

Demographic Determinants of Access to Bank Credit



Laila Memdani, Kalaa Chenji, Sode Raghavendra

Abstract: *The main objective of the paper is to study the determinants of access to bank credit, an important dimension of Financial Inclusion in India. For this purpose we studied if access to bank credit depends on district, gender, education and literacy. The data was collected from Jogulamba with lower literacy rate and Ranga Reddy a semi urban district in the Telangana. A semi structured questionnaire was prepared for the data collection. Regression analysis has been used to analyze the data for the study. Results show that access to credit for districts is significant which is contrary to general belief that in rural areas the credit from banking sector is less. Education is also significant and positive which implies that educated people prefer credit from banks compared to uneducated. This has important implication for policy makers to focus more on education and Financial Inclusion will follow.*

Key words: *Financial Inclusion, Access to credit, Gender, Education, District* JEL: G20, G21. O12, O16

I. INTRODUCTION

Banking sector reforms in India marked a beginning for unprecedented economic development in the country. Development of banking sector positioning the country in a prominent place. India still faces the challenges such as illiteracy, poverty, growing inequalities between rich and poor, disparities in development in rural and urban areas. The poor and weaker sections of the population are yet to taste the fruits of economic development. Planning in India, brought about structural changes required for the economies' development. With an aim to reach the backward sections of the economy and the term inclusive growth was coined to cater to the needs of economically backward population. The 11th five year plan aimed at eradicating poverty with the help of financial inclusion and focused on guaranteeing gender parity in order to address the issues faced by the economy. The concept of inclusive growth intended to reduce the gap

between the urban and the rural, rich and poor, men and women and amongst different sections of the economy. The objective of financial inclusion is to provide access to financial services among the most underprivileged sections of the society.

According to Kofi Annan (2003), the present days reality is that a large majority of people do not have access to financial services like savings, credit, and insurance, which are must these days.

Clessens (2006) explains financial inclusion as the availability of a supply of reasonable quality financial services to all at a very low cost or minimum cost. The Chairman of committee on Financial Inclusion, Rangarajan (2008) defined financial inclusion as a process of providing access to financial services and adequate credit to the poorer sections of the society.

II. REVIEW OF LITERATURE

Inclusive finance and its accessibility has been studied by many authors, Banerjee and Newman (1993) opined that access to finance facilitates the poor to exit poverty and helps in enhancing productivity. Binswanger and Kandker (1995) studied the progress of Indian Rural expansion program and found a significant change in rural poverty scenario and increase in non-agricultural employment.

The financial inclusion committee formed under the chairmanship of Rangarajan, 2008, formed by the Government of India testified that the access to formal sources of credit in farmer households in India is less than 73 percent. It is found that around 560 million people in India are excluded from formal source of finance. Around 41.6 percent of the population still lives below the poverty line earning less than US \$ 1.25/ day (NCR White paper on Financial Inclusion, 2009). Financial Inclusion is now recognized as a policy priority in many countries and identified to be a powerful tool to not only alleviate poverty but also to accelerate economic development of the nation. Chakraborty (2010) in his study explained that as the benefits of economic growth have not been equitably shared, the concept of inclusive growth has received paramount attention as a strategy for economic development.

Elaborate research on financial inclusion reveals the multifaceted quality of the factors congregating and influencing it. The excluded sections of the society suffer severely from inequalities and poverty. Factors that help in including the poor and deprived sections of the society include availability and mobilization of deposits that result in improved savings and accessibility of insurance to efficiently deal with risk and uncertainty.

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* Correspondence Author

Dr. Laila Memdani, Associate Professor, IBS Hyderabad, a Constituent of ICFAI Foundation for Higher Education, Hyderabad, (Telangana) India.

E-mail: lailam@ibsindia.org

Dr. Kalaa Chenji, Assistant Professor, IBS Hyderabad, a Constituent of ICFAI Foundation for Higher Education, Hyderabad, (Telangana) India.

Dr. Sode Raghavendra, Assistant Professor, IBS Hyderabad, a Constituent of ICFAI Foundation for Higher Education, Hyderabad, (Telangana) India.

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Review of literature emphasizes that ceremonial economic services are negatively related to poverty and inequalities in the sections of the society (Beck T. D.-K., 2007) (Clarke, 2006) (Galor, 1993) (Honohan, 2004) (Jeanneney, 2011). A well-developed financial system supporting the poor and needy has a huge impact on savings and investment rates as well as on technological innovation and long term growth rates while cutting the costs on information and transactions.

Financial development and economic growth are found to be positively related as found in the research in the field of inclusive growth (Yang, 2008) (Beck T. &, 2006). Financial inclusion is said to curb the threat of unemployment and underemployment by providing improved economic services and better self-employment opportunities (Menon, 2011). Financial inclusion is found to be influenced by the forces of demand and supply. Factors such as income, education, household and occupational factors are said to influence financial inclusion on the demand side (Beck T. D.-K., 2007) (Chithra, Determinants of financial inclusion:, 2013) (Martinez, 2013) and accessibility to day to day banking services to mobilize funds for the betterment of poor sections of the society fall on the supply side.

Several countries have emphasized the prominence of initiatives for financial inclusion including United States, Germany, France, South Africa, United Kingdom, Kenya and others. In India, the National Rural Financial Inclusion Plan has been established in 2005 to achieve complete financial inclusion by 2015. The Reserve Bank of India advised Banks to provide “no frills” with low or minimum stipulated balance; banks were encouraged to link with micro-finance and self-help groups (Sarma 2008, Frost and Sullivan, 2009).

I. Need For The Study

Most of the studies related to financial inclusion are based on secondary data of RBI of by FINDEX report. There are hardly any studies based on primary data. Therefore, the present paper aims to study the financial inclusion status at a disaggregated level. Two districts are selected for study on the basis of urban-rural orientation and literacy. Jogulamba district in Telangana has a lowest literacy rate of 49.9 percent according to “Telangana Socio-Economic Outlook 2018” (Sridhar, 2018). The study conducted by “Telangana Socio-Economic Outlook 2018” reported that 26 out of 31 districts in Telangana have literacy rates below the State average of 66.54 percent. Ranga Reddy District also known as “Hyderabad rural” is another district considered for study in the present paper. According to Directorate of Economics and Statistics, Statistical year Book, 2017, Government of Telangana, the urban population of Rangareddy district is 57.70 percent and rural population is calculated at 42.29 percent. The present study aims to study the status of financial inclusion of the population and the factors determining financial inclusion in the dual districts.

Our study is also different from other studies since most studies focused on financial inclusion from the point of view of bank account while we focused on access to credit, since most people have opened their bank accounts under various government schemes.

II. Objectives

The main objective of the paper is to identify the determinants of financial inclusion in the rural and urban scenario like gender, education and income.

III. Hypothesis Development

The disparity in FI is quite significant across gender. Globally, it has been found that only 47% of women have solo or joint bank account, compared to 55% of men (Ghosh and Vinod, 2017). Approximately 63% of men had account with financial institution compared to 43% women in 2014 (Demircukunt et al., 2015). Since with the launch of PMJDY the number of accounts with the banks have multiplied tremendously in this paper we study the FI in terms of access to credit for women.

H1: Women are not financially included in India

Since educated people are considered to be financially literate we hypothesize that educated people have more access to credit from formal financial sector. Zins, A., & Weill, L. (2016). Allen et al. (2016) analyzes the determinants of FI and one of the important determinant was Education. Similarly it was found by Fungáčová and Weill (2015) in their study in China they found the relationship between education and FI.

H2: Educated people have more access to credit than uneducated

There is a relationship between Income and FI. Since people with higher incomes will have more resources and also more savings and may also need more loans for their businesses they are expected to be more financially included compared to the poor. The rich are also more credit worthy to get loans from the formal financial sector. The relationship between income and FI was also found in the studies of Allen et al. (2016) and Fungáčová and Weill (2015)

H3: Higher income people are more financially included than lower income people

The urban areas have more number of formal financial institutions compared to rural areas. Urban areas also have better transport facilities and better infrastructure. More over in urban areas with the popularity of Internet banking and Mobile banking there is much improvement in financial inclusion compared to rural areas.

H4: There is no distinction between the determinants of financial Inclusion in rural areas in comparison to urban areas Credit to farmer households in rural areas is one of the important elements of financial inclusion. The credit to farmers in rural areas is more risky because of the risky nature of the farming business and most of the farmers are not credit worthy and therefore they do not have access to formal credit from banks at least in India (Dev, 2006). And this is an important reason for the indebtedness of the farmers and also for the farmers' suicides which peaked recently in India.

III. METHODOLOGY

The present study uses stratified sampling method, by considering Jogulamba District with lower literacy rate and semi urban district – Ranga Reddy in the state of Telangana. A pilot study was conducted by collecting 50 samples from each districts totaling to a 100 from each districts.

The two districts of Telangana have been selected to test the extent of financial inclusion. Jogulamba district is preferred for its lower literacy rate with 126 commercial and 77 regional rural banks (R, 2013). The data was collected from two villages, Sindhanoor and Thoomkunta of Jogulamba district where the literacy rate is recorded lowest at 49.01 percent (Shridhar, 2018). A total of 252 households were visited to collect the data for the present study. The second district considered for the study is Rangareddy district, which happens to be a even distribution of urban-rural population (Vijaya).

Antharam and Yadavalli villages were selected for the even population as required for the sample. The data was collected from 256 households from the said villages. Simple random sampling method was used and a structured questionnaire was prepared for the collection of data. Enumerators visited house to house to collect the data and questionnaires were filled while the respondents answered the survey. The empirical data collected reflected the demographic and socio-economic status of the respondents. The demographic factors included information with respect to age, gender, educational qualification, income, occupation, caste and aspects to identify the determinants of financial inclusion in the dual districts (Rao, 2007). In addition to the primary data collected, secondary sources of information were gathered Census of India, Economic Survey of Telangana 2016-17 and concerned district statistical hand books were referred to collect the required data. Descriptive statistics and Probit Regression analysis have been used to analyze the data the study.

IV. RESULTS AND DISCUSSION

From the survey of 501 respondents almost 463 had account in the bank (table 1) which constituted almost 92.4% of the total. The frequencies are displayed in table 3.

	Frequency	Percent	Valid Percent	Cumulative Percent
No	38	7.6	7.6	7.6
Yes	463	92.4	92.4	100
Total	501	100	100	

Since almost 93% of the total sample had an account with the bank we looked into another dimension of financial inclusion i.e. access to credit or loan from the banking sector. The frequency table is given in the table 4.

Table 4: Access to Credit

	Frequency	Percent
Friends Money lenders and relatives	231	46.1
Banks	171	34.1
Total	402	80.2
Neither	99	19.8
Total	501	100.0

We find from the table 4 that almost 231 respondents which constituted 57.5% of the sample had taken loan from friends, relatives and money lenders, while only 171 people got loans from the banks which is only 42.5% of the sample. Another 99 respondents did not go for the loan. This implies that people have opened bank accounts only for keeping the deposits or for availing the subsidies from the government and still they do not have access to credit.

Coming to the gender wise and district wise classification of access to credit we find that 109 men from the sample of 251 of Jogulamba district received loans from the banks which constituted 63% of the total men while only 40 women (51%) received credit from banks out of total of 78. It shows that a large number of people still do not have access to credit from the banks (Table 5).

Coming to gender wise percentages we find that percentage of women receiving loans from banks are higher almost 49% while only 37% men received loans from banks. Almost 44% took loans from money lenders, friends and relatives

Table 4:

		Neither	Others	Banks
Men	Count	24	85	64
	Percent	13.90%	49.10%	37.00%
Women	Count	15	25	38
	Percent	19.20%	32.10%	48.70%
Total	Count	39	110	102
	Percent	15.50%	43.80%	40.60%

Table 5

		Neither	Others	Banks
Men	Count	74	34	36
	Percent	64.30%	51.50%	52.20%
Women	Count	41	32	33
	Percent	35.70%	48.50%	47.80%
Total	Count	115	66	69
	Percent	46%	26%	28%

In order to study the determinants of access to credit we fitted Probit regression with loan from bank as dependent variable and gender, education, family income and family occupation as independent variables. The results are summarized in the following table:

Table 7: Experimental Results of Probit Regression

	Credit from Banks both the districts	Credit from Banks Jogulamba district	Credit from Banks Rangareddy district
C	-0.16455 (0.2005)	-0.10892 (0.4326)	-0.68744 (0.6864)
DISTRICT	-0.27479 (0.0649)		
LITERACY	-0.27913 (0.1331)	-0.38919 (0.0591)	0.41728 (0.0823)
SECONDARY_EDUCATION	0.290403 (0.1099)	0.480804 (0.0368)	-0.4553 (0.0899)
TERTIARY_EDUCATION	0.507595 (0.0256)	0.089498 (0.083)	0.44281 (0.059)



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GENDER	-0.0939 (0.4496)	-0.21553 (0.2361)	-0.33904 (0.2411)
McFadden R-squared	0.01472	0.022366	0.058785
LR statistic	9.681492	7.54893	8.18221
Prob(LR statistic)	0.08478	0.109571	0.085127

The table 7 reveals that the values for the districts is significant negatively which implies that in comparison to Jogulamba district the people of Rangareddy district are using less of bank credit. The reason may be in cities since most are having jobs the requirement of credit is lesser compared to the rural areas where most people are in agriculture. Literacy is separately significant in both the districts but in Jogulamba it is negative while in Rangareddy it is positive. Literacy rate is insignificant for the two together. Both Secondary and Tertiary Education is significant and positive implying that with education financial inclusion is improving. Gender is not significant but coefficient is negative for both the districts and also for the total data set.

V. CONCLUSIONS AND POLICY RECOMMENDATIONS

It is concluded from the present research that gender is not significant but the negative coefficient implies that there is some negative impact. Policy makers are required to focus on decisions that reduce the gender gap and take steps to mitigate the gender discrimination. Education has got positive and significant impact on financial inclusion and this is also an important result of the paper for the policy makers to focus. The study found that though bank accounts are opened in the rural areas, keeping them operational requires expansion of financial inclusion facilities through easy access to credit and improvement in educational facilities will go a long way in building a strong financial system in the rural areas. One significant finding of the paper is that almost 93 percent of the total sample had an account with the bank but coming to access to credit it was only 34 percent. Infact, it can be concluded that a large number of people have opened bank accounts for government subsidies but are not using the same. It is a tremendous job for the government to make people financially included.

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AUTHORS PROFILE



Dr. Laila Memdani, is Associate Professor, IBS Hyderabad. She has over 29 years of experience of teaching in various institutes of repute. She has large number of publications in SCOPUS and ABDC Journals and has got presentations in many national and international conferences including IIM A, B and C



Kalaa Chenji, is an Assistant Professor at ICFAI Foundation for Higher Education University (ICFAI Business School, Hyderabad) in the Department of Human Resources. She has a Ph.D from Osmania University, Hyderabad, India. Her current teaching and research interests are women empowerment, gender discrimination, work life balance, entrepreneurship, organizational behavior, psychology, human resource management and leadership. Her articles have appeared in *Asia Journal of Entrepreneurship and Sustainability* and *Asia Journal of Women Studies*. She is a recipient of



Dr. Raghavendra Sode, is an Assistant Professor in the Department of Human Resource Management at IBS-Hyderabad, IFHE University. His Doctorate is in the area of Sustainable Development and he is a recipient of ICSSR Research Fellowship under Ministry of HRD, Government of India. He has worked on a project entitled 'A Study on Socio-Economic conditions of Minorities in India' which was sponsored by the ICSSR. His article has appeared in *Asia Journal of Entrepreneurship and Sustainability*, *Asian Journal of Women's Study*, *Asian Journal of Water, Environment and Pollution*, and *International Journal of Scientific & Engineering Research*. His areas of interest include Sustainable Development, Leadership, Entrepreneurship, and Organizational Behavior.