions and screening mechanisms to address the problems of asymmetric information prevailing in rural credit market.

KEY WORDS: Credit Rationing, Information Asymmetry, No Frill Account, Semantic Information, Information Disseminating Channel,

1. INTRODUCTION

Information asymmetry describes the situation in which relevant information is not known to all parties involved in an enterprise. A major source of imperfections in rural credit markets is the lack of pertinent information among the participants. From lenders' perspective it is information regarding borrowers' creditworthiness and from borrowers' perspective it is information about lenders' terms and condition for credit. It causes markets to become inefficient and market participants are compelled to take risks because it is assumed that available information is always inadequate (Constantiu, 2001). The information needs of existing and prospective customer regarding formal banking operation are generally inexhaustible. Conventionally, Banks' objective to meet this need tends to unattainable due to the taking up inefficient information disseminating channel and existence of imperfect information. Customers seem to be inadequately informed about various services. As per customers'

experience, it does not encourage them to make informed decisions about financial transaction. Specially, it leads to involve some risk in making decision to access credit. In this context it is important to note that services of formal institution are confined to some discrete segment of society. Banks' does not capable of satisfy to rest of the segments. Consequently prospective customers do not have relevant financial information regarding bank's operations. On the other hand, information asymmetry leads to credit rationing¹. So, information gap is one the key factor to keep away rural people from main stream banking services. Under this backdrop, the study intended to measure information gap prevailing in the surveyed households in the district of Hooghly, West Bengal. In addition, attempts have also been made to explore the possibilities to mitigate the problems of asymmetric information in rural credit transactions.

(Credit rationing, as defined by Jaffe and Russel (1976), occurs when borrowers have more information about their projects and their risk of default than lenders.)

2. REVIEW OF LITERATURE

In rural credit market, where information asymmetry exists, lenders may claim exorbitant interest rates to the levels in excess of inherent risks would involve. As a result of the informational imperfections between the lenders and the borrowers, rationing of credit demand becomes necessary for financial institutions (Stiglitz, 1994) even when borrower would have been willing to pay the risk adjusted rate. Raising the interest rates, limiting loan size and credit rationing are the result of information asymmetry. Information asymmetry gives rise to two types of problems, namely adverse selection and moral hazard¹ in rural credit market. From institutional view point, disseminating information in rural credit market is one of the major challenges in the era of information technology. A significant information gap is found to exist in different layers of institutional structure: bank and rural masses; bank customers and non-bank customers (Laha & Kuri, 2011). In their study Ekumah and Essel (2003) empirically established the presence of a significant information gap in disseminating information to rural households in Ghana. Though several studies have been conducted across the world to address the problems of credit market imperfections under asymmetric information paradigm (Allem, 1990; Bell, 1990; Siamwalla et al, 1990; Udry, 1990), but the study on the nature and extent of information gap of different categories of farmer households in the so called fully financially inclusive district Hooghly² is not much focused in the literature of credit market of West Bengal. This present study tries to address the gap of knowledge in the existing literature.

NOTE

²Adverse selection is known as categorization of borrowers before a loan is granted and moral hazard determines actions taken by borrowers after receiving the loan (Stiglitz & Weiss, 1981).

³ On 31.05.2007 West Bengal State Level Bankers' Committee proclaimed, Hooghly district in the state have achieved 100 percent Financial Inclusion.)

3. OBJECTIVES OF THE STUDY

An attempt has been made in this paper

- ◆ to measure the magnitude of information gap between demand and supply side of the credit market prevailing in our surveyed villages.
- ◆ to measure the effectiveness of various information disseminating channel applied by formal institutions in rural credit market in the light of micro empirical evidence of Hooghly district in West Bengal.
- ◆ to explore the possibilities to reduce the problems of asymmetric information in rural credit transactions.

4. DATA SOURCES AND METHODOLOGY

A micro-empirical investigation was carried out in the district of Hooghly, West Bengal. In the selection of ultimate sample units of rural households, we have following multi-stage sampling technique. At first, we had classified all 18 blocks of the district of Hooghly into two broad stratified groups: one is below the district average of bank coverage and other above the average. Then two adjacent blocks namely Dhaniakhali (relatively financially better served) from the below average and Haripal (relatively underserved) from the higher average have been identified for primary survey. Once blocks have been identified two villages from each block has been selected randomly. In the last stage, 104 rural farmer households have been selected as ultimate sample units. For the purpose of selection of households, the farmers in each village were stratified into three categories depending on the owned landholdings i.e. agriculture labourer (AGL, <0.05 bigha land holding), small farmer (SMF, <6.5 bigha) and large farmer (LF, 6.5 bigha and above). From each group of owned land holding, a sample of farmers was selected in proportion to the number of farmers in each group. We have selected about 4 to 10 per cent of the farmer households from each village.

5. EMPIRICAL RESULTS AND DISCUSSION

5.1 Relational gap to informational gap:-

We have identified this gap from customers' and non customers' perspective. Information gap among customers based on two broadly classified relationships exists in rural bank dealings (a) customer-bank relationship and (b) bank- customer relationship.

(a) customer-bank relationship:-

The efforts has been made by rural banks to disseminate customer service information could not utilized fully by their customers. Customer inertia in seeking information is one of the main causes behind this. As we have seen in table 7, a considerable portion of uninformed customer does not even take initiative to know the facilities available for them. Our further enquiry revealed that 71.43 percent (Table 8) of customer who were unable to comprehend displayed information are belongs to 0-4 year education class boundary. Lower education level leads to shortage of confidence in seeking pertinent information and query for explanation that they do not understand.

It is interesting to note that only 18 percent of formal borrowers were fall into the category of customers

could not understand displayed information properly. This type of information gap impacts negatively on customers making high credit demand which banks cannot honour and further has adverse effects on the repayment of loans (Ekumah, Essel, 2003).

(b) Bank-customer relationship:-

This gap is created by banks' failure to identify customer knowledge level as well as effective channel of communication. Apart from deposit and credit operation only two-fifth of customer were acquainted with other economic and social services provided by bank. It is an undeniable fact that formal financial institution has an

important role to play in socio-economic lives of the people where they operated. Bank employees play an imperative role in disseminating information on different banking services. In the process of disseminating information to customer, the attitude of bank staffs is a vital component that may seriously influence relationship with customers. Friendly and cooperative attitude are desirable to eliminate those entire complex which were inherent in almost 45 percent of customer base. However, majority of customers (89.77 percent) believe them as user friendly and ready to offer information to them.

Table 1 Attitude of bank staff in order to disseminate information

Criteria	Frequency	Percentage
Satisfactory	79	89.77
Not satisfactory	9	10.23

Source: Field Survey 2013

Only 10.23 percent (Table 1) revealed that bank employees are not cooperative as they face some bitter experience in accessing some information. It can be argued that any sort of inability to satisfy the information needs of customers in the part of bank staff may render some adverse effects on the overall performance of banks.

On the other hand providing incomprehensible and incomplete information could raise a question of transparency in conveying information to customer. Banks failure to demystify information for customer could lead to increasing the risk of repayment by borrower. Banks' ability to represent information to the level, language and form which are acceptable to all category of customer could project a transparent image to potential customer also (Caprio, 1999; Nicholl, 1996).

5.2 Information levels about the formal and informal institutions:-

Imperfect nature of rural credit market is the outcome of imperfect flow of information relating to formal credit institutions. Formal financial institution has been following some traditional information disseminating channel. Our focus in this segment is to make introspection over the extent of effectiveness of those channels in our surveyed villages.

Under this circumstances, at first, we examine respondents' level of information about different services, formalities offer by formal institutions in our study villages. In addition to this their source of information has also been investigated. The study includes both bank (88.47 percent of the respondents) and non-bank customers (11.53 percent) to shed lights on their different perceptions of the informational constraints faced by them.

Bank Customers:-

Bank is undoubtedly the principal agent of formal credit supply in our study villages. Cooperative bank has created much more awareness among villagers than grameen bank and commercial bank. Nearly 71.84 percent of the bank customers are from cooperative bank, while the percentage in case of commercial bank is merely 10.84 and 17.39 percent. Customers are financially associated with both types of bank. Local representation of people, user friendly banking hours and outreach programmes are the important contributing factors attributable to massive participation of local people in cooperative movement.

Among the different kind of banking services, it has been found that saving and lending are the most preferred services that the banking customers are aware of. They are also responsive regarding term deposit, microcredit and no frill account. In case of other complementary services like fund transfer, utility bill payment, locker facilities, ATM facility etc. are not well acquainted with by our respondents. Only two-fifth (41.52 percent, Table 2) of customers knew of the other different kinds of services offered by the bank apart from operating a deposit or lending account. Another variable, which investigated, was the bank's contribution to the community that in their opinion they need to be informed. In this respect customer were asked to respond to the kind of social services that the bank provided to the locality. Ninety percent of bank customers were not sure of knowing any such services. A meagre number of responders came out with some positive response about social work, banks⁴ rendered to their community. Table 2 shows a bleak picture of banks' social responsibility in our study villages.

NOTE

⁴ Banks entails all sort of commercial, cooperative, gramin bank are available in our study villages



Table 2 Awareness of bank customer about different kind of services available at bank

Name of the services	Frequency	Percentage
Banking services		
Savings	92	100
Lending	92	100
Term Deposits	79	85.86
Micro Insurance	77	83.6
No Frill Account	77	83.6
Others	39	41.52
Social services		
Development of irrigation and sanitary facility	3	3.26
Selling input at lower price	10	10.86
Infrastructure at education institution and scholarship	1	1.08
Others (specify)	2	2.17

Source: Field Survey 2013

Social commitments not only create social value but also attract appreciation, acceptance and honour of customer to discharge their obligations with bank. It would have been easy if customers are better informed about a bank's social commitments.

The study revealed customers' level of information and how they got to know about various

banking services provided by bank. Interaction with friends and relatives was the most frequent way the customers got informed about savings (78.41), term deposit (48.86), credit (54.55) and no frill account (30.68). Bank employees followed the next source of information disseminating authority.

Table 3 Source of information and information of different services available at bank customer

Banking services	Source of information						No information
	Outreach programme	Friend/Relatives	Media Advertisement	Bill board	Bank employees	Other	
Savings	0.00	78.41	21.59	1.14	4.55	2.27	0.00
Lending	10.23	54.55	13.64	0.00	32.95	0.00	0.00
Term Deposits	0.00	48.86	1.14	1.14	44.32	0.00	14.77
Micro Insurance	19.32	25.00	3.41	0.00	53.41	0.00	17.05
No Frill Account	20.45	30.68	19.32	0.00	18.18	2.27	12.50
Others	2.27	11.36	0.00	0.00	28.41	0.00	55.68

Source: Field Survey 2013

Non bank Customers:-

In our study villages it is empirically observed that lack of savings, informal source of getting credit and informal source of savings are three predominant reasons for becoming included in the group of non-bank customer. Apart from the above reasons one third (Table 4) of non bank customer did not shown least interest about banking

activities. Lack of procedural knowledge also a reason for becoming non bank customer. Although 11.53 percent responders of our study villages were belongs to non bank customer category but inability to have some savings and availability of non banking financial institutions made them excluded from main stream banking services.

Table 4 Reasons for becoming entailed in non-bank customers group

Criteria	Frequency	Percentage
Lack of procedural knowledge	2	16.67
Lack of personal interest	4	33.33
Informal sources of savings	5	41.67
Informal sources of getting credit	6	50.00
Lack of savings	10	83.33

Source: Field Survey 2013

Another variable that was investigated was the awareness of non bank customer about different kind of banking services. In this respect, responders were asked

to respond to the kind of banking services that banks provided and their source of information. More than 91 percent (Table 5)

Table 5 Awareness of non-bank customer about different kind of banking services available at bank

Name of the services	Frequency	Percentage
Savings	11	91.67
Lending	11	91.67
Term Deposits	1	8.333
Micro Insurance	4	33.33
No Frill Account	9	75
Others	1	8.333

Source: Field Survey 2013

of non bank customers were informed about bank's savings and lending operation followed by maintenance of no frill account and facilitating of micro credit insurance services. On an affirmative response

shows in the table 6, above 91 percent of them concede formal credit is advantageous for low interest and in some cases for weaver scheme, low cost fertilizer, insurance coverage.

Table 6 Awareness of non-bank customer about benefit accrue from formal banking

Low interest rate	91.67
Low cost fertilizer	8.33
Weaver scheme	16.67
Extended repayment period	0
Easy accessibility	0
Insurance coverage	8.33
Other	0

Source: Field Survey 2013

Since they have no comprehensive information about other banking services, most of them rely upon friends, relatives and media advertisement (Table 7).

Table 7 Source of information and information of different services available at non-bank customer

Sources of information	Banking services					
	Savings	Credit	Term	Micro	No frill	Other
Outreach programme	0.00	0.00	0.00	0.00	0.00	0.00
Friend/ Relatives	66.67	66.67	0.00	25.00	50.00	8.33
Media	25.00	25.00	8.33	8.33	25.00	0.00
Bill Board	0.00	0.00	0.00	0.00	0.00	0.00
Bank employees	0.00	0.00	0.00	0.00	0.00	0.00
Others	0.00	0.00	0.00	0.00	0.00	0.00

Source: Field Survey 2013

5.3 Means of disseminating information by formal institutions:-

Information regarding the services rendered by banks' is communicated through two approaches. Top-down approach and lateral approach of communication. Top-down approach consists of bank's outreach Programme, media advertisement, Bill Board of the Bank, Bank's branch employees. Lateral approach comprises of friends/relatives and others.

Bank customers:-

As high as around 45 percent of total bank customers, who usually visit the bank, could not understand the information displayed on the bill board at bank

Table 8 Effectiveness of bill board as an information disseminating channel

Types of customer	Further enquiry	No enquiry	Total
Understand information	31(62)	19 (38)	50 (100)
Cannot understand information	12 (28.57)	30 (71.43)	42 (100)

Source: Field Survey 2013

In top-down communication approach bank employees followed by media and bank's outreach programme play a major role as information disseminating channel (Table 3). In lateral communication approach friends and relatives are sole responsible informal channel which superseded the effectiveness of all formal channel of communication in every aspect.

premises. Of those who did not understand, only 28.57 percent (Table 8) asked for explanation of the displayed information. While remaining 71.43 percent of the customers did not bother about the explanation at all. It is revealing from the fact that the semantic type of information share a high proportion of messages that formal institution usually send to customers, they appear not to be very effective if equally high percentage of customers do not comprehend them. Similarly this traditional information disseminating channel also acts as an authentic source of collection and verification of information to a large portion (55 percent) of customer who can understand information.

Both bank and non-bank customers:-

If we consider the information asymmetry problem from general perspective it is evident by the table 9 that lower income group households, most of them were job card holder, have been informed about formal banking services mainly through media advertisement followed by friends, relatives and bank's outreach programme. Interaction with bank's branch employees has been increased as the income levels of households were getting high.

Table 9 Effectiveness of information disseminating channel of formal credit market to different categories of household (bank and non-bank customer)

Category of household	Through the Bank's Outreach Programme	Through Friends/Relatives	Through Media Advertisement	Bill Board of the Bank	Bank's Branch employees	others
AGL	27.08	30.61	53.22	0	1.85	25
SMF	56.25	49.38	19.35	100	50.61	25
LF	16.67	20.01	27.43	0	47.54	50
Total	100	100	100	100	100	100

Source: Field Survey 2013

As we see in the table 10 also, there is a proportionate relationship between education level of bank, non bank customer and communication with bank branch employees. It seems to be implied that if people

belongs to lower income group or lower educational group or both, they may have a tendency to collect information from informal sources rather formal channel of communication.

Table 10 Effectiveness of information disseminating channel of formal credit market to different education level

Year of education	Through the Bank's Outreach Programme	Through Friends/ Relatives	Through Media Advertisement	Bill Board of the Bank	Bank's Branch employees	other
0-4	2.02	92.86	0	0	5.12	0
5-8	9.65	89	0	0	1.35	0
9-10	18.2	55.40	8.9	5	12.5	0
11-12	10.6	26.02	6.9	10	49.5	2.02
Above 12	5.09	18.45	10.28	11	51.02	4.16

Source: Field Survey 2013

As assessment has been done based on some effective communication channels identified by all respondents irrespective of bank and non bank customers (Table11). In order to acceptability among these ways were:

miking (89.42%), radio (29.81%), news paper (24.04), sent-out circular (22.12%) followed by one-to-one basis (20.19) and public flora (14.42).

Table 11 Responders Choice for Information Disseminating Channel

Public flora	Radio	Circular	One to one basis	News paper	Mike	Other
15 (14.42)	31 (29.81)	23 (22.12)	21 (20.19)	25 (24.04)	93 (89.42)	6 (5.77)

Source: Field Survey 2013

The above table shows that most of the means of disseminating information outlined by responders were associated with traditional channel of communication. These conventional approaches are still relevant in our study villages at present information and communication technology (ICT) era.

6. STRATEGIES FOR REDUCTION OF IMPERFECT INFORMATION PROBLEM

Lenders in a credit market with imperfect information can utilize certain direct and indirect screening mechanisms to limit the consequences of information asymmetries and enforcement problems. In indirect mechanism, contract is to be designed by lenders such that, borrower will respond to the contract on his own best interest. Consequently, lender can obtain required information about the riskiness of the borrower and encourage him to take meaningful action to mitigate the possibility of default and repay the due whenever he has resources to do so. This mechanism may influence a borrower's behaviour in credit markets (Hoff & Stiglitz, 1990).

In direct mechanism it is believed that lenders expanding resources to screen applicants and enforce

loans in this mechanism. These activities attract high cost resulting in high interest rate. Direct screening considers limiting the range of their lending activity to members of a particular kinship group, residents of a given region, or individuals with whom they are involved in transactions. Direct and indirect screening mechanisms has several forms, some widely used mechanisms that are being practiced in our study villages are mentioned as follows:

Direct Screening Mechanisms:- Functioning area and screening the characteristics of borrowers:

In the area of our surveyed villages both formal and informal credit institutions have been using some distinct mechanisms to access reliable information regarding credit worthiness of borrower so as to mitigate the problem of information asymmetry. Formal credit institution follows a service area approach⁵ in which they examine previous credit history of the borrowers and utilizing the information from local sources i.e., other members in same cooperative, guarantor of the loan, panchayat members and neighbourhood banks.

In the context of screening loan applicants and ensuring enforcement of loan, local informal lenders have some privilege over formal credit agencies. It has been observed that informal lenders always tend to provide

credit to those borrowers who are relatively known as neighbour and known beforehand. Utilization of social network enables them to evaluate the risk of a particular borrower better than any formal lenders. It indicates the existence of high information costs in an environment characterized by personalized transactions. Ethical consideration does not account much more importance in the provision of granting loan.

NOTE

⁵ A service area approach was at first coined in Cooperative Act, 1904. Now the concept has been replaced by an approach where it is recognized that "sky is the limit" for the operation of the bank.

Interlinked transactions⁶:

Interlinking of transactions has been found as a way of partially alleviating the problem of information asymmetry in our study area. An interlinked system of personalised transactions may also reduce cost of screening, monitoring; contract enforcement, inappropriate externalities. In our surveyed villages we saw that informal lenders were employers, shopkeepers, local paddy trades or mill owners with whom borrowers have some personal ties. In addition to the

informational advantage of knowing a potential borrower well, interlinkages (Table 12) give the lender the opportunity to indirectly reclaim debt through another market transaction. Agricultural labourer (63.33 percent), few small farmer (33.33 percent) works for less than the market wage where part of the wages are kept by the landlord as instalments on a loan, can be an example of labour-credit interlinkage. Labour-credit contracts can be viewed as a risk sharing device against the uncertainties of wage rates in the peak season or as an inter-temporal barter transaction in the case of a double coincidence of wants between employer-creditors and labour-borrowers arising out of the irregularities of the agricultural crop cycle (Bardhan, 1984). It is evident in our survey that credit-input interlinkage is the predominant form of interlinkage in all surveyed villages as it accounts for a majority of 63.85 percent of interlinked deal. Both cooperative bank and informal sources of lenders providing credit facilities to purchase necessary inputs. This is followed by credit labour (36.15 percent).

NOTE

⁶ An interlinked transaction takes place when two parties trade in at least two markets on the condition that the terms of all such trades are jointly determined (Bell, 1988).

Table 12 Distribution of alternative interlinked credit transactions in informal market among different class of farmer households

Category of household	Linked With input	Linked With Labour	Percentage to total informal loan
AGL	4.87	63.33	58.62
SMF	61	33.33	71.43
LF	34.13	3.34	70.37
ALL	53 (100)	30(100)	65.35

Source: Field Survey 2013

Indirect Screening Mechanisms:- Collateral:

A possible disadvantage of personalized lending (which depends on length, breadth or intensity of the lending relationship) for borrowers is that the proprietary information gained by the relationship lender increases his or her ex post bargaining power, so that the borrower is locked in (Sharpe, 1990; Rajan, 1992). This lock-in can be used by the lender to increase collateral requirements. Then, collateral are the result of hold-up, and the incidence of collateral rises with the strength of the lending relationship. Contrary to this view, lenders with more information on borrowers, should have less need of collateral as the ex ante theory predicts (Berger et al.,

2011). In an environment of asymmetric information, the presence of collateral of loan contracts can be explained as an instrument to provide a disincentive for the borrower to default and as a substitute for costly screening. Collateral pledged in exchange from loans serves three important functions; first, mitigating the problem of adverse selection by enabling the lender to screen out borrowers most likely to default; second, adding an incentive for the borrower to repay, thereby reducing the moral hazard; and third, offsetting the cost to the lender of a loan default (Udry 1990).

According to theoretic reasoning, we expect formal lending institutions having less intimate knowledge about borrowers and thus relying more on collateral than

informal lenders. Interestingly it has been observed that, apart from loan for SHG, entire formal credit is backed by tangible collateral compared to lesser percentage (33.07 percent) of collateral are involved in informal credit of our surveyed villages.

Land has been observed as the most acceptable form of collateral in the asset based lending pursued by the formal credit agencies. On the other hand, informal lenders generally required security, but were much more

flexible than banks. The market for informal credit varies considerably in terms of wide range of collateral securities accepted by them. Non-land collateral occupies a dominant position in the informal credit market. Most of the cases lenders accepted personal guarantees. As we have seen in table 12, collateral security is strongly imposed upon the poorer households and the requirement narrows down as we move on to the higher farm size categories.

Table 13 Relative importance of different type of collateral (percentage of loan) in informal credit

Category of households	Total number of loan contracts without collateral	Total number of loan contracts backed by collateral	% of loan contracts with collateral as		
			Gold	Labour	Others
AGL	39.66	60.34	17.66	51.24	31.09
SMF	90.48	9.52	5.41	13.51	81.08
LF	88.89	11.11	0	3.03	96.97
ALL	66.93	33.07	8.10	24.36	67.54

Source: Field Survey 2013

It has been observed that creditworthy borrowers has been benefited by low loan interest rate without having to offer collateral, while less creditworthy borrowers will be required to offer more collateral for equal loan size.

Interest rate:

In the indirect screening method interest rate takes on the dual function of rationing credit and affecting the actions of borrowers (the incentive effect) (Stiglitz and Weiss, 1981). It has been observed in our surveyed villages that collateral based formal credit charged almost identical rate of interest compare to differential interest rates in heterogeneous informal credit markets. Commercial and cooperative banks charge 7 to 8 percent per year, whereas informal interest rates varies in a greater extent from as high as an average of 90 percent per year (from moneylender, goldsmith) to a nil interest rate (from friend and relatives). Landlords, input sellers are mostly involved in interlinked loan transactions and thereby charge an implicit interest rate. The variation of interest rates in every sphere of loan transactions does reflect variations in informational costs in an environment of imperfect information.

Group lending: It is another alternative indirect screening method. Here group indicates those economically homogenous and affinity group voluntarily agreed to contribute to a common fund to be lent to its

members. Formal credit is offered in certain multiples of groups’ own savings and even without any collateral security. However, groups maintain records of transaction with its members. It builds financial discipline and credit history that encourages banks to lend to them. Above all, enforcement cost is very low due to strong social sanctions (Hoff and Stiglitz, 1990).

7. CONCLUSION

It is revealing from the above discussion that asymmetric information is one of the critical variables to empower imperfection rural credit market. Collateral poor borrowers are devoid from formal credit in the absence of adequate information. Moreover, information flow from bank to existing and future customer and vies versa is variedly impeded (Ekumah, Essel, 2003). Formal institution applied several information disseminating mechanisms to reduce information gap exist in bank-customer relationship. In the process of selecting information disseminating channels, institutional agencies should consider their effectiveness in terms of customers’ education level, social status above all significance of information to the society. However, informal source of information play predominant role in rural credit market. So, exploiting the scope of informal channel as a means of collecting and disseminating information by formal institution could reduce information gap in rural credit market.



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