

Access and Participation of Rural Households to the Credit Markets in Meghalaya

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ABSTRACT

Low credit participation rate and inadequate access to credit facilities is a common occurrence in developing economies. The study examines participation and access to credit in the rural households of Meghalaya using primary data collected in 2016. A total of 401 households were selected from two districts through multistage sampling technique. The paper explores the subject from two perspectives: one relating to factors associated with credit participation and the other relating to factors associated with access to credit. Participation in the rural credit markets is found to be associated with level of education of the spouse, main occupation of the household and income level of households. The study finds that credit is mostly demanded from banks with no evidence of money lenders operating in the surveyed areas. The average amount of loans borrowed from formal sources is found to be significantly larger than loans from informal sources. Although bank loans are of shorter duration, the processing time is actually longer than loans borrowed from informal sources. Uses of loans are found to be associated with sources of loans and loan size.

Keywords: Credit, participation, access, sources of loans, uses of loans

In India, right from the mid-1950s, the government has been making concerted efforts to expand and improve credit delivery to the rural sector. These efforts have led to a diminishing role of money lenders as the main source of credit for rural households, a position that has now been taken over by the formal banking institutions. The change in the pattern and organization of the rural credit markets in the country and the consequent changes in the pattern of indebtedness has been reported in a number of studies at the all-India as well as at the state level based on data reported by the All India Debt and Investment Survey (AIDIS) and supplemented by field studies (Rao and Tripathi, 2001; Bhaumik and Rahim, 2004; Narayanamoorthy and Kalamkar, 2005; Basu, 2006). However, most of these studies do not include the small hilly states in north east India. There are only a few studies pertaining to the rural credit markets in

the tribal dominated areas of the region which have highlighted the rate of indebtedness of rural households and the minimal role of moneylenders in the provisioning of non-institutional credit (Purkayastha, 2001; Umdor, 2008).

Meghalaya is a small hilly state in north east India with an area of approximately 22500 sq. kms and a population of about 30 lakh (2011 Census). The tribal population account for 86 per cent of the state's population with 80 per cent residing in rural areas. The present study examines the rural credit market in the state in terms of credit participation and access. Participation, also defined as demand for credit, is the willingness of a household to take part in the credit market. Access to credit or the supply of credit, implies the ability of the household to gain access to loans from institutional and non-institutional sources. In this regard, access to credit

is understood to have a positive impact on the well being, income and standard of living of its beneficiaries (Quisumbing, 2003; Elias *et al.*, 2015).

Sources of credit have been identified as formal and informal. While formal sources include banks and cooperative societies, informal credit sources comprises of moneylenders, employers, friends, relatives, self-help groups etc., (Kaino, 2007; Gockel, 2009). Studies revealed that informal sources have been the preferred choice for rural households because of their simpler approach and less cost of transaction (Kaisirye, 2007). Demand for credit by rural households is broadly categorized as production and consumption loans with the former constituting loans for making improvements in agriculture, purchasing seeds and fertilizers as well as for other long term capital investments, while the latter are loans taken for meeting various needs ranging from medical to other personal purposes (Sriram and Parhi, 2006; Akram *et al.*, 2008). Formal institutions usually lend for production related activities while informal institutions are the main source of loans for consumption activities (Diagne *et al.*, 2000; Pal 2002).

In this paper we examine the pattern of credit participation and the behavior of rural households in borrowing and usage of cash credit in Meghalaya. The study has been organized into four sections including Section I which contains the introduction. Section II explains the sampling technique used and on data collection. Section III analyze the characteristics of credit participation and access and usage of credit by rural households in the state. Section IV provides summary of the results obtained in the study.

DATABASE AND METHODOLOGY

The primary survey conducted for the study is carried through a multistage sampling technique. Since the study focuses on rural households' participation and access to credit, we have used available banking indicators to select sampling unit at different levels. Accordingly, we have selected Ri Bhoi and West Khasi Hills districts as they have the highest credit-deposit (CD) ratios as on 2014-15, at 54 per cent and 40 per cent respectively (RBI, 2015). It may be mentioned here that the CD ratio is an indicator of the level of credit deployed by the commercial banks relative to the deposit mobilized

by them from a particular state or region, and is a useful proxy to gauge household's access to credit from formal sources. From each of the district mentioned above, two blocks have been selected based on the highest percentage of households availing banking facilities as per census of 2011 (GoI, 2011). Further, from each block five of the largest villages, in terms of number of households, were chosen and a total of twenty households from each village were selected through the process of random sampling. A simplified formula for determining desired sample size at 95 per cent confidence level at a precision level of ± 5 per cent have been used and a total of 401 households were surveyed (Yamane, 1967).

Data was collected using structured questionnaire. Information collected included various social and economic attributes of the households. The questions pertain to participation in credit markets, number of loans taken, sources and uses of loans, number of visits to the bank, time taken to process a loan and duration of the loan, among others. Statistical tests like Pearson chi-square (χ^2 -square) test of independence have been used for variables where not more than 20 per cent of the expected counts are less than five (Yates *et al.*, 1999). In cases of smaller counts, Fisher's exact test has been used to get a more accurate result (Freeman and Julious, 2007). Besides these, t-test of independence of means has also been used to assess whether the means of two groups are statistically different from each other.

RESULTS AND DISCUSSION

Table 1 shows the profile of the rural households in the study area in terms of gender of head of household, marital status, education level of head of household and that of the spouse, occupation and income of households and other related information. An overwhelming majority (92 per cent) of the sampled households belongs to the Khasi tribe. We also find that two-thirds of the sample households are male headed households.

The education levels of the households indicate that majority of the head of households have attended at least up to primary school (41 per cent), and 33 percent have attended up to secondary level. Only 14 per cent of household heads have attended higher secondary and above level of education. On the

Table 1: Demographic and Socio-economic Profile of Sample Households

Variable	Description	Total
Community/Tribe	Khasi	370(92)
	Others	31(8)
Gender of Head of Household	Male	266(66)
	Female	135(34)
Marital Status of Head of Household	Married	312(78)
	Divorced/Separated/Widowed	79(20)
	Unmarried	10(2)
Age of Head of Household	18-60	331(82)
	Above 60	70(18)
Household Size	1-5	176(44)
	6-10	200(50)
	Above 10	25(6)
Number of Dependents	0	45(11)
	1-5	330(82)
	Above 5	26(7)
Education of Head of Household	Illiterate	49(12)
	Up to Primary	162(41)
	Up to Secondary	134(33)
	Above Secondary	56(14)
Education of Spouse	Illiterate	23(6)
	Up to Primary	58(15)
	Up to Secondary	290(72)
	Above Secondary	30(7)
Main Occupation of the Household	Daily Wage	100(25)
	Cultivation	148(37)
	Non-agricultural Enterprises	84(21)
	Salaried	69(17)
Household Income	Less than 50,000 (I)	300(75)
	50,001-1,00,000 (II)	41(10)
	1,00,001-5,00,000 (III)	50(13)
	Above 5,00,000 (IV)	10(2)

Source: Field Survey, 2016.

Note: The figures in the parentheses indicate percentage to the total.

other hand, more than 70 per cent of the spouses have attended secondary level of education and above (79 per cent).

The main occupations of the households have been categorized into four groups with more than one-third engaged as cultivators (37 per cent), one fourth as daily wage earners, followed by non-agricultural activities (21 per cent) and salaried employee (17 per cent). Household annual income has also been grouped into four categories- category I with income of rupees 50,000 and less, category

II with income between rupees 50,000 and rupees one lakh, category III with income between rupees one lakh and rupees five lakh and category IV with income rupees five lakh and above. Three-fourth of the surveyed households reported earning income of rupees 50,000 and less, and 23 per cent with income level of more than rupees 50,000 but less than rupees five lakh. A small percentage (two per cent) of households earns more than rupees five lakh annually.

Now effort has been made to examine the characteristics of participating and non-participating rural households in Meghalaya. Out of the 401 sample rural households, only 151 or 38 per cent households reported to have participated in either formal or informal credit markets. Of the total percentage of borrowing households, 95 per cent reported taking only one cash loan, four per cent availed two cash loans and one per cent availed three cash loans as on the time of the survey.

The rate of non-participation of rural households in the credit markets is very high as 250 households representing 62 per cent of sample households reported to have not taken any cash loan from any source. The two main reasons given for non-participation are financial self-sufficiency or non-requirement of loans (54 per cent), followed by uneasiness in taking loans as they did not want to incur debt (26 per cent). Other reasons given by the households are lack of awareness of available sources of loans (eight per cent), lack of security (six per cent), lack of access to credit source (two per cent). 11 (four per cent) of households reported more than one reasons for non-participation in the credit markets, which include non-requirement, uneasiness in taking loan, high interest rate, lack of awareness and lack of security (Table 2).

Table 2: Reasons Cited by Sample Households for Non-Participation in Credit Markets

Reasons	Total
Self-sufficiency/Non-requirement	136(54)
Uneasiness in taking loan	65(26)
Lack of awareness of source of loans	19(8)
Lack of security	14(6)
Lack of access to credit	5(2)
Others (Self sufficiency, Uneasiness in taking loan, High interest rate, Lack of security etc)	11(4)

Source: Field Survey, 2016.

Note: The figures in the parentheses indicate percentage to the total.

The percentage difference between participating and non-participating households based on the gender of the head of household is presented in table 3. 44 per cent of the female headed households participated in the credit markets compared to 35 per cent credit participation rate among male headed households. The χ^2 -square test of independence shows that there is no significant association between participation of

households and the gender of head of household, at 5 per cent significance level.

Table 3: Household Credit Participation and Gender of Head of Household

Variable	Description	Number of Participating Households	Number of Non-Participating Households
Gender of Head of Household	Male	92(35)	174(65)
	Female	59(44)	76(56)

Source: Field Survey, 2016

Notes: The figures in the parentheses indicate percentage to the total.

(i) The χ^2 -square test of independence yields a Pearson chi-square of 3.171, degree of freedom of 1 and a p-value of 0.075.

The association between credit participation and educational level of head of households and also that of spouse is presented in table 4.

Table 4: Household Credit Participation and Educational Qualification

Variable	Description	Number of Participating Households	Number of Non-Participating Households
Education of Head of Household	Illiterate	14(29)	35(71)
	Up to Primary	58(36)	104(64)
	Up to Secondary	57(43)	77(57)
	Above Secondary	22(39)	34(61)
Education of Spouse	Illiterate	7(30)	16(70)
	Up to Primary	31(53)	27(47)
	Up to Secondary	99(34)	191(66)
	Above Secondary	14(47)	16(53)

Source: Field Survey, 2016

Notes: The figures in the parentheses indicate percentage to the total.

(i) The χ^2 -square test of independence for participation and education of head of household yield a Pearson chi-square of 3.383, degree of freedom of 3 and a p-value of 0.336.

(ii) The χ^2 -square test of independence for participation and education of spouse yield a Pearson chi-square of 9.239, degree of freedom of 3 and a p-value of 0.026.

The education level has been grouped into four categories: illiterate or no schooling, attended up to primary school, attended up to secondary level and attended higher secondary level and above.

The result of χ^2 -square test of independence shows that participation of households is independent of education level of the head of household. However, the education of spouse does seem to influence participation of households as there is significance association between participation of the household in credit markets and education level of spouse as confirmed by the χ^2 -square test of independence (at five per cent significance level).

Table 5: Household Credit Participation, Main Occupation and Household Income

Variable	Description	Number of Participating Households	Number of Non-Participating Households
Main Occupation of the household	Daily Wage	33 (33)	67(67)
	Cultivation	40 (27)	108 (73)
	Non-agricultural Enterprises	44 (52)	40 (48)
Household Income	Salaried	34 (49)	35 (51)
	Less than 50,000 (I)	91 (30)	209 (70)
	50,001-1,00,000 (II)	23 (56)	18 (44)
	1,00,001-5,00,000 (III)	31 (62)	19 (38)
	Above 5,00,000 (IV)	6 (60)	4 (40)

Source: Field Survey, 2016

Notes: The figures in the parentheses indicate percentage to the total.

(i) The χ^2 -square test of independence for participation and main occupation of the household yield a Pearson chi-square of 19.772, degree of freedom of 3 and a p-value of 0.000.

(ii) The Fisher's exact test for participation and household income yields p-value of 0.000.

Table 5 focuses on the level of participation in credit markets according to the main occupation and annual income earned by rural households. Following NSSO (2013), the activity which the household spends most of its time and yields the maximum source of income in a year is considered to be the main occupation of a household.

Table 5 shows that rate of participation is low among households that are primarily dependent on daily wage (33 per cent) and those whose main occupation is cultivation (27 per cent). However, the rate of participation is much higher among households that are engaged in non-agriculture activities like shop keepers, weavers, tailors, (52 per cent), and those that belong to the salaried class (49 per cent). In terms of household income, participation of households with annual income of rupees 50,000 and less is only 30 per cent. But as we move to higher income brackets we find that the percentages of participating households are much higher than that of non-participating households.

The χ^2 -square test of the hypothesis that participation of households is independent of main occupation and the Fisher's exact test that participation of households is independent of household's annual income are both rejected at one percent significance level, thereby establishing an association between the nature of occupation and income of households with household participation in credit markets.

In summary, as far as participation in the rural credit markets in Meghalaya is concerned, there is statistical evidence to show that participation by households is not associated with gender of head of households. While educational attainment of head of households does not influence participation, the education level of the spouse does lead to significantly higher rate of participation of households in credit markets. Our findings also show that there is a significantly higher participation of households whose main occupation are non-agriculture activities along with salaried class, and also among households belonging to higher income groups.

Table 6 shows a detailed profile of borrowing households like the average loan amount, maximum and minimum amount borrowed, sources and uses of loans, educational level and income of households, among others. The average loan amount has been calculated by excluding one loan amount of extremely large value of above rupees one crore.

The loan amounts ranged from rupees 1,200 and rupees 11,00,000 with mean and median loan amounts of rupees 1,09,072 and rupees 42,500, respectively. Three-fourths of the loans borrowed are of rupees 50,000 and less and only about 23 per

Table 6: Profile of Households Accessing Credit

Variable	Description	Total
Average Borrowing Per Household (Amount in Rupees)	Mean*	1,09,072
	Median*	42,500
	Minimum Amount Borrowed*	1,200
	Maximum Amount Borrowed*	11,00,000
Loan Amount* (Amount in Rupees)	Less than 10,000	21(14)
	10,001-50,000	79(53)
	50,001-1,00,000	16(10)
	Above 1,00,000	34(23)
Sources of Loans*	Formal	124(83)
	Informal	26(17)
Uses of Loans*	Production	123(82)
	Consumption	27(18)
Education of Head of Household	Illiterate	14(9)
	Up to Primary	58(39)
	Up to Secondary	57(38)
	Above Secondary	22(14)
Education of Spouse	Illiterate	7(5)
	Up to Primary	31(21)
	Up to Secondary	99(66)
	Above Secondary	14(8)
Main Occupation of the Household	Daily Wage	33(22)
	Cultivation	40(27)
	Non-agricultural Enterprises	45(29)
	Salaried	33(22)
Household Income* (Amount in Rupees)	Less than 50,000	91(61)
	50,0001-1,00,000	23(15)
	1,00,000-5,00,000	30(20)
	Above 5,00,000	6(4)

Source: Field Survey, 2016.

Note: The figures in the parentheses indicate percentage to the total.

*Excludes 1 (one) loan amount of extremely large value of above rupees one crore.

cent of the loans are of rupees one lakh and above. Households borrowed extensively from formal sources like commercial banks and cooperative societies which together accounted for 83 per cent of loans while the remaining 17 per cent of loans are availed from informal sources comprising of family, friends and relatives. More than 80 per cent loans are borrowed for productive purposes (82 per cent). Here we have followed NSSO (2013) definition of capital expenditure which include expenditure incurred on purchasing, construction and repairing of land, buildings and other physical assets.

In terms of annual income of the borrowing households, the majority (61 per cent) earn rupees 50,000 and less, while 35 per cent earns between rupees 50,000 and rupees 5, 00,000. Only four per cent of the households are having an income of rupees 5, 00,000 and above (Table 6). Nearly 40 per cent of borrowing households are having household head who attended up to primary level of education while two-thirds of the households have spouses who have attended up to secondary level. We find that the majority of households accessing credit are those engaged in non-agricultural activities (29 per cent) followed by the cultivators (27 per cent).

The particulars of loans borrowed by households like sources, average amount of borrowings, average distance to the credit source, number of visits to the source and other related information is presented in table 7. We find that the average amount of formal loans is three times more than the average amount of informal loans availed by rural households. This is confirmed by the independent samples t-test of independence of means which shows that the average amount of loan borrowed by rural households is statistically larger than average loan from informal source (at five per cent level of significance).

Both the average distance of formal and informal sources from borrowing households is about 15 kilometers indicating that even for borrowing from informal sources, in most cases the households have to travel to nearby towns to meet friends and relatives. The average duration of repayment of loans is shorter for loans taken from formal sources than from informal sources as the latter comprises friends and relatives only. In terms of time taken to avail loans, we find that on average loans from formal sources takes nine weeks to process while time taken to avail loans from informal sources is within three weeks.

The main source of loans is banks with 80 per cent of rural households borrowing from this source, while only three per cent borrowed from

cooperatives. In case of informal loans, up to 16 per cent of rural households borrowed from family, friends and relatives and only a small percentage (one per cent) borrowed from other informal groups such as self-help groups, women groups and youth groups (Table 8). There is no mention of loans availed from money lenders in the sample households which is contrary to situation found in other areas of the country where money leaders still play an important role as a source of credit for rural households (Sharma *et al.*, 2007; Satyasi, 2012).

In terms of the percentage share of the amount of loans borrowed from both sources, formal loans contribute 91 per cent to the amount borrowed, with friends and relatives contributing eight per cent to the loan amount while contribution of other sources (informal groups like self-help groups, women's groups) stood at only one per cent. The average amount borrowed from banks is found to be thrice the amount borrowed from friends and relatives (Table 8).

Nearly two-thirds (65 per cent) of loans from the formal sources and about 77 per cent of the loans from the informal sources are of amount of rupees 50,000 and below. Only a quarter of formal loans and 12 per cent of informal loans are of rupees one lakh and above (Table 8). The Fisher's exact test confirms the hypothesis that there is no association between sources of loans and loan sizes.

Table 7: Particulars of Loans Borrowed by Households

Particulars of Access to Credit	Formal Source	Informal Source
Average Borrowing Per Household (<i>Amount in Rupees</i>)		
Mean*	1,23,732	39,157
Median*	44,000	30,000
Minimum Amount Borrowed*	1,200	5,000
Maximum Amount Borrowed*	11,00,000	1,00,000
Average Distance of Households to the Source (<i>Kilometers</i>)	15	15
Average Duration of the Loan (<i>Years</i>)	3	5
Average Time Taken to Avail loans (<i>Weeks</i>)	9	3

Source: Field Survey, 2016.

Notes: The figures in the parentheses indicate percentage to the total.

* Excludes 1 (one) loan amount of extremely large value of above rupees one crore.

(i) Results of the t-test of equality of mean amount borrowed from both sources

State	Equality of variance	t-statistics	Degree of freedom	P-value
Meghalaya	Assumed	2.054	148	0.042

Table 8: Sources of Loans and Loan Sizes*

Sources	As a Proportion of Borrowing Households	As a Percentage Share of Loans	Mean* (Amount in Rupees)	Median* (Amount in Rupees)
Formal Sources	124(83)	91	1,23,732	44,000
Banks	119(80)	90	1,27,333	45,000
Cooperative Societies	5(3)	1	38,000	40,000
Informal Sources	26(17)	9	39,157	30,000
Friends/Relatives	25(16)	8	38,723	30,000
Others	1(1)	1	50,000	50,000
Percentage Distribution of Loan Sizes as Per Source of Loans				
	Less than 10,000	10,001-50,000	50,001-1,00,000	Above 1,00,000
Formal Sources	16(13)	64(52)	13(10)	31(25)
Informal Sources	5(19)	15(58)	3(11)	3(12)
Sources of loans and Main Occupation of the Household				
	Daily Wage	Cultivation	Non-agricultural Enterprises	Salaried
Formal Sources	28(23)	34(27)	33(27)	29(23)
Informal Sources	5(19)	6(23)	11(42)	4(16)

Source: Field Survey, 2016.

Notes: The figures in the parentheses indicate percentage to the total.

* Excludes 1 (one) loan amount of extremely large value of above rupees one crore.

(i) The Fisher’s exact test for loan sizes and sources yields a p-value of 0.452.

(ii) The Fisher’s exact test of sources of loans and main occupation yields a p-value of 0.502.

Table 9: Sources of Loans and Education of Household*

Variable	Education				
	Source	Illiterate	Up to Primary	Up to Secondary	Above Secondary
Education of Head of Household	Formal	11(9)	48(39)	44(35)	21(17)
	Informal	3(12)	10(38)	11(42)	2(8)
Education of Spouse	Formal	4(3)	27(22)	82(66)	11(9)
	Informal	3(12)	4(15)	17(65)	2(8)

Source: Field Survey, 2016.

Notes: The figures in the parentheses indicate percentage to the total.

* Excludes 1 (one) loan amount of extremely large value of above rupees one crore.

(i) The Fisher’s exact test for education of head of household and sources of loans yields a p-value of 0.646.

(ii) The Fisher’s exact test for education of spouse and source of loans yields a p-value of 0.316.

Table 8 also examines the association between main occupation of the households and sources of borrowing. Borrowing from formal sources by households across the four main occupation categories ranged from 23 percent to 27 per cent. On the other hand, we find that borrowing from informal sources is higher for rural households belonging to non-agricultural enterprise category (42 per cent) followed by cultivators (23 per cent).

However, we find no significant association between main occupation of the households and sources of borrowings.

This section examines the association between sources of loans and education level of household head and spouse. We would expect that at higher level of education of household head and spouse would influence the borrowing choice in favor

of formal sources. However, the Fisher's exact test reveals that there is no significant association between level of education of the household head and spouse and the sources of loans.

We find that as much as 85 per cent of formal loans borrowed by sample households are for capital expenditure as well as for other productive purposes relating to agriculture, livestock rearing and horticulture and also for business activities like tailoring and weaving. On the other hand, informal sources finances nearly two-thirds (65 per cent) for production purposes while a little more than one-third (35 per cent) for financing religious ceremonies and other personal requirements of the rural households (Table 10). The Fisher's exact test

finds a significance association between uses and sources of loans at five per cent level of significance. The average amount of production loans is three times more than the average amount of consumption loans. The independent samples t-test of independence of means supports this finding that the amounts borrowed for both purposes are significantly different (at 10 per cent significance level). The percentage of production loans also continues to be higher throughout all categories of loan sizes. The Fisher's exact test confirms a statistical significance association between loan sizes and purpose of borrowing (at one per cent level of significance).

Table 10: Uses of Loans and Loan Sizes According to Use*

Variable	Description	Production	Consumption
Uses of Loans	Formal Source	106(85)	18(15)
	Informal Source	17(65)	9(35)
	Mean (Amount in Rupees)	1,23,599	39,788
	Median(Amount in Rupees)	44,000	22,500
Loan Sizes (Amount in Rupees)	Less than 10,000	12(57)	9(43)
	10,001-50,000	69(87)	10(13)
	50,001-1,00,000	10(63)	6(37)
	Above 1,00,000	32(94)	2 (6)

Source: Field Survey, 2016.

Notes: The figures in the parentheses indicate percentage to the total.

* Excludes 1 (one) loan amount of extremely large value of above rupees one crore.

(i) Results of t-test of equality of mean borrowings for purposes of loans:

Equality of variance	t-statistics	Degree of freedom	p-value
assumed	1.957	148	0.052

(ii) The Fisher's exact test of uses and sources of loans yield a p-value of 0.024.

(iii) The Fisher's exact test of uses and loan size yield a p-value of 0.001.

Table 11: Uses of Loans and Household Income

Income \ Uses	I	II	III	IV
	Less than 50,000	50,001-1,00,000	1,00,000-5,00,000	Above 5,00,000
Production	73(59)	18(15)	27(22)	5(4)
Consumption	18(67)	5(18)	3(11)	1(4)

Source: Field Survey, 2016.

Notes: The figures in the parentheses indicate the percentages.

* Excludes 1 (one) loan amount of extremely large value of above rupees one crore.

(i) The Fisher's exact test of uses and household income yields a p-value of 0.591.

The association between uses of loans according to the annual income of the households is presented in table 11 to show whether uses of loans is influenced by income of households. The majority of production loans (59 per cent) and consumption loans (67 per cent) are taken by households with income of rupees 50,000 and less. Only four per cent of production loans and also same percentage of consumption loans are availed by households with income of rupees 5,00,000 and above. The Fisher's exact test confirms the null hypothesis that uses of loans is independent of household income.

CONCLUSION

The study using primary data has been divided into two broad segments i.e. one focusing on the factors influencing credit participation and the other on the characteristics of access to credit among the rural households in Meghalaya. Credit participation rate in the surveyed area is found to be low. Majority of households choose to abstain from participation on account of non- requirement and uneasiness in taking loans due to fear of inability to repay. Other reasons cited by households for non-participation are lack of security, high interest rate, lack of awareness, among other issues. Results of the study reveal a significant association between credit participation of rural households with the level of education of the spouse, main occupation and income level of households.

The second segment of the study which focuses on the characteristics of access to credit by rural households finds no mention of money lenders; however, households identified banks, family, friends and relatives as sources of credit. The average amount of loans borrowed from formal and informal sources are found to be significantly different. Banks however takes a longer time to process the loan but the duration of repayment is shorter. The study finds no association of sources of loans with loan sizes, main occupation of the households and level of education of the households. Uses of loans are also not associated with household income. On the other hand, uses of loans are found to be associated with sources of loans and loan size.

In conclusion, if the government seeks to transform the rural credit markets, policies should be framed to increase the rate of credit participation among

rural households. Awareness of the benefits of participation can be made through channels of education and information. With regards to credit access, formal institutions should expand their area of coverage to reach the unreached. Efficient and adequate formal credit facilities can lower the cost of transaction which will encourage rural households to participate more in the credit markets thus bringing about economic development.

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