Institutional Response to the Problem of Access to Finance: Evidence from the Tribal Economy of Kerala

Kumar, Dr.B.Pradeep

Department of Economics, Government College, Ambalapuzha

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By

Dr.B.PRADEEP KUMAR

Assistant Professor in Economics

Government College, Ambalapuzha, Kerala

The global economy appears to have been driven by the more pronounced hand of what could be called ‘finance’ especially since the onset of neo liberal policies. The gradual make over to the role of finance is perhaps understandable as we have been moving the ladder of exchange economy from that of a moneyless one to a highly monetized framework, as it happens elsewhere in the world. Nevertheless, what is less comprehensible is the overarching role that ‘finance’ has been acquiring to such an extent where the real sector has been relegated to a secondary role. Much startling is the fact that this runs contrary to the general perception that money, in broader form finance, is to act as a server to the real sector. This over predominance that finance has gained is attributed partially to the emphasis being placed on the much touted objective of current macroeconomic policies, that is the perusal of the objective of attaining inclusive and faster economic growth as enshrined in the 11th plan document of Indian Five Year Plan. The logic is that access to finance is the prime driver of growth. Having said this, it is imperative that access to finance must be made available to each and every economic agent and in the event of someone being denied access to finance, it amounts to fueling the problem of inequity in growth thereby leading to severe consequences like economic and social exclusion of certain segments of the society, creating discontentment and paving the way for retrogressive development. Suffice to say this overwhelming necessity of arming everyone with finance has raised questions as to whether access to finance be recognized as a right. Taking inspiration from this, this paper ventures into analyzing the issues in access to finance and presents one filed study which throws light on the role that institutional interventions play in influencing the condition of access to finance among the tribal communities, one of the main outliers of development in Kerala (Shyjan & Sunitha, 2008). The paper is framed as follows. First the question of access to finance is discussed followed by a discussion on information asymmetry in financial market which is an important hurdle to be broken towards making access to finance a right. Next section sheds on the institutional response to this problem and presents a case for demand side institutional interventions like the involvement of Self Help Groups. The penultimate part portrays the findings of a filed survey carried out among the tribes in Kerala. The final section concludes the paper.

The question of Access to Finance

Perhaps in the setting of the above said background that we see elsewhere in the world a development where a new demand is being arisen that access to finance be reckoned as a right like access to food, education and shelter (Hudon, 2007). This argument stems from the plain logic that if we aspire to ensure food and education to the needy and impoverished then it is imperative that we must equip them with the tools to acquire it. The final tool, of course, has to be seen in the need of providing them with finance as we live in a highly monetized economy. Yunus has rightly put it that access to credit alias finance can scale down poverty and hence access to credit should be treated as a right. But the real task that one has to encounter with this is: Can finance be treated on the same lines as we do with other rights? The difficulty in elevating finance to the position of a right arises primarily on account of two sets of reasons, one being purely contextual in the case of all rights while the other is exclusively related to the peculiarity of finance or credit. Looking at the first set of reasons, we see that for a thing to be a right, two prerequisites need to be satisfied. First, all legal hurdles that stand in the way of making the thing to be a right must be wiped out and steps be taken to strike at the barriers which may exclude somebody from enjoying the proposed rights. Secondly, the right requires institutional positive actions for its successful fulfillment. These two prerequisites are common to all rights and seldom warrant much exposition. But the second set of reason needs to be elucidated as they are important in the context of finance or credit.

The market for Finance[i] and Information Asymmetry

To start with, it may be made obvious that the market for finance or credit is unquestionably distinct from other markets especially the market for goods, or services. In the goods market the seller of a commodity does not worry about who the buyer is and what happens to the commodity as long as he gets paid for it. But in the market for finance since the transactions last for long period it is imperative that everyone knows each other which definitely calls for collecting and scrutinizing information on all stakeholders, be it lenders or borrowers. As lenders are a few in numbers relative to borrowers, it is quite easy to get information on them while collecting information on all borrowers appears to be a worrisome task. Therefore, it is likely that the market for finance is marred by what is rightly put as the information asymmetry. Indeed, it is this information asymmetry which ultimately ends up in what is called 'adverse selection' of the borrowers by the lenders. Further, if the borrowers so 'selected' do not abide by the repayment procedures that the lenders or banks in general lay down, it may lead to 'moral hazard', ending up with the building up of non-performing assets of banks, leading to the loss of revenue for banks. Since banks or lenders in general stand for profiteering activities, the problems of 'adverse selection' and 'moral hazard' emanating from the 'information asymmetry may force them to exclude someone from the ambit of their business, and this will definitely result in the exclusion of those who otherwise would have been included.

Institutional Response to Information Asymmetry

In fact literature on institutional response to information asymmetry is scanty and does not appear to have been as authentic as the literature on information asymmetry (Llanto, 1989). One of the much discussed institutional responses is the establishment of credit registers which dates back to 19th century in Latin America (Hayton, 2002). Besides this, institutions have themselves evolved many devices and arrangements to know the background of potential borrowers. Even with the assistance of information technology, softwares have been reportedly developed by banking organizations to gather information on errant borrowers. All these might have helped tackling the problem of information asymmetry to certain extent. But these are nothing more than supply side solutions to the problem of information asymmetry and access to finance as they have been developed at the behest of the interest of financial institutions supplying credit and other financial products. Being supply side solutions, they discriminate against potential borrowers, and it is likely that aggressive execution of such supply side mechanisms would aggravate the problem of financial exclusion.

A much touted demand side solution to the problem of information asymmetry is the emergence of microfinance being promoted with the active involvement of SHGs (Self Help Groups). Different from the supply side solutions to information asymmetry, SHGs reduce the risks for lending through the creation of joint liabilities for the group members. While the supply side solutions shut the door of finance before the borrowers discriminately, this demand side solution takes the complete responsibility of repaying the loan on the shoulders of group members, thus enormously lowering the risks involved in the lending decisions of financial institutions and thereby ameliorating the menace of financial exclusion to a considerable extent. In this background, we present the results of a field study[ii]. First, we shall have a brief look at the methodology of the study.

The methodology

The present study focuses on the extent of financial access among the non-primitive tribe communities in Kerala (Rajasenan, 2009). The study is conducted on a sample of 500 respondents chosen using the Probability Proportionate to Size sampling[iii]. Sample households have been chosen from the Wayanad[iv] district which houses the largest number of tribes in the state of Kerala. Four tribe communities are represented in the sample frame. A measure of the degree of financial access has been developed for this study which has four categories (Connolly, Georgouras, Herm, & Wolfson, 2011): 1. fully financially included. 2. Marginally financially excluded. 3. Severely financially excluded 4. Fully financially excluded. This measure has been developed based on the access to three kinds of financial products: access to a bank account, access to credit and access to insurance. If a household possess all the three kinds of financial products, it will be deemed to have been fully included. If it posses none of the above three, its status would be as being fully financially excluded. If any two out of the three are held, the status would be upgraded to marginally excluded, and if only one amongst the three is possessed, the status would be downgraded to severely excluded. With this brief methodological information, now we proceed to observe the influence of SHG membership on the access to fiancé among the tribes.

SHG Membership and access to finance

Self Help Groups have become popular in recent times and the penetration of them among the tribe households is very visible (Kumar, 2013). The popularity of SHGs among the tribes is evident from the fact that 63 percent of the tribe households under this study are members of

SHGs. SHGs help its members in many ways by pooling together small but regular savings, acting as social collateral against loans availed from banks and other financial institutions thus ensuring timely and speedy repayment of debt. In the arena of banking and financial operations, SHGs have started playing unparallel roles. The social collateral securitization which the SHG attempts to ensure in loans availed of by its members has been proved to be an effective tool in making banks confident to lend more to the small borrowers thereby reducing the non-performing assets of banks. In addition to this, SHGs also supply small size credit to its members, which often help them to resist short-term financial vulnerabilities that they are likely to face.

It is apparent that relatively a large number of tribe households engaged in SHGs are a clear sign of the fact that tribes place good faith in the institutional aspect of SHGs. The question one has to probe into is whether the membership in an SHG helps a tribal household to free it from the problem of financial exclusion. For this, the study has gone to analyze the influence of SHG membership on the degree of financial exclusion, and the results have turned out to be more encouraging. It is obvious that among the members of SHGs close to 30 percent are fully included in the financial system whereas among the non-members a relatively less percent of households are fully included (Table No.1). What is worthy of mention is that among the members of SHG only less than 3 percent of households have been fully excluded while close to 4 percent of non-SHG members have been excluded fully from the financial system. Severely excluded category brings out the importance of SHGs in a better way. Looking at the severely financially excluded it is obvious that more from the non-members of SHG have come under this category. Both the fully included and the only marginally excluded put together comes around more than 60 percent of the SHG members which sounds it clear that SHGs do have influence on the extent of financial access among the tribes. This clearly displays the importance that has been attached to the membership of SHGs in helping the tribes to be freed from the problem of financial exclusion. This obviously reveals that there is significant association between the SHG membership and the degree of financial exclusion as far as the tribes are concerned.

Table No.1 SHG and the Degree of Financial Exclusion

Degree of Financial Exclusion	Are you a member of SHG		
	Yes	no	Total
Fully Included	29.7	26.1	28.4
Marginally Excluded	44.0	33.7	40.2
Severely Excluded	23.4	35.3	27.8
Fully Excluded	2.8	4.9	3.6
Total	100	100	100

Source: Field Survey.

SHGs, as is well known, provide an avenue for the poor and often illiterate women and men to interact with fellow members and participate in productive and financial activities. This interaction and participation are expected to share information on new financial products among the members. Thus the SHG membership often helps people to fill the information gap or the information asymmetry that are likely to be developed when they are not exposed to the outer world especially in the case of tribes. It is well acknowledged that in the case of tribes many social controls and personal inhibitions may prevent them to closely deal with those who are in the knowhow of such modern financial products. In this study, near about 27 percent of tribal households do strongly agree with the view that their membership in SHG has helped them to be aware of financial products whereas only a less than ten percent of them strongly disagree with this opinion (Table No.2). Furthermore, 25 percent of tribe SHG associated tribe households agrees with the view that SHGs have helped them to break the financial barriers. Interestingly, when we put together the strongly agree and agree households an overwhelming percent households share the view that SHGs do play a significant role in making them aware of financial products. Unsurprisingly, only less than ten percent of tribe households strongly disagrees that SHGs have helped them to be aware of the financial products. Barring those with no opinion as their response, if we put strongly disagree and disagree category together, it constitutes only around 23 percent of the total SHG member households. Thus it is evident from this discussion that SHGs membership can play a constructive role in making the people closer to the financial products and thereby financial markets. Indeed, we need to more appreciate this role of SHGs as a demand side institution helping to make finance accessible to the hitherto excluded people from the ambit of the financial framework.

Table No.2 Does SHG membership help to be aware of finance?

SHG helps to be aware of Finance	Percent of Tribe Households
Strongly Agree	27.20
Agree	25.00
No Opinion	24.40
Disagree	13.90
Strongly Disagree	9.50
Total	**100**

Source: Field Survey

Similarly if we look at the association between indebtedness[v] and SHGs membership, we see the influence of SHG in making its members worthy of securing credit from different sources. In the study, it is observed that among indebted more than 70 percent of tribe households are SHG members while among the non indebted their percentage dwindles to close to 50 percent. It implies that SHG members are considered more credit worthy than their non-SHG counterpart, and therefore SHG as a demand driven institutional vehicle can be said to have undisputable role in ensuring access to credit for a weaker community like the tribes.

Are you indebted?	Are you a member of SHG?		Total
	Yes, joined SHG	Not a member	
Yes, indebted	72.1	27.9	100.00
Not indebted	53.2	46.8	100.00

Summing up this on the SHGs and access to finance, it can be safely articulated that membership in SHGs has enormously helped the tribe households to be aware of financial products and institutions which are perhaps hitherto unknown to the world of tribe. Since SHGs are effective, by way of providing ample room for the operation of group dynamism, to provide a platform for the tribes to add to their small savings, and thereby obtaining small sum of credit to tackle temporary income shocks, the historical role that these groups play cannot be over looked while pondering over the ways to effectively include the tribes under the ambit of financial system. This study has also proved unequivocally that there exists significant association between the membership in SHGs and the degree of financial exclusion, pointing towards the inference that in the pursuit of accomplishing meaningful financial inclusion of the marginalized and weaker sections like the tribes the participation of SHGs is inevitable. Perhaps on account of this realization that Self Help Groups have been given unprecedented space across world more particularly in developing nations like Bangladesh and India, in the strategy for attaining a world of inclusive finance which of course is a stepping stone towards the materialization of the goal of inclusive economic growth while pursuing market driven macroeconomic policies.

Concluding Remarks

We took off our discussion narrating the predominance that finance has acquired in the emerging economic and social life. Echoing certain concerns on this trend where the real sector appears to have been neglected, we attempted to raise the issue of access to finance for all and that too as a right because when finance is said to be the driver of growth, it is important that everyone should have access to it, unless it would widen inequalities and derail the dream of what has become a buzzword today, the inclusive growth. Then we endeavored to elucidate an important obstacle before this attempt that is the breaking of information asymmetry in the financial market for which both the supply side and demand side responses have been discussed. To concrete the relative importance of demand side response, some relevant results from a field work have been narrated. What we intend to argue is that if such a demand side response called the movement of SHGs can deliver desirable impacts on the pattern of access to finance among one of the most backward and marginalized societies like the tribes, then it can safely be conceded that this magic if done constructively and positively can make revolutionary changes making access to finance for all a dream come true, thus relieving financial institutions of their fear of being caught into 'moral hazard'.

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[i] Finance is array of instrument by which people manage their resources from time to time, from location to location and from different conditions. It encompasses money, home loan, personal loan, deposits, pension and insurance.
[ii] The study is titled "Financial Exclusion among the Scheduled Tribes: A Study of Wayanad District"
[iii] PPS is a type of Cluster sampling methods which ensures the correct representation of population. Most of the opine surveys are based on this method.
[iv] Wayanad is at the northern part of Kerala bordering with Karnataka and Tamil Nadu. It has the largest concentration of tribe population in the state.
[v] It needs to be mentioned here that indebtedness although it conveys a negative meaning that one has borrowed to meet consumption or investment demand, in this study indebtedness is taken as a sign of one having got access to the credit market, be it formal or informal.

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