



A STUDY OF HOUSEHOLD BORROWING BEHAVIORS IN SRI LANKA

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This paper discusses about how households' social and economic factors affect their borrowing behaviors. Credit facilities are an important part of improving income generation opportunities and overall living conditions among households. The main objective of this study is to recognize the differences of their borrowing behaviors according to their demographic factors. This study covers urban, rural and estate sector in Sri Lanka and the data was collected from individual questionnaires distributed among three districts; Colombo, Monaragala and Nuwaraeliya. The sample consists of 225 households to which the questionnaires are distributed based on the population share in each district. Data was analyzed employing qualitative and quantitative analysis. Multiple regression model was used in the quantitative analysis. The key social economic factors that influence borrower behavior were gender, education level, financial literacy, income, savings, expenditure patterns, living area, the cost of the investment project and the marketing success of the project. Household borrowing behaviors were different according to their demographic factors; mainly living area and gender. More than urban sector, a large percentage of households in rural and estate sector concentrate on the informal market for their financial needs. Mainly women concentrate on small and middle range credits than men. Household savings have an impact on their credit demand. In estate and rural sector correlation between credit demand and savings was negative, whereas in the urban sector, there was a positive correlation between them. Financial literacy of householders influences to choose the type of market; formal or informal, for their financial needs. When householders concentrate on the informal market, their cost of the loan is higher. To decrease the borrower's credit cost, government should take necessary steps to improve the household financial literacy, especially in estate and rural sector though informal education. Improving the financial literacy of householders helps to improve borrowing behaviors in order to minimize borrower's cost of credit and maximize their utility. Micro finance institutions are particularly important for the lower income groups and distribution of them should be familiar to the borrower. Provisioning of facilities for formal markets to take over informal market activities can minimize the cost of formalizing thus, delivering benefits to society to achieve a Pareto improvement.

Keywords: borrowing behavior, credit demand, financial literacy, financial market, financial need