

# Exclusion of Tribes from the Formal Credit System: A Study of Non-Primitive Tribes in Wayanad District

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## Abstract

This study sheds light on the extent of indebtedness among the Scheduled Tribe Communities in the Wayanad District of Kerala. Four tribe communities viz. Paniya, Adiya, Kuruma and Kurichya have been selected for the study, and it has been found that indebtedness to informal sources of credit is quite high among the Adiya and Paniya tribes, two backward tribe communities, while indebtedness to formal sources of credit is high among the Kuruma and Kurichyua Tribes.

**Keywords:** *Indebtedness, Formal Sources, Informal Sources, Non-Primitive Tribes, Nationalize Banks, Relational Capital*

## 1. Introduction

Access to credit is imperative to manage resources to smoothen the effects of different kinds of shocks in life especially in the case of low-income and socially disadvantaged communities like the tribes. It is obvious that the low income people generally require small sized credit for short period (Kumar, 2013). The real question is how to address this peculiar credit need of the tribal folk as the formal banking institutions are reluctant to offer short-term credit on account of high operational costs and consequently low profit levels. If tribes get access to formal credit providers, which normally supply credit at reasonable interest rates, then it would help them smoothen the occasional short fall in their income, providing much relief to this people. Greater the access to the formal credit modes, greater will be the extent of their inclusion into the financial system. Against this background the present study intends to look into the extent credit exclusion of tribes from the formal credit suppliers.

## 2. Tribes under the Present study

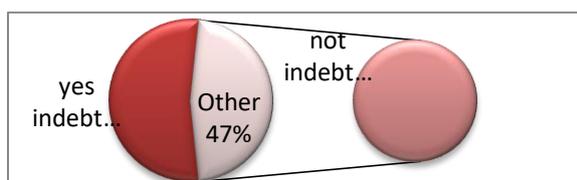
Thirty-five communities have been listed in the Scheduled Tribes list of the Kerala State according to Census Report, 2001 (Census, 2011). Evidently, Paniya is the largest community in Wayanad district. The present study is on four selected tribe communities of the Wayanad district. Studies conducted on the lives of tribes in Wayanad have unquestionably put forth the argument that not all tribes are alike in the development that they have attained over years in respect of many attributes like landownership, employment and educational attainment, and more precisely the level of their human development. Paniyars and Adiyars are the two top listed segments of least advanced tribes whereas the Kurichiars and Kurumas come under the head 'most advanced' (Kumar, 2013). In this study, too, we take the respective tribes as our samples as they are the leading tribes in each category because of their virtue of being the largest in terms of the population.

## 3. Data Collection and Survey

The present study makes use of the survey method applying a pre-structured and pre-tested interview schedule for the collection of primary data from the respondents (the tribes). The *face-to-face interview technique* was used in the data collection process. This is an effective method in the sense that since the same set of questions is put to each respondent it is easy to arrive at inferences and generalization based on the data analysis. The interview schedule was pre-tested with a small sample before the actual survey began. This study has collected information from 356 households belonging to Paniya, Adiya, Kurichya and Kuruma Tribes.

## 4. Extent of Credit Exclusion

Now, we first put forth a pertinent question as to what extent tribes have been excluded from the credit market. For this, as mentioned in the preceding section we followed the credit exclusion yardstick adopted by the NSSO, which measures whether a particular household has been indebted or not, given the assumption that every household desperately require credit.



Source: Field Survey

Figure 1 Extent of Credit Exclusion

The results that we have got following this method are in fact very startling. Only 53 percent of tribe households have been indebted contrary to the 95 percent included in the banking system by virtue of having opened an account with the formal banks (Figure No.1). This apparently shows the extent of credit exclusion among the tribe households. Viewing it from the definitional point that NSSO usually follows in respect of measuring financial exclusion, one would have to be contented with the fact that only 53 percent of the tribe households have been financially included, of which some of them are not even included in the formal system as they have not been indebted to the formal institutions.

## 5. Exclusion from the Formal Credit Suppliers

Now we proceed to discuss the question of credit exclusion of tribes from the formal financial institutions. We know that Tribes are by nature averse to have credit from formal sources as the formality involved in application procedures to seek credit may not appear to be as digestible to the believes of tribes as it is to the mainstream population. In our study, we have taken care in examining the extent of exclusion of tribes from the formal credit market.

Table 1 Extent of Exclusion from the Formal Credit Suppliers

| Status                              | Frequency  | Percent    |
|-------------------------------------|------------|------------|
| Excluded From the Formal Credit     | 397        | 79.4       |
| Not Excluded from the Formal Credit | 103        | 20.6       |
| <b>Total</b>                        | <b>500</b> | <b>100</b> |

Source: Field Survey

The results are worth mentioning. As the table reveals (Table No.1), around 79 per cent of tribes willingly or unwillingly are denied access to credit

from the formal credit providers. This may lead one to arrive at a wrong inference that formal credit institutions are mostly unfriendly towards supplying credit to the tribes, which is, however, incorrect. To elucidate more on this, here we need to borrow two concepts, which have been brilliantly come out of the conceptual clarity of Prof. Amarty Sen; they are Active and Passive Exclusion (Sen, 2000). The meaning of these two terms has already been elaborated on in a previous section. Yet for a brief recollection, we may touch upon these concepts. Active exclusion, as the name connotes, implies exclusion by the system, here in this study the formal Credit system, whereas passive exclusion happens when those expected to seek credit decide not to seek credit from the system, and thus voluntarily excluded from the formal credit system. In the latter, it is altogether incorrect to find fault with the system offering credit to the tribes.

Table 2 Denial of Credit by the Formal Credit Institutions

| Whether denied credit by formal players        | Tribal Communities |            |            |            | Total      |
|--|--------------------|------------|------------|------------|------------|
|  | Kurichya           | Kuruma     | Paniya     | Adiya      |            |
| Yes (Active Credit Exclusion)                  | 26.90              | 15.80      | 10.00      | 18.60      | 15.40      |
| Not Denied                                     | 25.00              | 50.00      | 14.20      | 3.40       | 20.60      |
| Never Sought Credit (Passive Credit Exclusion) | 48.10              | 34.20      | 75.90      | 78.00      | 64.00      |
| <b>Total</b>                                   | <b>100</b>         | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b> |

Source: Field Survey. Chi-Square Test P value is .000 (Significant)

As is evident from the table (Table No.1) Active Credit Exclusion (the 'Yes Category') denotes those who have been denied credit by the suppliers citing different reasons like lack of sufficient collateral or the non-existence of scheme. 'Not denied' are those who have been given credit by the institutions and are akin to those who have been indebted to the formal sources of finance. The last category titled 'Never Sought Credit' are those who have chosen themselves to remain out of the credit supplied by the formal system due to various reasons which are further discussed in this study. It is quite interesting to see that most of the tribes are excluded from the formal credit market not because of any type of active denial by the formal credit institutions but by the decision of the tribes to keep aloof from the ambit of the formal credit. Nearly 36 percent of tribes appear to have sought credit from the formal system whereas only around 16 percent have been denied credit actively by the formal credit suppliers. It appears that 64 percent of tribes have never sought credit from the formal source, which makes them 'self excluded' (Kempson & Whyley, 1999). Now it is pertinent to look at the reasons for not seeking credit from the formal sources despite the fact that formal system offers credit at reasonable rate of interest and the issue of over exploitation at the hands of banks is low compared to the rough behavior of moneylenders, who controls the chunk of informal credit.

## 6. Reasons for not seeking formal credit

From the preceding discussion pertaining to the denial of credit by the formal sources to the tribes, it is evident that 64 percent of tribes have not sought any form of credit from the formal sources. In this section, we attempt to probe into the reasons, which force tribes not to approach formal credit sources for borrowings despite they offer credit seemingly at affordable interest rate.

The table (Table No.3) contains tribe wise data pertaining to the reasons for not seeking formal credit by the tribe households in the study area. A quick look at the total figures clearly provides us the fact that majority of tribe households (around 37 percent) have cited fear of refusal if they seek credit as the most prominent reason for not seeking credit from the formal sources viz. banks and cooperatives. Around 24 percent have highlighted lack of collateral as the factor, which deters them from seeking formal credit. Interest rate appears to have played insignificant role in making tribe households averse to seeking formal credit. The tribe wise look at the reasons for not seeking formal credit would provide us more insight into the picture. ‘psychological barriers’, which create a feeling in the minds of low-income people that financial services are not meant for them (Kempson & Whyley, 1999), have been regarded as an important factor preventing people from seeking formal credit. In our study, 10.3 percent of tribe households have not sought formal credit because of psychological barriers. Lack of collateral and the fear of refusal are cited to be the main reasons for not seeking formal credit by both the Kurichya and Kuruma tribes. The same is almost the case with other two backward tribes viz. Adiya and Paniya tribes.

Table 3 Reasons for not seeking formal credit

| Reasons for not seeking formal credit | Tribal Communities |        |        |       | Total |
|---------------------------------------|--------------------|--------|--------|-------|-------|
|                                       | Kurichya           | Kuruma | Paniya | Adiya |       |
| No need is felt                       | 12.00              | 3.80   | 9.60   | 8.70  | 9.40  |
| Lack of Collateral                    | 34.00              | 26.90  | 22.20  | 15.20 | 23.40 |
| Interest Rate                         | 6.00               | 11.50  | 10.60  | 6.50  | 9.40  |
| Fear of being debt trapped            | 14.00              | 11.50  | 8.60   | 15.20 | 10.60 |
| Psychological Pressure                | 14.00              | 7.70   | 8.60   | 15.20 | 10.30 |
| Fear it would be refused              | 20.00              | 38.50  | 40.40  | 39.10 | 36.90 |
| Total                                 | 100                | 100    | 100    | 100   | 100   |

Source: Field Survey

Having observed the factors that force tribes not to seek credit from formal sources, now it is worthwhile to examine the reasons for the rejection of credit by the formal sources. In the following section, we attempt to examine this aspect of our study.

## 7. Reasons for the Rejection of Credit by the Formal Credit Suppliers

Looking into the reasons for the rejection of credit, the study has found that the lack of adequate security or collateral is attributed to the denial of credit to half of the tribal households seeking credit from formal sources (Table No.4). It often happens that banks, if not interested to entertain the credit seekers, may cite quick excuses as the scheme under which credit is sought has ceased to exist or the purpose or the project to which the credit is meant cannot be considered as viable. In our study, we find that approximately 14 percent of tribes report that banks have denied credit to them citing the reason that the scheme is not in existence. Evidently, more households from the Kuruma tribe have been denied credit in the name of non-existence of the scheme.

Table 4 Reasons for the Rejection of Credit by Formal Credit Suppliers

| Reasons for the Rejection of Credit | Tribal Communities |        |        |       | Total |
|-------------------------------------|--------------------|--------|--------|-------|-------|
|                                     | Kurichya           | Kuruma | Paniya | Adiya |       |
| non-existence of the scheme         | 10.7               | 33.30  | 11.50  | 9.10  | 14.30 |
| non-viability of the project        | 7.10               | 16.70  | 23.10  | 18.20 | 15.60 |
| inadequate security offered         | 64.30              | 41.70  | 46.20  | 45.5  | 51.90 |
| bad credit history                  | 17.90              | 8.30   | 19.20  | 27.3  | 18.2  |
| Total                               | 100                | 100    | 100    | 100   | 100   |

Source: Field Survey

Another reason for the rejection of credit is the bad credit history. In this study, however, this has not been cited as a prominent reason for the rejection of credit. It is interesting to note that in the case of Kurichya tribe either non-existence of the scheme or the non-viability of the project has not been cited as a main reason for the rejection of credit by the formal institutions. Interestingly, bad credit history has also played a significant role in denying credit to the households belonging to the Adiya tribe. It must be understood that since tribes are generally ignorant about these things, it is easy for bank officials to deny credit-citing reasons, which are not digestible to the credit seekers. Tribes generally do not make repeated attempts to meet their credit needs from the formal sources. Once the bank officials tell them about the difficulty in processing their loan requests, they stop all endeavours in getting the credit sanctioned, and start searching for informal sources. This is the plight of the people uninformed of banking activities. This calls for making tribes aware

of their rights to avail of banking facilities especially in the case of credit.

## 8. Conclusion

As is evident from this study, credit exclusion of Tribes from the formal institutions appears to be very high, and this undoubtedly throws serious questions at the celebrated success of financial inclusion strategies in India. The study shows that 80 per cent of tribes do not access credit from the formal financial institutions. Passive Credit exclusion is rampant among the tribes because of socio economic reasons. Majority of tribes do not attempt to seek credit from the formal institutions as they fear that their credit demand would be summarily rejected by the formal institutions. This calls for making formal financial institutions friendlier towards the credit

needs of the socially and economically disadvantaged sections like the tribes.

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