

# Insights into the Cash Flow of Rural Households

*A study in Sawai Madhopur District, Rajasthan*



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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 strategies 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 Sawai Madhopur 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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## 1. Background

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

### Profile of Sawai Madhopur district

Sawai Madhopur is located in the South Eastern part of Rajasthan and has a total area of 4498 square kilometres. The district is divided into four subdivisions viz., Sawaimadhopur, Gangapur, Hindaun and Karauli. It has a population of 1,117,057 persons across 176,738 households. Nearly 20% of the population are Scheduled Castes and about 22% of Scheduled Tribes. The district's sex ratio is 889 females for every 1000 males and the under six-sex ratio is 902 females for every 1000 males. Both these ratios are much lower than the national sex ratio of 933 females for every 1000 males. The over all literacy rate is 57% (which is lower than India's literacy rate of 65%). The male and female literacy rates are 75.6% and 35% respectively. The work force participation rate is 42% (48% for males and 36% for females). Nearly 64% of the workforce are farmers, 25% are engaged in manufacturing, non-agriculture labour and service and 8% are agricultural labourers. (Census 2001)

## SAWAI MADHOPUR (Rajasthan)



The district has short rainy season with normal rainfall of 873 mm per annum. However rainfall varies from year to year, for instance in 2002 only 239 mm rainfall was received and in 2000 it was 389 mm.<sup>2</sup>

The total land area is 499,424 hectares, of which - 54.2 % is net sown area (261539 hectares), 15.7% of the area is forestland, 20% of land is either not available for cultivation or is classified as other uncultivated land, Culturable wasteland is barely 2% and about 9.8% consists of fallow land<sup>3</sup>.

The Net irrigated area (for the year 2001-2002) is 152,017 hectares (58% of the net sown area.). Of this area 92% is irrigated from wells and tube wells and only 6.1% by canals.<sup>4</sup> The Total cropped area is 340,537 and cropping intensity 130.2 %.

<sup>2</sup> Statistical Abstract, Rajasthan, 2002, page 59

<sup>3</sup> Statistical Abstract, Rajasthan, 2002, pages 129-130

<sup>4</sup> Statistical Abstract, Rajasthan, 2002, Page 159

In 1995-1996 there were 2,57,203 holdings. Around 43% of these holdings were less than one hectare in size (i.e. marginal farmers) and covered 9.5% of the area, small farmers constituted 24% of the holdings and held 16.4% of the area, Semi Medium farmers represented 19% of the total holdings and owned about 26.2% of the total area. Only 13.8% of the holdings were over 4 hectares in size but represented nearly 48% of the area.<sup>5</sup> Major crops grown in the district are bajra and wheat. Other crops include groundnut, sugarcane, maize, jowar, rice and barley.

There are six branches per lakh of population in the district. The district has 17 Regional Rural Bank (RRB) and 46 public sector banks. The average deposit and credit per branch as on March 2003 was Rupees 52 million and 24 million respectively. The Credit-Deposit ratio was at 46%.<sup>6</sup>

## 2. Methodology

In Sawaimadhopur, Khandar block had been selected for the study. In this block, based on the criteria of relative distance<sup>7</sup> from block headquarters six villages namely Talawada, Savalpur, Kasba Chan, Lahsoda, Singhorkala and Todra were randomly selected.

Across these six villages, 300 households were randomly selected from voter lists of the area but complete data of only 247 household (HH) representing a population of 1313 could be used for analysis.

In the preparatory phase of the study, Focus Group Discussions (FGD) with key informants were conducted in the study villages on caste and religious break up, availability of basic infrastructure facilities and people's perception on the employment trend. The information gathered was used to design the household survey.

A detailed survey was undertaken thereafter in the months of December 2005 to January 2006 by a team of enumerators conversant in the local dialect who were selected after due testing of arithmetic and other skills and thoroughly trained. 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.

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<sup>5</sup> *Statistical Abstract, Rajasthan, 2002, Pages 126-127*

<sup>6</sup> Centre for Monitoring of Indian Economy 2005

<sup>7</sup> 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.

### 3. Survey Findings

The Villages of Singhorkala, Talawada and Lahsoda are dominated by backward castes. Todra has a nearly equal distribution of 'Upper Caste', Schedule Castes and Schedule Tribes. Village Sanwalpur also has a large proportion of SC/ST households. Only three villages (Kasba Chan, Todra and Lahsoda) have electricity<sup>8</sup>. Inhabitants of Singhorkala and Lahsoda have to travel a distance of 12 kilometres to reach the nearest bus point while other four villages do have bus service. Post offices are located in all the villages except Sanwalpur. However they offer only postal services.

In all the villages except Todra, the main occupation is agriculture with an equal involvement of both men and women. In Todra majority of the people are engaged as non-agriculture labourer. There is equal participation of men and women in agriculture and non-agriculture labour (except in case of non-agriculture labourer in the village of Talawada.)

#### 3.1 Educational status

Over all literacy rate was found to be 54%. About 91% of the children in the age group 7-14 years are literate. In 7-14 years age group 91% boys and 77% girls (overall 83%) are reportedly in school. In the age category 15-17 years 72% of the boys and only 27% of the girls continue with their education. Thus though over the years the number of girls has increased in schools, the gender gap in education still persists.

#### 3.2 Employment and Income

We looked at primary and secondary employment in light of the primacy of different activities in the lives of the people pursuing them.

##### 3.2.1 Individual activities

From Table 1, it is evident that only 4% of the people are unemployable (due to health/ fitness grounds/ age) and less than 1% amongst 18-59 years old. The unemployment is lower than 1%. Amongst men 46% are engaged in agriculture as primary employment. Nearly 45% of the above 60-age group has been indicated as agriculturist. Only 2% men in the age group 15-18 years and 5% male in the age group 18-59 years pursue farming as secondary employment, a significantly high proportion of the women are engaged in agriculture as their secondary employment i.e. 18% in the age group 15-18 years and 28% in the age group 18-59 years.

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<sup>8</sup> It may be noted that availability of electricity does not automatically mean all households are using electricity.



**Table 1: Primary and secondary Employment Scenario (Age Group 18-59 years)**

|                                    | Primary Employment |       |      |      | Secondary Employment |       |      |     | Total % |
|------------------------------------|--------------------|-------|------|------|----------------------|-------|------|-----|---------|
|                                    | No.                |       | %    |      | No.                  |       | %    |     |         |
|                                    | M                  | F     | M    | F    | M                    | F     | M    | F   |         |
| Unemployable                       | 4                  | -     | 1.1  | -    |                      |       |      |     | 0.59    |
| Student                            | 25                 | 2     | 6.1  | 0.7  |                      |       |      |     | 3.98    |
| Total not available for employment | 29                 | 2     | 7.7  | 0.7  |                      |       |      |     | 7.22    |
| Total considered for employment    | 349                | 299   |      |      |                      |       |      |     |         |
| Unemployed                         | 3                  | 1     | 0.9  | 0.3  |                      |       |      |     | 0.62    |
| Housework                          | 6                  | 267   | 1.7  | 89.3 | -                    | 12    | -    | 4   | 44.9    |
| Agriculture/farming                | 162                | 12    | 46.4 | 4    | 20                   | 86    | 5.29 | 29  | 43      |
| Agricultural Labour                | 3                  | -     | 0.9  | -    | 8                    | 9     | 2.12 | 3   | 3       |
| Average income per annum (Rs.)     | 4167               | -     |      |      | 3286                 | 2289  |      |     |         |
| Non-agricultural Labour            | 91                 | 12    | 26.1 | 4    | 50                   | 24    | 13.2 | 8   | 27      |
| Average income per annum (Rs.)     | 10849              | 11895 |      |      | 4779                 | 2611  |      |     |         |
| Business                           | 36                 | 1     | 10.3 | 0.3  | 3                    | -     | 0.79 | -   | 6.17    |
| Average income per annum (Rs.)     | 19404              |       |      |      | 13500                |       |      |     |         |
| Service                            | 27                 | 4     | 7.7  | 1.3  | -                    | 2     | -    | 1   | 5.1     |
| Average income per annum (Rs.)     | 47312              | 33600 |      |      |                      | 60000 |      |     |         |
| Others                             | 21                 | 2     | 6    | 0.7  | 8                    | 1     | 2.12 | 0.3 | 5       |
| Average income per annum (Rs.)     | 29493              | 7450  |      |      | 7050                 |       |      |     |         |

Only 19% of the population reports a secondary engagement. In secondary employment non-agriculture labour provides employment to 13% of the men and 8% of the women. Agriculture wage labour appears nonexistent as primary activity and returns at Rs.4000/- per annum are lower than every other source of income. This situation does not change much even when we study secondary employment of men as agriculture wage labourer. Even here only about 2% of the men and about 3% of women report it as their source of secondary income. Non-agriculture wage labour is the primary occupation for 24% of men. But women participation in non-agriculture wage labour is low at less than 4%. The average income accruing to household from this is about Rs.10850 /- per annum. Incidentally average return from this is more than double the returns from agriculture wage labour possibly explaining higher involvement.

As per Table 1, In Business (grocery shop or itinerant trading etc.) about 10% of the men are involved with an average income of about Rs.19400 p.a. Also 7% of the men in the age group more than 60 years are engaged in this vocation and report an average income of Rs.6000 p.a. Participation of women is negligible. Only 1% of men pursue business as their secondary source of income. Income is high but low number of people pursuing it, points towards high entry barriers in terms of investments and generally lower opportunities. As expected, household chores is largely seen as 'women's work'. But there is interesting figure of above 1% of the boys/men who as primary employment, help out in the house.

Service involves 7.7%% of the employable men. 'Other' activities viz. grazing and herding of large herds largely remains a male domain with only some involvement of elderly women. There is a wide gap between the average per annum income of men and women, with the former earning Rs 29,500 p.a. and the latter a meagre Rs 7500 p.a. (Refer Table 1)

| Households with     | No. of HH | Total Amount remitted home (Rs.) | Average annual amount remitted home (Rs.) |
|---------------------|-----------|----------------------------------|---|
| 1 migrating member  | 43        | 341,500                          | 7,942                                     |
| 2 migrating members | 11        | 32,500                           | 2,955                                     |
| 3 migrating members | 2         | 1,000                            | 500                                       |
| 4 migrating members | 2         | 1,300                            | 650                                       |

Table 2 illustrates that about 17% of the total sample households have family members migrating. Majority of them work as household help or engage in non-agro based business wherein they work at shops etc. Returns are higher than income from agriculture labour but lower than other locally available options.

### 3.2.2 Income from activities collectively pursued by family members

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 Income (Rs.) |
|-----------------------------------|------------------|----------------------|
| Milk and other animal by products | 11               | 4214                 |
| Regular animal sale               | 5                | 8900                 |
| Family remittances                | 3                | 4400                 |
| Others                            | 16               | 12403                |

Around 26% of the men pursue non-agriculture wage labour this indicates interface with urban areas and availability of work in large local projects (Table 1). However, Table 3 clearly reveals that this interface with urban areas has not resulted in diversification of livelihood i.e. farm and non-farm related activities to supply to urban areas. There is no case of income being reported from horticulture or vegetable cultivation, family and caste occupation, sale of wood and minor forest produce. The number of households reporting income from sale of milk and milk products is also very less.

### 3.2.3 Agricultural and Land Holding Details

The average land holding size per household is about 5.3 acres. Landlessness is fairly high at nearly 35%. About 43% land owning households have irrigated land and of them 84% have at least 1.9 acres or more of land.

| Table 4:Cash Flow -Agriculture |                   |                             |
|--------------------------------|-------------------|-----------------------------|
|                                | No. of households | Annual Average Income (Rs.) |
| Cash surplus from agriculture  | 91                | 17,166                      |
| Cash deficit from agriculture  | 61                | (-) 4,369                   |

About 37% of the total households engaged in farming report a cash surplus of Rs.17000/- p.a. About 25% report a cash deficit, thus explaining that agriculture does remain a viable occupation but households do not earn enough from agriculture to meet all expenses. (Refer Table 4)

### 3.3 Expenditure

According to Error! Reference source not found. the maximum expenditure is incurred on food, for both BPL and non-BPL families. As non-agriculture wage labour is commonly pursued, most Households report expenditure on local conveyance. Average expenditure on migration for the 44 households reporting it is high, higher even than the outgo on food but includes the cash outgo on survival expenses at place of migration. Nominal annual Expenditure has been reported on house building and repair , thereby indicating that house building is a one time activity.

| Table 5: Current Expenditure Pattern (of Households) |                    |  |  |
|--|--------------------|--|--|
| Expenditure Heads                                    | Total HH Reporting | Average Annual Expenditure of HH (In Rs) | Average Annual Expenditure of BPL HH (In Rs) |
| Food   | 247                | 11470                                    | 11456  |
| Local Conveyance                                     | 239                | 985                                      | 570  |
| Minor health problem                                 | 246                | 866                                      | 921  |
| Fuel   | 245                | 771                                      | 693  |
| Clothes  | 238                | 1790                                     | 1589   |
| Social Expenses                                      | 237                | 851                                      | 591  |
| Education  | 131                | 1349                                     | 574  |
| Alcohol/Mahua  | 190                | 1532                                     | 928  |
| Animal Feed  | 117                | 3316                                     | 1839   |
| Migration  | 44                 | 12428                                    | 1702   |
| Toiletries   | 243                | 768                                      | 624  |
| Current house building/repair exp.                   | 223                | 289                                      | 159  |
| Insurance  | 11                 | 1609                                     | 39   |

Besides food, expenses reported by BPL households are lower – in case of purchase of animal feed, migration the contrast with the population as a whole is very marked. Less expenditure on livelihood sources indicates that most BPL families do not have diversified sources of livelihood to supplement income. Moreover, from the table it is evident that most BPL families are not insured and they spend more on minor health problems. Thus, their low income coupled with lack of insurance further augments their vulnerability to unpredictable events.

### 3.3.1 A comparison of income and expenditure

The Study found that on an average a household spends about Rs.25, 000 per annum. The average income, which includes primary income, secondary income, annual common income and cash surplus from agriculture is a little higher at little under Rs.31, 000. Average income of BPL households is only Rs 17,254.

| Table 6: Total Expenditure and Total Income |  |      |  |      |
|---|--|------|--|------|
| Size of Expenditure/<br>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. of HH  | %    | No. of HH  | %    |
| 5000  | 7  | 2.8  | 54   | 21.9 |
| 15000                                       | 76   | 30.8 | 71   | 28.7 |
| 20000                                       | 45   | 18.2 | 35   | 14.2 |
| 30000                                       | 62   | 25.1 | 29   | 11.7 |
| 50000                                       | 37   | 15.0 | 38   | 15.4 |
| >50000                                      | 20   | 8.1  | 20   | 8.1  |
|   | 247  | 100  | 247  | 100  |

From table 6, it is clear that the poor spend much more than they earn. As there are 22 % households, which earn less than Rs.5000 p.a. but only 3 % households that spend 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.

### 3.4 Assets

Households' own assets like dwelling units, arable land, livestock, jewellery, bore wells and other movable assets.

#### 3.4.1 Livestock

| Animal  | Total | No. of Households | % of HH |
|---------|-------|-------------------|---------|
| Bullock | 84    | 52                | 21      |
| Buffalo | 178   | 84                | 34      |
| Cow     | 105   | 59                | 24      |
| Goat    | 330   | 64                | 26      |
| Sheep   | 3     | 2                 | 1       |
| Poultry | 6     | 2                 | 2       |
| Camel   | 8     | 4                 |         |

In the sample 65% of total household own land yet only about 21% households possess bullock, which are farm draught animals. Livestock is reared but is not a widespread activity in the area. Amongst livestock buffaloes is most numerous (owned by 32% of households) but not as common as in some of the other districts. Goaterly is a common activity, primarily due to low investments and high productivity.

Table 8 illustrates that most households use 'own' capital for finance of livestock (48 %), followed by finance from friends/relatives (22%). However, since purchase of buffaloes involves high investment 25% households borrow from moneylenders and 37% from friends and relatives. Livestock Finance by formal institutions like banks is rare.

|              | Bank | Money Lender | Friends/<br>Relatives | Own Capital | Inherited | Others | Total |
|--------------|------|--------------|-----------------------|-------------|-----------|--------|-------|
| Bullock      | 1    | 3            | 3                     | 11          | -         | -      | 18    |
| She- Buffalo | -    | 13           | 19                    | 16          | 3         | -      | 51    |
| Cow          | -    | 2            | 4                     | 17          | 6         | -      | 29    |
| Goat         | -    | 3            | 3                     | 17          | 6         | -      | 29    |
| Sheep        | -    | -            | -                     | -           | -         | 1      | 1     |
| Camel        | 1    | -            | 1                     | 2           | -         | -      | 4     |
| Total        | 2    | 21           | 30                    | 63          | 15        | 1      | 132   |

The study reveals that, livestock is purchased to meet household needs and about 20% of households report purchase for the sake of sale at a later period and for income generation from sale of milk.

### 3.4.2 Dwellings

Overall six percent of households own two houses. About 51% of the houses are of medium size. Most of the houses have cemented roof (roof made of stone slabs) and also have walls made of stone blocks. Nearly 90% of the houses were built before the year 1994 and hence there is limited house building activity in evidence in the past ten years. There has been no case of sale of dwelling. A separate kitchen is available in 29% households. Separate cattle shed is available in about 9% households. Electricity connections are available in only 7% of the dwellings and Toilet exists in 3% households. Gas has made inroads in only about 4% of households. In about 5% of the households potable water facility is available either inside the household or in close vicinity specifically for their own personal use.

### 3.4.3 Other Assets

Table 9 shows that every household has a Charpai. Only 33% households own means of transportation (two wheelers, cycle and tractor), the others depend on public transport i.e. the bus service. Only 3 % of the HH own tractors and around 21% have bullocks, thereby clearly indicating that holdings are small with subsistence level agriculture under practice.

| Table 9: Ownership of assets |              |                   |                 |
|------------------------------|--------------|-------------------|-----------------|
| Name of asset                | Total number | No. of Households | % of households |
| Radio                        | 23           | 22                | 9               |
| Television                   | 24           | 23                | 9               |
| Almirah                      | 24           | 21                | 9               |
| Charpai/ bed                 | 1111         | 246               | 100             |
| Chair                        | 75           | 28                | 11              |
| Table                        | 15           | 14                | 6               |
| Fan                          | 56           | 38                | 15              |
| Sewing machine               | 48           | 46                | 19              |
| Camel cart                   | 3            | 3                 | 1               |
| Bullock cart                 | 21           | 21                | 9               |
| Bore well                    | 96           | 86                | 35              |
| Pump set                     | 58           | 54                | 22              |
| Kutti machine                | 38           | 38                | 15              |
| Cycle                        | 62           | 59                | 24              |
| Two wheeler                  | 15           | 15                | 6               |
| Tractor                      | 8            | 8                 | 3               |
| Truck                        | 5            | 5                 | 2               |
| Telephone                    | 26           | 16                | 6               |

The subsistence nature of agriculture is further indicated by ownership of irrigation facility by less than 50 % HH. (Same HH may have a pump set and a bore well). Possession of goods like Television, radio and two wheelers is increasing rapidly.

Table 10 demonstrates that most households rely on own capital for purchase of assets. The borrowings from banks is of 12% and from moneylenders in 3% of the cases. In about 17% cases the assets are either inherited/gifted.

| Table 10: Mode of finance of asset acquisition |      |              |           |             |             |       |
|--|------|--------------|-----------|-------------|-------------|-------|
|  | Bank | Money Lender | Relatives | Own Capital | Inheritance | Total |
| Radio  | -    | -            | -         | 11          | 1           | 12    |
| Television                                     | -    | -            | -         | 6           | 3           | 9     |
| <i>Almirah</i>                                 | -    | 1            | 1         | 3           | 8           | 13    |
| <i>Charpai/bed</i>                             | -    | -            | -         | 28          | 4           | 32    |
| Chair  | -    | -            | -         | 8           | 4           | 12    |
| Table  | -    | -            | -         | 5           | 3           | 8     |
| Fan  | -    | -            | -         | 6           | 4           | 10    |
| Sewing machine                                 | -    | -            | -         | 8           | 4           | 12    |
| Camel cart                                     | 1    | -            | 1         | -           | 1           | 3     |
| Bullock cart                                   | 1    | 1            | 1         | 3           | -           | 6     |
| Well/Bore well                                 | 15   | 2            | 2         | -           | -           | 19    |
| Pump set                                       | 6    | 2            | 4         | 1           | 1           | 14    |
| <i>Kutti</i> machine                           | 1    | -            | -         | 7           | -           | 8     |
| Cycle  | -    | -            | 1         | 12          | 3           | 16    |
| Two wheeler                                    | -    | -            | 5         | 4           | 4           | 13    |
| Tractor  | 4    | -            | -         | -           | -           | 4     |
| Truck  | -    | -            | -         | 5           | -           | 5     |
| Telephone                                      | -    | -            | 1         | 12          | -           | 13    |

Own capital predominates in case of purchase of household items. About 50% of the bank loans are availed for bore well, 20% for pump set and 13% for tractors. Moneylender and friends relatives are not resorted to for purchasing tractors and bore well. This is possibly due to loan size involved or the relative feasibility of getting bank loan by pledging land title.

Household assets in the normal course are not sold. Jewellery i.e. pertaining to Gold and Silver ornaments owned by the families are received as gifts (at marriage) or inherited and rarely purchased or mortgaged.

### 3.5 Savings

The study found that nearly 12% of the total 247 households do not save at all. Around 54% of the 217 households, which save, do so only in one avenue and most of them save only at home. Table 11, gives an idea about limited cooperative membership. The saving products of formal institutions like post offices and banks are hardly utilized.

| Saving Avenue                          | No. of HH |
|--|-----------|
| Post Offices                           | 2         |
| Banks                                  | 5         |
| Cooperatives                           | 8         |
| Cash parked at home                    | 102       |
| Total HH saving in only any one avenue | 117       |

Table 13 further reflects that 65% of the savings are small deposits of less than Rs. 1000. Only 17 % of the savings are deposited at bank and another 15% are deposited at cooperatives. Most of the households have around Rs 1800/- as cash parked at home. Investment in temporary assets is an important form of savings.

About 33 % of the savings of size Rs.400-600 are deposited at banks and another 11% in cooperatives. In case of savings of size Rs.1000-1500, only 13% is deposited in banks and another 39% in cooperatives.

|                                   | Total Amount Deposited (Rs.) | % of Total Savings | No. of instances | Average (Rs.) |
|-----------------------------------|------------------------------|--------------------|------------------|---------------|
| Post Office                       | 65,800                       | 3                  | 13               | 5,061         |
| Bank                              | 8,43,700                     | 33                 | 64               | 13,183        |
| Cooperatives                      | 2,83,230                     | 11                 | 55               | 5,150         |
| Life insurance                    | 3,54,976                     | 14                 | 25               | 14,199        |
| Company                           | 11,500                       | -                  | 4                | 2,875         |
| SHG/MFI                           | 16,320                       | 1                  | 7                | 2,331         |
| Cash parked at Home               | 3,57,310                     | 14                 | 194              | 1,842         |
| Temporary Assets (money lent out) | 6,00,000                     | 24                 | 3                | 2,00,000      |
| Total                             | 2,532,836                    | 100                | 365              | 6939          |



Average saving amount per BPL households is Rs 1492 which is one fifth of the average saving of respondent group as a whole. Though after banks Life Insurance (money back policies) is the most important avenue in terms of value of savings but is limited to a few Households. Thus informal saving avenues dominate, followed by banks with about 18% of the total savings and another 15% with the cooperatives.

Although only about 25% of the total households report having withdrawn savings in the past, savings are withdrawn only when the requirement is big. That about 69% of these withdrawals amount to Rs.20000 and above. In 49% of cases withdrawal is for household need followed by 33% for social expenses. Savings depletion is not a primary method of financing either health (unpredictable) or education (predictable expense).

### 3.5.1 Factors Affecting Choice of Savings Avenue:

As per Table 13, accessibility and liquidity is critical consideration as majority of the people rate is as either important or very important. Accessibility is considered important by 84% of the respondents. In case of banks, however 32% of the respondents are ambivalent about accessibility (possibly the value of the source predominates). But in case of insurance 86% consider access as an important consideration in a savings decision. The people who have invested in life insurance rank the returns to be important.

|               | Extremely Important | Important | Ambivalent | Less Important | Irrelevant | Total |
|---------------|---------------------|-----------|------------|----------------|------------|-------|
| Accessibility | 174                 | 140       | 54         | 4              | -          | 372   |
| Return        | 33                  | 136       | 99         | 69             | 35         | 372   |
| Security      | 62                  | 97        | 159        | 27             | 27         | 372   |
| Liquidity     | 221                 | 54        | 49         | 48             | -          | 372   |

Most people are ambivalent about security or consider it less important. People are either ambivalent to return or most often consider it less important to irrelevant. Except about 76% of the people who deposit their savings in bank rank the returns from savings to be important, and likewise in case of cooperatives 66% rank the returns to be important.

In case of bank 49% rate the liquidity to be important while another 44% are ambivalent, thereby suggesting that liquidity is not critical to bank savings.

People opt for post offices and banks, because of ease of accessibility, good returns, security and also easy liquidity. In case of Life insurance it is good returns and security of deposits that makes people invest in these schemes. It is evident from the table that most households park cash at home due to easy accessibility and liquidity. Returns and security are important consideration only when savings are relatively large and in formal institutions.

### 3.6 Outstanding Credit

Table 14 indicates that people access both formal and informal sources of credit, but more so the latter. Sources of credit entail cooperatives, banks, moneylenders, friends/relatives, chit funds, and loan contractors. The Table further elaborates that in terms of value of loan, credit from family/ friends is the most important source followed by Banks. But in terms of instances of loan availed from a particular source after family/friends, moneylender offering loan without collateral is the second most important source. This situation arises as cases of loan availed from bank is lower to that of moneylender (without collateral) but the average loan size from bank/cooperative is much higher.

|   | No. of cases | Average (Rs.) |
|---|--------------|---------------|
| Cooperatives/ Bank                      | 95           | 50,511        |
| Chit Fund                               | 4            | 39,750        |
| Money Lender Shop With Collateral       | 38           | 23,961        |
| Money Lender Shop Without Collateral    | 106          | 24,021        |
| Family Friends Members With Interest    | 212          | 27,784        |
| Family Friends Members Without Interest | 21           | 18,476        |
| Loan Contractors                        | 4            | 24,000        |
| Total                                   | 480          |               |

An analysis of average loan size across different sources shows that cooperatives and banks have the biggest average loan size to the tune of about Rs.50, 500 while that in case of money lenders (without collateral) is about Rs.24, 000 and family friends (with interest) is about Rs.27, 000. Thereby possibly hinting that when people have to borrow big amounts they opt for banks and cooperatives and also that economically better off households have access to bank credit.

The study did not find any loan taken from SHG/MFI thereby indicating their negligible coverage.

**Table 55: Source wise size and number of Loan**

| Size of loan | Loan Cooperatives/ Bank | Loan Chit Fund | Loan Moneylender With Collateral | Loan Moneylender Without Collateral | Loan Family Friends with interest | Loan Family Friends without interest | Loan Contractors (Migration) | Loan Others | Total | %    |
|--------------|-------------------------|----------------|----------------------------------|-------------------------------------|-----------------------------------|--------------------------------------|------------------------------|-------------|-------|------|
| 1000         | -                       | -              | -                                | 1                                   | 1                                 | -                                    | -                            | -           | 2     | 0.55 |
| 2000         | 1                       | -              | 1                                | 3                                   | 4                                 | 1                                    | -                            | -           | 10    | 3    |
| 5000         | 5                       | 1              | 8                                | 13                                  | 26                                | 1                                    | 1                            | -           | 55    | 15   |
| 7500         | 1                       | -              | -                                | 2                                   | 4                                 | 2                                    | -                            | -           | 9     | 2    |
| 10000        | 9                       | -              | 2                                | 13                                  | 25                                | 4                                    | -                            | 1           | 54    | 15   |
| 15000        | 16                      | -              | 3                                | 10                                  | 15                                | 2                                    | -                            | -           | 46    | 13   |
| 20000        | 11                      | 1              | 3                                | 4                                   | 14                                | 1                                    | -                            | -           | 34    | 9    |
| 30000        | 12                      | -              | 3                                | 11                                  | 14                                | -                                    | -                            | -           | 40    | 11   |
| 40000        | 4                       | 1              | 2                                | 8                                   | 14                                | -                                    | -                            | -           | 29    | 8    |
| 50000        | 7                       | -              | 1                                | 4                                   | 14                                | -                                    | -                            | 1           | 27    | 7    |
| 75000        | 5                       | -              | 2                                | 2                                   | 14                                | 1                                    | -                            | -           | 24    | 7    |
| 100000       | 5                       | -              | 1                                | 1                                   | 2                                 | 1                                    | 1                            | -           | 11    | 3    |
| More         | 9                       | -              | 1                                | 4                                   | 9                                 | -                                    | -                            | -           | 23    | 6    |
| Total        | 85                      | 3              | 27                               | 76                                  | 156                               | 13                                   | 2                            | 2           | 364   |      |

Table 15 indicates that Less than 20% of loans are Rs. 5,000 or less in size. Over 30% of live loans were over Rs 30,000 in size. Small loans that are typically provided through the intermediation of SHG/ MFI are not the norm in this place.

About 46% of the small loans (Rs.1 000-5000) are 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 and bank. But for bigger loan amounts cooperatives/ bank is the preferred option, after family friends who offer loan but with interest.

Outstanding loan is the amount of money that remains to be repaid to the loan source on account of the loan taken in the past.

In Table 16 outstanding from different sources have been clubbed.

| Table 66: Size of total outstanding loan |           |       |
|--|-----------|-------|
| Outstanding Loan amount                  | No. of HH | Cum % |
| 1000                                     | 1         | -     |
| 2000                                     | 5         | 3     |
| 5000                                     | 12        | 8     |
| 7500                                     | 8         | 12    |
| 10000                                    | 8         | 16    |
| 15000                                    | 19        | 25    |
| 20000                                    | 18        | 33    |
| 30000                                    | 30        | 47    |
| 40000                                    | 21        | 57    |
| 50000                                    | 17        | 65    |
| 75000                                    | 28        | 78    |
| 100000                                   | 14        | 85    |
| More                                     | 32        | 100   |
| Average outstanding loan =Rs.58,465      |           |       |

According to Table 66, about 30% of the households have loan outstanding of Rs.75000 and above. Average outstanding on the households at the time of study was Rs.58, 500. Only 34 out of the 247 sample households did not have any outstanding loan. In this scenario any surplus cash at household level is more likely used to service loans than saved. Average Loan Outstanding per BPL Household is lower than the general average at Rs.30, 156.

About 15% of the cases of loan involve half yearly repayments, about 71% does not have any predetermined periodicity of repayment scheme suggesting thereby that predetermined periodicity of loan repayment is not the norm.

| Table 77: Rate of interest charged per annum |          |         |         |         |         |         |         |         |
|--|----------|---------|---------|---------|---------|---------|---------|---------|
| Less than 11%                                | 11% -12% | 12%-13% | 13%-14% | 14%-15% | 15%-18% | 18%-24% | 24%-30% | 30%-36% |
| 4  | 58       | 5       | 15      | 4       | 15      | 357     | 3       | 18      |

It is clear that on most loans the annual interest rates range between 18-36% about 95% of all loans are acquired at 24% p.a. interest. Generally, it is only the banks/ cooperative, which levy interest rates lower than 18%. About 45% of all loans are taken from family and friends with interest. In about 96% of the total loans taken from friends/family the interest rate is 24% p.a. About 23% of the total loans are taken from the moneylender without collateral and of this 88% of the loan are charged with interest of 24% per annum.

Field notes 1: Status of Self Help Groups (SHG) and other such formal/informal groups:

Village: Talawada, Agarpura, Lahsoda (Sawaimadhopur)

Village alawada has only four functional and one defunct SHG. These groups had been formed in the village under Integrated Child Development Scheme. The members of the group are not adequately trained, nor are the monthly meetings held. The anganwadi worker is of the opinion that these groups have now become a burden for them. A SHG, called Punam was even closed because of lack of interest and non-realization of any benefit by the members of the group. These groups were started almost three year back, but till now only two loans have been availed by members and thus the collected money remains idle in the bank. The average savings is about Rs.3600 per group but as most of the members were unable to deposit the requisite amount of Rs.50 every month the deposit amount has now been reduced to Rs.20.

However in the village of Agarpura about seven different saving and credit groups (six women groups and one men group) exists. The groups were initiated about 19 years back by an NGO worker, Indu Chopra of Mahila Vikash Sansthan, Bhilwara .The oldest group (actually 19 years old) has 20 members who deposit of Rs.20 every month and this group has not reported any drop out. Based on the success of this group, other groups have also started functioning and all these groups have been linked by bank and the members do comply with the predetermined repayment schedule.

Laxmi Mahila Mandal: This Mahila Mandal in the village of Agarpura conducts regular monthly meetings and their net balance stands at about 1.13 lakh as of date. Since inception they have taken five times loan from the bank of amount - Rs.40, 000, Rs. 1 lakh, Rs. 1 lakh & Rs.1.8 lakh. The previous loans has been repaid and this time around the group has taken a loan of Rs.2.5 lakh. From this group Manju Sharma had taken loan of Rs.40, 000 from which she has opened a 'Kirana shop' in her own house. Earlier she had taken loan of the similar amount for house construction but had repaid. Baghwati Devi from the same group has also started a Kirana shop after taking loan of Rs.40, 000.

PACL (a non banking company, popularly known as Plus Green Company): Plus Green Company is a non-banking company, which is quite popular amongst the villagers of Talawada because of the lucrative schemes they offer. About 100 households have deposited their money in these schemes through recurring deposit and fixed deposit and the yearly premium is Rs.1250 for six years. After maturity, the customer receives a cumulative sum of Rs.11550 and insurance coverage of Rs.11250. The available time period of fixed deposit are 5 years 3 months, 6 years 3 months and 10 years 3 months and about eight agents are present in the village.

### 3.6.1 Factors Determining Choice of Credit Source/Product

Across all the sources of loan, accessibility is a crucial consideration. Most people are 'ambivalent' about Cost of Credit in determining their choice of a loan product. Cost of credit becomes an important consideration only for seeking loan from cooperatives, bank and moneylenders offering loan with collateral

|               | Extremely Important | Important | Ambivalent | Less Important | Irrelevant |     |
|---------------|---------------------|-----------|------------|----------------|------------|-----|
| Accessibility | 124                 | 293       | 71         | 8              | 1          | 497 |
| Cost          | 5                   | 86        | 354        | 50             | 2          | 497 |

### 3.6.2 Loan in Kind

Loans in kind are those which the sample households have taken in terms of goods (and not cash) and include credit based transaction with the local grocery shops, grain banks. About 39% of the households actually take loan in kind. Over all 72% households take loan in kind and for amounts ranging below Rs.2000.

### 3.7 Financing of Events

Across a ten-year period for the sample population there were 198 birth related events, 151 asset purchase, 180 marriages, 103 case of animal purchase, 5 irrigation equipments were purchased and 145 wells sunk and 63 deaths. The population over all reported 231 events of health/accident related heavy expenditure.

|   | Savings | Sale of asset | Grants | Remittances | Borrowings |
|---|---------|---------------|--------|-------------|------------|
| Marriage                                | 19      | 1             | 5      | 1           | 73         |
| Birth                                   | 30      | -             | 4      | -           | 66         |
| Health                                  | 17      | 3             | 2      | -           | 78         |
| House building / repairs                | 39      | 3             | 7      | -           | 51         |
| Agricultural land purchase/<br>lease-in | 50      | -             | -      | -           | 50         |
| Livestock purchase                      | 30      | -             | -      | -           | 70         |
| Other asset purchase                    | 16      | -             | 8      | -           | 75         |
| Death                                   | 15      | 1             | 5      | 1           | 79         |
| Litigation                              | 60      | -             | -      | -           | 40         |
| Irrigation equipments                   | 3       | -             | 1      | -           | 96         |
| Water Well                              | 10      | -             | 3      | -           | 87         |
| All events                              | 19      | 1             | 4      | -           | 76         |

According to Table 99, in money terms 76% of the total expenditure is actually borne from borrowings. Savings help in meeting litigation expenses. In cases of purchase of agricultural land, animal purchase and house building and repairs, substantial expenditures is made from family savings.

As per Table 16, in about 57% of the total events the sample households take loan from their relatives or friends. In case of life cycle events like marriage, birth and major health problems, loans are taken from family/ friends. The next viable option the households generally avail is borrowing from moneylender i.e. in 30% of the cases.

| Table 10: Source of loan for financing of events (no. of cases) |         |             |           |
|---|---------|-------------|-----------|
| Events  | Bank    | Moneylender | Relatives |
| Agricultural land   | -       | -           | 1         |
|   | -       | -           | 100,000   |
| Birth   | 2       | 22          | 99        |
|   | 16,500  | 5,300       | 3,808     |
| Death   | -       | 21          | 31        |
|   | -       | 14,381      | 18,581    |
| Health  | 1       | 62          | 132       |
|   | 15,000  | 11,161      | 10,162    |
| House building / repairs  | 4       | 8           | 12        |
|   | 29,750  | 42,875      | 42,167    |
| Irrigation equipments   | 29      | 11          | 18        |
|   | 63,897  | 32,364      | 31,889    |
| Litigation  | -       | 1           | 2         |
|   | -       | 5,000       | 32,500    |
| Livestock purchase  | 4       | 23          | 27        |
|   | 17,500  | 7,830       | 8,185     |
| Marriage  | 5       | 56          | 102       |
|   | 26,000  | 24,464      | 36,098    |
| Other asset purchase  | 9       | 9           | 17        |
|   | 169,444 | 51,444      | 16,482    |
| Water Well  | 47      | 27          | 39        |
|   | 17,468  | 10,667      | 8,667     |
| For all events  | 101     | 240         | 480       |
|   | 45,208  | 17,149      | 16,793    |

Banks feature only in 12% of the total cases. Substantial number of loans has been taken from banks only for financing irrigation facilities like water wells. Besides this, it is the informal sources of credit that have been used to finance household consumption, life cycle events and other productive expenditure like purchase of livestock.

#### 4. Conclusion

About 46% men pursue farming as their primary employment (18-59 years). Agriculture is secondary occupation for 28% of women. Agriculture wage labour involves less than 3% of the people with earnings as low as Rs. 4000 per annum. Agriculture wage labour appears nonexistent as primary activity and returns are lower than every other source of income.

Incidentally average return from non-agriculture wage labour is more than double the returns from agriculture wage labour possibly explaining the higher involvement in it. Non-agriculture labour is an important employment opportunity for about 27% people, mainly men earning nearly Rs 10,000 per annum. Only 19% of the population reports a secondary engagement. Non-agriculture labour is a secondary source of employment for 13% men and 8% women.<sup>9</sup>

About 9% of the Men are engaged in Business and have on an average an income of about Rs.19500 per annum. Participation of women in trading and allied activities is negligible.

About 17% of the households have seasonal migration of at least one family member. Remittances from migration are higher than income from agriculture labour but lower than other locally available options. At present livelihood opportunities are very limited. Incidence of enterprise/ activities pursued collectively by the family is quite low. Other than working as wage labour locally or at destination of migration there are few options. The fact that landlessness is fairly high at nearly 35% of the total households underlines the urgency for well-planned livelihood interventions that help generate regular cash flows. The average land holding size per household is 5.3 acres. About 43% land owning households have irrigated land and of them 84% have at least 1.9 acres or more of land.

Livestock is reared; buffaloes are common and most households own goats. There is scope for well-planned interventions around livestock. The key source of finance for livestock purchase is 'own capital', followed by loans taken from relatives or friends.

The average expenditure of a household is about Rs.25, 000 per annum. Average income, which includes primary income, secondary income, annual common income and cash surplus from agriculture is a little higher at Rs.31, 000 per annum. For purchase of most household and farm assets, people rely on own capital. Credit based products around key household items can be considered.

Nearly 90% of the houses were built before the year 1994 and hence there is limited house building activity in the past ten years. There has been no case of sale of dwelling.

Nearly a tenth of the total households do not save at all. About half of the households, who report some savings, do so only in one avenue – mainly at home. Providing viable and customized saving product is important. Further, as two thirds of the savings are very small (deposits of less than Rs. 1000), there may need to first create opportunities to save like doorstep banking before the culture of saving is rooted.

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<sup>9</sup> All Data on primary and secondary employment is for the 18-59 years age group



At present Credit is availed at high interest rates. Around 87% of the surveyed households have an outstanding loan. Average outstanding per household is Rs 58,000 at a given point of time. Generally, life cycle events and large expenditures are financed through loans. Some households have taken large loans for setting up irrigation wells and pumps but such loans are limited to economically better off households.

Credit Plus interventions have to be planned and implemented, as only executed credit off take in MFI initiative may well occur but at best only help manage cash flows for financing expenditure on events. Prevailing interest regime in most cases is already around 24%. Thus probability of people approaching institutions like MFIs and others is low considering the cost of credit.

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 NGO<sup>10</sup> 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.

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<sup>10</sup> 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 saving<sup>11</sup> 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 2/3<sup>rd</sup> 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.

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<sup>11</sup> 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'<sup>12</sup> 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%.

<sup>12</sup> 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.