

# Cash Flow Study

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Bikaner District



Centre for microFinance, Jaipur

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# CASH FLOW STUDY OF URBAN POOR

District: Bikaner

## 1. Introduction

Microfinance (mF) has largely remained a rural phenomenon, which is generally operated through the Self Help Groups (SHG) promoted in rural areas. There is definitely a need to focus on alleviating rural poverty and mF has been a proven measure in that respect. But with the increasing urbanisation, urban poverty has also emerged as a core area to address. As per the Census 2001, though the urban poor constitute around 35%-40% of the total urban population only 0.01% of them have access to banking (CMF, 2006). The poor face a daily struggle to balance their low income and household expenditure especially in case of emergencies.

But not much has been studied with regard to the financial needs of urban poor. To fill up this gap in knowledge the Centre for Microfinance (CMF), Jaipur, has undertaken a study on cash flow pattern of urban poor in five cities of Rajasthan – Bikaner, Kota, Jaipur, Jodhpur, and Udaipur. The objectives of the study are:

- To understand the existing pattern of cash flow, acquisitions, investments and credit amongst the urban poor in Rajasthan.
- To identify opportunities of interventions for ensuring timely access to financial services at fair terms
- To act as a benchmark on the financial needs of the urban poor in the state.

To understand these aspects a survey of 1058 households (HH) was carried out. A structured questionnaire was used for data collection. The number of households covered in the study in various cities is as follows:

Bikaner	163 HH
Jaipur	304 HH
Jodhpur	214 HH
Kota	211 HH
Udaipur	166 HH

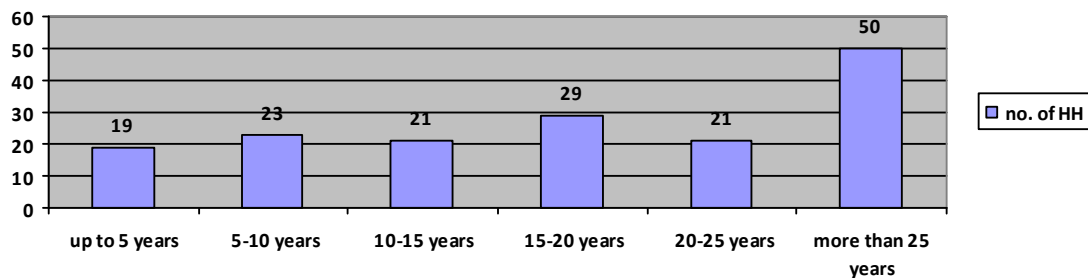
This report has been prepared on the basis of the data collected in Bikaner city. This included a survey of 163 households primarily from two slum areas (Valmiki Nagar -63 HH, and Chungi Chouki 99 HH; also included one HH from Bangla Nagar). In terms of Municipal Wards, the surveyed households are from Ward No. 1 (100 HH), and Ward No. 15 (63 HH). The residents of these areas are primarily the natives of Rajasthan particularly from other parts of the Bikaner district and from neighbouring districts such as Churu, Nagour, Jodhpur, and Jaisalmer.

The report has been structured in seven sections. This section introduces the study, the second section gives an overview of the respondent profile, the third section describes the asset owned by the respondents and its source of finance, the fourth section describes the income, expenditure, and savings of the households, the fifth section describes the life cycle events

and credit need, the sixth section describes the indebtedness and other financial aspect, and the last section concludes the study and draws some implications for financial institutions.

## 2. Profile of the Respondent Households

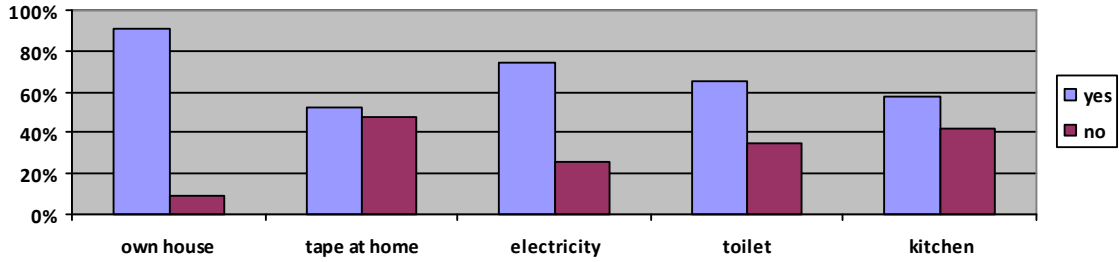
Of the 163 HH covered in the study, 83% are male-headed and 17% are female-headed. The surveyed households have 994 members (6.1 per HH) of whom 37% are up to 14 years old, 12% are 14 to 18 year old, 47% are 18 to 60 years old, and 4% are of the age group of above 60 years. Of the household surveyed, 12% have been living for less than five years, 14% for 5-10 years, and 73% of the respondents have been living in the area for more than 10 years as given in Figure 1.



**Figure 1: Resident for Number of years**

In terms of social groups, 46% belong to SC and ST category. From the other groups, 31% are OBC and 23% belong to the general category. Of the respondents, 31% are listed as below poverty line (BPL) households, 56% told that they are above poverty line (APL), while 13% do not know about their BPL/APL status. Literacy rate of the area is 58%.

Of the surveyed households 91% own a house, while 9% do not. The average value of the houses is Rs. 1.37 lakh (35% houses have value more than Rs. 1 lakh). 45% houses have both kitchen and toilet, while 13% have the kitchen facility only and 20% have only toilet facility, rest 22% have none of these two facilities. 79% of the houses have pucca roof, while the rest 20% have kutchra roof. 74% of the houses have electricity, while others do not have this utility. Regarding facility of water, 52% have a tap at home, while 28% use the community tap, while 18% get it through tanker. Figure 2 depicts the facilities these households have.

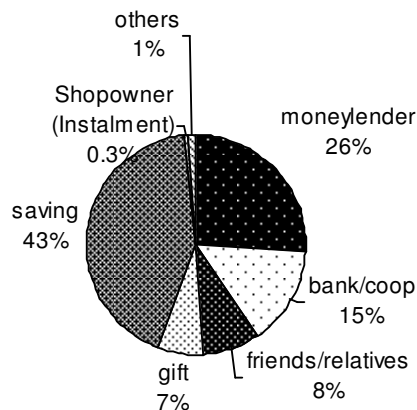


**Figure 2: Facilities in the households**

Thus the general well-being of the area is not quite good; 22% of HH neither have a toilet nor a kitchen, 20% live under kutcha roof, 26% do not have electricity, 42% are illiterates, 31% are BPLs– these indicate the presence of poverty in the area. Under such situation how do they manage their finances– this will be clear from the subsequent sections.

### 3. Assets and Source of Finance

The households surveyed have movable assets like TV, furniture, and almirah valued Rs. 10,777 per household. Bicycles and fans are owned by the most households (58% and 64% respectively) followed by TV (45%), mobile phone (30%) and chair/ table (28%). Only 15% to 16% people own an Almirah, radio or LPG gas. The largest amount has been spent on purchasing TV (17% of total amount). Appendix I provide more detail about it. As the Figure 3 shows, the major source of finance has been from the household's own savings which has contributed the 43% of the total amount, followed by the moneylenders (26%). From Banks/ finance companies, only 14.5% of the value of assets has been contributed, while 6.8% has been contributed from gifts, and 8.3% has been borrowed from friends and relatives.



**Figure 3: Source of Financing for Purchasing Assets**

As the results bring out, about 50% of the total amount spent from assets has been financed out of own savings or has been received as gifts. Table 1 provides more details about the source of finance (including and excluding savings/ gift).

**Table 1: Source of Finance**

Source of Finance	Including savings/ gifts			Excluding savings/ gifts		
	No. of instances of purchase	Total amount spent	percent age	No. of instances of purchase	Total amount spent	Percent age
moneylender	53	461300	26.07%	53	461300	51.65%
bank/coop	3	257000	14.52%	3	257000	28.78%
friends/relatives	16	147400	8.33%	16	147400	16.51%
gift	108	119750	6.77%			
saving	506	756604	42.76%			
Shopowner (Instalment)	1	6000	0.34%	1	6000	0.67%
others	8	21350	1.21%	8	21350	2.39%
	695	1769404		81	893050	

Thus, the households have on an average borrowed an amount of Rs. 5489/- for purchasing the assets. In all there has been 81 such instances where assets have been purchased with the source of finance not being gift or own saving. About 52% of this has been lent by moneylenders, followed by bank/ cooperative 29%, and friends and relatives 16.5%.

Thus it can be observed that the formal financial sector (Banks/ Cooperatives) contributes a very small proportion of the total amount of finances required for acquisition of the assets. In fact the 14% share cannot be taken at its face value as only 2% of households have accessed to this source of finance only in 0.4% of occasions. Excluding the own savings and gifts, the figures turns out to be 29% of amount of finance in only 4% occasions. In terms of the number of instances of providing loan for purchase of assets, moneylenders have contributed on two-third occasions, while friends and relatives have contributed on about one fifth occasions.

Now let's analyse the situation household-income-wise. Earlier it has been mentioned that the average spending on assets has been Rs. 10,777 per household. The maximum spending by a household has been Rs 1.74 lakh, while 16 household (10%) have spent nothing on any asset (this means they own no asset). In fact the first quartile (25%) people have spent only 1.1% of the total spending on the assets, the first half of households have spent only 8.4% of the, and the first three-fourth of households have spent only 22.5% of the amount. The highest 10% income group of households have spent about 56% as given in Table 2 and Figure 4.

**Table 2: Households and Spending on assets**

Cumulative percent of households	Cumulative percent of households	Amount spent on assets in Rs.	Average amount spent in Rs.	Percent of amount spent
10	16	0	0	0%
25	41	19024	464	1.1%
50	82	127592	1556	7.3%



75	123	395691	3217	22.5%
90	147	776307	5281	44.2%
100	163	1756651	10777	100%

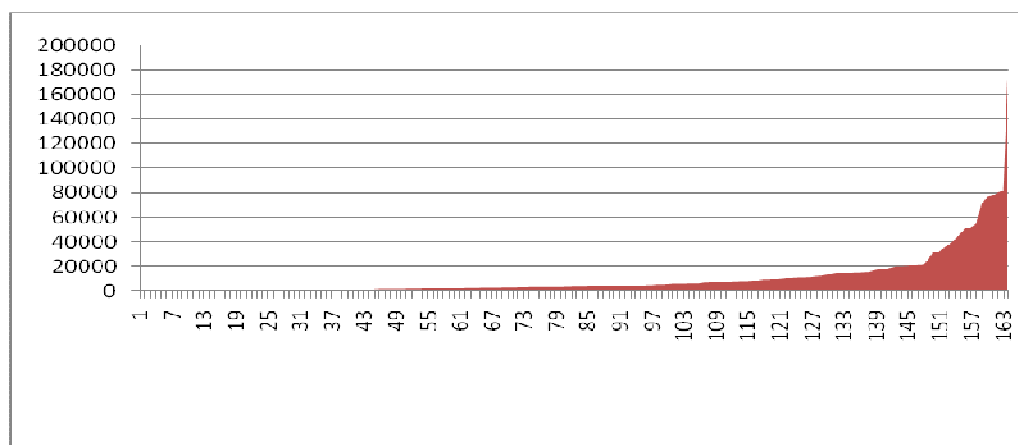


Figure 4: Household wise spending on assets

## 4. Income, Expenditure, and Savings

### 4.1. Employment and Income

In all, 49% of the people aged above 14 years (309 persons) have some form of employment either full time or part time. However, only 248 of them report to be employed and these people are treated as the ‘earning members’ of the households, others are only temporarily employed. The main primary employments are reported to be that of sweeping, daily labour, driving, beldari, running camel cart, running shops etc as given in the Appendix II. In these households 22 percent have reported that they have a secondary employment, of which papad making and grocery stores turn out to be the major ones. However, of all forms of employment, only 30% have a regular job, while 52% are daily labourer, and 18% are self-employed.

The average income of the surveyed households comes to be Rs. 50,775/- per annum of which the occupational income contributes 97% while the rest is contributed by rent and other sources. The income from primary employment contributes 90.7% of the total income, while the secondary employment contributes about 6%. However, as it can be observed from Table 3, the 25% of household having lowest income have an average income of only 26,707/- who earn 13.2% of the total income of the sample households. On the other hand the highest (25%) income group of the sample households earn Rs. 86,927/- per annum i.e. 43.1% of the total income.

Table 3: Income and Expenditure of Sample HH (In Rupees)

Income groups (lowest to	Income			expenditure			Savings
	Total income of	Average income	Percentage	Total expenditure	Average expenditure	Percentage	

highest)	sample HH			of sample HH			
First 25%	91250	26707	13.2%	87806	25699	12.7%	1008
Second 25%	131000	38341	19.0%	118375	34646	17.2%	3695
Third 25%	170450	49888	24.7%	152214	44550	22.1%	5337
Last 25%	297000	86927	43.1%	234154	68533	34.0%	18394
	689700	50775		592549	43623		7152

## 4.2. Expenditure

In terms of expenditure, the average annual expenditure of the sample households is Rs. 43,697/-. The lowest 25% income group spends Rs. 25,699/- per annum, while the highest 25% income groups spends Rs. 68,533/- per annum. Thus after the operational expenses on an average a household saves Rs. 7152/- per annum. The lowest income group (25%) saves only Rs. 1008, while the highest income group saves Rs. 18,394/- per annum (Table 3).

What are the heads of expenditure on which the households spend? Figure 4 shows the details. It can be observed that the expenditure on food is highest i.e. 35% of total expenditure, followed by the expenditure on debt servicing i.e. 16% of total expenditure. Cooking fuel takes another 6% that is the expenditure which can be included in the expenditure on food.

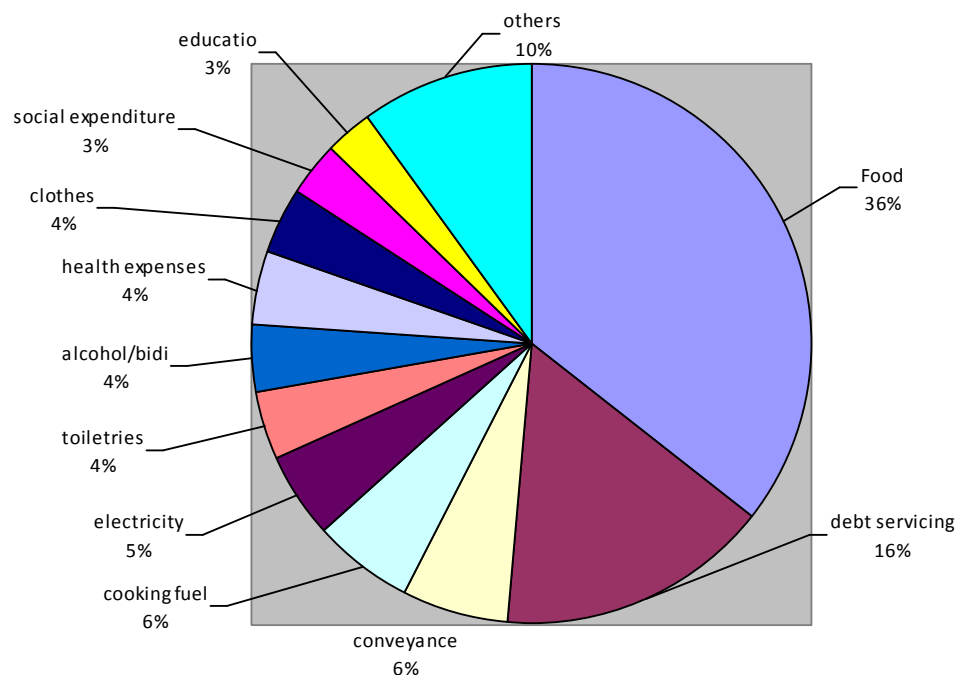


Figure 5: Household Expenditures

If we look the expenditure from the point of view of percentage of income, we find that the expenditure on food and cooking fuel together consumes 36% of the total income. Debt servicing consumes 14% of the total income. Thus food, cooking fuel, and debt servicing takes half of the total income as given in Table 4. It can be further observed that about 3.6% of income is spent on consumption of alcohol/ bidi. Expenditure on minor health related expenses is about 3% of income, the major health incidents have been explained separately.

**Table 4: Household Expenditures**

Item of Expenditure	Average annual expenditure/HH in Rs.	Percentage of expenditure	Percentage of income
food expenditure	15662	36%	31%
old debt servicing	7000	16%	14%
Conveyance	2768	6%	5%
fuel cooking	2525	6%	5%
Electricity	2063	5%	4%
toiletries	1917	4.4%	3.8%
alcohol/bidi	1839	4.2%	3.6%
health expenditure	1712	4%	3%
clothes	1601	4%	3%
social expenditure	1295	3%	3%
education	1160	3%	2%
Others*	4155	10%	8%
Total	43697	100%	86%

\*Others include expenses on house rent, telephone, entertainment, gift, house repair, toiletries, cosmetics, water charge, and remittances.

A matter of concern that comes out from the study is that more than one sixth of income (Rs. 8839/- per annum) is consumed in debt servicing and alcohol/ bidi.

### 4.3. Savings

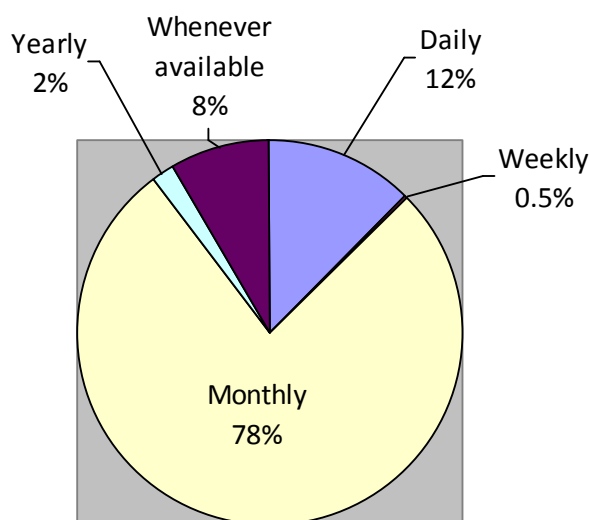
The surveyed households have saved money primarily in the form of cash at home (97%), while 17% have saved in banks and cooperatives. Only a few have saved in the form of fixed deposits, or in post offices, chit funds, and SHGs as given in Table 5. The average saving of a household stands at Rs. 2008/-.

**Table 5: Saving and Periodicity**

	No. of HH	Saving Amount in Rs	percent	Periodicity				
				Daily	Weekly	Monthly	Yearly	Whenever available
Bank/Coop	34	168619	51%	0	0	18	4	12
Cash at Home	157	98950	30%	25	1	126	0	5
Chit Fund	2	5750	2%	0	0	2	0	0
NBFC/Private Company	0	0	0%	0	0	0	0	0
Fixed Deposit	4	7200	2%	0	0	4	0	0
Post Office	1	40000	12%	0	0	1	0	0

SHG	4	6900	2%	0	0	4	0	0
Total HH saving		327,419		25	1	155	4	17
Average saving of HH		2008						

In terms of periodicity, monthly mode of saving is followed in 78% instances, followed by daily deposits (12%) as given in Figure 5.



**Figure 6: Periodicity of Saving**

Thus, broadly we have three important modes (frequency) of saving– daily, monthly, and whenever money is available. Who prefers which frequency? An analysis of the household level information shows the following:

- 81% of people in regular service (as primary employment) prefer the monthly mode of saving
- 78% of daily labourers prefer monthly mode of saving, while 19% follow daily savings
- Of the self-employed people, 32% save in daily mode, while 57% save in monthly mode.
- About 10% savings have been done in ‘when money is available’ mode
- Yearly savings have been done only by 3% people in regular service

Interestingly, in terms of criteria for choosing a particular institution/ place for depositing money, people look primarily at accessibility and liquidity. About 90% cases accessibility and in 81% cases liquidity is the ‘very important’ cause of saving in a particular place. About two-third of respondent mentioned that interest rate is just irrelevant in making this decision, while security has been referred as the ‘very important’ criterion. Banks are considered to be the most secure than cash at home. However, in terms of accessibility, bank deposits do not match the ease of cash at home. Table 6 gives more details about this.

**Table 6: Why do people choose to keep savings at home?**

	Accessibility	Interests	Security	Liquidity
--	---------------	-----------	----------	-----------

Very Important	182	12	88	160
Important	17	24	114	40
Not so important		6		1
less important	1	27		1
Irrelevant	2	133		0
Total	202	202	202	202

## 5. Life Cycle Events

The life-cycle events such as child birth, marriage, death of a family member etc take huge expenses, which do not come under the regular expenditures. These require heavy amount to be spent; even the existing savings are not sufficient to cover such exigencies and hence the households borrow from various sources. On an average a household has spent Rs. 84,260/- on such events of which 21% has been self-financed, and about 1% has been received through government aid as compensation, while 3% and 8% has been received from gift and sale of assets respectively. About 63% of the amount (Rs. 53,029/ HH) has been financed from credit. Further, of the total expenses marriage ceremonies has covered 47.7% of total expenses, followed by house construction, which has taken 31%, and health expenses 8.3% as given in Table7.

**Table 7: Expenditure on Life Cycle Events**

lifecycle event	No. of events	total amount spent	Average per event	percent	self finance	Asset sale	Gift	credit	govt aid
marriage	77	6555000	85130	47.7%	24%	1%	4%	61%	1.5%
child birth	118	467300	3960	3.4%	34%	2%	3%	62%	0.0%
health expenses	34	1134000	33353	8.3%	10%	24%	0%	66%	0.0%
house construction	52	4185000	80481	30.5%	22%	17%	2%	61%	0.0%
Death	26	706700	27181	5.1%	15%	2%	2%	60%	0.4%
litigation	1	10000	10000	0.1%	20%	0%	0%	80%	0.0%
others	21	676300	32205	4.9%	7%	2%	0%	91%	0.0%
	329	13734300	41476	100.0%	21%	8%	3%	63%	0.7%
Average/HH		84260							

Table 7 also shows that on an average a marriage ceremony has cost about Rs. 85 thousand, while a house construction cost about Rs. 80 thousand, followed by health expenses which has cost about Rs. 33 thousand.

It has been observed that the least 25% income group has spent Rs. 44,138/- while the highest 25% income group has spent about the thrice that amount. The amount of self finance has been very low in the low income groups ranging from Rs. 3526/HH to Rs. 10,154/HH, while the highest income group self-financed Rs. 49,900/-. The sale of asset is very low (almost nil to 3%) for the upper half income group, while it has covered about 18% to 25% of the total

spending on life cycle events. Credit has covered about 56% to 71% of the total spending for this purpose. The details have been given in Table 8.

Table 8: Spending on Life Cycle Events

	Expenditure	Self finance	Sale of asset	credit
25%	44138	3526	11037	24761 (56%)
26-50%	60898	10154	11659	37573 (62%)
51-75%	99480	9126	3122	70915 (71%)
76-100%	134800	49900	375	79513 (59%)
Average all HH		21%	8%	63%

In such cases, the friends and relatives are the major source of finance (70%), followed by money lenders (20%), while the formal sector institutions have contributed only in 7% cases to meet such requirements (Figure 6).

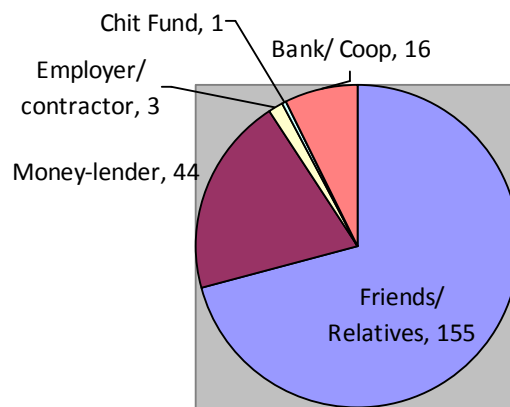


Figure 7: Sources of finance for life-cycle events.

Here a question arises, if there is any specific event to which the creditors prefer or do not prefer. Table 9 shows that for health expenses no credit has been obtained from the banks. Friends/relatives, and moneylenders have lent in such cases. Banks have lent for housing as well as for marriage, the latter have been primarily in the form of personal loans. Broadly, it can be said that friends/relatives and moneylenders have been the major source of credit for all life cycle events.

Table 9: Source of Credit vs. Life Cycle Events

lifecycle event	Friends/relatives	Moneylender	Employer/contractor	Chit-fund	SHG/MFI	Bank/coop
marriage	56%	26%	1%			16%
child birth	93%	7%				
health	45%	54%		1%		

expenses						
house construction	50%	12%				38%
Death	62%	28%				11%
litigation	100%					
Others	82%	2%				16%
	57.5%	22.0%	0.7%	0.1%	0%	19.8%

In obtaining finances for the life-cycle events, the households pay up to 5% interest per month, the commonly prevailing rates of interest are 2% and 3% which has been paid in 29% and 30% instances respectively each followed by 5% rate per month in 18% of the cases; in 7% of the cases such loans have been taken without any interest, which has been given by the friends and relatives. In 85% of the cases the repayment has to be done monthly, while the other repayment schedules (half-yearly 1%, yearly 3%, as and when available 7%) are rarely followed.

## 6. Indebtedness and Other Financial Aspects

### 6.1. Indebtedness

All the credit requirements together, the surveyed households have taken some or other loans from various sources. The average amount of credit of the surveyed households comes out to be Rs. 0.35 lakh per household as shown in Table 10. Friends and relatives here also are the major source of credit, from which 77% of households have obtained credit, followed by moneylenders (13%), and banks and cooperatives (11%).

**Table 10: Source of Credit and Rate of interest**

	Bank/ coop	Employ er	Friends/ relatives	Money- lenders	others	Total
No. of households	11	2	93	16	3	125
No. of occasions	16	2	98	23	6	145
Amount borrowed in Rs.	12,53,400	90,000	32,80,300	10,75,700	45,000	5744400
Average indebtedness in Rs.						35,242
Average rate of interest (monthly)	1.19%	3%	2.43%	3.08%	2.33%	2.40%
Yearly interest rate*	14%	36%	29%	37%	28%	29%

\* calculated at simple interest rate

The average amount of credit per household from the various sources of finance, the banks and cooperatives have provided the highest amount i.e. 0.88 lakh followed by moneylenders (0.58 lakh), employers (0.45 lakh), and friends and relatives (Rs. 0.32 lakh). In overall terms, friends/relatives have provided 61% of total credit, while banks and cooperatives have provided 19%, followed by moneylenders (18%).

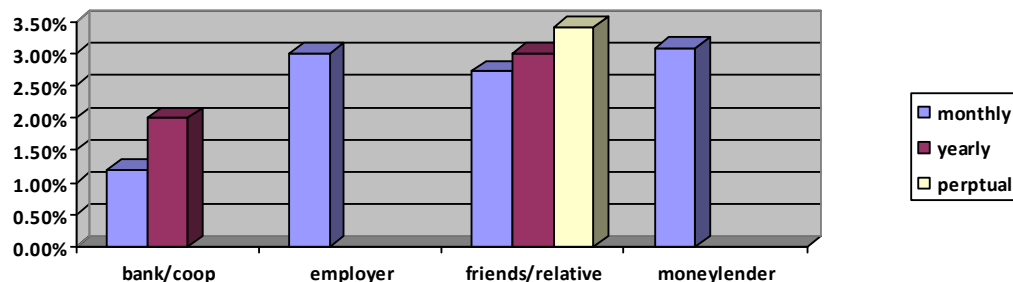
The credit requirement of people varies greatly from household to household; Table 11 shows that 23% of people have not taken any debt, another 7% have the requirement up to Rs. 5000-only. About half of the people have an indebtedness ranging from Rs. 5000 to Rs. 50,000. In all, 18% of households have an indebtedness of more than Rs. 50,000/-.

**Table 11: Credit Requirement of Households**

	Nil	< Rs. 5000	Rs.5000-10000	Rs. 10000-25000	Rs. 25000-50000	Rs. 50000 to Rs. 1 lakh	>Rs. 1 lakh
No. of HH	38	12	23	23	38	18	11
Percent of HH	23%	7%	14%	14%	23%	11%	7%

## 6.2. Interest Rate

On an average the households have paid Rs. 2.40% interest per month. It has been observed that the formal sources of credit have been the cheapest ones charging 1.19% interest per month, while the moneylenders have charged the highest, i.e. 3.08% per month. The rate of interest also depends on the frequency of repayment, the average rate of interest in monthly 2.34%, for perpetual outstanding basis repayment 2.92%, while the rate of interest in the case of yearly repayment schedule is as high as 3.4% per month. In this regard, the repayment options in case of credit provided by employers and moneylenders is not flexible, it has to be paid in monthly basis in any case. But the banks/ cooperatives and friends/ relatives allow the different options of frequency of repayment. The former charges 1.2% for monthly, and 2% for perpetual outstanding options, while the latter charge 2.72% for monthly repayment option, 3% for perpetual outstanding mode, and 3.4% on yearly repayment options (Figure 8).



**Figure 8: Differential rate of interest vis-à-vis periodicity of repayment**

Overall, monthly repayment option has been followed by 83% instances, 4% cases yearly repayment option is followed, while in rest 13% cases repayment done on perpetual outstanding basis (i.e. payment is made when money is available). Moneylenders and employers provided loan only on monthly repayable basis, while only in one instance, Banks provided on a higher duration repayment frequency, Friends and relatives are the main source where the flexibility of repayment has been high i.e. in 4% instances yearly repayment option was there, while in 12% cases repayment option was on perpetual outstanding basis.



### 6.3. Purpose of Credit

Interestingly, social consumption (36%) and housing (25%) are the most important causes of obtaining a loan, followed by daily consumption and health relative expenses for which loans have been taken in about 12% and 15% instances respectively (Table 12).

It also can be observed that the purpose of obtaining credit has also some correlation with the source. Banks have given credit for social consumption, buying assets, and for educational purposes, but not for daily consumption, and health related expenses. Moneylenders have paid for all purposes except for acquiring an asset. Friends and relatives have lent money for all purposes, including emergencies (presumably) related to health, and also for daily consumption. In fact one sixth of the instances, in which the friends and relatives have been a source of credit, loan has been taken to meet health related expenses. Only on six instance (less than 5%), loans have been extended for enterprising activities (investment).

**Table 12: Purpose of obtaining credit (number of Households)**

Source	Purpose							Total
	Daily Consumption	Social Consumption	Health related expenses	Capital investment	Purchase of house/repair	education	others	
Bank/Coo	0	5	0	2	6	1	2	16
Employer	0	1	0	0	1	0	0	2
Friends/	14	35	18	4	23	1	6	101
Moneylen	2	11	2	0	6	0	2	23
Others	1						2	3
Total	17	52	20	6	36	2	12	145

Why do people prefer a particular source of credit? The above paragraph provides some clue related to the accessibility in case of emergency. If we look at it more closely, we can find that the requirement of collateral is very important. In relative terms adequacy of loan amount is slightly less important than other criteria. Accessibility and cost of credit is considered either 'important' or 'very important'.

Broadly speaking, there could be an opportunity for the financial institutions that can operate at a slightly lower interest rate than the money lenders who charge more than 3% of interest, but at the same time they have to be more accessible than banks in terms of providing for purposes like social consumption and for meeting health related emergencies. Another point to be noted is that for enterprising activities only 4% cases loans have been taken. This indicates that the existing financial institutions have not been confident of the reliability of success of such ventures. A hand-holding support mechanism for enterprising activity along with loans for investment can not only help boosting the economy but it can also improve the livelihoods of the people.

## **6.4. Remittances**

Total 8 respondents (5%) have responded that they have remitted money to their native places. The remittance ranges from Rs. 1000/- to Rs. 61,200/- at a time. In 62% of the cases remittance is sent quarterly, while in 12%, it is sent half yearly, in rest 37% cases it is sent on special occasions. In all the cases, the remittances are handed over by the person sending the remittance himself/ herself. An average cost of remittance is Rs. 79/- which is basically the cost of travel to the person's native place. The importance of remittance cost is relatively small in this area as most of the households have been settled for more than ten years, and generally their native place is nearby Bikaner or in the neighbouring district.

## **6.5. Insurance**

Of the 163 respondents, 24 respondents have purchased or more insurance products. In all, 22 persons have purchased only life insurance; one person has purchased health insurance, while one has purchased both. About 75% of the households have purchased insurance for a single member while 25% have purchased for two members. The premium paid ranges from Rs. 180/- to Rs. 1200/- per month. The maturity period ranges from 5 years to 25 years (more than 50% of the cases the maturity is for 20 years). The premium is paid monthly (44%), while in 24% it is paid half-yearly, and in 32% it is paid yearly. Thus the coverage of insurance in the area is very poor and there is ample scope for expanding it.

# **7. Concluding Remarks**

## **7.1. Conclusions**

From the above observations the following conclusions can be made:

- The surveyed households has a surplus economy in terms of regular income and expenditure, however, meeting the long terms needs of creating assets, incurring social expenditures and life cycle events, the household turn into a deficit situation as given follows:

Average annual income:	Rs. 50,775
Average annual expenditure:	Rs. 43,697
Average savings of a household:	Rs. 2,008/-
Average debt of a household:	Rs. 35,242/-
- Thus an average households' saving is equal to about its two weeks of income, but the debt amounts to about eight months of income.
- Social consumption and housing (purchase/repair) are the most important causes of obtaining a loan which together covers 61% of the instances for which loan is taken. The next most important cause of indebtedness are daily consumption and health related expenses together covering 27% of the instances in which a loan has been taken.
- Friends and relatives have provided 61% of the total credit, followed by Banks/ cooperatives (19%), and money lenders (18%), while the employers have provided only 2% of the credit. However, the number of instances in which friends and relatives have

provided loan is still higher (77%), which also means that average loan is higher in case of Banks of cooperatives.

- The average interest paid to serve the credit is 2.4% per month. The formal sources of credit have been the cheapest ones charging 1.2% interest per month, while the moneylenders have charged the highest, i.e. 3.08% per month.
- The rate of interest also depends on the frequency of repayment, the average rate of interest in monthly 2.34%, for perpetual outstanding basis repayment 2.92%, while the rate of interest in the case of yearly repayment schedule is as high as 3.4% per month.
- For saving, accessibility, security, and liquidity are the main criteria for choosing the place of savings has to be made. Rate of interest is a very less important criterion for saving. For obtaining credit, the important criteria for choosing creditor are need of collateral, accessibility, and cost of credit; while adequacy of amount is a slightly less important reason.
- As the area has residents primarily from the same district or from the neighbouring districts, the remittance is directly handed over by the person who is sending it. Only 7% cases remittance has been observed.
- Insurance has been purchased by less than 20% households (15% single member, 5% two members). In 97% cases it has been a life insurance product, while in only one instance a health insurance product has been purchased.

## ***7.2. Implications for Financial Institutions***

Other than banks/cooperatives no other institution is working there particularly to provide savings/credit services. There is no MFI/NBFC working in the area. There is ample scope for such agencies to operate in the area.

A Financial institution may take care of the a few things while operating or before starting its operation in the area:

- People have low accessibility to low interest loans of Banks; any loan product priced below that of the money lenders is definitely going to be taken if they are easily accessible
- Monthly mode of saving and repayment has been the mostly widely followed frequency. No instance of weekly or daily repayment has been observed. As SHGs have started operating in the area, these options can be included which can help expanding the credit base.
- There is a lot of scope for expanding the coverage of insurance services.
- While the economy is running on net deficit, it has also been observed that there is not much effort in extending finance for enterprising activities. Only in 4% cases loans have been taken for such purpose. A hand-holding support mechanism in such activities can ensure viability of such initiatives, and it can improve the livelihoods of people too.

### **References:**

CMF (2006) 'Reaching the Other 100 million Poor in India', Centre for Micro Finance, India

## Appendix I: Assets owned by the households

Asset	No. of HH	No. of Asset	Amount Spent	Percentage of household	Percentage of amount spent to total
Almirah	28	31	64400	17%	4%
Bed	1	1	2500	1%	0%
Chair/Table	45	132	33500	28%	2%
Cooler	16	19	40700	10%	2%
Cycle	94	105	123880	58%	7%
Fan	104	145	101500	64%	6%
LPG	30	35	74900	18%	4%
mobile	49	53	77124	30%	4%
Moped	3	3	23600	2%	1%
motorcycle	4	4	125500	2%	7%
Radio	24	24	6500	15%	0%
rickshaw	1	1	165000	1%	9%
Sewing Machine	16	16	17600	10%	1%
Tape Recorder	8	8	8500	5%	0%
Thari	1	1	50000	1%	3%
Thela	1	1	1600	1%	0%
TV	73	74	300650	45%	17%
VCD	10	10	20050	6%	1%
others	23	32	531900	14%	30%
	531	695	1769404		100%

## Appendix II: Employment

Primary Employment				Secondary Employment	
Employment	no	Employment	no	Employment	no
Almari making	1	Nagar Nigum Work	6	Begging	1
animal husbandry	1	Oon Chatai	10	Dairying/animal husbandry	6
Army	1	Painting	1	Factory Worker	1
Beldari	50	Papad Making	3	Kabadi ka Work	1
Belgadi running	4	Paper Supply	1	Kirana Shop	6
Camel Cart	8	Pashu Chara ki	1	Labour	2
Chara Khali Karna	2	Railway Worker	1	LIC Agent	1
Driver	27	Seat Cover Bana	1	maid	2
Electrician (Govt)	1	Shoe Polish	2	Oon Chatai	2
Factory worker	2	Shop	1	Pension	1
Farmer	2	Shop helper	1	Papad Making	19
Gas Agency Work	1	shop-bidi	1	Sweeper	8
Helper	1	shop-iron	3	Tailoring	2
Hospital worker	1	shop-kirana	4		
Hotel Waiter	1	shop-tea	1		
Kabadi	1	Sweeper	33		
Kariger (Mason)	1	Tantrik	1		
Labour	60	Tin shed making	2		
LIC Agent	1	Tyre Puncture	1		
Maal Dona	1	vendor-fruit	1		
Maid	1	vendor-milk	4		

Motor Washing	1	vendor-vegetable	3		
		Welding	11		