

BORROWERS PREFERENCE TOWARDS DAILY COLLECTION FINANCE – A STUDY WITH SPECIAL REFERENCE TO KURALKUTTAI VILLAGE

Dr.(Mrs.)N. LAKSHMI

SriG.V.G.Visalakshi College for Women,
Affiliated to Bharathiyar University,Udumalpet 642128.

R.PRADEEPA,

SriG.V.G.Visalakshi College for Women,
Affiliated to Bharathiyar University,Udumalpet 642128.

ABSTRACT

Daily collection finance unless registered will be an unauthorized source of financing. The daily collection finance is depended upon by poor people prone to some drawbacks in formal financial system. The daily collection finance however is not a risk free finance offered to poor. The present work has been carried out with the objective of finding out the reasons for preferring daily collection finance as a mode of borrowing, factors influencing selection of daily collection financiers and level of satisfaction of borrowers towards daily collection finance. The study on borrower's preference towards daily collection finance is based on the data provided by the respondents through a structured questionnaire covering preference, factors influencing selection of daily collection financiers and level of satisfaction of borrowers. The study observes individual level awareness, opinion, satisfaction and attitude on daily collection finance. All the borrowers belonging to the Kuralkuttai village on the basis of daily collection finance represented the sampling frame. A sample of 125 respondents was approached for the study adopting random sampling technique. The daily collection finance is not a risk free finance offered to poor. The risks involved relates to payment of high interest rate compared to the interest rate charged by the formal financial system. The benefits and convenience of daily collection finance in terms of need for collaterals, easy access, simplified procedural formalities and availability in short notice were attractive aspects for borrowers particularly in the rural environment. Borrowers prefer daily collection finance due to tolerable risk, simplified procedure, nearness in the location of lender and convenience in repayment. The government can take efforts to regulate interest rate applicable to informal sector. Petty shop owners and farmers highly prefer to depend on daily collection finance. Daily collection finance was highly preferred to meet short term needs particularly unproductivity purposes.

KEY WORDS: *daily collection finance, borrowers satisfaction, Kanthuvadi, Hourly vadi*

Daily collection finance charges interest on a daily basis. Money lenders need to register themselves with the local tahsildars office. Financiers operating by setting up business get registered compared to financiers operating from houses. Money lenders are very popular in rural areas due to the difficulties in getting financial assistance from banks in terms of procedure, strict guidelines, need for collateral security and expectations for sound financial background. The poor have no choice but to depend on the money lenders losing a substantial portion of earnings and remain in debt in the long run.

Of the varied types of financial assistance, daily collection finance is very popular among borrowers in terms of suitability in repayment procedure. As in any other business, lenders ensure and take care of the prompt repayment of the loan by way of regular collection efforts and by way of lending on personal familiarity bases. The type of borrower under daily collection finance includes small merchants, fruit sellers, farmer, and petty shop owners to meet short term / daily needs. Daily collection finance is popular even among households to take care of short term requirements at times of emergency / functions / festivals.

STATEMENT OF THE PROBLEM

Daily collection finance unless registered will be an unauthorized source of financing. The daily collection finance is depended upon by poor people prone to some drawbacks in formal financial system. The daily collection finance however is not a risk free finance offered to poor. The risks involved relates to payment of high interest rate compared to the rate charged by the formal financial system. However, the benefits and convenience of daily collection finance in terms of lower importance for collaterals, easy access, simplified procedural formalities and availability in short notice were attracting borrowers particularly in the rural environment. Hence, the researcher has made an attempt to study the attitude and satisfaction of borrowers under daily collection finance from Kuralkuttai village.

OBJECTIVES OF THE STUDY

The objectives of the study are as follows:

- To identify the reasons for preferring daily collection finance as a mode of borrowing.
- To study the factors influencing selection of daily collection financiers.
- To identify the borrowers level of satisfaction towards daily collection finance.

SCOPE OF THE STUDY

The study on borrower's preference towards daily collection finance is based on the data provided by the respondents through a structured questionnaire covering preference, factors influencing selection of daily collection financiers and level of satisfaction of borrowers. The study observes individual level awareness, opinion, satisfaction and attitude on daily collection finance.

METHODOLOGY

The study observes individual level awareness, opinion, satisfaction and attitude on daily collection finance. The primary data required for the study has been collected by way of well-structured questionnaire finalised after a pilot study. Borrowers of daily collection finance constitute the universe of the study. All the borrowers belonging to the Kuralkuttaivillage on the basis of daily collection finance represented the sampling frame. A sample of 125 respondents was approached for the study adopting random sampling technique. For the purpose of analysis, the data were further processed by using statistical tools like percentage analysis and rank analysis.

REVIEW OF LITERATURE

The following studies relating to loan borrower's satisfaction enabled to identify the research gap to identify the researchable questions:

Lakshmi N and Uma A (1991) opined that most of the investors were earning below Rs.50,000 annually. The proportion of annual savings to annual income for most of the investors was one-fifth. Total investments was less than Rs.5,00,000 irrespective of the size of savings. The experience in the field of investments was related to a great extent with the age of the respondents. More than 50% of the respondents had been investing for a period less than 10 years. Educational level does not have any impact on investment preference. Majority of the respondents had invested in National Savings Certificates for a value less than Rs.20,000. **Maria Sagrario Floro, Debraj Ray's (1997)** study determines the vertical links between formal and informal financial institutions. The formal sectors are a major source of funds for informal lenders, particularly involved in trading operations. The two sectors are complementary, banks cater to larger, collateralized borrowers while informal lenders support small borrowers. **Lakshmi N and Bala Sathya Priya R (2004)** opined that the house loan borrowers were satisfied with regard to information, services, interest rate, and charges. Since the housing finance industry has a huge potential to grow, it is advisable to develop a better customer relationship management. **Lakshmi N and Aunsurya R (2007)** studied the financial performance of non-banking finance company. The short term financial position of the company was sound but the long term financial position of the company has to be improved so as to improve the solvency position of the company. **Srinivas Gumparthy S S N (2010)** identified that the amount of risk assessed and experienced by customers were identical. Customers with high scores and low risk were prompt payers. **Ashraf A, Noor S I (2010)** analysis on effectiveness of MFIS in Bangladesh adopting convenience sampling method has identified that satisfaction is significantly dependent on membership criteria, cost of credit, household income level and religious restriction. **Vikkraman P's (2011)** study reveal the financial management practices of entrepreneurs in informal sector plays a significant role in terms of creation of employment opportunities and poverty alleviation. A sizeable portion of Indian entrepreneurs are not getting finance from the formal financial institution and so depend on informal sources like money lenders, friends and relatives.

Lakshmi N and Manjuladevi N (2011) work reveals that, a significant part of the respondent covered had self-motivation to save out of own income. Respondents were planning and saving more than 10% of monthly income before spending. More than half of the respondents were satisfied with the investment decision, amount

and method of saving and investment. Safety of investment, secured future and liquidity of investment determine the choice of investment. Safety of investment was the main criteria of investment selection. Self-motivation was the main force for investment. **ArulParamanandam, Packirisamy (2012)** focus on performance of Indian microfinance institutions among 300 respondents reveal that MFIs have become an important vehicle for promoting micro enterprise to build up financial discipline and educate borrowers on repayment requirements. **Rabia Saleem's (2012)** work reveals that borrowers behaviour of an efficient rural credit market is a precondition for promoting agriculture in Punjab. The estimated demand for borrowing is based on the sources of loan, size of land holding, interest rate, education level, previous year's income and value of farm implements. **Lakshmi N and Kalaiarasi N (2013)** opined that, loan processing charges, rate of interest, time taken for sanctioning loan were the major factors influencing the level of satisfaction towards educational loan in Udumalpet Taluk. Respondents were very much satisfied with the margin and behaviour of loan sanctioning authority. The need for higher education was the main factor that motivated students to go for educational loan. Three-fourth of the respondents faced difficulties in providing documents. **Alagarsamy, Wilson (2013)** work concludes that, the bankers made customers comfortable and happy to achieve targets. **Rajalakshmi, Pappeswari, Venkates (2013)** examines housing loan borrowers attitude towards home loan products to meet the needs of customers. The home loan schemes marketed by private sector bank ensured higher level of satisfaction. **Douglas Musiega (2014)** focus on borrower characteristics on loan repayment in commercial banks among 105 respondents adopting random sampling method revealed a significant positive correlation between borrowers behaviour during credit accessibility or after acquiring credit from the bank and had a lot of effect on determining the relationship formed during the lending process in terms of effectiveness and efficiency of loan repayment.

Berekela Abraham Diro, Suresh Vadde (2014) determines the effects of microloans on the livelihood of beneficiaries. Microloan programs reduce poverty by improving socio-economic situation of low income and poor people based on voluntary participation. The livelihood status of the people who availed the loan facility has improved in the long run. **Arpita Sharma's (2014)** study revealed that, agriculture financing by co-operative credit societies have been important sources of credit to farmers. Farming was carried out in a traditional way as the credit needs of the farmers were limited and was met by the money lenders, relatives, and friends and to some extent by Taccavi loans from government.

Baby's (2014) study analysed the sources of rural credit and classified agriculture financing into non-institutional and institutional support. Institutions found it challenging to provide cost-effective and affordable service to small farmers, hence most of the small farmers' preferred non-institutional finance. **Amiya Kumar Mohapatra (2014)** viewed that agricultural co-operative credit societies have been played a vital role in meeting the credit needs of rural farmers and artisan protecting from the clutches of money lenders. The legal entities provided credit and credit linked facilities to the small and marginal farmers at a relatively lower cost with minimum formalities. **Abhijit Sarkar's (2014)** study revealed that most important pre-request for significant progress in the agricultural sector was the availability of credit through institutional or non-institutional sources leading to higher investment in agricultural. Cooperatives, Scheduled commercial banks and Regional Rural Banks advanced credit for the development of agricultural and allied sectors. **Suresh (2015)** study on impact of micro finance on SHGs in Karnataka concludes that, there is a vast scope for micro entrepreneurial activities in rural as well as urban areas. Women share in rural employment has increased significantly. More and more SHGs have to be developed to support the neglected groups leading to balanced socio-economic development of the country.

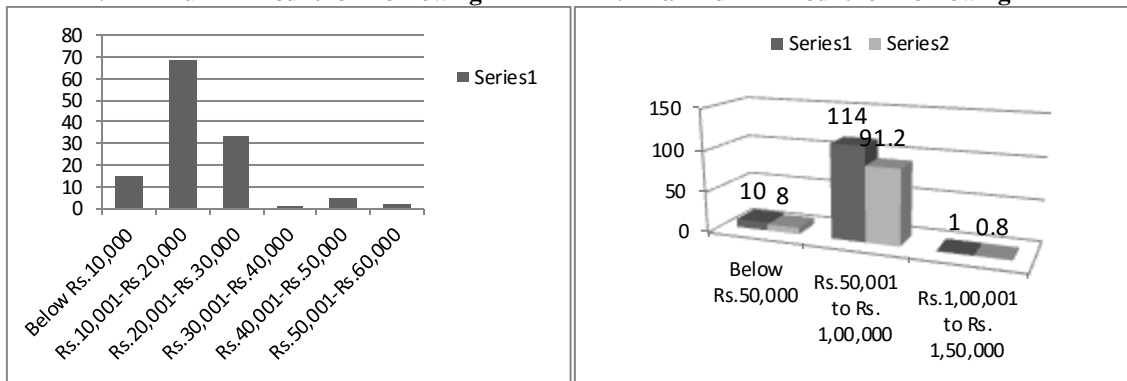
FINDINGS AND INTERPRETATION

Analysis of the data obtained revealed that, out of 125 borrowers, 63% were in the age group of 21 to 40 years, 35% belonged to the age group of 41 to 60 years and the remaining 2% were above 60 years. 77% of the borrowers were male. 62% had education upto secondary level. 96% were married. 99% were from nuclear family. 70% were businessmen, 26% were agriculturist, 66% were in the monthly income group of Rs.5,001 to Rs.20,000, 32% of the borrowers were earning less than Rs.5,000, only 2% were from the income group of Rs.20,001 to Rs.40,000.

Borrowers highly preferred daily collection finance (569), the second preference was for Kandhuvatti (405), thirdly Meter vatti (250) and finally Hourly vatti (125) system of financing. 46% collected information from neighbours, 26% of the borrowers received information through friends, 25% identified through relatives and the remaining 2% had direct contact with financiers. 76% borrowed from daily collection financiers for unproductive activity (like festival celebrations, organisefunctions) while only 24% for productive activities (like purchase of stock for business, and agricultural investment). 55% borrowed a minimum amount in the range of Rs.10,001-Rs.20,000 as shown in the Exhibit 1.

91% of the respondents maximum borrowing was between Rs.50,001- Rs.1,00,000 as shown in the exhibit 2.

EXHIBIT-1: Minimum Amount of Borrowing EXHIBIT-2: Maximum Amount of Borrowing



49% of the borrowals under daily collection finance was not frequent. 99% of the borrowers repaid on a daily basis. 97% of the borrowers repaid below Rs. 500, 2% repaid between Rs. 1,001 to Rs. 1,500. 91% of the respondents were influenced by quick access to finance, 90% of the borrowers were influenced by the nearness to the residence, and 76% were attracted by repayment method as shown in the Table 1.

Table 1: Factors Influencing Preference for Daily Collection Finance

Factors	Number of Responses	Percentage of Responses
Formalities/Procedure	70	56.00
Convenient instalment	43	34.40
Quick access	114	91.20
Repayment method	95	76.00
Near to the residence	113	90.40
Better customer services	20	16.00

67% of the borrowers felt the risk to be tolerable, 26% viewed the risk as low and the balance 6% faced very low risk in daily collection finance. 74% of the borrowers did not find any need for clarification, 15% of the borrowers doubts were clarified, 10% were not clarified and the balance 1% of the respondent's doubts were fully clarified. 73% of the borrowers under daily collection finance borrowed based on trust while only 27% borrowed based on security. Borrowers were highly satisfied with the location of lender (144), followed by collection timing (141), loan procedure (133), repayment period (129), terms/condition (125) and interest rate (122). 47% of the respondent were neutral with the level of awareness on legality of daily collection finance, 42% were not aware about the legality of daily collection finance and the balance 11% of the borrowers were aware about the illegal status of daily collection finance. Respondents depended on daily collection for the reasons shown in table 2. 71% of the borrowers expected on increase in installment days, 29% expected reduced interest rates.

Table 2: Reasons for Depending on Daily Collection Finance

Dependence	Number of Respondents	Percentage of Respondents
Situation	14	35.00
Quick access	8	20.00
Ability to get loan easily	18	45.00
Total	40	100.00

CONCLUSION

The daily collection finance is not a risk free finance offered to poor. The risks involved relates to payment of high interest rate compared to the interest rate charged by the formal financial system. The benefits and convenience of daily collection finance in terms of need for collaterals, easy access, simplified procedural formalities and availability in short notice were attractive aspects for borrowers particularly in the rural environment. Borrowers preferred daily collection finance due to tolerable risk, simplified procedure, nearness in the location of lender and convenience in repayment. The government can take efforts to regulate interest rate applicable to informal sector. Petty shop owners and farmers highly prefer to depend on daily collection finance. Daily collection finance was highly preferred to meet short term needs particularly unproductivity purposes.

SCOPE FOR FURTHER STUDY

The present study focused on borrowers preference towards daily collection finance, hence future studies could be carried out relating to the following topics:

- Comparative Analysis of Formal and un-formal sources of finance.
- A Study on Relationship between Borrowers and Local Money Lenders.
- Comparative Analysis of Borrowers Attitudes towards Daily Collection Finance in rural and urban areas.

LIMITATIONS OF THE STUDY

The study is subject to the following limitations:

- The result of the study is based on the opinion of the respondents drawn from Kuralkuttai village.
- Since the study is based on the primary data collected through questionnaire. The results of the study are subject to all the limitations of the primary data.
- Only 125 respondents were considered as the sample for the study, hence the findings might undergo changes when the sample size is increased or when the research work is carried out in other parts of the country or in relation to other forms of borrowings.

BIBLIOGRAPHY

- Lakshmi N, Uma A "Investment Pattern of Individual Investors", (1991).
- Maria SagrarioFloro,debraj ray's, "Vertical links between Formal and informal Financial institutions", Review of Development Economics, vol.1 (1), (1997), PP. 34-56.
- Lakshmi N, BalaSathyapriya R "satisfaction of house loan borrowers", (2004).
- Srinivas Gumparthi S S N, "Risk Assessment model for Assessing NBFC'S Customers", International journal of trade, Economics and finance, vol.1, No.1, (2010).
- Lakshmi N, Anusurya R " financial performance of non-banking finance companies", (2007).
- Ashraf A, Noor S I, "Microfinance Customer Experience Towards the Effectiveness of MFIs in Bangladesh", ABAC journal, vol.30 ,No.2, (2010) PP.12-25.
- Vikkraman.P's "Financial Management Practices of Entrepreneurs in informal sector". Indian journal of Applied Research, vol.1, issue.3, Dec2011.
- Lakshmi N, Manjuladevi N " Savings and Investment pattern of Employed Women", (2011).
- Arul Paramanandam, Packirisamy "Performance of Indian Microfinance institutions in relation to Indigenous Money lenders", South Asian Academic Research Journal, vol.2 ,No.15, (2012).
- Rabiasaleem's, "Borrowing behavior institutional credit in Punjab" International journal of Academic research in economics and management sciences, vol.1 (5), (2012).
- AlagarsamyK, Wilson S "A study on customer Behavior towards Banking Services with Special Reference to public Sector Banks in SivagangaiDist", Asia pacific journal of marketing and management review, vol.2(2), (2013).
- Lakshmi N, Kalaiarasi N "Satisfaction of Educational Loan ", (2013).
- Rajalakshimi S, PappeswariC, Venkatesh A, "Housing Loan borrowers of public and private sector Banks in thoothukudi Area", Research journal's journal of commerce, vol.1 (2), (2013).
- Douglas Muriega, "A Study on impact of borrower character on loan repayment in Commercial banks within Kakamega town", International journal of art/Humanity Science, vol.1, issue.2. (2014).
- Bekele Abraham Dire, SureshVadde "Effects of Microloans on the Livelihood of Beneficiaries", India journal of finance, (2014).

- Arpita Sharma's. "Agriculture financing", Kurukshetra, A Journal on rural development, vol.63, no.0.1, (2014).
- Baby's, "Source of rural credit", Kurukshetra, A Journal on rural development, vol.63, no.0.1, (2014).
- Aniya kumarMohapatra, "role of primary agricultural credit societies (PACS) as appraisal", Kurukshetra, A Journal on rural development, vol.63, no.0.1, (2014).
- Abhijit sarkar, "agricultural credit role of institutional sources", Kurukshetra, A Journal on rural development, vol.63, no.0.1, (2014).
- Suresh a K.P "Impact of Micro finance on SHGs in Karnataka", Southern economist, vol.53, No.1, (2015).
- Lakshmi N, Manjuladevi N " Savings and Investment pattern of Employed Women", (2011).

