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# Borrowing Behaviour of Financially Excluded - a Step Forward in Financial Inclusion: An Assesment

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***Abstract:***
*Significance of financial inclusion arises from the problem of financial exclusion of nearly 3 billion people from the formal financial services across the world. The primary aim of the paper is to study the pattern of household borrowing in Villages. 100 farmers who were selected randomly from 3 villages of Dhabla block of Ujjain district. The study goals is to find out the socio-economic summary of the sample borrower selected (farmers), their utilization pattern of credit and finally the borrowing sources.*
*The assesment establishes that farmers with less landholding have less access to formal sources of credit (Banks), and they are also charged high interest rate by Moneylender i.e, Informal sources and shows that farmers land holding, purpose of loan and Repayment plan are important factors in determining the sources of loan.*

***Keywords:*** *Financial Inclusion ,Farmers, Utilzation, Moneylender, Bank, landholding*

## 1. Introduction

Financial inclusion refers to delivery of formal financial services to each and every member of an economy.
"Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker section and low income groups at an affordable cost in a fair and transparent manner by mainstream Institutional players". The Committee on Financial Inclusion (Chairman: Dr. C. Rangarajan, 2008).
Financial Inclusion therefore, is delivery of not only banking, but also other financial services like insurance, pension, remittance, mutual funds, etc. delivered at affordable, though market driven costs. Opening a no-frills account is just a beginning to a continuous process of providing banking and financial services. It may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.
In India around 60 % are still deprived of bare minimum banking services for which they are totally dependent on informal banking sources like private money lenders. In the current rural credit market both formal (bank & MFI) and informal sources (Moneylender) of finance source are present.

### *1.1Linkages between Moneylenders and Formal Credit Channels*

Various studies in India and abroad show that the informal sector is better at serving the sectors neglected by banks such as small businessmen, traders, poor transport operators, handloom weavers, small farmers, self-employed people and women. They are also better at recovering loans. They have better market knowledge and lower transaction costs. They are flexible and can customise the products to suit the needs of individual borrowers. They respect the borrowers' privacy. On the other hand, the formal sector has strengths in terms of its access to low cost funds, providing safe avenues for savings and access to payments system. But their procedures and practices deter the poor.**"**
Now the RBI is out to cover all unbanked villages across the country. Both public and private sector banks have set self-targets of opening rural brick and mortar branches to cover unbanked villages. The number of brick and mortar branches has increased from 21,475 in March 2010 to 1,11,948 by March 2012. The number of no frills accounts has increased to 99 million by March 2012.
In this paper we have discussed the borrowing pattern of farmenrs.The paper is devided in three sections. The first parts is literature review and methodology while the second section presents the observed findings and the third and the concluding section discuss the analysis based on the findings of the study. (Source: RBI)

## 2. A Brief Review of Literature

Various studies related to the Financial Inclusion had been conducted directly or indirectly. The poor, no doubt, have limited financial resources but they had been found to be the active managers of their resources. The majority of the resources used by them are informal in nature like interest free loans taken from friends/relatives (Rutherford, 2003).Dr. S. S. Satchidananda from IIIT- Bangalore has set up Center for Banking and Information Technology (CeBIT), a center of excellence for innovation in technology to discuss and analyze issues and problems faced by rural banks in today's competitive environment.Rangarajan Committee (2008) on financial inclusion stated that: "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." The financial services include the entire gamut of savings, loans, insurance, credit, payments, etc.According to Ravichandran and Alkhathlan (2009), very few people have access to banking services. There are number of factors affecting access to financial services by weaker section of society in India. low incomes ,lack of awareness, illiteracy are the barriers from demand side. Biswas, (2010) concluded that By deploying Biometric ATM solutions for its to its rural customers will boost micro financing initiatives and financial inclusion program

Dr. Amrit Patel concluded that Evolution of Rural Banking Policy by the RBI is framed in a systematic and in a planned manner, the banks performance during 10th 5 Year Plan shown good results. In the process, the Government is building rural infrastructure to help rural financial institutions to aid all the rural households by 2015.To echo the thoughts of C.K. Prahlad, the "bottom of the pyramid" segments will be the growth drivers of the future – this is certainly being borne out by the market revolution that is taking place in India's villages.

### *2.1.Overview of Farmers' Indebtedness in India and a scenario in Madhya Pradesh*

The AIl India Debt and Investment Survey (NSS Fifty-Ninth Round) has revealed that share of institutional agencies in the total cash dues of urban households had increased from 72 per cent in 1991 to 75.1 per cent in 2002 and that of moneylenders had also increased during the period from 10.2 per cent to 14.1 per cent. In the case of rural households, on the other hand, the share of institutional agencies had in fact declined from 64 per cent in 1991 to 57.1 per cent in 2002. And more significantly, the share of moneylenders had increased in the same period from 17.5 per cent to 29.6 per cent in the
case of rural households.

According to 2001 censes 56.6% of the total working population, belong to agricultural and allied sector, in that 60% of them belong to small and marginal farmer categories. These farming household need credit on a continuous basis to meet their working capital needs. In reality, these small and marginal farmers do not have access to the formal credit sources. In this section we attempt to present the findings of the NSS surveys on rural indebtedness in India and a scenario in Madhya Pradesh state.

**Source**: http://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/78893.pdf

The share of professional moneylenders in the aggregate outstanding was the highest in Orissa (37.3 per cent) followed by Rajasthan (35.3 per cent), Madhya Pradesh (31.0 per cent), and Uttar Pradesh (24.5 per cent). It was very low in Mysore (1.4 per cent), Jammu & Kashmir (5.4 per cent), and Kerala (5.6 per cent) and varied between 6-15 per cent in other states. The share of Government in the aggregate outstanding was about 19 per cent in West Bengal and Maharashtra, 15 per cent in Assam and 12 per cent in Orissa. In all other States, it was 5 per cent or less.

(Source: All India Debt and Investment Survey, NSS 59th Round, Report No. 501.)

## 3. Methodology and Findings

### *3.1.Scope of the Study:*

The study is carried out in 3 villages of Ujjain District (Parsoli, JaithalTekandBichrod ) of Madhya Pradesh, India.the primary data collected from the. Random sampling technique was used in collecting data.

### *3.2.The objectives of the study carried out are as follows:*

1) To assess the level of financial inclusion among the selected rural areas.
2) To study the pattern of household borrowing in the villages.

Sample size is 110 people residing in Bichrod, Jaithal & Parsoli villages of Ujjain District in Madhya Pradesh. Primary data was collected through focus group discussion &structured questionnaire.

Secondary data was collected from peer reviewed articles, Bank sites, Journals, magazine, RBI site, Bank circulars.

Percentagewas used to analyze data on demographic characteristics, level of financial inclusion and borrowing pattern. Chi-square test was used to find out the relationship between socio-economic factor of the respondents and the level of financial inclusion status and respondents credit need

### *3.3.Respondents Socioeconomic Status*

Majority of the respondents were male 80% ,around 20 % of the respondents were female, around 65 % of the respondent were in the age group of 40- 60 years and 21% of the respondent were in the age.

Literacy Analysis It is found that majority around 38% of the respondents were Illiterate/School drop-out only 37% respondents have completed Higher secondary and 25% are graduate.

61% of the respondents were farmers (61%) followed by 32% agricultural labor and 7% are Self Employed.

It is found that 30% of the members were belonging to family monthly income of below Rs.5000 and 47% were with monthly income more than Rs. 25,000 remaining 23% has income in the range of 6000 to 15000.

*3.4.Borrowings*

3.4.1.Credit of the Respondents

People were not willing and hesitant to reveal their information regarding how much debt they have, what the last occasion they borrowed, and other questions related to their in debit-ness and credit as they consider it personal and many of them were afraid that this can be used to evaluate their creditworthiness when they visit banks for loan and advance.

3.4.2.Sources of Availing loans

95% of the respondent have availed loan only 5% of the respondents who have not taken any loan (considering long term credit)
Majority of the respondent borrowed 42% from local moneylender and whereas 32% of the respondents borrowed from Relatives & Friend Only 20% borrowed from bank.
Borrowing sources, other than banks are dominated mainly by friends, relatives and moneylenders. Borrowing from friends and relatives can be justified on the grounds of it being generally security free.

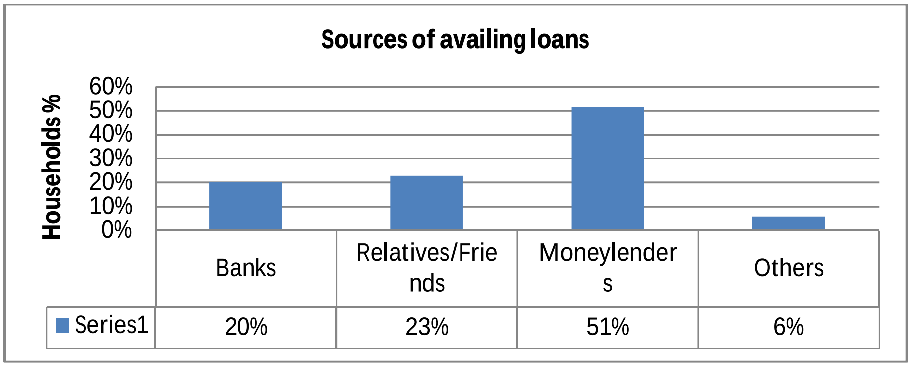


*Figure 1*

If they borrowed from money lender then further they were asked why they preferred moneylender over banks for credit needs, response was that from money lender they get instant cash without any mortgage. People avoid taking loan from banks because of lengthy legal procedure and insistence of collateral.
The graph below shows the various reasons for opting out of banks while availing credit.

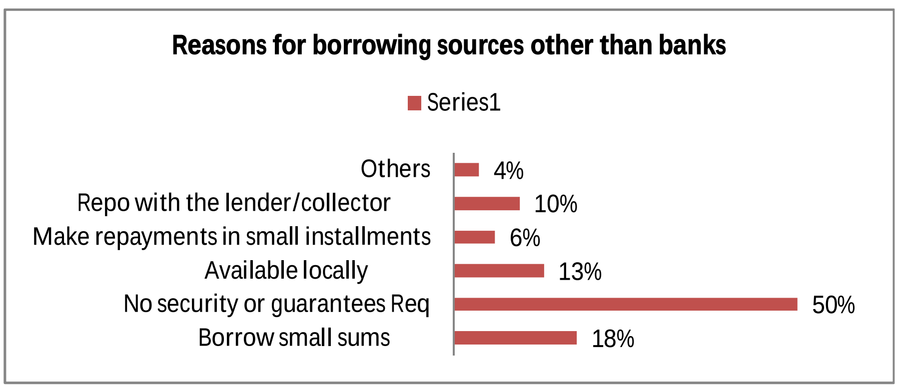


*Figure 2*

Major reasons for borrowing from moneylenders can be explained only by looking at the 'other' category in which respondents said they had no friends or relatives who could afford to lend a relatively large sum. This situation is obvious because poor households are poverty stricken too. Moreover, borrowing from moneylenders at excessive interest rates of 2 % per month (which amounts to 24 % p.a.) speaks of the compulsions such people face which ultimately leads to their getting into such debt traps of these dishonest moneylenders. Ignorance and illiteracy kept aside, this also highlights how much inaccessible some of our banks have become to poor respondents. Most of these respondents have a fear of stepping into bank premises, which has been facilitated to an extent, by the banks themselves, creating procedural hassles for those who are in dire need of credit, and who finding no other means, finally fall into the clutches of such non-institutional financial intermediaries.
There is significant impact of occupation of rural public on the amount of loan availed from the bank. The Farmer need the loan of higher amounts and the labour class need for the personal purpose so the amount is comparatively low than the Farmer.
When asked about banking credit and ever approached any bank for their credit need

54% of the respondents do not know what is banking credit, whereas 46% knows what is banking credit. Only it is revealed from the above that only 5% of the respondents have approached banks for credit needs. Also there is a pre-conceived notion that bank won't lend them money.

3.4.3.Purpose of Borrowing

Total of 105 who responded to this question 46% said that they have borrowed money for business purpose (Farming needs) Around 22% said they took loan to clear their old dues, 17% said they have borrowed money for Domestic needs like Marriage, 9% took for medical reason

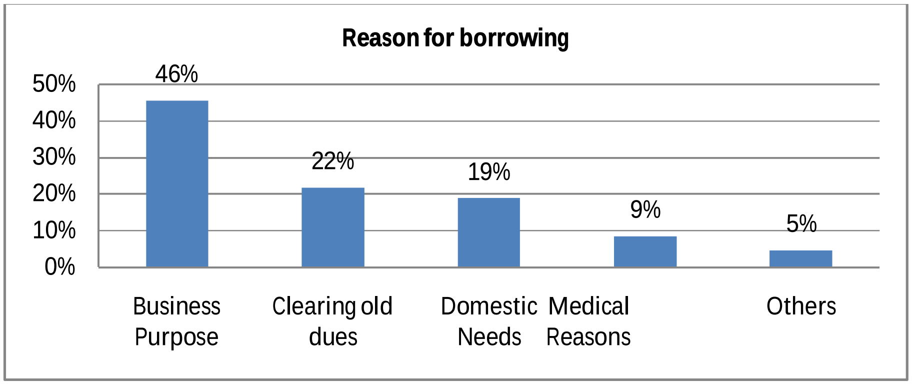


*Figure 3*

## 4. Conclusions

The study has revealed thatmoneylenders plays an imprtant& major role in serving the credit needs of the rural population.farming needs clear their old dues, Domestic needs like Marriage,medical reason

It was also found that majority of the respondent still prefer (informal source) moneylenders over banks for their credit needs due to accessibility of banks (formal credit setup) and secondly they have very complicated and time consuming procedures in processing the requirement. It was also found that , the formal channels lack the personal touch that moneylenders enjoys with the borrowers and also they provide doorstep service available 24/7 maintain confidentiality.

number of accounts in crop loan was higher for small farmers; however, thetotal amount sanctioned was higher for the medium It shows that those farmers borrow from the commercial banks who have bigger size of landholdings and higher cost of production.

When analysed from the bank's perspective, the loans granted become overdue and occasionally turn into Non- Performing Assets.

## 5. Suggestions

*5.1.Banks Should Include Excluded Sector*

Indian households can be divided in to two main clusters, rural and urban. In order to have effective financial inclusion, the financial institutes have to keep in mind these target-audiences (rural) and take measure to make them financially included in a way that it is a win- win situation for all the stakeholders.

*5.2.Specific loan products*

The farmers who have borrowed from commercial banks are large farmers and marginal and small farmers are not able to borrow from these banks due to long procedure. Proper measures should be undertaken to reduce the long procedure.

Specific loan products needs to be designed keeping in mind the domestic credit requirements of the rural population like weddings, medical emergencies & education

*5.3.Information Sharing*

- Regularly meeting & visiting the targeted groups
- Proper literature & application forms for loans in local langauge
- Recovery at door step and collection against money receipts

*5.4.Separate Departments/Counter Focusing Excluded Sector*

It is also seen that Bank officials are already occupied with their work, opening a separate counter will help the customers know the different services offered by the banks and can take advantage of the same

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