

Cash Flow Study

Kota District



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CASH FLOW STUDY OF URBAN POOR

District: Kota

1. Introduction

Urban Poverty is a universal phenomenon and due to the increasing industrialisation it is seen to be growing steeply over the last decade or two. It has been predicted that the urban poor population is about to double in the next 30 years (UNDP, 2009). According to the NSSO survey conducted in 2008, 80 mn poor people are living in the cities and the peri-urban areas out of a total of 1.1 bn. This is leading to what is known globally as “urbanisation of poverty” i.e. increased ratio of urban poor to rural poor leading to rise in the urban problems of housing, water and other basic amenities.

There are many studies which talk about poor people living in the slums which are overcrowded, often polluted and lack basic civic amenities like clean drinking water, sanitation and health facilities. Most of them are involved in informal sector activities where there is constant threat of eviction, removal, confiscation of goods and almost non-existent social security cover.

But not much has been studied with regard to the financial needs of urban poor. To fill up this gap, 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 the city of Kota was 211 households.

These 211 households were primarily from the slum areas (Khand Gawdi, Nanda ji ki Badi and Hussain Nagar). In terms of Municipal Wards, the surveyed households are from Ward No. 23 and Ward No. 19 . The residents of these areas are primarily the natives of Rajasthan particularly from the city of Kota.

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

The total population of the surveyed households is 1084 with an average family size of 5.14. Of them, 574 are male and 510 are female members and nearly 86% of the households are male headed (181 HH). Age wise, about 422 fall in the pre-reproductive group (0-14 years), 629 fall in the reproductive group (15-55years), 32 fall in the post reproductive group (above 60 years)

About 3% of the surveyed households have been living here for more than 25 years, while 64% have been living for the past decade, which could mean that this population has recently migrated from elsewhere and also that majority of the people are settled here for more than 10-15 years. About half of the households belong to SC/ST category (45%) while only 30% belong to the general category. The rest belong to OBC. Only 24% of the surveyed population are illiterate which signifies a greater literacy rate as compared to other cities in the study. (261 members of which 226 are females).

Of the 211 households, 158 have their own house. Only 15 houses have both kitchen and toilet, while 32 houses have the kitchen facility only and 32 houses have only toilet facility. The rest 132 houses have none of these two facilities. Only 44 of the houses have pucca roof and 182 of the houses have electricity, while others do not have this utility. Regarding facility of water, 25% have a tap at home, while 73% use the community tap. Figure 2 depicts the facilities these households have.

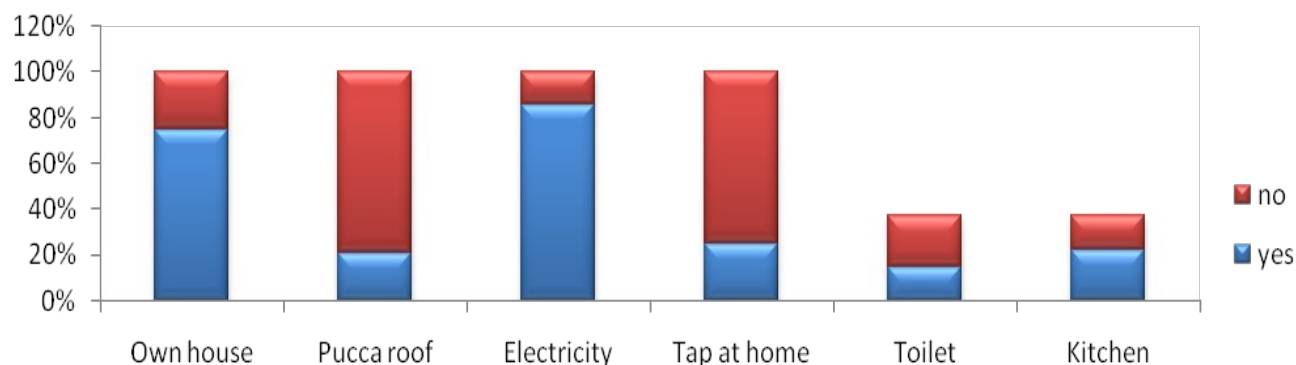


Figure 1: Household Facilities

Of the surveyed households, the average value of the houses is Rs. 37,000. The highest value of the house is Rs. 2250000 while the lowest value of the house is Rs. 15000 (179 houses are priced at Rs. 0.15 lakh). The complete representation of the cost of households is as given below

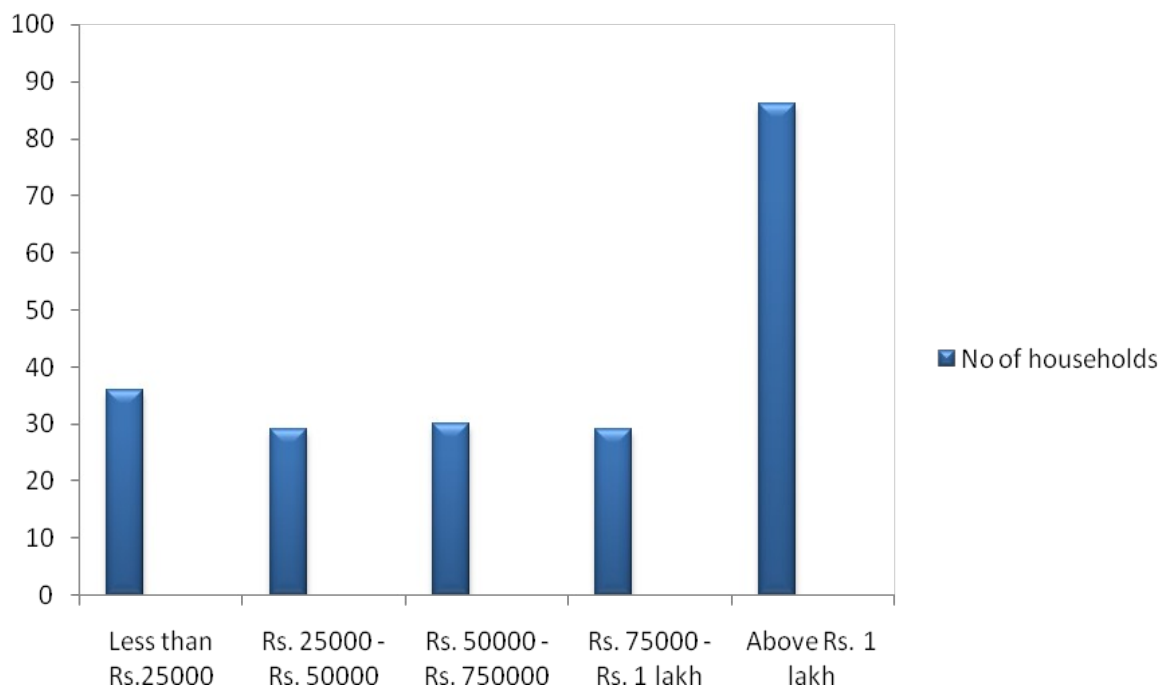


Figure 2: Cost of the households

2.1 Occupation of the households

Of the 661 members of the surveyed households above 14 years of age 422 report some kind of employment or the other. On an average there are two earning members in a household. Of these, 64 report to have secondary employment of some kind while among the rest 21% are daily wage labourers, 18% are salaried and only 8% are self employed. Daily labour is the main form of employment which employs the maximum population followed by women who work as housemaids.

The housewives often are involved in home based work such as papad making and bidi making thus contributing there bit of share to the household income.

The details of the employment of the households are given the following table.

Table 1: Details of employment

| No of people from the sample households | Primary employment | Details of the employment |
|---|----------------------|---|
| 129 | Daily wage labourers | Skilled and Semi-skilled labour like basket weaving, singing, painting, minai ka kaam, Occasional driving, daily wage workers at stone quarry, sewing, housemaids |
| 102 | Salaried | Driver, Watchman, Painter, tailor shop, painter, flour mill |
| 45 | Self Employed | Vegetable vendors, Animal Husbandry, tea shop, |

| | | |
|----|------------|---|
| | | tailoring, sewing, kabadi work, kashidakari |
| 52 | Housewives | Primary occupied in household activities, and occasionally also work as housemaids (as and when the opportunity arises) |
| 2 | Others | Krashi |

It is interesting to see that of the surveyed population falling in the age group of 0-14 years, none of them are reported as students. Of the three areas where the survey was carried out Hussainnagar did not have a school in the area or in the accessible vicinity.

Of the two other places, Khand Gawdi one had a private school only upto class eight and Nanda ji ki Badi has two private schools which are 1 km away from the locality. No government schools in the area might be the reason as to why there are no students as private schools have expensive education.

2.2 Income, Expenditure and Savings

2.2.1 Income

Since the occupation of the surveyed families varies with the permanency or at times with periodicity, the income of the surveyed population is pretty skewed and irregular.

The average annual income of a household surveyed is Rs. 45,473 of which the occupational income contributes 99% while the rest is contributed by rent and other sources. However the income distribution is quite skewed. The income from primary employment contributes 92% of the total income, while the secondary employment contributes about 7%.

This is in contrast to the income generation that takes place in the rural areas since rural people are simultaneously involved in multiple occupations. Agriculture being the primary one (which is seasonal and crop based) they also undertake other activities like poultry and cattle rearing and are also involved as being labourers. This is as opposed to the urban phenomena wherein the person is occupied in his/her primary occupation all the time.

Of the surveyed population, the lowest quarter of the sample has an average household income of only Rs. 0.19 lakh while that of the richest quarter of the sample is 0.74 lakh. Highest income amongst the surveyed population is of Rs. 17550 per month of the person who is involved in animal husbandry while the lowest one is of Rs. 1250 per month who is involved in sewing work. This wide bracket itself explains the extremities in the income.

2.2.2 Expenditure

The average annual expenditure of the sample households is Rs. 39695/- which when compared with the income above tells us that the households practically do not have any

surpluses at the end of the year. Amongst the surveyed sample the highest expenditure per month is of Rs. 17700 while the lowest per month is of Rs. 800.

The expenditure of the lowest quarter income group is only Rs. 0.19 lakh while the highest quarter income group spends Rs. 0.66 lakh annually. The table below gives a comparison of the income and expenditures of the surveyed households according to the income groups they fall into. It would be interesting to find how the surplus amount at the end of the year is converted into building assets in the following section. However, we should note that the surplus here does not take into account the expenditures made on contingency events by the households.

Table 2: Income, expenditure and Savings of the Sample HH (Annual)

| Income groups (lowest to highest) | Income | | | Expenditure | | | Average Surplus |
|-----------------------------------|---------------------------|----------------|------|--------------------------------|---------------------|------|-----------------|
| | Total income of sample HH | Average income | % | Total expenditure of sample HH | Average expenditure | % | |
| First 25% | 1036920 | 19565 | 12% | 1056396 | 19932 | 13% | (367) |
| Second 25% | 1675200 | 31608 | 19% | 1580208 | 29815 | 19% | 1793 |
| Third 25% | 2104200 | 39702 | 24% | 2006088 | 37851 | 25% | 1851 |
| Last 25% | 3922800 | 74015 | 45% | 3519708 | 66410 | 43% | 7605 |
| | 8739120 | 45,473 | 100% | 8162400 | 39,695 | 100% | 5778 |

Figure 4 and Table 3 presents further details of household expenditure. This includes all the regular expenditures. The occasional expenditures done on social events or on emergencies are described in a subsequent section. Consumption expenses comprise 51% of the total expenses and debt servicing contributes to 9%.

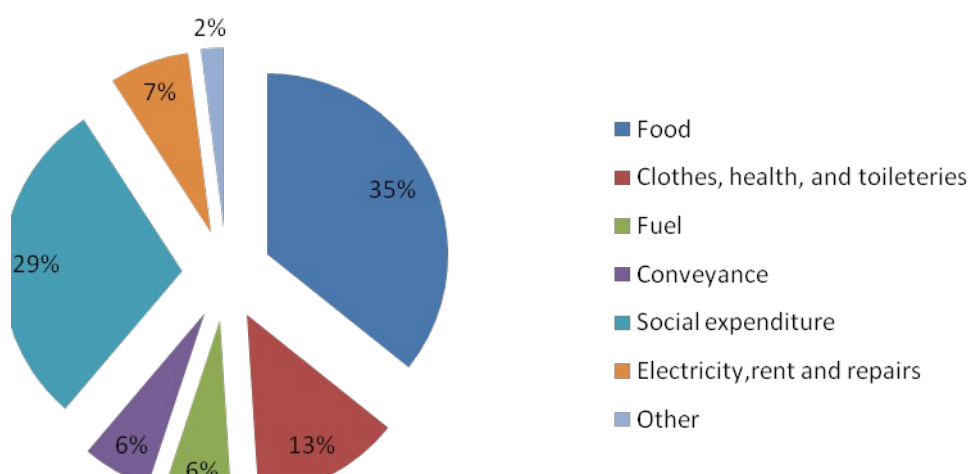


Figure 3: Household Expenditure

If we look the expenditure as a percent of income then we can find that expenditure on food is the highest (51%). Further 29% of the total income is spent on other social expenses. It is interesting to note that there are no expenses been made on education and a reason why there are no students in the surveyed sample of households. With no emphasis given on the education expenses, the future of the kids is at risk. The detailed expenditures are given in the table below.

Table 3: Household Expenditures

| Item of Expenditure | Average annual expenditure/HH in Rs. | Percentage of expenditure | Percentage of income |
|--------------------------|--------------------------------------|---------------------------|----------------------|
| Food expenditure | 14128 | 36% | 33% |
| Old debt | 5914 | 15% | 14% |
| Conveyance | 2138 | 5% | 5% |
| Electricity | 1709 | 4% | 4% |
| Toiletries | 1695 | 4% | 4% |
| Health expenditure | 1640 | 4% | 4% |
| Alcohol/Bidi | 1635 | 4% | 4% |
| Clothes | 1477 | 4% | 3% |
| Cooking fuel | 1250 | 3% | 3% |
| Social expenditure | 984 | 2% | 2% |
| LPG | 702 | 2% | 2% |
| Remittances | 530 | 1% | 1% |
| House repair | 509 | 1% | 1% |
| Telephone | 473 | 1% | 1% |
| House rent | 466 | 1% | 1% |
| Make up | 335 | 1% | 1% |
| Gifts | 332 | 1% | 1% |
| Vehicle | 276 | 1% | 1% |
| Water | 236 | 1% | 1% |
| Entertainment | 179 | 0% | 0% |
| Migration | 129 | 0% | 0% |
| Litigation | 49 | 0% | 0% |
| Other | 626 | 2% | 2% |
| Total Expenditure | 37412 | 93% | 88% |

As stated above, food expenses consume the maximum share of the total annual expenditure followed by servicing of old debts and this indicates the high level of indebtedness amongst the population. It is also very alarming to know that the third highest expenditure takes place for vices like alcohol and bidi and this consumes 4% of the total annual expenditure.

2.2.3 Income v/s Consumption expenses+life cycle expenses/events:

To further analyze, expenditure of every household can be divided under two broad heads: Consumption or routine Expenditure and Life Cycle events expenditure. Routine Expenditure is mainly the expenditure on food, clothing and shelter while life cycle events are usually huge unprecedented events like death, births, marriages, health problems, house construction

and repairs etc. Such exigencies make households spend more and at times cater to credit to access these needs.

The following table gives an analysis of the average income, average expenditure (consumption and lifecycle) and the surplus that the households have at the end of the year.

Table 4: Comparison of income, expenditure and the surplus

| Income Groups (lowest to highest) | Average Annual Income | Average Annual Expenditure (routine) | Average annual Expenditure (life cycle) | Surplus (annual) |
|-----------------------------------|-----------------------|--------------------------------------|---|------------------|
| First 25% | 19565 | 19932 | 39630 | (37302) |
| Second 25% | 31608 | 29815 | 92450 | (90142) |
| Third 25% | 39702 | 37851 | 149350 | (147827) |
| Fourth 25% | 74015 | 66410 | 109700 | (105414) |

It is seen that the surplus amount here is negative which contradicts to the surplus amount above which does not consider the life cycle event expenditure. Thus it can be concluded that to meet the unprecedented expenses, the households resort to credit sources. The following table explains the same.

Table 5: Expenditure on life cycle events (Over the past 10 years)

| Lifecycle event | No. of house holds having the particular event | No. of instances of events | Total amount spent | Avg per household | Self Finance | Asset Sale | Gift | Credit | Govt Aid |
|--------------------|--|----------------------------|--------------------|-------------------|--------------|------------|------|--------|----------|
| Marriage | 66 | 77 | 2920700 | 44253 | 19% | 5% | 0% | 51% | 0% |
| Child Birth | 104 | 176 | 2101400 | 20205 | 5% | 0% | 0% | 17% | 0% |
| Health Expenses | 71 | 90 | 1915701 | 26982 | 3% | 1% | 0% | 29% | 0% |
| House Construction | 105 | 112 | 2887900 | 27504 | 27% | 1% | 11% | 89% | |
| Death | 27 | 30 | 710000 | 26296 | 1% | 0% | 1% | 0% | 0% |
| Litigation | 1 | 2 | 40000 | 40000 | 0% | 0% | 25% | 0% | 0% |
| Others | 23 | 24 | 833500 | 36239 | 0% | 0% | 0% | 20% | 0% |
| Total | 397 | 511 | 11409201 | 221479 | 55% | 7% | 37% | 89% | 0% |
| Average/ HH | | | 54072 | | | | | | |

As seen from the events that take place in each household, the ratio of the events per household is 1.29 events on an average.

It can be observed that on an average a household has spent Rs. 0.54 lakh on such life cycle events. There have been 511 such unprecedented events for the surveyed households over the past ten years. About 55% of the total expenditure has been met through self-finance, 37% through gifts, 7% through sale of assets, while **89%** has been met through taking credit.

Of the various sources of credit, friends and relatives have provided support on more than 50% occasions, followed by moneylenders who have supported on more than one fourth of occasions as given in Figure 6.

Source of Credit

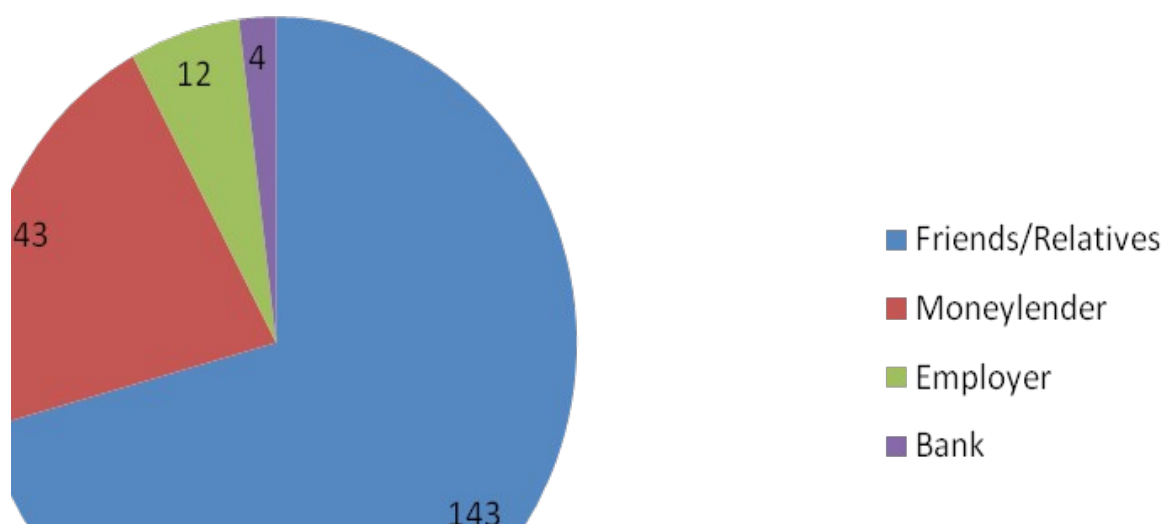


Figure 4: Source of credit for life cycle events

The details of the specific events and the source of credit for the same is given in the table below. On 46% of the instances the sourcing is through friends/relatives and then followed by moneylenders at 13% of the time.

Table 6: Source of Credit vs. Life Cycle Events

| Lifecycle Event | Friends/Relatives | Moneylender | Employer/Contractor | Bank/Coop |
|--------------------|-------------------|-------------|---------------------|-----------|
| Marriage | 73% | 14% | 3% | 0% |
| Child Birth | 58% | 9% | 4% | 1% |
| Health Expenses | 30% | 27% | 1% | 1% |
| House Construction | 34% | 12% | 6% | 4% |
| Death | 13% | 0% | 0% | 0% |
| Others | 33% | 4% | 4% | 4% |
| | 46% | 13% | 4% | 1% |

For obtaining the above finances, the surveyed households have paid an average interest rate of 2.50%. The periodicity of repayment is either monthly or when money is available in 95% of cases, while yearly and half-yearly repayments have been used on three and four occasions respectively. For monthly repayment the average interest charged is 1.64% while the same for when money is available is 2.58%; for six monthly and yearly repayments it is close to 3%. The rate of interest also varies from source to source (of finance) as shown in Figure 5.

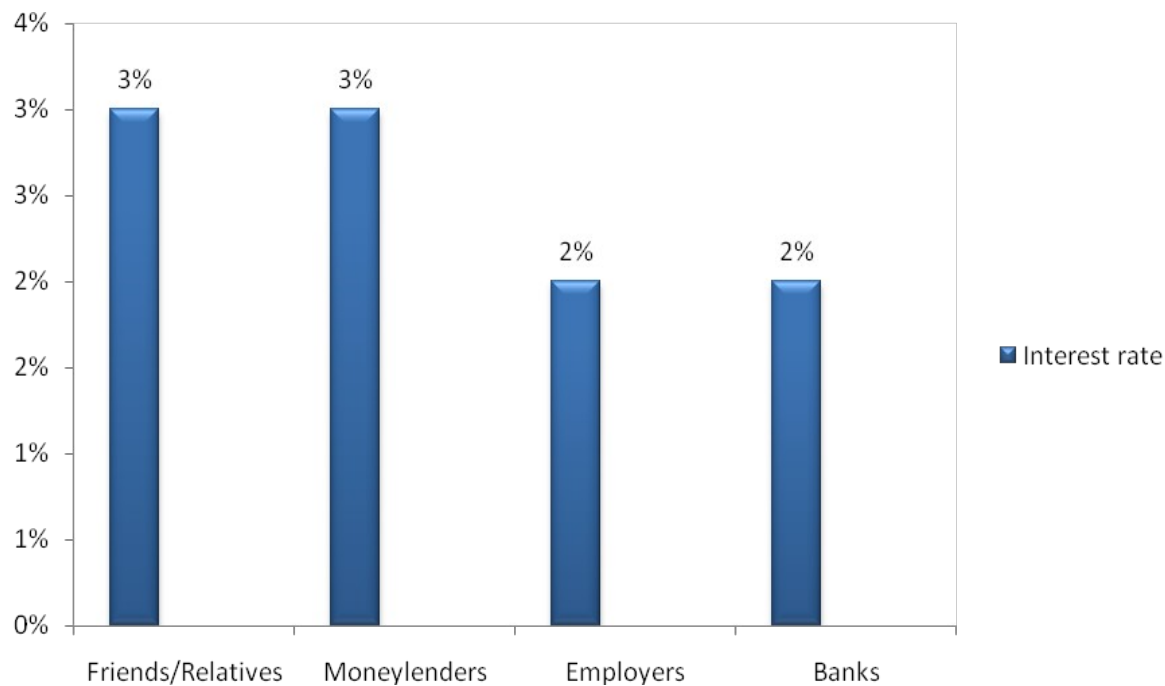


Figure 5: Variation in interest rate

2.2.4 Savings

Of the many savings options available in the city, the population surveyed mostly have their savings in the form of cash at home. Of the 211 households surveyed, all households save at home in addition to other places like Banks/Co -ops, Chit funds, SHGs, Post Offices, NBFCs/ Private companies.

The average saving of a household stands at Rs. 1424/- ; periodicity of which differs from household to household.

Table 7: Savings and Frequency:

| Mode of Saving | No. of instances | Amount of savings | Frequency | | | | |
|----------------|------------------|-------------------|-----------|--------|---------|--------|--------------------|
| | | | Daily | Weekly | Monthly | Yearly | Whenever available |
| | | | | | | | |

| | | | | | | | |
|--------------|-----|--------|----|---|-----|---|---|
| Post office | 9 | 22400 | 0 | 0 | 9 | 0 | 1 |
| Bank/Co-op. | 24 | 127280 | 0 | 0 | 15 | 1 | 3 |
| NBFC | 1 | 2400 | 0 | 0 | 3 | 0 | 0 |
| Chit fund | 3 | 16200 | 1 | 1 | 4 | 0 | 0 |
| SHG | 4 | 750 | 1 | 0 | 3 | 0 | 0 |
| Cash at Home | 189 | 80360 | 54 | 5 | 126 | 1 | 0 |
| | 211 | 409540 | 56 | 6 | 161 | 2 | 4 |

About 76% of the households follow monthly savings which is then followed by savings on a daily basis which is carried out by 27% of the households. The daily savings is followed mainly by people who save in Chit Funds and also by those who save cash at home. Weekly saving is not followed in case of any formal institution.

The main criteria behind choosing a particular institution for savings are accessibility and liquidity, followed by security; interest rate plays a smaller role. As being told by the respondents during the survey, accessibility is the most important criteria followed by liquidity of the savings, while interest rate gathered on the savings does not bother the people much. About 75% of the respondents mentioned that interest rate is just irrelevant in making this decision. Details are given in the below mentioned table 8.

Table 8: Criteria for mode of savings

| | Accessibility | Interests | Security | Liquidity |
|------------------|---------------|-----------|----------|-----------|
| Very Important | 174 | 3 | 55 | 169 |
| Important | 8 | 2 | 133 | 14 |
| Not so important | | 26 | 5 | 21 |
| less important | | 21 | 5 | 7 |
| Irrelevant | 29 | 159 | 13 | 0 |
| Total | 211 | 211 | 211 | 211 |

3. Assets Ownership

As we discussed in the above sections, it would be interesting to know how the surplus amount gathered after all the expenditures are met is converted into building assets. But not all the surplus amount is converted into building assets and it is seen that people take resort to credit for purchasing assets.

On an average the households surveyed have movable assets like Televisions, furniture, and almirah all together valued at Rs. 1921 per household. Televisions are owned by majority of the households (52%) This is followed by the ownership of the fans and radio which is 18% and 11% respectively. Only four households own a cycle and one household each own a LPG, Thela and VCD respectively. Furniture which comprises of chairs/tables, almirah and sewing machine is owned by 17 households (8%). Appendix I present more details about this.

Source of finance

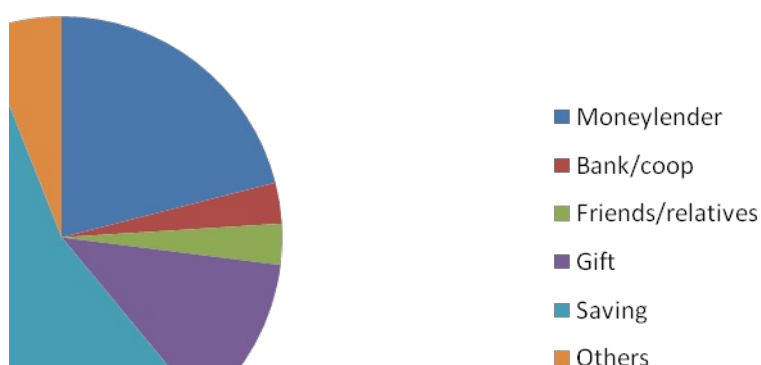


Figure 6: Source of Finance for Purchasing Assets

The major source of finance has been from the household's own savings which contributes to 55% of the total amount, followed by the moneylenders (21%). Banks/finance companies contribute only 3% of the value of assets, while 12% has been contributed from gifts, and 3% has been borrowed from friends and relatives. About 55% of the total amount spent from assets has been financed out of own savings followed by borrowings made from moneylenders.

The pattern of asset holding among various income-groups shows that the lowest 25% income group have spent only Rs. 110 on an average (0.7% of total amount), while upper most 10% income group has spent Rs. 19,315 on an average (50% of total amount). The bottom quarter has spent only 0.7%, while the bottom half have spent only 6.7%, bottom three fourth have spent only 23.3% of the total amount spent on assets. Details have been given in Table 2.

Table 9: Income group wise asset-holding

| Cumulative percent of households | Cumulative number of households | Amount spent on assets (in Rs.) | Percent of amount spent | Average amount spent for the income group (in Rs.) |
|----------------------------------|---------------------------------|---------------------------------|-------------------------|--|
| 17 | 36 | 0 | 0% | 0 |
| 25 | 52 | 5750 | 1.1% | 110 |
| 50 | 105 | 56750 | 8.4% | 540 |

| | | | | |
|-----|-----|--------|-------|------|
| 75 | 157 | 197200 | 22.5% | 1256 |
| 90 | 185 | 422190 | 50% | 2246 |
| 100 | 211 | 847140 | 100% | 4053 |

Thus the distribution of spending on asset holdings is highly skewed.

4. Indebtedness and Other Financial Aspects

4.1. 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

It is interesting to note that only 11 households have issues loans from banks.

The credit requirement of people varies greatly from household to household. About a fourth of the households have not taken any credit as shown in Table 11.

Table 11: Indebtedness of Households

| | Nil | < Rs. 5000 | Rs. 5000-1000 0 | Rs. 10000-2500 0 | Rs. 25000-5000 0 | 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% |

Table 11 above shows the average indebtedness of the surveyed population. 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/-.

4.2. Purpose of Credit

Social consumption, which involves spending on occasions like marriages, births, and gifts given out to relatives at festive occasions is the major purpose of credit, about 43% of the amount of total credit has been taken for this followed by daily consumption (16%), purchase of houses or house repairing (15%) and health related expense (14%). Table 12 gives an idea of various purposes of credits

There also exists a correlation between the credit source and the credit purpose. Banks usually give credit for social consumption, building assets (house), 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. The following table explains the same:

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 | | 0 | | 1 | | 1 | 2 |
| Employer | 0 | 4 | 1 | 0 | 1 | 0 | 0 | 6 |
| Friends/ | | 62 | 24 | | 58 | | 8 | 144 |
| Moneylenders | | 12 | 18 | 0 | 7 | 0 | 2 | 37 |
| Others | | | | | 1 | | 1 | 2 |
| Total | 0 | 78 | 43 | | 68 | | 12 | 191 |

Accessibility and adequacy are relatively more important criteria for selecting a source of credit but the cost of credit is considered to be of least important as observed by about 63% of the respondents.

4.3. Interest Rate

As stated above although the interest rates levied on the credit/loans differ from source to source, the periodicity of repayment also differs from source to source. Usually formal sources of finance like the banks and the cooperatives have a monthly repayment schedule while the informal sources like friends and relatives and moneylenders allow a flexible 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). Although there is a flexibility of repayment when the money is borrowed from informal sources, by and large it is seen from the responses obtained during the survey that the people prefer a monthly mode of repayment the most.

4.4. Remittances

Of the total population surveyed, only 22 people (10%) of the people spend on remittances. The amount ranges from petty Rs.100 to a maximum of Rs. 60000. The total amount remitted last year by the surveyed population is Rs. 163900. As per the respondents there is no specific periodicity with which they incur the remittances. The remittances usually involve sending money back to their villages (native places) from which they hail. On a general basis, they send money back home as and when it is available. Of the 22 people, 4 people send it weekly, 4 send it monthly, 5 people send it quarterly, 2 people send it half yearly and yearly each and the rest send it as and when the money is available. But the respondents said that this order is likely to change each month, depending upon the influx of their cash flow.

4.5. Insurance

Of the 211 respondents, 30 respondents (14%) have purchased or more insurance products. Except for 2 people of the 30, all have purchased life insurance products. About 76% of the households have purchased insurance for a single member while 24% have purchased for two members. The premium paid ranges from Rs. 275/- to Rs. 9600/- per month. The maturity period ranges from 1 year to 60 years (in about 50% of the cases the maturity is for 20 years). The premium is paid monthly (43%), while in 23% it is paid half-yearly, and in 24% it is paid yearly. Thus the coverage of insurance in the area is very poor and there is ample scope for expanding it.

5. Concluding Remarks

5.1. 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. 42804/-
 - Average annual expenditure: Rs. 38824/-
 - Average savings of a household: Rs. 1424/-
 - 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.

5.2. 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.

Cited References:

- IUPR, UNDP, 2009
- NSSO survey report, 2008

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: Sample Questionnaire used to carry out the survey at the households