

Role Of Money Lenders In Khammam District

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ABSTRACT

There is a coexistence of formal and informal finance in underdeveloped credit markets. Formal banks have access to unlimited funds but are unable to control the use of credit. Informal lenders can prevent non-diligent behaviour but often lack the needed capital. The project implies that formal and informal credit can be either complements or substitutes. The project also explains the weak legal institutions increasing the prevalence of informal finance in some markets. the financial market segmentation persists, and the informal interest rates can be highly variable within the same sub-economy.

This study is conducted in khammam district in Telengana state .As money lenders are more prevalent in the specified district ,the study is taken to know the relevance of money lenders .The sample for the study was 150 respondents which included farmers , labors ,driver etc. It is concluded that people still prefer moneylenders because of the in availability of banking services.

Keywords- Banks, Money lenders, Farmers, Interest, Security

INTRODUCTION:

The Reserve Bank of India's argument that new banking licenses are needed to achieve financial inclusion, mainly in rural areas, has new research supporting it, thanks to banks' falling share in rural credit. In India,

historically, money lenders have had a prominent position in the capital and credit markets. They are usually aligned along ethnic lines and are variously called as Shroffs, Seths, Sahukars, Mahajans, Chettisetc in different parts of the country. Money Lenders in India come under control of the Money Lenders Act

promulgated by each of the different states. The Act essentially sets out the appointment of a Registrar-General of Money-Lenders who maintains a Register of Money-lenders in their jurisdiction. The Registrar provides for a license to money lenders to carry out their business, regulates the terms and conditions under which a loan is provided to borrowers, and arbitrates in disputes between money-lenders and borrowers in cases of default or other aspects. Compliance with the Act is rare however, and majority of the money-lenders do not obtain such a license to operate.

LITERATURE REVIEW:

In the words of Andreas Madestam in his paper on Informal Finance: A Theory of Moneylenders (2005) concluded that weak legal institutions explain the coexistence of formal and informal financial sectors in developing credit markets. Informal finance emerges as a response to the formal sector's inability to perfectly enforce its claims in an environment with poor creditor protection. Given this setting, the theory incorporates the possibility of a credit-rationed informal sector to show that entrepreneurial and informal sector assets can be either complements or substitutes. The theory rationalizes the observation that entrepreneurs employ multiple lenders and suggests that an unequal wealth distribution promotes investment in poor societies.

The situation was quite disturbing in Maharashtra, Karnataka, Andhra Pradesh, Kerala and even in the agriculturally most progressive state of Punjab (Reddy et.al, 1998; Vasavu, 1999; Deshpande, 2002; Sainath, 2005; Mishra, 2005). In a study of indebtedness of farmers in Andhra Pradesh it was reported that 70% of the farmer households were dependent on informal sources (mainly money lenders) for their credit needs (Gulab and Reddy, 2007).

OBJECTIVES:

1. To study the factors associative with the relation of money lenders
2. To analyse the role of money lenders in the present context
3. To know the borrowers opinion on money lenders

RESEARCH METHODOLOGY:

1. Sample size : A sample size of 150 is drawn from the khammam district.
2. Sampling technique :The sampling technique adopted was the random sampling technique
3. Sources of Data Collection:
Primary Data : Schedule method and face to face interview
Secondary Data : Journals, Books and Magzines.
4. Data Analysis : Percentage method and Chi – Square Analysis.

LIMITATIONS

1. Duration of the study was for period of 75 days which was not sufficient for a detailed study.
2. The study has been conducted in Khammam only by taking a limited sample of 150 which may not give the true picture of population.
3. The study was confined to farmers, labors because of their availability during the study period.

DATA ANALYSIS:

OPINION	RESPONDENTS	PERCENTAGE
YES	125	83.33%
NO	25	16.77%
TOTAL	150	100%

TABLE 1: RESPONDENTS' OPINION ON OBTAINING LOAN FROM MONEYLENDERS

INTERPRETATION:

From the above analysis it can be concluded that 83.33% of the respondents have taken loan where as 16.77% of the respondents have not taking loan.

REASONS	RESPONDENTS	PERCENTAGE
NO LEGAL FACILITIES	20	13.30%
NO PROVISION OF BANKS	55	36.66%
EASY SANCTION TO OF LOAN	55	36.66%
APPROCHABLE AND EASILY AVAILABLE	20	13.33%
TOTAL	150	100%

TABLE 2: REASONS FOR PREFERENCE OF MONEYLENDERS BY RESPONDENTS

INTERPRETATION:

From the above analysis it can be concluded that 13.3% of the respondents do not prefer moneylenders due to legal formalities, 55% of the respondents are no provision of banks, 55% of the respondents are easy to sanction to loan, 13.33% of the respondents are preferred because there are no legal formalities .

PURPOSE	RESPONDENTS	PERCENTAGE
PRODUCTIVE	80	53.33%
NON PRODUCTIVE	42	28.00%
BOTH	28	18.66%
TOTAL	150	100%

TABLE 3: PURPOSE OF TAKING LOANS FROM MONEY-LENDERS

INTERPRETATION:

From the above analysis it can be concluded that 53.33% of the respondents have loans taken productive purpose ,28% of the respondents have taken non-productive purpose,18.66% of the respondents have taken loan provide to both the purposes.

OPINION	RESPONDENTS	PERCENTAGE
HIGH	115	76.66%
MEDIUM	31	20.66%
LOW	4	2.66%
TOTAL	150	100%

TABLE 4: OPINION ABOUT INTEREST RATES CREDIT BY THE MONEY LENDERS

INTERPRETATION:

From the above analysis it can be concluded that 76.66% of the respondents feel that high interest rate is charged money lenders ,20.66% of the respondents feel that medium

interest charged money lenders,2.66% of the respondents feel that low interest charged money lenders.

CHI-SQUARE ANALYSIS:

CHI-SQUARE TEST - 1

INCOME	EDUCATION PURPOSE	MARRIAGE PURPOSE	HOUSE CONSTRUCTION	TOTAL
Below Rs 10000	22	33	10	65
Rs 10000- Rs 20000	10	10	10	30
Rs 20000- Rs 30000	7	15	10	32
Above Rs 30000	6	12	5	23
TOTAL	45	70	35	150

TABLE 5: ASSOCIATION OF INCOME OF THE RESPONDENTS AND THE PURPOSE FOR WHICH IS TAKEN

HYPOTHESIS:

1. NULL HYPOTHESIS (H0):

There is no significant difference in income level of the respondents and purpose for which loan is taken from money lenders

2. ALTERNATIVE HYPOTHESIS (H1):

There is significant difference in income level of the respondents and purpose for which loan is taken from money lenders

Level of significance =5, Degree of freedom=(c-1)(r-1)=(4-1)(3-1)=6

$$\text{CHI-SQUARE } (\chi^2) = (O-E)^2 / E$$

CALCULATION:

OBSERVED VALUES (O)	EXPECTED VALUES (E)	(O-E)	(O-E) ²	(O-E) ² /E
22	20	02	04	0.20
33	30	03	09	0.3
10	15	-05	25	1.66
10	09	01	01	0.11
10	14	-04	16	1.14
10	07	03	09	1.28
07	10	-03	09	0.9
15	15	00	00	00
12	07	05	25	3.57
09	07	02	04	0.57
09	11	02	04	0.38
05	05	00	00	00
			TOTAL (χ^2)	10.09

CONCLUSION:

Since the calculated value 10.09 is less than the critical value 12.6 at 5% of level of significant and 6 degree of freedom. Therefore accept the null hypothesis. I.e. There is no significant difference in income level of the respondents and purpose for which loan is taken from money lenders

CHI-SQUARE TEST - II

ASSOCIATION BETWEEN OCCUPATION OF THE RESPONDENTS AND THE SECURITY THAT IS OFFERED TO MONEY LENDERS TO OBTAIN WAS MONEY LENDERS

OCCUPATION	LAND	VEHICLE	GOLD	ANY OTHER	TOTAL
FARMER	38	08	34	15	95
LABOUR	06	08	16	10	40
DRIVER	06	09	-	-	15
TOTAL	50	25	50	25	150

The following are the steps for calculation of Chi-square test:

HYPOTHESIS:

1. NULL HYPOTHESIS (H0):

There is no significant difference in the occupation of the respondents and the asset mortgaged with the money lenders.

2. ALTERNATIVE HYPOTHESIS (H1):

There is significant difference in the occupation of the respondents and the asset mortgaged with the money lenders.

OBSERVED VALUES (O)	EXPECTED VALUES (E)	(O-E)	(O-E) ²	(O-E) ² /E
38	32	6	36	1.125
8	16	-8	64	4
34	32	2	4	0.125
15	16	-1	1	0.0625
6	13	-7	49	3.769
8	7	1	1	0.142
16	13	3	9	0.692
10	7	3	9	1.285
6	5	1	1	0.2
9	3	6	36	12
		<u>TOTAL</u> <u>(χ^2)</u>		<u>23.4005</u>

Level of significance =5,

Degree of freedom=(c-1)(r-1)=(4-1)(3-1)=6

CHI-SQUARE (χ^2) = (O-E)² /E

CONCLUSION:

Since the calculated value 23.4005 is less than the critical value 12.6 at 5% of level of significance and 6 degree of freedom. Therefore accept the null hypothesis.i.e. there is no significant difference in the occupation of the respondents and the asset mortgaged with the money lenders

FINDINGS

1. 92% of the respondents are male which indicates male respondents are more aware of money lenders. 45.3% of the respondents belong to the age group of

30-40years, which states that this age group is aware of money lenders.

2. 63.33% % of the respondents are farmer's.43.33 % of the respondents earning below Rs 10000.
3. 57% of the respondents aware about money lenders and 66.66% of the respondents feel that money lenders play dominate role in khammam district.
4. 13.3% of the respondents do not prefer moneylenders due to legal formalities, 55% of the respondents are no provision of banks.
5. 83.33% of the respondents have taken loan where as 16.77% of the respondents have not taking loan.53.33% of the respondents have loans taken productive purpose.
6. 30% of the respondents took loan for education purpose, 46.66% of the respondents are marriage purpose, and 23.33% of the respondents are house construction purpose.
7. 76.66% of the respondents feel that high interest rate is charged money lenders in khammam district.
8. 10% of the respondents interest is charged by the moneylenders,63.33% of the respondents says no facility ,26.66% of the respondents says some time provide to instalment facility
9. 100% of the respondents say that instalment is paid on quarterly basis.

10. It is found that for 68% of the respondents, moneylenders maintains accurate book keeping.
11. 33.33% of the respondent offered land security obtain from money lenders and 16.66% of the respondent offered vehicle security obtain from money lenders
12. 30% of the respondents agree information provide to money lenders and 66.66% of the respondents strongly agree information provide to money lenders.
13. 16.66% of the respondents strongly agree provide hassle free interest to money lenders and 67.33% of the respondents agree to provide hassle free interest money lenders.
14. 66.66% of the respondents strongly agree that there is transparency in maintenance accounts.
15. 16% of the respondents strongly agree take help to mediators and 67% of the respondents agree help to mediators.
16. 33.33% of the respondents agree to providing facility of paying the pending amount before due date and 33.33% respondents neutral provide you facility of paying the pending amount before due date.
17. 66.66% of the respondents agree money lenders grant you credit based on some fixed amount.

18. 84% of the respondents are money lenders pose a threat to bankers. And 84% of the respondents feel to believe the money lenders.
19. It is found that 86.33% of the respondent's money lenders exploit yes. 66.66% of the respondents prefer to money lender

SUGGESTION

1. It's suggested that respondents should shifts towards bank for loan or if any financial crisis rises.
2. From the analysis it can be suggested bank should be reduce legal formalities, maintain a good friendly relationship with customer which encourages public to barrow loans.
3. It can be suggested that the banks should be increase their network and availability of services to remote areas
4. Money lenders should maintain certain limit for lending loans for unproductive work.
5. It can be suggested that money lenders should reduce their interest rates and they should provide instalment facility.
6. Money lenders should maintaining accurate book keeping. They should provide house and vehicle loans.
7. Banking facilities should be extended to rural areas.

8. People should be aware about banking regulation through radio, newspapers and TV.
9. Proper middleman should be employed do help to transfer funds from person to another.

CONCLUSION:

It is concluded that moneylenders are still occupying a pre-dominant role in the district. Though there is existence of financial institutions, there is lack of awareness about the role, importance and functions of banks among the respondents. Most of the people in the district are not educated and fear the legal formalities of the banks. The respondents are aware that they are charged a high rate of interest on their borrowing and also about the non – maintenance of accounts by the moneylenders. But by the time they realise this, it is too late as moneylenders exploit them by charging extra amount as interest amount if they are making pre payments, they try to take over the mortgaged property that the consumers have mortgaged as a security to obtain a loan. Still they are more attracted to the moneylenders because here the formalities are less to take a loan from a moneylender and loan is sanctioned within no time at the same time the moneylenders are easily approachable. Therefore it is concluded that the awareness among the respondents should be increased and the banks should play an initiative in bringing up the awareness

programs so that the moneylenders may no longer exist in the market.

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