A STUDY ON BANK CREDIT UTILIZATION AND ASSOCIATION

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ABSTRACT

Access to financial services play crucial role in the socio-economic development of the rural communities. Researchers found that the main sources of credit for the rural people are money lenders and traders who charge exorbitant interest rates. Hence, unavailability of formal institutional finance considered as the major barrier for the rural development. This resulted in inability to increase the productivity, income of rural people and affects their standard of living. The study examined the widespread credit practices of the rural people, extension of bank finance, its usage and association with socio demographical factors and also studied the indebtedness and its association with socio demographical factors.

KEYWORDS: *Rural, Credit, Financial Development, Association, Socio Demographical Factors.*

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Introduction

The term rural development refers to a wide array of developmental programmers aimed at developing rural areas through the creation of infrastructure facilities to ameliorate the condition of rural people. In India rural development is recognized as a sine qua non for faster economic development and welfare of common masses. Rural development is not merely development of rural areas but also the development of the rural people into self-reliant and self-sustaining modern little communities. Rural development is, therefore, the development of rural areas in such a way that each component of rural life changes in a desired direction and in sympathy with the other component. Besides, rural development also encompassed structured changes in the socio-economic situation in the rural areas in order that human welfare, which is the primary goal of all development, is secured at the earliest. Rural development, thus, should embrace all the objectives of enrichment and betterment of the overall quality of the rural life through appropriate development of manpower resources, infrastructural facilities and provision of minimum needs and livelihood.

The availability of credit is important in every society. Households and firms are not in a position to generate enough resources on their own. The rural population in India suffers from a great deal of indebtedness and is subject to exploitation in the credit market due to high interest rates and the lack of convenient access to credit. Research by Shobana Vasudevan (2009) revealed that "Savings" and "credit" are two fundamental aspects of any growth plan. It should tackle the obstacles in accomplishing both. People regardless of their position, should be motivated to save and must be provided secure and gainful options to save. At the same time, they must be provided adequate and safeguarded access to credit. By making the concept of savings and credit system a concrete one and its span and accessibility should be expanded in such a way that the complete financial inclusion can be accomplished. Institutional finance is the lifeblood of modern economic system without which no system can survive.

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Adequate institutional credit is considered to be the most important factor, which if suitably provided, will go a long way to put the rural economy on a sound footing. Financial institutions especially banks plays a pivotal role in the granting of credit to the various sectors of the economy. Rimamnde Rikwentishe Muhammad Waqas Chughtai"s (2012) study highlighted the utilization of Zarai Taraqiati Bank Limited (ZTBL) agricultural credit in Pakistan and also to find out the impact of labor and machinery on agricultural production. It found that institutional credit extended to agriculture sector has significant impact productivity and it is mainly utilized to purchase the seeds and fertilizers, also found that labor and machinery also have positive impact on agricultural production. Cash flows and savings in rural areas for the majority of households are small, rural households typically tend to rely on credit for other consumption needs like education, food, housing, household functions, etc. Rural households need access to financial institutions that can provide them with credit at lower rates and at reasonable terms than the traditional money-lender and thereby help them avoid debt-traps that are common in rural India.

Objectives

The objectives of the study are to identity the widespread credit practices of the rural people, extension of bank finance, its usage and association with socio demographical factors and also studied the indebtedness and its association with socio demographical factors.

Methodology

The present research study is depending upon primary data. The primary data collected through structured questionnaire and personal discussion with sample respondents. Sample size of the study was 480. Geographical area of the study was Nizamabad District of Telangana state (India).

Socio Economic Profile of Sample Respondents

Table 1: Socio Economic Profile of Sample Respondents

Gender	Male (28)	Female (72)							
Age	15 to 25 years (36)	25 to 35 years (25)	35 to 45 years (17)	45 to 55 years (20)	55 years and above (2)				
Caste	OC (16)	BC (72)	SC (8)	ST (4)					
Education	Illiterate (16)	Primary (17)	SSC (16)	Intermediate (24)	UG (23)	PG (4)			
Annual Income	< 50000 (52)	50,000-1 lac (24)	1 - 1.50 lacs (7)	1.5 - 2 lacs (8)	2-2.5 lacs (8)	>3 lacs (1)			
Type of Income	Daily (15)	Weekly (1)	Monthly (28)	Annually (28)	Seasonally (26)	Others (2)			
Occupation	Agriculture (47)	Agriculture Labor (17)	Construction Labor (2)	Small Business (5)	Industrial Labor (2)	Industrialist (1)	Employee (4)	Heredity Profession (6)	Other specify (16)
Household Size	Two (6)	Three (19)	Four (71)	Above 4 (4)					
Own House Possession	Yes (85)	No (15)							
Land Possession	Yes (67)	No (33)							
Type of Land	Cultivated (39)	Non (61)							
Acres of Land	< 1 Acre (8)	1 to 2 Acres (22)	2 to 3 Acres (28)	3 to 4 Acres (6)	> 4 Acres (3)	No Land (33)			
Number of Earners	One (16)	Two (71)	Three (12)	Above three (1)					

Note: Values in brackets represent percentages.

Borrowing Avenues

Formal and informal sources of credit are studied to know the extent of reach of the institutional finance. Table 2 reveals that majority of the respondent's sourced credit from the bank. All together 70% are granted loans by the banks. The second most important source of credit is SHGs in all the three revenue divisions followed by relatives, friends and money lenders. MFI's are considered as last resource of credit. From the Table 2 it can be noted that supply side out reach of financial inclusion is moving in extremely effective manner in the district. Around 70% of the respondents are able to avail the credit from the bank. It is indicator of successful implementation of financial inclusion measures and shows the significant extent of bank credit in the district, which is very essential for the rural development. It proved that financial inclusion initiatives have come into reality and assisting the rural poor to come out of the hands of money lenders and other sources of credit.

Those who preferred informal sources for credit said that it is easier to get the credit from informal sources than the bank, as there is no requirement of documentary proof and it consumes less time to sanction the loan. Few respondents mentioned that they are relying on relatives and friends for short-term credit needs. For long term loan, they are depending on moneylenders and the interest charged by them ranged between 24 to 36 percent per year. Respondents who are working as agriculture labor and workers in shops reported that they avail the credit from their owner for short-term needs and adjust with their wages and salaries. They said that it is very easy and convenient for them for smaller amounts as it does not carry any rate of interest.

Table 2: Borrowing Avenues

Source	Bank	Relatives and Friends	Money lenders	Micro Finance	SHG
% of the Respondents	70	16	26	10	32

Table 3 reveals that around 90% of the respondents who availed the loan from the banks are availed only crop loans. Discussions with the respondents at the time of survey revealed that the main reason for availing crop loan is low rate of interest, land documents as security and the hope to get waive of the loans by the Governments, in which cases borrower need not to pay anything in addition to the principal amount. However, the counter effect of this will be on efficiency of the bank. SHG loans, housing loans, mortgage loans and KCC have their significant presence in sources of credit.

Table 3: Type of Loan Availed

Type of Loan	% of the Respondents	Type of Loan	% of the Respondents
Crop Loan	90	Land Development Loans	0
Agricultural Term Loans	6	Mortgage Loans	18
Housing Loans	10	General Credits Cards	10
Gold Loans	4	Kisan Credit Cards	17
Personal Loans	6	Poultry Loans	1
Vehicle Loans	8	Cash Credit	0
Study Loans	4	Medium term loans	0
Agricultural Vehicle Loans	5	Over Drafts	0
Sub Mercible Pumps Loans	0		

Table 3 also reveals that trivial existence of gold loans, personal loans, study loans, vehicle loans, agricultural term loans, agricultural vehicle loans, poultry loans, and general credit cards. Analysis and discussions with respondents during the survey unveiled the fact that banks are providing the loans to those who can provide the collateral security and to meet their targets under priority sector lending. All the sample respondents said that they have not utilized the sub-mercible pumps loans, land development loans, cash credit, medium term loans, over drafts. The reason is lack of awareness about the services. Access of the two important credit instruments i.e. KCC and GCC for greater financial inclusion in the rural areas is significantly low in the entire revenue divisions. Most of the respondents are not aware of these schemes.

Purpose of Using Bank Loan

In total around 80% are utilizing the loan amount for domestic usage. Only 20% are using it for commercial purpose. Preponderance of the commercial usage of loans is to run small provisional stores, to run cottage industries, to run dairies and heredity professions like fishing etc.

Utilization of Bank Loan

Credit considered as a crucial factor for farming inputs in rural areas. It is essential to get maximum yield from the crop. Around 90% of the respondents who are availing the loan from banks availed only crop loans. 85% of the respondents said that they used the loan amount to meet the agricultural needs like purchase of seeds, fertilizers, pesticides and others other expenses. Table 3 shows the variation in type loan availed and Table 4 shows the purpose of utilization. In addition to specified needs they have used the loan amount to fulfill other needs like education of the children, medical expenses, marriage of children, purchase of durables goods, livestock and to improve electricity, sanitation and water facilities. Availability of adequate amount to meet the basic needs like education and healthcare is necessary for rural people and also improve facilities in sanitation, water and electricity etc. Improvement in these facilities is the minimum requirements, which leads to development of rural infrastructure. Analysis shows the need for an extension of the bank credit to other requirements mentioned in table 4.

Table 4: Utilization of Loan

Purpose	% of the Respondents	Purpose	% of the Respondents
Agricultural Needs	86	Live Stock	18
Business opportunities	11	Purchase of Vehicles	16
Housing	9	Purchase of Land	6
Education	8	For Electricity	18
Marriage of Children	4	For Sanitation	16
Medical Expenses	1	Water facilities	26
Purchase of Durables Goods	4		

Association between Socio-Demographical Factors and Access to Bank Credit

There are so many factors, which hinder the access of bank credit for an individual such as social, economic, demographic, and political factors. Among these factors, socio demographical factors have significance association with access of bank finance. Table 6 provides the test results of association between socio-demographic factors and access to bank credit. Study found that except the caste there is a significant association between other socio-demographical factors mentioned in Table 5 and access to bank credit.

Table 5: Association between Socio-Demographical Factors and Access to Bank Credit

Socio-Demographic Factors	Value	df	Asymp. Sig. (2-sided)	Result
Gender				H0 Rejected
Pearson Chi-Square	72.250	1	0.000	
Likelihood Ratio	69.843	1	0.000	
Linear-by-Linear Association	72.026	1	0.000	
N of Valid Cases	323			
Age				
Pearson Chi-Square	17.015	4	0.002	H0 Rejected
Likelihood Ratio	18.086	4	0.001	
Linear-by-Linear Association	2.526	1	0.112	
N of Valid Cases	323			
Education				H0 Rejected
Pearson Chi-Square	22.044	5	0.001	
Likelihood Ratio	22.737	5	0.000	
Linear-by-Linear Association	8.315	1	0.004	
N of Valid Cases	323			
Caste				H0 Accepted
Pearson Chi-Square	4.174	3	0.243	
Likelihood Ratio	4.240	3	0.237	
Linear-by-Linear Association	0.000	1	0.987	
N of Valid Cases	323			
Occupation				H0 Rejected
Pearson Chi-Square	66.580	7	0.000	
Likelihood Ratio	64.844	7	0.000	
Linear-by-Linear Association	35.817	1	0.000	

N of Valid Cases	323			
Type of income				H0 Rejected
Pearson Chi-Square	70.339	4	0.000	
Likelihood Ratio	71.804	4	0.000	
Linear-by-Linear Association	36.605	1	0.000	
N of Valid Cases	323			
Annual Income				H0 Rejected
Pearson Chi-Square	39.795	5	0.000	
Likelihood Ratio	47.523	5	0.000	
Linear-by-Linear Association	16.399	1	0.000	
N of Valid Cases	323			

Table 6 provides the values of Cramer's V, which used to identify strength of association between access to bank credit and socio- demographic factors. High degree of association of access to bank credit found with gender, occupation, type of income and annual income and age has moderate degree of association.

Table 6: Strength of Association between Socio-Demographical Factors & Access to Bank Credit

Socio-Demographic Factor	Cramer's V	Strength of Association
Gender	0.473	Worrisomely Strong
Age	0.230	Moderate
Education	0.261	Moderately Strong
Caste	0.114	Very Weak
Occupation	0.454	Worrisomely Strong
Type of income	0.467	Worrisomely Strong
Annual Income	0.351	Very strong

Reasons for not Borrowing from Banks

About 40% of the respondents who have not availed the loans from banks opined that it is very difficult to get the loans from the bank due the *cumbersome documentation procedure* though they charge low rate of interest. To fulfill the procedural requisites, it requires number of documents. It makes the process lengthy and cumbersome. Around 35% of them stated that sanction of the bank loan *consumes more time* as applicant must visit the bank several times to get sanction of the loan, which leads to loss of their daily wages. Another barrier is *collateral securities.* About 20% of them reported that lack of collateral security is restricting them to avail the credit from the banks as those who are not holding any capital assets cannot provide the security. The next two obstacles to reach the bank are *high cost of transactions* and *unavailability of suitable products.* Presence of *flexible nearby informal sources*, which can offer the credit without any documental proofs and collaterals, is also one of the reasons for not availing bank credit. Around 10% of them felt that it is very convenient to them to get the credit from informal sources. Other impediments in securing credit from the banks are unsuitable timings, illiteracy, insufficient income, long distance, and behaviour of bank officials. Around 9% of respondents are of the opinion that *unsuitable timings* limiting the access to bank credit. Around 6% of the respondents are also of the belief that, due their *illiteracy* they should depend on others to secure the loan from the bank and 5.7% of them said that due to their *insufficient and irregular income*; they hesitate to get the loan from the bank as bank credit needs the regular repayments. Around 2% opined that a *long distance* is one of the barricades for bank credit and they also thought that repayment structure is convenient with informal sources. *Behaviour of bank officials* stood in the last place among all hindrances.

Table 7: Reasons for not Borrowing from Banks

Reasons	%	Rank
Security cannot be given by me	20.382	III
Difficulty of documentation procedure	40.127	I
Unavailability of suitable products	12.739	V
It consumes more time	35.03	II
Insufficient Income	5.732	IX
Informal source is near by	10.191	VI
Easy finance from informal sources	3.822	X
Long distance	1.911	XI
High cost of transactions	13.376	IV
Unsuitable timings	8.917	VII
Illiteracy	6.369	VIII
Behaviour of bank officials	1.274	XII

Source: Primary Data *Note: Total of percentage is more than 100 because of multiple responses*

Indebtedness and its Association with Socio-Demographical Factors

Level of Indebtedness exposes the individuals to different types of risk. It may become cause for reduction in the family savings, reduce the quality of living standards and sometimes leads to migration also.

Association between Socio-Demographical Factors and Indebtedness

Study found that there is a significant association between indebtedness and socio-demographical factors, except gender and caste. It is found that gender and caste are not affecting the borrowings. Significant association between indebtedness and age, education, occupation and type of income and annual income is found.

Table 8: Association between Socio-Demographical Factors and Indebtedness

Socio-Demographic Factor	Value	df	Asymp. Sig. (2-sided)	Result
Gender				H_0 Accepted
Pearson Chi-Square	3.355	1	0.067	
Likelihood Ratio	3.434	1	0.064	
Linear-by-Linear Association	3.348	1	0.067	
N of Valid Cases	480			
Age				
Pearson Chi-Square	22.146	4	0.000	H_0 Rejected
Likelihood Ratio	22.897	4	0.000	
Linear-by-Linear Association	18.042	1	0.000	
N of Valid Cases	480			
Education				H_0 Rejected
Pearson Chi-Square	45.490	5	0.000	
Likelihood Ratio	45.904	5	0.000	
Linear-by-Linear Association	21.009	1	0.000	
N of Valid Cases	480			
Caste				H_0 Accepted
Pearson Chi-Square	8.917	4	0.063	
Likelihood Ratio	9.548	4	0.049	
Linear-by-Linear Association	2.109	1	0.146	
N of Valid Cases	480			
Occupation				H_0 Rejected
Pearson Chi-Square	24.870	8	0.002	
Likelihood Ratio	25.042	8	0.002	
Linear-by-Linear Association	3.078	1	0.079	
N of Valid Cases	480			
Type of income				H_0 Rejected
Pearson Chi-Square	21.765	5	0.001	
Likelihood Ratio	25.318	5	0.000	
Linear-by-Linear Association	11.409	1	0.001	
N of Valid Cases	480			
Annual Income				H_0 Rejected
Pearson Chi-Square	31.631	5	0.000	
Likelihood Ratio	36.841	5	0.000	
Linear-by-Linear Association	28.367	1	0.000	
N of Valid Cases	480			

Table 9 provides the values of Cramer's V, which used to identify strength of association between indebtedness and socio- demographic factors. It is found that there is a strong association between indebtedness and education and annual income. It can be interpreted that higher education lowers the indebtedness, because the education enables the rural people to secure regular income and increases the financial status. Age, occupation, and type of income have moderate degree of association with indebtedness and it is not affected by gender and caste.

Table 9: Strength of Association between Socio-Demographical Factors and Indebtedness

Socio-Demographic Factor	Cramer's V	Strength of Association
Gender	0.084	Very Weak
Age	0.215	Moderate
Education	0.308	Strong
Caste	0.136	Weak
Occupation	0.228	Moderate
Type of income	0.213	Moderate
Annual Income	0.257	Moderately strong

Conclusion

In their endeavor to provide funding to the various sector of the economy, banks develop various products to suit their customer needs. Study concluded that there is significant extent reach of bank credit in the district, which is very essential for the rural development. Study also revealed that majority bank credit is reaching the people in the form of crop loan only in the district. There is trivial existence of gold loans, personal loans, study loans, vehicle loans, agricultural term loans, agricultural vehicle loans, poultry loans, and general credit cards. In addition to specified needs bank credit is used to fulfill other needs like education of the children, medical expenses, marriage of children, purchase of durables goods, livestock and to improve electricity, sanitation and water facilities. High degree of association of access to bank credit found with gender, occupation, type of income and annual income and age has moderate degree of association. It is found that there is a strong association between indebtedness and education and annual income. It can be interpreted that higher education lowers the indebtedness, because the education enables the rural people to secure regular income and increases the financial status. It proved that financial inclusion initiatives have come into reality and assisting the rural poor to come out of the hands of money lenders and other sources of credit.

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