

Insights into the Cash Flow of Rural Households

A study in Karauli District, Rajasthan



2006

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Preface

One of the reasons for poverty and backwardness is the 'lack of access of poor to financial services'. There are still a large number of people, both in rural and urban areas, who still do not get credit when they need, who do not have safe and secure place to keep their surplus earnings, and who are forced to either sell their assets or take credit at exorbitant rates to meet their cash needs.

Formal financial institutions have been able to reach out to only around 35% of households so far. Some alternative strategies like 'microFinance' through Self Help Group- Bank linkage and Micro Finance Institutions have emerged in last two decades. But still a large part of financial needs of poor are met from informal sources.

As the economic growth and development is taking place at macro level, the situation at micro level is also in transformation. The income sources, expenditure pattern, savings, credit needs and the need of other financial services of a poor family should also have changed with time. There are macro level studies and surveys that provide some idea about this but still there are very few micro studies that can tell about the status at the household/ family level.

Centre for microFinance is working for strengthening microFinance sector in Rajasthan. One of its strategy is to generate knowledge and disseminate to practitioners and policy makers so that there are appropriate products, services, programmes and also there is enabling policy environment for poor to have access to financial services as per their need, on time, on just terms and conditions and with dignity.

Taking the help from Prof M S Sriram ,who has conceptualised and conducted cash flow studies of poor elsewhere, CmF undertook this study. The aim of the study is to understand the existing pattern of cash flow, acquisitions, investments and credit in the rural areas of the state of Rajasthan and to identify opportunities of financial interventions for planning a comprehensive business strategy to ensure certain degree of financial stability among the rural population

The study covered 1604 rural households in 36 villages of 6 blocks in 5 districts, covering diverse agro-climatic zones. Pugal and Nokha in Bikaner, Khandar in Sawai Madhopur, Nadoti in Karauli, Suwana in Bhilwara and Pisangan in Ajmer. The study did not focus on any particular category or class, the sample households were randomly chosen. A structured questionnaire for HH data and a checklist for Focus Group Discussion were used.

The study report contains details about the occupation pattern, income sources and their respective contribution in household economy, asset base, expenditure pattern, status and practices of savings, sources of credit, indebtedness, repayment behaviour, etc. of rural households in Karauli District.

We feel that the findings of the study and its data would be highly useful for mF practitioners working in NGOs, Banks, Government and also to policy makers. We also expect the study to generate further thoughts and provoke researchers to undertake in-depth study on issues highlighted.

We acknowledge the unstinting support of Prof M S Sriram in this study. He not only provided all technical guidance but also provided much needed financial support. We also thank Consultus, Ranchi for data collection, analysis and writing of the report. We would also like to acknowledge the contribution of a number of field investigators and organisations- BAIF, URMUL and Dang Vikas Sansthan for their uninhibited support in logistics. Finally thanks to Ms Vartika Jaini and Sir Ratan Tata Trust for their valuable support.

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Background

1. Objective of the study

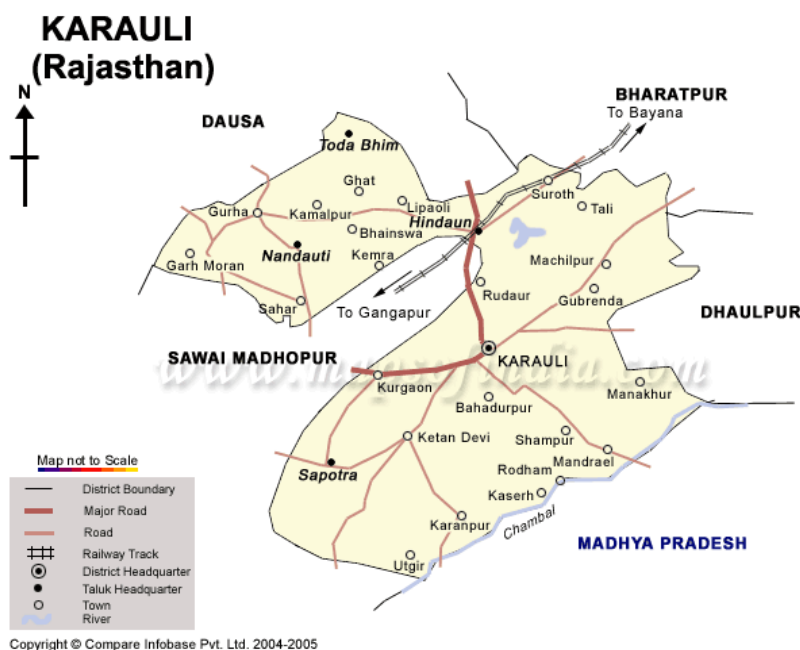
Centre for microFinance, Jaipur (CmF), in its role as a Knowledge Hub, aims to make relevant knowledge in microFinance available to practitioners and policy makers. The Centre identifies knowledge gaps and works towards filling the gap- it collects, collates, generates and disseminates the required knowledge to the sector. It also takes up research studies on areas that need exploration.

As part of Knowledge Building, the Centre commissioned a study in 2005 on 'Insights into the Cash Flow of Rural Households, in Rajasthan'. The objective of the study is to understand the existing pattern of cash flow, acquisitions, investments and credit in the rural areas of Rajasthan. The study also aims to identify opportunities of financial interventions for planning a comprehensive business strategy to ensure certain degree of financial stability among the rural population.

In order to cover diverse agro climatic zones the study was conducted across five districts (across six blocks) of Rajasthan - Ajmer (Pisangan block), Bikaner (Nokha and Pugal blocks), Bhilwara (Suwana block), Karauli (Nadoti block) and Sawai Madhopur (Khandar block.)

Since the findings of this study may interest different stakeholders in the mF sector, this report presents the key findings in Karauli District

2. The Setting: Profile of Karauli District



Karauli district is located at the eastern end of Rajasthan state. It shares a border with Madhya Pradesh along the Chambal River, with Dausa and Bharatpur in the North, Sawai Madhopur along west and Dholpur along the eastern boundary. Karauli has a total of 829 villages out of which about 43 villages are uninhabited.

Karauli is one of the backward districts of Rajasthan. It has a population of 1,209,665 persons (across 180,512 households) of which more than one million live in rural areas. Scheduled castes are 23% of the population and scheduled tribes 22.4%. The population density is 218 per square kilometres. The sex ratio stands at 855 females per thousand male. Overall literacy rate is 63.4% with male and female literacy at 79.5% and 44.4% respectively. Workforce participation rate in Karauli is 40%, nearly 45% amongst males and 34% in females. Of the total workers, 61% are cultivators, 10% agriculture labourers, 2.6% home based workers and 25.7% engaged in manufacturing, non-agriculture wage labour, business outside their home. (Census, 2001)

The normal rainfall is 671 mm per annum. In 2002 annual rainfall was only 264 mm while in 1998 it was 992 mm². The district has a total geographical area of 5,05,217 hectares. Only 36% is the net sown area. About 34% land is forest area. Land unavailable for cultivation or other uncultivated land is a little over 20%. Nearly 3% is cultivable wasteland. About 6.8% is fallow land. Total cropped area in 2001-2002 was 267,619 and cropping intensity over 147%. In 2001-2002 the net irrigated area was 92,585 hectares, which is 51% of the net sown area. Of the irrigated area nearly 94% is irrigated by ground water and only 5% by canals.³ Important crops of the district are bajra, groundnut, chilli, wheat, gram and tobacco.

The district has a total of 32 Commercial Banks, 12 Regional Rural banks (RRB), 5 Cooperative Banks and 5 Land Development Banks. Altogether 54 branches of different banks are located in this block. The Deposit and Credit per branch of Regional Rural Banks and public sector banks as on March 2003 was 64 million and 27 million respectively and the Credit Deposit ratio was at 42%.⁴

3 Methodology

In Karauli, Nadoti block was purposively selected for the study based on the convenience of the partner organisation. In this block based on criteria of relative distance⁵ from block headquarter six villages namely Lalsar, Chainpura, Andhiya Kheda, Muhana, Jindaun Kapura and Kemla were randomly selected. The study did not focus on any particular category or class, the households were randomly chosen from the voter list. Complete data of 271 households (HH) representing a population of 1872 persons is used for the analysis and thus is the sample for the study.

² Statistical Abstract Rajasthan, 2002, Directorate of Economics and Statistics, Rajasthan, Jaipur

³ Statistical Abstract Rajasthan, 2002, Directorate of Economics and Statistics, Rajasthan, Jaipur

⁴ CMIE, 2005

⁵ To take the random sample, two villages within 15 km radius from Block headquarter and two villages each from 15-30 kms radius and more than 30 kms distance were selected.

In the preparatory phase of the study, Focus Group Discussions (FGD) with key informants in the study villages on caste and religious break up, availability of basic infrastructure facilities and people's perception on the employment trend was also gathered before the actual survey.

A detailed survey was undertaken thereafter in the months of December 2005 to January 2006 by a team of trained enumerators conversant in the local dialect. To understand the existing cash flows information was sought on income (of the households as a whole and of individual members), expense, asset (livestock, house, household and agricultural asset) acquisition/depletion, savings and credit facilities accessed including their terms and people's perception, impact of events on financial flows.

4. Survey findings

Upper castes dominate the villages of Lalsar and Andhiya Kheda; Backward Castes dominate Muhana and Jindaun Kapura while Schedule Castes are dominant in Chainpura and Kemla villages.

All the villages except Chainpura have electricity. Three of the six villages studied have a bus stop namely - Chainpura, Andhiya Kheda and Kemla. All the villages have primary schools except Jindaun Kapura where it is located half a kilometre away. Post offices are located either in the village or at another village a little distance away. Post offices offer limited services and may not always offer savings facility. Commercial banks in most cases were located some distance away.

4.1 Education status

Overall literacy rate in our sample is 56%. As per the study 90% of the children in the age group 7-14 years are literate while it is only 76% in the age group 15-17 years. Differential Literacy rates amongst boys and girls illustrate gender gap in literacy levels. For Instance: In the age group 7-14 years, the literacy rates amongst boys and girls are 96% boys 83 % girls respectively This gender gap is further manifested in enrolment rates in the same age group, where 90% boys and only 72% girls are enrolled.

4.2 Employment and Income status

We looked at activities in terms of primary and secondary employment to understand the primacy of different activities and contribution to the household's income. This report mainly focuses on the age group 18-59 years, as they are considered as constituting the work force.

4.2.1 Individual Activities

Table 1, depicts the kind of primary and secondary employment pursued by individuals, it also gives sex disaggregated data on employment and the average income from different occupations. Nobody is reported as unemployable. Apart from farming, men are primarily engaged as non-agricultural labourers. In fact the number of men reported as non-agricultural labourers (nearly 37% of the males in this age group) is actually more than those reported as farmers. The average income for men is around Rs.13, 000 per annum

Around 6% of the men have small business (like grocery shop or itinerant trading etc). Despite the high income of Rs 21,000 per annum, the low number of people pursuing it points towards high entry barriers in terms of investments and generally lower opportunities. Participation of women is negligible in Business. As expected, household chores is largely seen as 'women's work'.

Table 1: Primary and Secondary Employment scenario (Age Group - 18-59 years)													
	Primary Employment				Secondary Employment				Primary + Secondary				Total %
	No.		%		No.		%		No.		%		
	M	F	M	F	M	F	M	F	M	F	M	F	
Unemployable			-	-							-	-	
Student	46	4	9.1	1.0					46	4	9.1	1.0	
Total not available for employment	46	4	9.1	1.0					46	20	9.1	4.9	
Total considered for employment	458	403							458	403	90.9	99.0	
Unemployed	21	6	4.6	1.5					21	6	4.6	1.5	3.14
Housework	9	348	2.0	86.4	2	29	0.40	7.12	11	377	2.4	93.5	45.06
Agriculture	134	27	29.3	6.7	76	103	15.08	25.3	210	130	45.9	32.3	39.49
Agricultural Labour	6	4	1.3	1.0	12	19	2.38	4.6	18	23	3.9	5.7	4.76
Average income (Rs.)	5966	2575			2662	2110			3763	2191			
Non-agricultural Labour	169	12	36.9	3.0	19	4	3.77	0.98	188	16	41.0	4.0	23.69
Average income (Rs.)	13214	6050			5931	2962			12478	5278			
Business	29	-	6.3	-	1	1	0.20	0.24	30	1	6.6	0.2	3.60
Average income (Rs.)	21050				48000				21948	-			
Service	41	3	9.0	0.7	-	-	-	-	41	3	9.0	0.7	5.11
Average income (Rs.)	49557	7333			-	-			49557	7333			
Others	49	3	10.7	0.7	23	1	4.6	0.24	72	4	15.7	1.0	8.83
Average income (Rs.)	26971	14400			4963	1200			19941	11100			

About 22% of the total sample population has secondary engagement as well. About 15% of the men are engaged in farming as a secondary occupation. A higher proportion of women i.e. 25% of the females are engaged in agriculture as secondary occupation. Agricultural wage labour is practically non-existent as an activity. Either all operations are highly mechanised reducing need for labour or returns are not attractive enough and people have shifted to more paying wage earning opportunities.

Income reported by 'service' holders is quite high but service opportunities are rare as only 5% are engaged in 'Service'. The role of women in 'Other' activities viz. grazing and herding of large herds is minimal. There is a wide gap between the average per annum income of men and women, with the former earning Rs 26,971 p.a. and the latter a meagre Rs 14400 p.a. in their primary employment. This could be largely attributed to most women reporting household chores as primary employment. (Refer Table 1).

Households with	No. of HH	Average annual amount remitted home (Rs.)
1 migrating member	102	9,360
2 migrating members	36	4,672
3 migrating members	15	1,500

Table 2, illustrates that migration is a common phenomena with nearly 55% of the 271 households have at least one family member migrating seasonally. The average annual income is less than Rs. 10,000. In about 13% of the households more than one member migrates seasonally. The average income reduces drastically with every additional person migrating in the family. Migrating members are primarily engaged as domestic help and to lesser extent in business viz. trading or working as attendants in shops etc.

4.3. Income from common activities of households

This includes activities that the family members pursue collectively or two or more members of the family work on same/ different aspects of the activity or an income that accrues collectively to the family.

	No. of household	Average (Rs.)
Milk and milk products	23	3163
Horticulture/ vegetable	1	10000
Regular animal sale ⁶	10	3570
Family remittances	5	2540
Family/ caste occupation	1	3600
Others	31	13451

⁶ Regular animal sale refers to situation where livestock is reared primarily for regular sale, for example by the pastoral community (and not like sale of draught/ milch animals which may be occasionally sold once in a while) but is neither primary nor secondary activity for any individual.

As per Table 3 sale of milk and milk products, involves about 8% of the households. At present a miniscule number of households practice horticulture. The potential for popularising and scale up of horticulture should be explored, as the returns from it are much higher than any other commonly pursued activity. Commonly pursued activities if encouraged could be an important source of supplementary income at household level and open further avenues for diversification of livelihood opportunities at the village level.

4.4. Agriculture and Landholding details

The average land holding size per household is about 3.5 acres. About 25% of the households are landless, resulting in nearly 24% of the population working as non-agriculture labour. About 50% of the land owning households have irrigated land with 47% of them owning irrigated land size of 3.1 acres and more.

Table 4, reflects cash inflows from agriculture. Although cash surplus deals with the surplus income generated from agricultural sales, cash deficit does not necessarily denote loss incurred, as there are households, which do not sell their produce but keep it for their own consumption.

Table 4: Cash Inflow from Agriculture		
	No. of households	Average (Rs.)
Cash surplus from agriculture	42	18635
Cash deficit from agriculture	157	(-) 9921

Only 15% of the households pursuing farming report earning Rs. 18600/- on an average. Thus, most households do not sell agriculture produce. Cash Income from other sources of income is ploughed into agriculture as production inputs. However, agriculture plays an important role in ensuring food security of a household,

4.5. Livestock

There is far greater stress on milch animals and mainly buffaloes. Buffalo milk predominates here. Goats are reared by 28% of the households. Livestock contribute to family well being in terms of use of its produce within the household, its role in augmenting income appears limited considering the findings in the section on collective activities.

Table 5: Livestock Details (number)			
Animal	Total	No. of Households	% of HH
Bullock	20	14	5
She-Buffalo	436	179	66
Cow	99	54	20
Goat	500	77	28
Sheep	56	2	1
Poultry	53	6	2
Camel	6	6	2
Others	25	8	3

Retaining bullocks for draught power is uncommon as only 5% households own bullocks. Ploughing is either mechanised or through male buffaloes. Poultry and sheep rearing are practically nonexistent in the area.

About 79% of the households rear animals to meet household consumption needs. Only 20% of the households purchase livestock for the sake of sale at a later period or for income generation from sale of milk and other animal products.

	Bank	Money Lender	Relatives	Own Capital	Inherited	Others	Total
Bullock	-	2	4	4	1	-	11
Buffalo	2	28	63	31	3	2	129
Cow	-	5	13	17	11	2	48
Goat	-	9	31	19	4	2	65
Sheep	-	1	-	-	-	-	1
Poultry	-	1	1	4	-	-	6
Camel	-	2	1	1	-	1	5
Others	-	-	2	4	1	-	7
Total	2	48	115	80	20	7	272

As per Table 6, nearly 42% of the livestock are financed from loans taken from friends and relatives, and 29% from own capital. In 17% of the cases households have resorted to credit from moneylenders.

Maximum diversity in source of finance is evident in case of purchase of buffaloes indicating a priority in purchase perhaps to fulfill household needs, investment as an asset and in terms of the potential for supplementing income. In the past ten years nearly 51 she-buffalo have been sold. Extent of sale in other animals is low. Only five bullocks have been sold in the same period hence the shift to alternate modes of draught animal/ mechanization is a phenomenon that started much earlier. In 30% of the instances animals are put on sale when they cease to be useful and in 21% of the cases livestock is sold for meeting household expenses.

4.6. Dwelling

Nearly 29% of the respondent households own a second house. Amongst land owning households, a common practice of building houses in the field in addition to one in the village is a plausible reason for this.

Approximately 52% of the houses are medium sized. About 91% of the houses have cemented roof including stone slabs, the walls are made of stone blocks. The dominance of stonewalls (78%) may be because of the easy availability of stone blocks as building raw material. Likewise cemented roof is dominant possibly because of the prevailing culture of using stone slabs as roofing material. Majority i.e. 83% of the houses were constructed prior to the year 1995. There is only one incidence of sale of house for meeting educational expenses.

A separate kitchen is available in 41% households, while 5% of them have a separate toilet and separate cattle shed is in 42% households. Electricity connections are available in only 15% of the households (even though all other villages other than Chainpura have electricity connection). Gas has made inroads in 3% of the households, only 5% of the households have potable water facility is available either inside the household or in close vicinity.

4.7. Assets

Households' own assets like dwelling units, arable land, livestock, jewellery, bore wells and other movable assets. Nearly all households own charpai. Besides Charpai, other items of furniture like chair, table are not a necessity. Next most common asset is cycle where 39% of the households own at least one bicycle.

	Total number	No. of Households	% of households
Radio	28	28	10
Television	24	23	8
<i>Almirah</i>	17	16	6
<i>Charpai/bed</i>	1493	270	100
Chair	100	29	11
Table	13	12	4
Fan	53	44	16
Sewing machine	21	21	8
Camel cart	5	5	2
Bullock cart	10	7	3
Bore well	114	87	32
Pump set	52	45	17
<i>Kutti</i> machine	74	71	26
Cycle	109	107	39
Two-wheeler	22	20	7
Tractor	14	12	4
Telephone	9	9	3

Ownership of agriculture and irrigation equipments reflect the subsistence nature of agriculture and small land holdings; as only 4% households have tractors, bore wells and pumps are owned by 32% 17% households respectively. About 8% and 10% of the households own television and radio respectively. Thus unlike other parts of the country radio is still not a very commonly owned item. This also shows the limited outreach of mass media in rural parts of Karauli.

As shown in Table 8, about 66% of the purchase of household assets (irrespective of value of the asset involved) is made from own capital and 5% on loans from moneylenders. Borrowing from banks is negligible. Only in 17% of the cases assets are either inherited/gifted.

Table 8: Mode of Finance of Asset Acquisition								
	Bank	Money Lender	SHG/MFI	Relatives	Own Capital	Inheritance	Others	Total
Radio	-	-	-	-	15	2	-	17
Television	-	2	-	1	10	7	-	20
<i>Almirah</i>	-	-	-	-	5	9	1	15
<i>Charpai</i> /bed	1	1	-	6	103	7	1	119
Chair	-	-	-	1	12	6	-	19
Table	-	-	-	-	6	5	-	11
Fan	-	-	-	-	18	8	-	26
Sewing machine	-	-	-	-	4	2	-	6
Camel cart	-	2	-	1	-	1	-	4
Bullock cart	-	2	-	1	1	-	-	4
Well/Bore well	-	5	-	6	9	5	-	25
Pump set	1	2	-	8	4	1	-	16
<i>Kutti</i> machine	-	1	-	3	11	9	-	24
Cycle	1	4	-	5	36	7	-	53
Two wheeler	1	1	1	3	9	1	-	16
Tractor	1	1	-	2	4	-	-	8
Truck	-	-	-	-	-	-	-	-
Telephone	-	-	-	-	9	-	-	9
Other	1	-	-	6	40	6	-	53
Total	6	21	1	43	296	76	2	445

Thus, mainly household items are purchased from own capital. Even in case of expensive purchases like two-wheelers, tractors, bore wells, pump sets the households spend from their own capital and rarely borrow from banks. Barely 8% households have reported purchase of assets for income generation. Household assets have never been sold. Credit does not play an important role in asset acquisition. Ornaments are very rarely sold Jewellery is generally inherited or as received as gifts on the occasion of marriage.

On an average a households expend about Rs.45, 000 per annum, while the average income (which includes primary income, secondary income, annual common income and cash surplus from agriculture) is about Rs.30, 000.

Table 9: Total Expenditure and Total Income

Size of Expenditure/ Income	Household with given size of Total Current Expenditure		Household with given size Total Income = Primary Income + Secondary Income + Agriculture Cash Surplus + Annual Common Income	
	No	%	No	%
None			19	7
Around 5000	7	2.58	41	15
5000-15000	49	18	65	24
15000- 20000	43	16	28	10
20000-30000	62	23	35	13
30000-50000	60	22	33	12
50000 and more	50	18	50	19
	271		271	

About 7% of the households do not report any cash income. Though around 15% of the households earn around Rs 5000 per year, only 3% spend the same amount. Thus, most households in this income category earn less than their expenditure requirements. This is further collaborated by the fact that in the Rs.15, 000 -50000 range, the number of households earning the amount is much less than the corresponding number of those spending the same amount. Thus, the gap between the cash inflows and outflows poorest of the poor households is quite substantial. This gap between income and expenditure narrows as we move up the income ladder and at 50,000 and more the number of households reporting the income and expenditure is completely balanced. Thus poor need access to financial services like credit to meet expenditure.

4.8. Annual expenditure

Table 10: Current Expenditure (no. Of households reporting)

Size of Expenditure (Rs)	Food	Local Conv ey.	Minor health problems	Fuel	Clothes	Social Exp.	Educ ation	Alcohol / mahua	Animal Feed	Litigati on	Migrati on
<=2500	9	253	241	230	182	238	130	192	95	11	51
5000	29	7	15	19	59	21	21	17	43	2	12
10000	80	3	7	6	10	3	8	8	27	3	14
15000	71	2	2	4	4	-	4	2	8	1	13
20000	36	-	1	-	1	1	2	1	4	1	10
25000	21	-	-	1	-	-	2	-	1	1	5
30000	4	-	-	-	-	-	1	-	1	-	3
40000	8	-	-	3	-	-	-	-	-	-	6
50000	1	-	-	-	-	-	-	-	1	-	1
75000	4	-	-	1	-	-	2	-	1	-	1
100000	2	-	-	-	-	-	1	-	-	-	-
>100000	3	-	-	-	-	-	1	1	1	-	-
Total HH	268	265	266	264	256	263	172	221	182	19	116
Average exp	Rs.17 172	Rs.81 9	Rs.1439	Rs.16 87	Rs.23 16	Rs.111 2	Rs.4241	3535	Rs.8581	Rs.5039	Rs.9024

Table 10 shows the expenditure pattern of households. Around 38% of the total household income and 58% of the total expenditure is spent on food. About 55% of the households have at least one member migrating, the average expenses on migration, which involves cost of settling down at the destination, is next only to food. However, as evident from Table 2 the average annual remittance from one member is only marginally high. Expenditure on Animal feed is the third highest in terms of amount spent. Thus besides food, productive investments constitute a major part of the expenditure. The average expenditure on education of all students in a household is about Rs.4200 – it may involve expenses on students living outstation.

4.9 Savings:

The study found that nearly 78 % of the total 271 households save. Table 11 illustrates that 58% of the total household surveyed save only one avenue. Keeping cash at home is the only way of saving money for about 92% of the total households that save in one avenue. This also indicates that around 51% of the households surveyed save only at home. Only 3% of the total 271 households park savings only in banks. The share of other formal and semi formal institutions like SHGs, Post Offices and others is almost negligent.

Table 11: Household's saving in only one avenue	
Saving Avenue	No. Of Households
Post Offices	2
Bank	7
Cooperatives	1
SHG/MFI	1
Cash parked at home	140
Temporary Assets (money in lending)	1
Total	152

In money terms about 14% of the total reported savings are deposited in bank, another 6% in cooperatives and 5% of the savings are deposited at post offices. In case of deposit of around Rs 500 size, 70% of them are kept as cash at home, 19% are deposited in banks and another about 4% is saved in cooperatives. In deposits of size more than Rs.2500, banks attracts 28%, Life Insurance 20% and post offices involve about 8% of such deposits. An analysis of saving patterns makes it evident that in case of large deposits people are more likely opt for saving products offered by formal financial institutions like banks.

Nearly 55% of the households do not opt for any particular periodicity while parking savings. This could be attributed to lack of regular source of income, as a result households save as and when they have surplus. Another 20% save at monthly intervals. In case of Life Insurance 63% households opt for half yearly deposits while only 15% opts for monthly deposits. However, overall only 6% of 271 households surveyed were saving in life insurance.

From Table 12, it becomes obvious that in terms of value of savings apart from savings kept as temporary assets, bank is the most important savings avenue. In terms of number of instances cash at home predominates, bank and Life Insurance rank next but much lower in terms of number of cases. Average saving size in the instance of cash kept at home is about Rs.1000, while that in case of bank and cooperatives is about Rs.10, 000 and Rs.18,000 respectively.

Saving Avenue	Total Amount Deposited (Rs.)	% of Total Savings	No. of instances	Average per capita Saving (Rs.)
Post Office	179,600	9.8	14	12,829
Bank	487,590	26.6	45	10,835
Cooperatives	143,900	7.9	8	17,988
Life Insurance	176,739	9.7	19	9,302
Company	319,430	17.5	4	79,858
SHG/MFI	1,200	0.1	1	1,200
Cash parked at home	218,800	12.0	193	1,134
Temporary Assets (Money lent out)	302,600	16.5	11	27,509
Total	1,829,859	100	295	

Majority of the savings deposits of higher denomination (Rs.10, 000 and more) are parked in formal avenues, viz. banks, Life Insurance, cooperatives and post offices. One conclusion that can be drawn from this is that the outreach of banks is limited to economically better off families. The poor largely do not avail saving products of formal financial institutions

The deposits in life insurance schemes seem to suggest the likely penetration of insurance agents in the villages and restriction of post office to postage related functions only.

Of the total withdrawals (from savings) in 44% of cases it is made from savings kept as cash at home, in about 32% of the instances the withdrawals are made from the banks and in about 14% of the incidences the post office accounts are accessed. . Overall 37% of withdrawals are mainly for meeting household needs and 35% followed by social expenses.

Table 13, demonstrates the criteria which determine people's choice for a saving product. 'Accessibility' is an important consideration across all the savings avenues put together. 'Return' and 'security' is not as important a consideration.

	Extremely Important	Important	Ambivalent	Less Important	Irrelevant	Total
Accessibility	123	131	39	10	1	304
Return	11	55	78	97	63	304
Security	55	63	148	28	10	304
Liquidity	156	73	56	18	1	304

However, in the case of savings in banks and other formal institutions, the accessibility and liquidity to savings is not a prime consideration. This could be because people opting to save in banks deposit large amounts for a long term, which are withdrawn for specific purposes. Thus, the amount and purpose of saving also determine the selection of saving product. But largely in the case of small deposits, 'accessibility' and 'liquidity' of savings and not 'returns' is significant.

4.10 Outstanding credit

Table 14 depicts that small loans fall in the range of less than Rs. 5000 and represent barely 12% of the total loan. Most of the loans are above Rs 15,000. Friends/relatives emerge as the biggest lending irrespective of the amount of the loan. About 46% of the loan is taken from family friends with interest and about 25% from money lenders with collateral, only about 9% of the loan in this range is availed from cooperatives/ bank

	Cooperatives/ Bank	Chit Fund	Moneylender With Collateral	Moneylender Without Collateral	Family Friends with interest	Family Friends without interest	Others	Total	%
2000	1	-	-	2	9	2	-	14	3
7500	3	-	6	16	23	6	-	54	13
15000	9	1	5	21	56	6	-	98	23
30000	10	-	11	22	60	3	-	106	25
50000	4	-	8	10	38	1	1	62	15
100000	5	-	6	19	31	-	-	61	15
More	4	-	3	7	14	-	-	28	7

Majority of the loans sanctioned from banks and cooperatives fall between Rs 15000-Rs. 30000. Perhaps a key finding is the fact that SHGs/MFIs have a negligible role to play in credit disbursement. At present the informal sector largely fulfils the credit needs of the rural populace.

Outstanding loan is the amount of money that remains to be repaid to the loan source on account of any on going loans. In Table 155, outstanding from different sources have been clubbed. Average outstanding loan size per household is massive at around Rs.125, 000. About 13% of the 231 households with outstanding actually have a loan outstanding amounting to Rs.100, 000 and above.

Table 155: Size of Total Outstanding Loan	
Outstanding Loan Amount	No. of HH
1000	1
2000	2
5000	9
7500	5
10000	9
15000	18
20000	12
30000	29
40000	21
50000	22
75000	47
100000	24
More	32
Average outstanding loan =Rs.124,704	

It is interesting to note that about 70% of the loans do not have any predetermined periodicity of repayment scheme suggesting thereby that periodicity of loan repayment is not the norm. Most loans from moneylenders are repaid annually.

Table 166: Per annum rate of interest Charged on Loan				
Less than 9%	9%-12%	12%-18%	18%-24%	Total
15	19	28	335	398

Table 16, makes it is clear that 18-24% annual interest rate is the most prevalent interest band. Rates higher than 24% have not been reported. In fact, in about 69% of the total loans, the interest rate is 24%. In general one third of the cases, the loans were incurred to meet social expenses, followed by those taken for asset purchase (21%).

About 50% of the people who have borrowed from banks state the purpose as income generation. Loan from informal sources like friends and family and moneylenders is primarily for social expenses (31% cases) and health expenses as in 23% of the cases. Thus, formal institutions generally give loans for productive investment whereas informal sources lend for all purposes.

In Table 17, the criteria that determine choice of a loan product are reflected. On analysing the cost incurred (which apart from the rate of interest involves opportunity costs and other additional costs) by families on loan, the study found that cost does not play a very significant role in deciding the source of credit. But across all the sources of credit, accessibility is a crucial consideration.

	Extremely Important	Important	Ambivalent	Less Important	Irrelevant	Total
Accessibility	83	182	121	8	3	397
Cost	26	51	248	69	4	398

Cost of credit is important only in case of Cooperatives, Banks and moneylenders offering loan with collateral as across all the other sources majority are either ambivalent or rate it less important

Loan in kind: These are loans which the have taken in terms of goods includes credit based transaction with the local grocery shops and from grain banks. About 35% of them engages in it and the average loan size in this case is only about Rs.4800 thereby signifying that the loan amount is quite small yet it is critical.

4.11 Events

Across a ten-year period the respondent households experienced the following events: there were 282 birth related events, 258 marriages, 76 deaths ,about 214 instances of animal and 201 asset purchase, 60 irrigation equipments were purchased and 51 wells sunk. The population over all reported 182 events of health/ accident related heavy expenditure.

Savings	Sale of asset	Grants	Remittances	Borrowings
49	2	3	1	63

When all the events are considered collectively, in about 63% of the total event the expenditure is met from borrowings, followed by savings. Except for birth and other asset purchase wherein in maximum number of instances the expenditure is met through savings that accrue.

	Savings	Sale of asset	Grants	Remittances	Credit
Marriage	31	2	3	1	64
Birth	45	-	3	-	53
Health	9	3	1	-	86
House building / repairs	42	2	2	1	52
Agricultural land purchase/ lease-in	75	-	-	-	25
Livestock purchase	27	4	-	-	68
Other asset purchase	39	-	-	-	61
Death	18	1	1	-	80
Litigation	-	-	-	-	100
Irrigation equipments	28	1	-	-	71
Water Well	28	-	-	1	71
All events	31	2	2	1	65

Besides the number of cases, even in terms of amount, credit is the most important source of finance except in case of agricultural land purchase wherein expenditure is mainly from savings. Unpredictable expenses like death and on health are largely met through credit. The role of sale of asset, of grants and remittances in funding events is almost insignificant. Events that involve high expenditure are more likely to be financed from different sources like daughters marriage, which is financed, from a pool of money generated through savings, credit, sale of assets and other sources. In contrast to this events like litigation are largely funded through credit.

	Bank	Money lender	SHG	Relatives/ Friends
Marriage	4	80	-	137
Birth	-	36	-	99
Health	1	57	-	100
House building / repairs	1	16	-	21
Agricultural land purchase/ lease-in	1	2	-	1
Livestock purchase	4	47	-	104
Other asset purchase	3	13	1	30
Death	-	13	-	53
Litigation	-	1	-	1
Irrigation equipments	-	15	-	31
Water Well	9	12	-	17
All event	23	292	1	594

As shown in table 20, In about 64% of the total events households take loan from their relatives. Loans from family/ friends are taken for marriage, major health problems and birth. The next viable option is that of borrowing from moneylender (33%). Banks feature only in about 2% of the total instances. SHGs cover a miniscule number of households. As expected, informals.

	Bank (Rs.)	Money lender (Rs.)	SHG (Rs.)	Relatives/Friends (Rs.)
Marriage	75,500	39186		30973
Birth		2,939		5859
Health	8,000	17444		12863
House building / repairs	60,000	28,013		49381
Agricultural land purchase/ lease-in	23,000	13,500		140,000
Livestock purchase	15500	8726		9687
Other asset purchase	23,000	38,985	33,000	11357
Death		13,692		13132
Litigation		20,000		4000
Irrigation equipments		24,933		52358
Water Well	51,444	61,625		8494
For all events	42913	23762	33,000	18691

In case of meeting major medical expenditures, other asset purchase, death and litigation, the average loan size from borrowing from moneylenders is the maximum. Only in case of marriage, house building and repair and livestock purchase the average loan availed from bank is the highest. In about 88% of the instances of loan incurred for events 24% of interest is charged per annum.

Field Notes:

Village: Andhiya Kheda (Karauli)

Agriculture and other occupations: The average landholding size is in the range of 4.3-4.9 acres and the main occupation of the inhabitants of the district is agriculture but water scarcity and high cost of water lifting and other inputs makes agriculture a non-profitable proposition. The benefit realized from 0.6 acre of land is only about Rs.1000-1500 (non cash crop) including own labour. During farming season most of the farmers with average land holding of 3.1-4.9 acres takes loan from the moneylender at an interest rate of 24% per annum.

Social Practices: A case

Mangal Singh (belonging to the Gujar community) is a farmer with 4.3 acres of holding; he has two daughters and two sons. During May 2005, his two daughters were married for which he had to make an expenditure of about 1.5 lakh of which about Rs.90, 000 was arranged as loan from moneylender at an interest rate of 24%. Although the marriage was organized as planned but the fear of failure of repaying the loan resulted in depression and tension among the family members and as a result his wife was hospitalized, which again cost him around Rs.3000.

The expenses on occasion of marriages of Gujar family initiates when the prospective bride's family approaches the bridegroom's family. Mangal Singh went 'Chitre ki Jhopadi' to meet his son in law. He invested Rs.500 in travelling. Next time around he went to the groom's place along with his five brothers to finalize the marriage, for which he had to buy new clothes and sweets and therefore had to spend about Rs.2500. On the day of 'Raksha Bandhan' 11 family member from the groom's family came to his place for communicating the message of finalization of the alliance to the community members. Mangal Singh had to feed the guests and also buy gifts for them as parting gifts for which he had to again spend Rs.10000.

On the day of 'lagan' about 1500 villagers were fed and the expenditure was about Rs.20000 and on day on marriage about 300 guests from the bridegroom's family had arrived. Mangal Singh had gifted a glass and a token amount of Rs.11 to all these guests which amounted to a sum of Rs.40,000. At the time of 'vidai', he gave a bicycle, a fan, a box, utensils and clothes for the entire bridegroom's family along with a cash gift of Rs.51000 as dowry. The cost of the gifts was about Rs.22, 000.

Thus the total expenditure on the occasion of the marriage adds up to Rs.1.5 lac of which apart from the Rs.90, 000 loan taken from the moneylender he had to sell one of his buffaloes for Rs.11,500 and for the rest of the finance he had to resort to his friends and relatives for loan but without any interest.

4. Conclusion

The number of men reported as non- agricultural labourers (nearly 37%) is more than that reported as farmers (about 29%). The average income from non-agriculture labour is around Rs.13, 000 per annum.

The average land holding size per household is small and only 3.5 acres. Landlessness is quite high at about a quarter of the surveyed households. High proportion of landlessness and smallholdings perhaps contribute to the fact that population engaged in occupations as non-agriculture labour in fairly large numbers. About 50% of the land owning households own irrigated land and of them about 47% have irrigated land size of 3.1 acres and more.

Milch animals and especially buffaloes are owned by 66% of households, only 5% of them own bullocks. Nearly 29% own a second house possibly because people live on field sites also for a part of the year.

For purchase of assets, households resort to their own capital in 66% of the cases, with very rare incidence of borrowings from banks (1% of cases) and from moneylenders in 5% of cases. In 17% cases assets are either inherited or gifted. Even in cases of bigger purchases viz. tractors, bore well, pump sets, two-wheelers households spend from their own capital and rarely approach banks for finance.

Maximum average expenditure is incurred on food by a majority of the households. The average expenditure on education of all students in a household is about Rs.4200 – it may involve expenses on students living outstation. Animal feed is a major expense head.

Nearly 78% of the households save. Most of these households save only at home. Only 3% total 271 households' park savings in banks. In terms of amount , about 14% of the total reported savings are deposited in bank , another 6% in cooperatives and 5% of the savings are deposited at post offices.

Majority nearly 55% of the households do park savings at any predetermined interval/ periodicity. Accessibility is an important consideration across all the savings avenues put together. Return and security is not as important a consideration. However, in the case of savings in banks and other formal institutions, the accessibility and liquidity to savings is not a prime consideration. This could be because people opting to save in banks deposit large amounts for a long term, which are withdrawn for specific purposes. Thus, the amount and purpose of saving also determine the selection of saving product. But largely in the case of small deposits, 'accessibility' and 'liquidity' of savings and not 'returns' is significant.

About 21% of the households have a loan outstanding amounting to Rs.100, 000 and above. Average outstanding loan size is about Rs.125, 000. Not all loans carry any interest rate. Yet it is clear 18-24% annual interest rate is the most prevalent interest band levied on loans. Rates higher than 24% are not been reported. In fact about 69% of the interest bearing loans is charged interest rate of 24%.

On analyzing the periodicity of loan repayment, we observe that 13% of the total loan involves half yearly repayments, while 70% does not have any predetermined periodicity of repayment scheme suggesting thereby that periodicity of loan repayment is not the norm.

Please also refer to the Brief Note on the Findings of the 'Cash Flow Study of Rural Households in Rajasthan' Annexure 1

Annexure 1

Brief note on the findings of the 'Cash- Flow Study of Rural Households in Rajasthan'

Objective of the study:

The study has been undertaken by Centre for Microfinance, Jaipur to understand the existing pattern of cash flow, acquisitions, investments and credit in the rural areas of the state of Rajasthan. The study also aims to identify opportunities of financial interventions for planning a comprehensive business strategy to ensure certain degree of financial stability among the rural population.

Study Area and methodology

The study covered 1604 rural households in 36 villages of 6 blocks in 5 districts- Pugal and Nokha in Bikaner, Khandar in Swai Madhipur, Nadoti in Karauli, Suwana in Bhilwara and Pisangan in Ajmer.

These blocks were selected to cover diverse agro-climatic zones. The study did not focus on any particular category or class, the sample households were randomly chosen. A structured questionnaire for HH data and a checklist for Focus Group Discussion were used.

A team of 10 researchers collected the information in November 2005 to January 2006.

Profile of respondent Households

- The study covered 1604 randomly selected household of which 28% were from BPL category. The lowest number of BPL were in Pisangan (Ajmer) and highest were in Nadoti (Karauli)
- Majority of Households covered in the study own Kachha Houses

Major Observations/ Findings

Coverage of Formal Financial Institutions like Banks, Cooperatives and Insurance Companies: Banks have an outreach to about 30% households. These are mainly public sector banks and cooperative banks. Private banks have not yet reached the rural areas. Surprisingly very few households (10%) have reported the membership of cooperatives (PACS).

About 11% of households surveyed reported having insurance policy. These are mainly life insurance policies. Assets like tractors and animals are only insured, when purchased through government schemes or bank loans.

Occupation of Rural Families

- Around 37% of the people are agriculturist. Almost equal numbers of people have reported agriculture as their secondary occupation. About 90% women have reported 'household chores' as primary occupation and about 70% of them named 'agriculture' as secondary occupation.
- Second important occupation is 'non agriculture labour'. Almost 25% people have reported non-agriculture labour as their primary occupation and same number have reported it as secondary occupation. A large number of the poor are occupied as wage labour.
- 'Service' is third important occupation of rural households, with 12% people reporting it as their primary occupation. 'Service' includes work in factories, shops, government or private service. Service has not been reported as Secondary Employment. 'Non-Agricultural Business' like grocery shops and itinerate trading is another important occupation reported by about 8% of people.
- 'Agriculture Labour' is only a peripheral activity even for poor. Only 2-3% people reported 'agricultural labour' as their primary and secondary occupation. This means that there are enough family members who can take care of agricultural operations as most households practice subsistence agriculture. In some places there is mechanization in agriculture and labour has almost been displaced. The wage rate in agriculture is also reported lower than the non-agriculture labour wage rate. Therefore, men and women prefer non- agriculture wage labour.

There is underemployment in agriculture and allied activities. Agriculture is still major occupation of rural people and the backbone of rural economy. More investments in agriculture especially in water harvesting, water management and others is necessary to enhance agricultural production and build food security. Animal husbandry and 'Non- agriculture business' have the potential of both providing additional employment and to bring in frequent cash flows. In addition, non-agricultural business like small shops, itinerant trading and informal service sectors are promising areas for future employment.

Participation of women in service and business is very less (almost negligible) and it needs to be increased. The low literacy rate among women, social customs and traditions are inhibiting factors but the ray of hope is that women literacy has dramatically increased in recent past.

Major Sources of Household Income

- Under this section, the study only looked at income in the form of cash. For instance: In agriculture, if a household does not sell its produce and the production is entirely for household consumption, it is considered that the unit has no income from agriculture. In case the household has purchased inputs for agriculture but not sold the produce, it would have negative cash flow. But it does not mean that the household has 'loss' from agriculture.

- About 80% households own agriculture land. The average land holding is 17 bigha (about 4 hectare). About 48 % of households reported cash income from agriculture and the average income (cash inflow) is Rs.15117 per annum, ranging from a low of Rs. 9000 p.a. in Bhilwara to a high of Rs. 23000 p.a. in Pugal (Bikaner). Thus, 52 % of HH have negative cash flow in agriculture, and the average negative cash flow is Rs. 5400/- p.a. This means that, HH plough cash from other sources of income and spend on agriculture.
- Another major source of income is 'sale of milk and milk products' and 'animal sale'. About 30% of HH reported income from these sources and the average annual income from it is Rs. 10,000 from sale of milk and Rs 5000 from sale of animals. The lowest income from animal husbandry is in Sawai Madhopur and the highest in Ajmer. In Bikaner district, sale of animals is an important source of income.
- As mentioned in the Section on Occupation , 'non-agriculture labour' and 'non-agriculture business' are also important source of income apart from 'service'. few HH also have cash inflow from 'remittances' by family members who have migrated and practicing caste occupation like barbers, potters, blacksmiths, tailors etc.
- Minor forest produce, fishery, poultry etc are not reported as source of income.
- Average annual income from all sources is Rs. 38400, the highest average annual income is reported from Bikaner and the lowest is in Karauli.

More than 50% of households have subsistence agriculture and necessary expenditure in agriculture (seeds, tilling irrigation etc.) is financed from credit or from wages. An impact assessment study of the microFinance programme of an NGO⁷ in Dungarpur shows that the income of SHG members is 3 times higher than the non-members and the food security is better in member households. So larger investments on agricultural infrastructure at macro level and better access to microFinance would lead to improvement in income of rural households.

Major items of expenditure:

- The data on current expenditure in household consumptions, expenses on life cycle events and productive investments has been taken separately.
- Though the pattern of expenditure of rural households varies across districts, the major expenditure of most Households is on food.
- Average current (annual) expenditure of a family is about Rs 30700, the highest in Karauli and the lowest in Bikaner. There are large numbers of poor households that have more expenditure than the income.

⁷ Peoples Education and Development Organisation (PEDO) Dungarpur

- The biggest items of expenses in most rural households are: Food, cattle feed, local conveyance, health, and alcohol. The expenses on house construction are taken under life events but the expenses on house maintenance and repair is not much. Litigation is another big expenditure for about 20% of s.
- Households engaged in animal husbandry spend around 30% of the total expenditure on Cattle feed. Apart from current expenses of a family, there is substantial expenditure on life events like marriage, birth, death, litigation; on health related events and construction of house; and productive investments like deepening of wells/ new wells, pump sets, tractors, purchase of cattle etc.
- Financing of Life Cycle Events: About 24% of the expenses on life cycle events are made from savings and 64% of the funds are taken as loan. Nearly 8% funds are mobilised by sale of assets like animals and rest comes as grants/ gifts. Moneylenders and friends/relatives provide loan for all events but the Banks provide finance to few people and only for asset purchase like animals, agricultural implements, irrigation purposes etc. Overall 92% of loan for the events comes from informal sources like moneylenders, friends/ relatives etc, and only 8% loan (for events) comes from banks and cooperatives.

Large expenditure on social events like death feast and marriages lead towards indebtedness for two reasons; one the non-productive nature of expenditure and other is the cost of credit (as large portion of such expenses comes as loan). So a long-term strategy of social awareness along with making cheaper credit available (to reduce the burden of high cost of credit) would be effective.

Poor infrastructure in rural areas (roads, connectivity, non-availability of health services etc.) adds to the household expenditure burden. Retailing in rural areas is one sector that has potential.

Savings

- About 80% of households report savings. Average saving⁸ per household is Rs. 10400, at the given point of time. About 30% savings are less than Rs. 1000/-, 53% savings are less than Rs. 2000/- and 2/3rd of savings are less than Rs. 5000/-
- Average savings for BPL households is Rs. 3961, at the given point of time.
- About 34% of total savings are in form of cash in hand or as loan given to friends and relatives. Second important saving option is 'Banks'. About 28% savings of rural HH are in banks. LIC and other companies are third saving option with 24% savings. Post Offices have about 6% savings. Self Help Groups are also used for savings but they have limited membership. With regard to the number of savings (not the amount) 75% of savings are in form of cash in hand and only 6% in banks, 4% in LIC and 1.5% in post offices.

⁸ It should be kept in mind that it is only the average saving, and it does not mean that all households have this size of savings. Also, these are accumulated savings so far and do not in any way indicate the surplus of a family.

- Most households have expressed their desire to save but they hesitate to go to banks or post offices because the amount they have for saving is too small and they would need the money back within short period of time. So they prefer to keep that small temporary amount with them as cash. But if a trustworthy party provides the saving services at doorstep, large amount can be mobilised. People will prefer any saving product that is secure and flexible.
- About 57% of the savings are on monthly basis; Savings in LIC is six monthly or yearly. People withdraw savings primarily to meet social expenses (34%), household needs (30%) and asset purchase/ livelihood (20%)
- It is interesting to note that some agents of companies (mainly LIC and Sahara) are already in rural areas offering the saving / insurance products. Banks are extending services to well to do households (who have regular surplus to save) but with rest of the households also, there are small surpluses that can be mobilized.

One of the challenges for micro finance is to offer a suitable saving product to poor. SHGs are mobilising a small part (i.e. a minimum sum that every member is able to save regularly). There is a need for innovative way of mobilizing savings. The post offices network is largely unused. Banks need to increase their outreach either through bank-correspondent model or through mobile banking where a bank van visits the villages periodically and people can do transactions easily. People need innovative and customized saving products to take care of the expenses on predictable life events like marriages, house construction etc. and non predictable ones like accidents, health hazards etc.

Credit/ Loan

- Information on 'live loans'⁹ was collected. About 83% households reported one or more outstanding loan. The level of indebtedness is high. Average outstanding loan is Rs. 65000/-. The lowest average loan is in Bhilwara (Rs. 36,000/-) and the highest indebtedness is in Karauli (Rs. 1.24 lakhs).
- Average loan outstanding to BPL households is Rs. 35563/-
- Most important source of credit is friend/ relative, about 40% of total credit is from them (37% on interest and 3% without interest). So far general impression was that the friends and relatives give small loans without any interest. But it has come out very clearly that there is a new class of moneylenders (people with regular income like government servants, servicemen, etc.) who prefer to use their surpluses as loans to their known/ relatives.
- The quantum of loan from friends/ relatives also varies across districts e.g. In Karauli they provide about 75% of rural credit whereas in Pugal (where most people are resettled from different places) their share of credit is only about 14%.

⁹ Loans that are currently being repaid, irrespective of when the loan was taken

- The second important source of rural credit is still the moneylenders. They provide about 37% of credit about 28% without collateral and 9% against some collateral. This is contrary to popular perception that moneylenders provide loans against big collateral. The study found that the moneylenders have their own assessment about creditworthiness of the borrower and they ask for a guarantor. But from very poor people, they also ask for collateral.
- Banks provide about 24% of credit to rural areas. And the share of SHGs is negligible primarily because of their limited coverage and the small loan size.
- About 9% of the loans fall in the range of Rs. 1000-5000 and are mostly from informal sources including SHGs, 70% loans are in range of Rs. 10000-50000 and except SHGs all sources provide these loans and 60% loans from banks fall in the latter category. Loans up to the size of Rs 10,000 are 20% of total loan portfolio. Relatives and friends provide 42% of these loans; around 50% is from moneylenders and rest 8% by SHGs and banks. Loan of size Rs 10000 to Rs 25000 are taken from Moneylenders, larger loans are from banks, could be due to transaction costs involved.
- Loans are repaid on mostly yearly and half yearly basis. About 21% loans are being repaid half-yearly and 27% loans are repaid on annual basis. There is no fixed repayment schedule for 41% loans. Smaller loan (up to Rs. 5000/-) are paid within a year but the larger loans continue, and only interest is paid regularly.
- The most prevalent rate of interest is 24% per annum. About 80% of the loans are on this interest rates. About 15% loans are on 12% annual interest rate (or less than that), these are the loans that are provided by banks. About 4% loans are on 36% annual or higher interest rate. The villagers are not very clear on actual interest rate and that may be the reason that although total loan from banks and cooperatives are 24% but only 15% loans are reported at 12% annual interest rate. About 82% loans are outstanding which means that people take loan and keep on repaying only interest. As and when they have surplus from agriculture or from sale of animals etc. they repay the principal amount.
- About 37% of the credit goes to meet social expenses; 16% loans are used for meeting health expenditure, 16% loans are for asset purchase and 14% loans are used for income generation and rest is on education, litigation, paying old debts and others
- Moneylenders and friends give loan for all purposes. Banks and cooperatives give mainly for productive purpose but it is used for social purposes also. The items that are purchased for income generation are: Camel cart, bore well and pump set, cycle, scooter, tractor, sewing machines etc.
- Most people attach high value to the accessibility of credit and low value to the cost of the credit. This is the reason that though the rates of interest of banks and cooperatives are low, but total market share of them is smaller than informal sources.

So the need is for customized loan products such that the borrower pay only interest and the principal is repaid in flexible instalments, say whenever the household has either surplus from agriculture or from sale of animals. A product can be launched to help people in repaying existing costly debt. If a family is given Rs. 40,000 as loan, it will pay the interest @ 15% pa (Rs. 6000) and it will save Rs. 4000/- annually (10,000-6000). Over a period of 10 years the family will be able to repay the entire amount without any additional cost.

Outreach of banks and cooperatives is only to 30% and 10% of the households respectively. For financial Inclusion of the poor the outreach of formal institutions have to increase. The small and irregular nature of transactions in rural areas will discourage banks to open new branches. So people can be linked with banks by use of information technology (IT) and by using Banking Correspondents. State Government should talk to banks and create enabling environment for increasing their outreach to rural areas.

Cooperatives seem to have limited themselves to a few influential and better off farmers.