

## **Constraints in Availing Financial Services by Agricultural Labour Households in Sub-mountainous Zone of Punjab**

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### **Abstract**

*Financial Inclusion refers to delivery of financial services, at affordable cost, to the lower segments of society. Well-developed financial system includes three aspects; access to financial services, affordability of such services and the utilization of such services. This paper has worked out the constraints that were responsible for availing lesser financial services by agricultural labour households. Multi-stage random sampling technique was used to select a sample of 100 agricultural labour households for the analysis. It was found that despite possessing bank account by all the households, usage of other financial services was found to be very low. Major problems faced while accessing institutional credit as reported by respondents were lack of assets/collateral, complicated procedure and provision of inadequate amount. The usage of other financial services was very low. Usage of internet banking and debit/credit cards was found to be nil among the sampled households. Thus, accessibility to financial services of this group needs to be strengthened.*

**Key words:** Financial services, Financial accessibility, Agricultural labour, Constraints

**JEL classification:** Q1, Q12, Q14, H62

### **Introduction**

In India, the people engaged in the agriculture sector were 263 million and 54.6 per cent of them were agricultural labourers as per the census of 2011. On the other hand, in Punjab, proportion of agricultural workers to total workers was 35.6 per cent (Anonymous 2015). Factors like increasing input prices, price fluctuations in world market due to greater openness, inadequate coverage of crop insurance, lesser provisions for credit and inadequate measures by

government correlates to the agrarian crisis in the state. This precarious situation resulted in increasing suicides in this category. The debt-linked suicides were higher among agricultural labour than those among farmers (Singh 2011). In a survey undertaken by Punjab Agricultural University, Ludhiana, it was found that between 2000 and 2015, agricultural labourers accounted for 44 per cent of the total suicides in rural area and out of these, about 77 per cent of the agricultural labourers committed suicide due to indebtedness. Moreover, agricultural labour was not provided with any debt relief

scheme by the state government due to lack of data on indebtedness, as debt being more related to informal sources of finance (General Secretary of PKMU). Indebtedness from informal sources is a matter of concern among the labour households, which needs a feasible solution.

There can be many reasons for inefficient spread of financial services like, the lack of awareness, distance to bank from the village, high interest rates, lack of assets, age dependency, illiteracy and low income/savings etc. (Uddin *et al*, 2017). Financial literacy is a key factor determining financial inclusion. It is a mix of skill, knowledge and attitude of a person towards financial matters. Everybody in the economy needs to be financially literate, viz. users and providers of financial services. For the lower income groups, raising financial literacy supports financial inclusion and enhances the wellbeing of the community. Apart from this, distance from branch, staff behaviour, branch timings, bank charges, banking procedures are also determinant factors of financial inclusion. Hilly and less populated areas with poor infrastructure and physical access itself act as a barrier (Anonymous 2019).

Claessens (2006) in a study stated that the inefficiency of institutional environment was responsible for the poor expansion of financial services. The weakness of legal system, information infrastructure and lack of competitiveness leads to inefficient financial system. Anayiotos and Toroyan (2009) stated that the effective institutional system with strong legal framework and political stability can improve the access to financial services. It was well observed that improved financial infrastructure facilitates financial access to individuals, households and enterprises. The

period between the 1970s and 2000s was expected to extend financial services but there had been a financial crisis in the period in both developed and developing nations.

### **Data Sources and Methodology**

The study was conducted in the sub-mountainous zone of the Punjab during the year 2018-19, also known as the Kandi Belt of Punjab state. The study was based on primary data to achieve the stipulated objectives. Primary data were collected from the labour households of the zone. Multi-stage random sampling technique was used to select the representative sample for the study. At the first stage, two districts namely Gurdaspur and Hoshiarpur were randomly selected. At the second stage, two blocks namely Sujampur and DharKalan from Gurdaspur district and Mukerian and Bhunga from Hoshiarpur district were selected at random. At the third stage, two villages from each block were selected and a sample of 25 labour households from each block was selected. Thus, a sample of 100 labour households was selected from eight villages in four blocks of the two selected districts. The interview schedule was prepared to collect the information from the sampled households regarding the problems faced while accessing institutional credit, reasons for denial of institutional credit and preference of non-institutional credit. The reasons for not availing any other kind of financial services including insurance services, usage of ATM services, credit/debit cards and internet banking were also taken into consideration.

### **Analytical tools**

Simple statistical tools like frequencies, percentages and averages were used to analyse the collected data. Keeping in

view the objectives of study, Garret's Ranking Techniques was used to rank the various problems faced while accessing the institutional source of credit, the reasons for denial of institutional credit and the reasons for preference of non-institutional credit by the sampled category. The ranks assigned to reasons by the sampled respondents were transmitted into scores by using the formula given by Garrett and Woodworth (1971).

$$\text{Percentage position} = 100 * (\text{R}_{ij} - 0.5) / \text{N}_j$$

Where,

$\text{R}_{ij}$  = Rank given to  $i^{\text{th}}$  problem/reason by the  $j^{\text{th}}$  respondent

$\text{N}_j$  = Number of problems/reasons by the  $j^{\text{th}}$  respondent

By referring to the Garrett table, the percentage position estimated was converted into scores. Then, for each reason, the score of various respondents were added and mean score was calculated. The factor with the

highest mean score was considered to be the most important reason.

## Results and Discussions

### Source of credit for the sampled households during the study period

There are mainly two sources of availing credit, institutional sources and non-institutional sources. It was found that out of total households, 49 per cent households were indulged in borrowing. Majority of borrowings were from non-institutional sources, as about 45 per cent households' preferred non-institutional sources (Table 1). About 37 per cent of borrowing households chose banks for borrowing and no household approached co-operative societies as none of the respondents was a member of co-operative society. While considering the non-institutional sources, a larger of 16.33 per cent of households borrowed from the land owners in the village, 14.29 per cent of borrowers approached their relatives, 6.12

**Table 1: Distribution of sampled households according to the source of credit in sub mountainous zone of Punjab 2018-19**

Source	Number of households	Per cent of households
Institutional		
Bank	18	36.73
Co-operatives	-	-
Total	18	36.73
<b>Non-Institutional</b>		
Relatives	7	14.29
Friends	3	6.12
Moneylenders	2	4.08
SHG's	2	4.08
Land owners	8	16.33
Total	22	44.90
Both	9	18.37
<b>Total</b>	<b>49</b>	<b>100.00</b>

per cent borrowed from friends, 4.08 per cent from money lenders and another 4.08 per cent borrowed from SHGs. About 18 per cent of households borrowed from both the sources. It was observed that most households borrowed from non-institutional sources.

### **Problems faced while accessing institutional credit**

The various problems faced by the borrowers, while approaching institutional sources of credit in the sub-mountainous zone of Punjab have been described in Table 2. Out of the 100 sampled households, 27 households approached institutional sources for credit requirements and ranked the problems faced by them in the process. By applying Garrett's ranking test, it was observed that the lack of assets/collateral was given the first rank with mean score of 65.22, which indicated that it was the major problem faced by the households as they do not fulfil the security criteria for availing credit from the institutional sources. It was followed by the problem of complicated procedure followed by the institutions (58.11) and not getting adequate amount as per their requirement

(57.26). The other problems reported were delayed loans, illiteracy factor in availing credit, low income level, poor repayment performance in the past, lack of bank at village level and lack of required documents followed with mean scores of 55.04, 53.19, 52.85, 49.30, 48.59 and 48.07 respectively.

### **Denial of institutional credit**

Denial of institutional credit is a major constraint in terms of availing financial services. Though all the households were financially included, having one or more bank accounts, but 28 per cent reported denial of bank loan, while 32 per cent reported to not been refused ever and 40 per cent never asked for any credit from the banks. Table 3 has shown the various reasons for the refusal of credit by the bank to the sampled households. The 28 households gave rankings to factors indicating the reasons for refusal of bank loan. By applying Garrett's ranking test, the total scores and mean scores were obtained. The results showed that the major reason for denial of loan was lack of security/mortgage with a mean score of 64.39. The second rank was given to the poor repayment performance

**Table 2: Problems faced by sampled households while accessing institutional credit in sub mountainous zone of Punjab 2018-19**

<b>Factor</b>	<b>Mean score</b>	<b>Rank</b>
Inadequate amount	57.26	3
Lack of assets/collateral	65.22	1
Delayed loan approval	55.04	4
Poor repayment performance in the past	49.30	7
Lack of required documents	48.07	9
Lack of bank at village level	48.59	8
Illiteracy	53.19	5
Low Income	52.85	6
Complicated procedure	58.11	2

**Table 3: Denial of institutional credit among the sampled households in sub mountainous zone of Punjab 2018-19**

Factor	Mean score	Rank
Lack of documents	45.36	6
Lack of security/mortgage	66.14	1
Lack of trustworthiness by bank	59.05	4
Poor repayment performance	66.05	2
Low income	65.64	3
Job instability	57.41	5

of the households, i.e. lack of repayment capacity to pay the earlier loans availed in the past. Low income (64.00) emerged as a third reason followed by lack of trustworthiness of bank (58.32). The other reasons included job instability (58.14) and lack of documents with the last rank (44.61) for the refusal of credit.

#### **Preference of non-Institutional sources of credit by sampled households**

The various problems faced by the sampled households in accessing institutional credit were discussed earlier. Table 4 is highlighting the various reasons for preferring the non-institutional sources by the respondents. Reasons including easy access, timeliness, personal relations, easy repayment etc. were considered. Out of the 100 sampled households, 31 households indulged in exclusive borrowing from non-institutional sources ranked the factors. The results showed that lesser formalities while availing credit was ranked first (66.13) and emerged as a main reason for preference of non-institutional sources. It was followed by the ability to borrow small sums (60.52) and benefit of easy repayments (59.90). Other reasons followed as easy access, no need of security, getting adequate amount, use of credit for consumption purpose, timelines,

and personal relations with lender and non-requirement of documents with average scores of 59.87, 58.87, 58.00, 54.03, 53.19, 49.87 and 45.74, respectively.

#### **Usage of other forms of financial services**

As discussed earlier, all the sampled households were having at least one bank account. But, financial inclusion is not only having bank accounts. Financial inclusion refers to the access and use of various financial services including insurance services, ATMs and debit/credit cards etc. As shown in Table 5 among the sampled households, only 22 per cent reported the usage of other financial services while, the rest 78 per cent have not used any other financial services. Among the 22 per cent, 63.64 per cent reported availing insurance services, which included life insurance by 57.14 per cent, vehicle insurance by 21.43 per cent and health insurance was also availed by 21.43 per cent. The other 72.73 per cent households reported the usage of ATM services. None of the sampled households were found using other financial tools like debit/credit cards and internet banking.

#### **Reasons for not availing other financial services by sampled households**

As it has been discussed that out of 100 households, only 22 per cent were availing

**Table 4: Preference of non-institutional sources of credit by sampled household in sub-mountainous zone of Punjab 2018-19**

Reasons	Mean score	Rank
Easy access	59.87	4
Timeliness	53.19	8
Personal relations	49.87	9
No need of security	58.87	5
Easy repayments	59.90	3
Getting adequate amount	58.00	6
No bank at village level	45.74	10
Able to borrow small sums	60.52	2
Use for consumption purpose	54.03	7
Lesser formalities	66.13	1

other forms of financial services, while 78 per cent were not using any other form of financial services. Out of the 22 per cent of households availing other form of financial services, 63.64 per cent were availing the insurance services and the remaining stated the major constraints for not accessing these services

as lack of subsidy, high premium and lack of awareness as shown in Table 6. The major constraint reported by 61.63 per cent of the respondents was the high premium associated with insurance. The premium charges were high and not affordable to these households. 22.09 per cent of the households were not

**Table 5: Usage of other forms of financial services by sampled households in sub mountainous zone of Punjab 2018-19**

	Number	Per cent of households
Yes	22	22.00
No	78	78.00
<b>Total</b>	<b>100</b>	<b>100.00</b>
<b>Form of financial services (multiple responses)</b>		
Insurance	14	63.64
ATM card	16	72.73
Credit/Debit card	-	-
Internet banking	-	-
	<b>22</b>	
<b>Type of insurance availed</b>		
Life insurance	8	57.14
Health insurance	3	21.43
Vehicle insurance	3	21.43
<b>Total</b>	<b>14</b>	<b>100.00</b>

**Table 6: Reasons for not availing other forms of financial services in sub mountainous zone of 2018-19**

<b>Reason for not availing any form of insurance</b>		
Lack of subsidy	14	16.28
High premium	53	61.63
Lack of awareness	19	22.09
<b>Total</b>	<b>86</b>	<b>100.00</b>
<b>Reasons for not using other forms of financial services</b>		
Lack of awareness	8	10.26
Low income	30	38.46
Lack of access to internet	28	35.90
Non-familiar with use	12	15.38
<b>Total</b>	<b>78</b>	<b>100.00</b>

aware of the benefits of these services. 16.28 per cent respondents stated that lack of subsidy was a reason for not using these services. If subsidies were provided, they would avail the services. It was also observed that 72.73 per cent of the total households availing other form of financial services i.e. 22 per cent were using the ATM services and no sampled household was found to be having debit/credit cards and also none was found to be availing the usage of internet banking, despite the fact that 95 per cent of the households were having

mobile connectivity. The major constraints for not using ATMs, debit/credit cards were lack of awareness, low balance in the bank accounts, lack of access to internet and non-familiarity with the use. Low savings was the major hindrance as reported by 38.46 per cent of households. Lack of access to internet was a constraint reported by 35.90 per cent of the households. The non-familiarity with the use of these services was another constraint reported by 15.38 per cent of households. 10.26 per cent of households reported the

**Table 7: Suggestions for improving accessibility to financial services by the sampled households in sub mountainous zone of 2018-19 (Multiple responses)**

<b>Suggestions</b>	<b>Number of households</b>
Relaxation in security norms	92
Awareness regarding use of financial tools	82
Less complicated procedures	75
Reduction in transaction cost	73
Issuance of credit card to non-farmers	69
Co-operative bank staff	52
Increased bank branches in villages	44
Encouragement to mobile banking	39

lack of awareness as a constraint.

### **Suggestions for improving accessibility to financial services**

In the wake of constraint analysis on various aspects of financial inclusion, suggestions were taken from the sampled households to improve the accessibility to financial services so that they may not have any problem regarding the banking sector and can use the financial services effectively. As shown in Table 7, 92 per cent of the respondents suggested that there should be relaxation in security norms so that they can have access to institutional credit. 82 per cent respondents suggested that there should be spread of awareness regarding the use of various financial tools as they were not capable of using them. Complicated procedures in banking sector was cited as a hurdle for less educated people and 75 per cent respondents suggested to simplify the procedures. 73 per cent suggested to reduce the transaction costs associated with banking operations. 69 per cent respondents suggested the issuance of credit cards to non-farmers. Co-operation on the part of bank staff was suggested by 52 per cent of respondents. 44 per cent of the sampled households suggested increase in bank branches at village level and 39 per cent suggested to take various suitable actions to encourage mobile banking.

### **Conclusion and Policy Implications**

The study has brought out the constraints in availing financial services by agricultural labour households in sub-mountainous zone of Punjab. It was found that majority of the households preferred borrowing from non-institutional sources. The major problems faced while accessing institutional credit were lack of assets/collateral, complicated

procedure and provision of inadequate amount. These problems forced respondents to prefer non-institutional sources as these sources included lesser formalities, benefit of borrowing small sums and ease of repayments. Another constraint in availing financial services was denial of institutional credit due to lack of security possessed by the individuals, poor repayment performance in the past and lower income. The reason for not availing insurance services was found to be high premium associated with it. The usage of other financial services including ATMs was very low as there was low balance in the accounts and also respondents were found to be non-familiar with the use. Usage of internet banking and debit/credit cards was found to be nil among the sampled households as internet connectivity was an issue. So, there is need to address these issues of agricultural labour households pertaining to accessibility to financial services by improving income level of target group, subsidizing the premium payments and relaxation in security norms etc.

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