SUCCESS AND SUSTAINABILITY OF UNORGANISED MONEY MARKETS IN THE STATE OF GOA

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ABSTRACT

As India is a vast country, the financial field is open to commercial banks, co-operative banks, rural banks and other financial institutions. There is scope also for non-banking financial intermediaries, hire purchase institutions, merchant banks, etc. At the same time, the country cannot afford to have what may be called inflationary conditions by unlimited and unrestricted lending, on the one hand, and institutions accepting deposits with little regards to their safety, on the other. The Reserve Bank of India, though the apex regulatory body of Banks in India may not be able to regulate the activities of all these institutions hence, the nationalized commercial banks have been left responsible to regulate the activities of the indigenous bankers whom they finance, the nationalized banks in turn being under the active surveillance of the RBI. Financial Inclusion has been a topic, stressed upon most by our honorable Prime Minister. The present research paper intends to analyse the Depositors and Borrowers perception with regards to Unorganised Money Market. For the purpose of study, the data will be collected from 157 selected rural respondents, which will be analysed using Regression. The present research highlights the functioning of Unorganised Money Market in Rural Goa.

Key words: *Unorganised Money Market, Functioning, Financial Inclusion, Indigenous Bankers, Rural Goa.*

INTRODUCTION

Goa is a tiny emerald land among the many states in India which is situated on the southwestern coast of India located in the coastal belt known as Konkan. It is a "Tourist Paradise" and is also known as "Pearl of the Orient". Its coastline stretches along the Arabian Sea. Panaji is the capital city of Goa and the largest city is Vasco-da-Gama. Goa shares its borders with Maharashtra to the north, Karnataka to the east and the south and the Arabian Sea to the West. Goa is spread within an area which is 60km wide and 110km long between the Arabian Sea and the Sahyadri range of the Western Ghats. It has inland waterways of about 250 kms and a coastline of about 104 kms, owing to which, tonnes of inland fish and marine fish are being harvested every year.

Millions of tourists are attracted every year to the white sands, sparkling waters and swaying palms of Goa. Goa is known for its beaches and also for its rich flora and fauna owing to the Western Ghats range, a biodiversity hotspot where it is situated. But then, Goa has much more to it than just beaches and sea. Goa's staple diet is Rice with fish curry. One of the fastest growing states in the country is Goa. It is one of the few states to achieve 100 percent rural electrification. In Goa there are 2 districts, 12 talukas. However, most of the population of Goa resides in rural villages. There are 334 villages and around 37 per cent of the population of the state forms its rural base (Census 2011). Goa also has a well-structured Financial Sector.

There are 829 bank branches in Goa as on 31st March, 2016. This number has increased multiple times from a meager five in 1962. Each bank branch covered an average of 1825 people in the state of Goa as on 31st March, 2016. On the same date, it was declared that the State Bank of India was the Lead bank in the state with a group of 93 branches. 165 co-operative banks branches are functioning in Goa as on 31st March, 2016. Goa State Cooperative Bank (GSCB) is

the Lead bank in the cooperative sector for cooperative banks in the state. No Regional Rural Bank is present in the state.

However, inspite of the existence of the Formal Credit Market, there also exists the Moneylenders Community which is indulged in various activities of Deposits, Collections and Lending. In local language of Goa it is known as '*Cophre'.* Although, it is an ancient and primitive form of financing, still it is very much prevalent in Rural Goa. Although all bank branches in South Goa and North Goa districts have already claimed to have attained in their area of operation 100% financial inclusion still, the Unorganised Money Market plays a pivotal role in Rural Goa.

Literature Review

- **Daniel Binu (2000),** conducted a study on the research paper titled, 'Urban Informal Credit Markets: Structure, Dynamics and Intermediation'. He tried to analyse the structure of Urban Informal Credit Market with regards to activities, area of operation, ownership status, migration and occupational mobility. He also studied the nature and pattern of mobilisation of fund and lending behaviour with respect to the category of borrowers, the rate of interest structure and kinds of collateral instruments used in transactions. The study was confined to the state of Kerala. Percentage analysis method, arithmetic mean, standard deviation and coefficient of variation were used to analyse the data. Nonetheless, the study was based on a stratified sampling method. The study highlighted the fact that the role played by Informal Credit Market is more complex and intricate and it has relations with other sectors in the

economy. Virtually, they do not comply with rules and regulations instituted by Government departments and Banking authorities.

- **Job Sallyamma (2003),** analysed the Chit Finance in Kerala. The study placed a special emphasis on Kerala State Financial Enterprises Ltd. The study intended to identify the determinants behind the preferences for joining Chit Funds and to estimate the Cost and Return on Chit Funds. The researcher also examined the trends and pattern of growth of Chit Funds in the formal sector in Kerala. For the purpose of evaluating the data simple statistical tools such as averages, percentages and ratios were used. The findings of the study highlighted that Region-wise, Southern Kerala followed by Central Kerala dominates in the number of Chits registered as well as in the volume of Chit capital. Saving through Chits has been preferred, to buy or build a house followed by investment in industry and trade.

- **Pande Vikram (2000),** explored the reasons behind India's Chit Crisis and adopted a Case Study Approach of the Saradha Group. The researcher did an extensive study using Descriptive Research. He investigated the reasons that led to chit fund scam at Saradha Group and also the reaction of the West Bengal Government about the scam and the steps taken by them to provide relief to the chit fund victims. He further analysed the emergence of chit funds in India and their impact on the belief of investors and evaluated the impact of scam on the Indian economy and the investors who invested in Saradha group.

- **Patil Babasab (2001),** in his report on 'Customer Attitude towards investing in chit funds and customer satisfaction measurement' tried to study the legal framework governing the chit

fund industry and the attitude of customers about investing in the chit funds. The study placed a special emphasis on Panchajanya Chits Pvt. Ltd which was the first registered chit funds company in the State of Karnataka, registered under the Chit Funds Act 1982. The researcher also attempted to measure Customer satisfaction of PCPL. Random Sampling method was adopted and Descriptive Analysis was used to analyse the data. The research revealed that the company can introduce lower amount chit schemes and tap the large lower middle income group people. Also the members recommended that the company can reduce its commission charges to a lower rate and thus will increase the scope for more members. They were also of the opinion that the company can insure each chit scheme against any risks. The study highlighted that the customers were satisfied with the services provided by the company and are very loyal to the company and the company can also avoid the risk of defaults at the initial stage itself by making a good study of membership profile.

- **Rai Dheeraj (1999),** in his article on 'Indian Money Market: Organised and Unorganised Sectors' tried to explain that a negative attitude towards formal financial institutions positively influences informal finance use. He also stated that unorganised sector thrives due to strong bonds and close relationship amongst its users which in turn boost confidence in unorganised market. Consequently, this enhances individual's confidence in these institutions compared to formal institutions. In addition negative attitude arise out of high transaction costs in formal institutions which may not have been disclosed at the time of establishing a savings or loan contract. These fees make use of organised finance more expensive for the low income earners. This is especially true considering that the unorganised money market systems rarely charge a service fee.

Identification of Research Problem

The above Literature survey highlights the following facts:

➢ Numerous studies on the Unorganised Money Market are done in states such as Kerala, Karnataka and West Bengal. However, there is no concrete study conducted in the state of Goa.

➢ This topic is not widely researched in foreign countries too.

➢ Also, there has been a considerable time gap in all the studies conducted. Hence, the present study will be relevant in the current scenario.

Thus, the present study of evaluating the Unorganised Money Market attempts to fill these gaps is a pioneer of its kind.

Objectives of the Study

The present study tries to evaluate the success and sustainability of Unorganised Money Market in Rural Goa. However, the specific objectives that have been considered for the purpose of the study are stated below:

1. To study the conceptual framework of Unorganised Money Markets operating in the state of Goa.

2. To analyze the Depositors Perception with regards to Unorganised Money Market.

3. To analyze the Borrowers Perception with regards to Unorganised Money Market.

4. To test the relationship of Borrower decision and Depositor decision with the success and sustainability of Unorganised Money Market.

Research Questions

The following research questions emerged to study the above objectives:

- How does the Unorganised Money Market function in the state of Goa?

- How do the Depositors perceive the Unorganised Money Market?

- What is the Borrowers Perception with regards to Unorganised Money Market?

- Is there any relationship of Borrower decision and Depositor decision in the success and sustainability of Unorganised Money Market?

Research Methodology

With due consideration to the above-mentioned objectives, a quantitative approach was chosen and the following methodology was adopted for conducting the present study. They are as under:

➤ **Universe:** For the purpose of study, rural villages of Goa have been selected as the universe.

➤ **Sample:** A purposive sample of 157 respondents have been selected from the rural areas of South Goa for the purpose of study.

➤ **Period of Study:** The period of study was the period of survey which was conducted from 12th March 2020 to 09th April, 2020.

➤ **Sources of Data Collection and Statistical Tools Used**

The present research study titled 'Success and Sustainability of Unorganised Money Market in Rural Goa' is based on the data collected from both primary as well as secondary sources. The primary data is collected by using a well-designed and structured questionnaire. The

questionnaire used in this study was divided into two parts: The first part consisted of questions about the personal or demographic profile of the rural respondents like name, gender, qualification and age. The second part contained questions regarding the respondent's opinion on sustainability of Unorganised Money Market. Likert five point scales were used in collecting responses from the respondents to the second part of the questionnaire where '5' means strongly agree, '4' means agree, '3' means neutral, '2' means disagree and '1' means strongly disagree. On the other hand, information related to study was also collected from E-journals/papers and relevant books as secondary data. Regression is used to analyse the data in SPSS.

Hypotheses

$H0_{1:}$. Time Flexibility, High Returns, Personal Relationship, Grievance Resolution, No Documentation, Traditional Approach and Risk of Loss of Money do not significantly influence Investors choice with regards to Unorganised Money Market.

$H0_{2:}$. Quantum of Loans, Processing Fees, Flexible Installments, Difficult Procedures, Loan Rejections, Personal Relations, Lenient Recovery and Interest Rate do not significantly influence Borrowers choice with regards to Unorganised Money Market.

$H0_{3:}$. There is no significant relationship of Depositors and Borrowers choice in the success and sustainability of the Unorganised Money Market.

Limitations of the Study

1. Only 157 respondents from the rural areas of South Goa have been selected due to time constraint.

2. For the purpose of present study, only respondents from rural Goa have been included in the survey. However, respondents from urban areas have not been considered.

The above mentioned limitations make a scope for further research in the area.

Functioning of Unorganised Money Markets in the state of Goa

Cophre is Unorganized Money Market system wherein a few villagers come together and choose among themselves an organizer who manages the entire Cophre. The members of this Cophre then make weekly deposits of fixed amounts and are also allowed to avail the facility of borrowings and at the end of the maturity period the deposited amount is returned along with interest. Each Cophre has a maturity period which is basically from one season to another or from one festival to another. For Eg:- the festivals such as Ganesh Chaturthi, Diwali, Christmas, Gudi Padva, etc. The number of organizers in a Cophre can be more than one and they get a meagre amount of Commission annually for organizing the Cophre. Apart from this there are also Unregistered Chit Fund dealers.

The functioning of Unregistered Chit Funds is the same as that of Registered Chit Funds. The only difference lies in the fact that the latter fall under the category of Organized Money Market while the former fall under the category of Unorganized Money Market. There also exists a difference between Chit Funds and Cophre in the sense that, in Cophre, Deposit as well as

Borrowing services are provided however, in Chit Funds only Deposit services are provided. Apart from this there are also Unorganised Self Help Groups which are prevalent in Goa. They are mostly formed for the benefit of rural women however; they do not follow any law nor are they registered under any Act.

Moneylenders are also very famous in the rural parts of Goa. They basically provide only Lending services. The rates of interest charged by them are exorbitant. Also in case of Unorganised Money Market, there is a risk of loss of money. The Grievance Resolution process in the Unorganised Money Market is also not as quick as it is in the Organised Money Market. However, inspite of all these disadvantages, the indigenous bankers are still famous in rural Goa. This may be attributed to the feeling that banks mostly act in the interest of the rich and therefore do not offer products or services that are affordable by the poor majority. Consequently, individuals turn to unorganised money market to satisfy their unmet demand for financial services.

The reasons behind functioning of the Unorganised Money Market are providing future savings in advance, easy and convenient way to save, strong bonds and close relationships, facility of dual option for saving and borrowing and the monthly dividend obtained through the sharing of discount, to meet marriage expenses and savings for old age. Also the Unorganised Money Market is a traditional form of Money Market. Hence, despite the introduction of Digitalization, the Unorganised Money Market still continues to function in rural areas.

Analysis and Findings

A. Testing the Reliability of Research Instrument

In this paper, the prime motive is to know the choice of Borrowers and Depositors decision in the success and sustainability of Unorganised Money Market. For this purpose Regression has been used. Prior to doing Regression, reliability analysis has been done on 19 variables. Cronbach's Alpha value obtained is 77.4%, which shows there are internal consistencies of the scales.

B. Analysis of Depositors' perception with regards to choice of Unorganised Money Market

An Analysis using Multiple Regression has been done in order to study the Objective 2 of the present research paper. For the purpose of study, Depositors' Decision has been considered as an endogenous variable and it has been regressed across eight exogenous variables which include Time Flexibility, High Returns, Personal Relationships, Convenient Distance, Grievance Resolution, No Documentation Traditional and Risk of Loss of Money. Table No 1 explains the Depositors' choice to avail the deposit services by considering the 08 variables as specified earlier as independent variables. The Depositors perception has been considered for his decision to analyze his choice towards the Unorganised Money Market. Below given table no 1 provides the regression results of testing $H0_1$.

Table No: 01 Results of Regression Analysis testing H0$_1$

Test H$_{01}$: Time Flexibility, High Returns, Personal Relationship, Grievance Resolution, No Documentation, Traditional Approach and Risk of Loss of Money do not significantly influence Investors choice with regards to Unorganised Money Market			
Dependent Variable: Depositors Decision			
R square: .324 F value: 8.029 P value: .000 Decision: Reject H0$_1$			
Independent Variables	**Beta values**	**T values**	**Sig. value**
Constant	1.389	2.455	.015
Time Flexibility	-.104	-2.205	**.029**
High Returns	.125	2.587	**.011**
Personal Relationships	.121	2.231	**.027**
Convenient Distance	.172	2.020	**.045**
No Documentation	.214	2.702	**.008**
Traditional	.149	2.951	**.004**
Risk of Loss of Money	-.114	-1.673	.097
Grievance Resolution	.134	1.818	.071

Source: Computed from Primary data

The model has been explained to the extent of 32.4%. Out of the 08 exogenous variables considered in the analysis, namely Time Flexibility, High Returns, Personal Relationships, Convenient Distance, Grievance Resolution, No Documentation Traditional and Risk of Loss of Money, 06 variables i.e. Time Flexibility, High Returns, Personal Relationships, Convenient Distance, No Documentation and Traditional are significantly influencing the Depositors

decision at 5% level of significance. Hence, the alternate hypothesis is accepted with regards to these variables. This means, depositors find the time more flexible in the Unorganised Money Market as compared to the Organised Money Market. The Depositors also get higher returns on their investments in the Unorganised Money Market as compared to the Organised Money Market.

Personal Bonds are stronger in the Unorganised Money Market which leads to a boost in confidence in such Money Market. In addition, the Unorganised Money Market dealers are situated at a convenient location as compared to Banks. The Unorganised Money Market does not need any documents as far as documents are concerned and this form is Money Market is still preferred by villagers as it a traditional form and it inculcated saving habits among rural villagers. It is specially beneficial for senior citizens. However, there is a greater risk of loss of money in the Unorganised Money Market and the Grievance Resolution Procedure is more quick and prompt in the Organised Money Market. In case of any disputes, the Organised Money Market takes recourse to legal means whereas, in the Unorganised Money Market disputes are resolved in an unregulated manner as no protocol needs to be followed.

C. Analysis of Borrowers perception with regards to choice of Unorganised Money Market

An Analysis using Multiple Regression has been done in order to study the Objective 3 of the present research paper. For the purpose of study, Borrowers' Decision has been considered as an endogenous variable and it has been regressed across eight exogenous variables which include namely Quantum of Loan, No Processing Fees, Flexible Installments, Difficult Procedure of

Bank, Bank Loan Rejections, Personal Relationships, Lenient Recovery and Interest Rate. Table No 2 explains the Borrowers' choice to avail the deposit services by considering the 08 variables as specified earlier as independent variables. The Borrowers perception has been considered for his decision to analyze his choice towards the Unorganised Money Market. Below given table no 2 provides the regression results of testing $H0_2$.

Table No: 02 Results of Regression Analysis testing $H0_2$

Test H_{02}: Quantum of Loan, Processing Fees, Flexible Installments, Difficult Procedures, Loan Rejections, Personal Relations, Lenient Recovery and Interest Rate do not significantly influence Borrowers choice with regards to Unorganised Money Market			
Dependent Variable: Borrowers Decision			
R square: .390 **F value: 10.688** **P value: .000** **Decision: Reject $H0_2$**			
Independent Variables	**Beta values**	**T values**	**Sig. value**
Constant	1.657	4.003	.000
No Processing Fees	.151	2.031	**.044**
Flexible Installments	.092	2.462	**.015**
Difficult Procedure of Bank	.112	2.143	**.034**
Bank Loan Rejections	.201	3.989	**.000**
Personal Relationships	.192	2.415	**.017**
Interest Rate	-.163	-2.773	**.006**
Lenient Recovery	.047	.849	.397
Quantum of Loan	.074	1.344	.181

Source: Computed from Primary data

The model has been explained to the extent of 39%. Out of the 08 exogenous variables considered in the analysis, namely Quantum of Loan, No Processing Fees, Flexible Installments, Difficult Procedure of Bank, Bank Loan Rejections, Personal Relationships, Lenient Recovery and Interest Rate, 06 variables i.e. No Processing Fees, Flexible Installments, Difficult Procedure of Bank, Bank Loan Rejections, Personal Relationships, and Interest Rate are significantly influencing the Borrowers decision at 5% level of significance. Hence, the null hypothesis is rejected with regards to these factors. This means, borrowers prefer the Unorganised Money Market more as involves negligible processing cost.

Unlike banks, the loans can be repaid in flexible and easy installments and all the procedural formalities which have to be followed in a bank while taking a loan, such as furnishing of documents, credit score and providing the required security as collateral, can be avoided in the Unorganised Money Market. In addition, banks reject loans at a much higher rate as compared to the Unorganised Money Market and again, the personal bond which the villagers share among themselves leads them to approach their organizers more often to avail loan facilities as compared to banks. Although the respondents prefer the Unorganised Money Market as far as the interest rates are concerned, the inverse relationship proves that higher the interest rate in the Unorganised Money Market, more the respondents move towards the Organised Money Market.

However, the amount of loans which the Unorganised Money Market can lend is restricted and small. Further, the loan recovery process in the Unorganised Money Market is often not a smooth one. Moneylenders frequently resort to muscle power for loan recovery and many a times, also seize the assets of the borrowers.

D. Analysis of sustainability of Unorganised Money Market

An Analysis using Multiple Regression has been done in order to study the Objective 4 of the present research paper. To test the null hypothesis, i.e. to find whether there is a significant relationship of Depositors and Borrowers choice in the success and sustainability of the Unorganised Money Market, 'Sustainability of Unorganised Money Market' is considered as an endogenous variable. 'Borrowers choice' is a transformed variable comprising of the factors significantly explaining the Borrowers decision to avail loan services from the Unorganised Money Market. Similarly, 'Depositors choice' is a transformed variable comprising of the factors significantly explaining the Depositors decision to invest in the Unorganised Money Market. Table No 3 explains the sustainability of Unorganised Money Market. Below given Table no 3 provides the regression results of testing $H0_3$.

Table No: 03 Results of Regression Analysis testing $H0_3$

Test $H0_3$: There is no significant relationship of Depositors and Borrowers choice in the success and sustainability of the Unorganised Money Market			
Dependent Variable: Sustainability of Unorganised Money Market			
R square: .053 F value: 3.891 P value: .000 Decision: Reject $H0_3$			
Independent Variables	**Beta values**	**T values**	**Sig. value**
Constant	7.262	9.729	.000
Borrowers choice to avail loans	-.044	-2.123	**.036**
Investors choice to invest	.072	2.657	**.009**

Source: Computed from Primary data

Based on the Regression result shown in Table 1 and 2, 12 variables have been used and transformed to form 02 independent variables namely Borrowers choice to avail loans and Investors choice to invest. Here, the Borrowers choice to avail loans consists of 06 variables as under,

1) No Processing Fees

2) Flexible Installments

3) Difficult Procedure of Bank

4) Bank Loan Rejections

5) Personal Relationships

6) Interest Rate

Investors' choice to invest comprises of 6 variables namely,

1) Time Flexibility

2) High Returns

3) Personal Relationships

4) Convenient Distance

5) No Documentation

6) Traditional

The model has been explained to the extent of 5.3%. The overall P value of the model testing HO_3 is found significant. Both the exogenous variables i.e. Borrowers choice to avail loans and Investors choice to invest are found significant at 5% significance level. Borrowers and Depositors choice explain sustainability to the extent of five per cent, which means that there is a huge impact of other factors on the sustainability and success of the Unorganised Money Market. Investors' choice to sustainability has a positive impact however; Borrowers choice to

sustainability has a negative impact. This means, if the Unorganised Money Market continues to charge a higher rate of interest on loans, it may affect the sustainability of the Unorganised Money Market in the long run.

Conclusion

The study substantially explains the sustainability of Unorganised Money Markets in the rural Goa. Time Flexibility, High Returns, Personal Relationships, Convenient Distance, No Documentation and Traditional are the factors that influence Depositors' choice with respect to Unorganised Money Market. The factors which influence Borrowers choice with regards to Unorganised Money Market are No Processing Fees, Flexible Installments, Difficult Procedure of Bank, Bank Loan Rejections, Personal Relationships, and Interest Rate. The study also concludes that the Borrowers and Depositors choice leads to the sustainability of Unorganised Money Market.

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