Financial Status of Rural Poor: A Study in Udaipur District

M S Sriram
Smita Parhi

Research carried out under the
Sir Ratan Tata Trust Fund for Research Collaborations in MicroFinance
Indian Institute of Management
Vastrapur, Ahmedabad 380015

Phone:++91—79-6324954 (O) • 6325413 (R) • **Fax**: ++91-79-6306896
Email: **mssriram@iimahd.ernet.in** • Website**:http://www.iimahd.ernet.in/~mssriram**

Financial Status of Rural Poor: A Study in Udaipur District

M S Sriram
Smita Parhi

Abstract

The paper discusses the findings of a primary survey carried out in one village in Udaipur District of Rajasthan. The objectives of the study were to understand the financial flows of the rural poor and to have an insight into their financial status. Data was collected from 36 households classified as below-poverty-line on various aspects through a questionnaire.

The findings indicate that the overall levels of indebtedness of these poor families are not alarming, as they have sufficient assets. The poor borrow from various sources to meet their needs. The most striking finding was that the poor resort to borrowing from the local money lender even for asset purchase, while they stash away their savings in earthen pots. Both these indicate the failure of the financial institutions in capitalizing on a small market opportunity.

Most of the borrowings particularly for social consumption come from relatives – the poor seem to be juggling around with loans that cost heavily along with some interest free informal loans to manage their liquidity. The findings also support the possibility of differential pricing of loan products using social controls on end use monitoring – this is evidenced by the controls exercised by relatives in funding social consumption beyond certain limits. On the savings it was possible to conclude that the poor look for security more than liquidity and returns as an attribute. This study re-confirms the earlier findings that health related expenses are one of the major causes of indebtedness amongst the poor.

Financial Status of Rural Poor: A Study in Udaipur District[1]

M S Sriram[2]
Smita Parhi

Introduction

Can the poor manage financial flows? Can the poor save? These are questions that have engaged the attention of people trying to design microfinance products of the poor. While in the past the poor were always addressed from the supply side through "schematic finance", times have changed. We have now reached a stage where we need patience to understand the financial status, the financial flows, the savings and their attributes in terms of security, liquidity, and risk-return relationship preferred by the poor. It is known that not only the well to do, but also the poor have patterns in income and expenditure profile and have evolved products that take care of these ups and downs in the financial flows. The objective of the study was to understand the financial flows of the rural poor. It is hoped that this understanding will lead to better design of savings and loan products in the microfinance sector.

To fill the gaps between inflows and outflows the poor need institutional mechanisms that help them manage the flows. In most villages the moneylender performs this gap filling function. There has always been a debate on the role of the moneylender in the local economy. There is no doubt that the moneylender provides access to credit, and there are arguments that the image of the moneylender is unnecessarily tarnished by literature (Sharma and Chamala, 2003). There are been counter arguments on whether this fits with the development intervention to be undertaken (Chavan, 2003). There are arguments that because of traditional relationships of trust, it is almost impossible to replace the moneylender, but possible to re-define the relationship by providing an atmosphere for formal competition (Sriram, 2002). It is important to understand the roles of each of the players providing finance for the poor and how the poor manage money.

The most commonly used measure of poverty is based on incomes or consumption levels. People are considered poor if their consumption or income level falls below a minimum needed to meet basic needs. This level is defined as "poverty line". This definition varies across time, and place. Each country uses a definition appropriate to its level of development, societal norms and values (World Bank).

Information on consumption and income is obtained through surveys, during which households are asked questions on their spending habits and sources of income. Such surveys are conducted more or less regularly in most countries. In India, the planning commission estimates the proportion and number of poor separately for rural and urban India at the national and state levels based on the recommendations of a task force. The task force had defined the poverty line as the cost of an all India average consumption basket at which the calorie norms are met (Economic survey, 2002). The norms were 2400 calories per capita per day for rural areas and 2100 calories for urban areas. These calorie norms were expressed in monetary terms as

[1] The research for this paper is carried out under the Sir Ratan Tata Trust Fund for Research Collaborations in MicroFinance instituted at IIMA. The authors are Faculty member and Trainee Academic Associate respectively at the Centre for Management in Agriculture, Indian Institute of Management Ahmedabad (IIMA).
[2] Corresponding author. Contact at mssriram@iimahd.ernet.in

Rs. 49.09 and Rs. 56.64 per capita per month for rural and urban areas respectively at 1973-74 prices. Subsequently a study group and expert committee estimated the proportion and number of poor and defined the poverty line as Rs. 131.80 and Rs.152.10 per capita per month for rural and urban areas respectively at 1987-88 prices. These figures were updated again with the consumer price indices (CPI) in 1994-95. The updated numbers are Rs.228 and Rs.305 per capita, per month, for rural and urban areas respectively (Pradhan and Subramanian, 2001, GOI, 1993).

But the debate on definition of "poor" hardly ends here. There are arguments about alternative measures of poverty. Internationally a popular measure used to define poverty is to use a dollar a day income at purchasing power parity as an upper cut off. Even within the category of poor there are further slices – extremely poor, vulnerable poor and economically active poor. For the purposes of this study, we do not debate the definition. We accept the poverty line, as defined by the state. We do not consider the definition as critical because financial services needs are on a continuum and errors on the margins do not alter our findings or recommendations.

This paper attempts to understand and map the financial flows of the poor and how do they manage the little money available to them. The paper is organised into five sections. The second section looks at the literature. Section three has the geographical setting, methodology, sample size, design and administration of the questionnaire. Section four contains findings of the study. We conclude with section five – discussing the issues that need to be addressed at a larger scale and also how this study can be taken forward, while identifying the limitations of the current study.

2. Literature Review

Financial services play an important role in assisting the poor in managing their money and in improving their economic status. The state has intervened in this segment to address the issues of inequity from time to time. It has not only created institutional mechanisms, but also has had targeted schemes that help the poor to come out of poverty. However most of the efforts have been supply driven and have looked at the credit and not the savings needs of the poor. Microfinance institutions (MFIs) have addressed the issue of financial flows and have succeeded to some extent. But still reliable financial services are not widely available. The offering of credit by MFIs is pigeon holed into the "Grameen" type with little flexibility and the self-help group (SHG) type with more flexibility. The loan products available in the formal sector do not address the needs of the poor. Therefore there is still a gap in the needs of the poor and the offerings (Fisher and Sriram, 2002). While the literature on credit services is vast, here we focus on literature pertaining to savings and management of financial flows of the poor.

It is believed that poor know how to manage their flows (Rutherford, 2000). They need money in lumps and finding ways to meet such requirements is a challenge. Savings is nothing but the choice of not consuming cash. This is a fundamental and unavoidable first step in money management. We should look at issues pertaining to savings and credit together, to understand the needs of the poor (Rutherford 2002).

The poor save for a variety of reasons. Risk management is one of them. The risks are - temporary risks, permanent risks like lifecycle risks, structural risks and crisis risks. These risks disrupt the functioning of the household's economic portfolio to such an extent that the income required to fulfill basic needs can no longer be maintained. But there are only few products offered by the institutions and hence this needs to be addressed. People look more for safety and liquidity and less for returns in case of savings. Crisis risks require products that are liquid and easily available (Mutesasira, 1999). Savings at home, loans from moneylenders and emergency loans from SHGs are most frequently used in overcoming crisis risks. Lifecycle risks need large lump sum money within a short notice. Regular savings help in building large sums, are often useful in dealing with such risks. RoSCA and ASCA promote regular savings that become available at a time of need. Structural risks are long term in nature and are difficult to manage. Moneylenders provide loans during a job loss or other long-term losses. But, they look for assets to be pawned and ultimately the regular consumption needs have to be cut down, children have to be withdrawn from the school or they have to migrate to other areas in search of employment. Therefore credit and savings are equally important and one cannot survive without the presence of the other.

There are some recent studies focusing on financial flows of the poor. Microsave Africa has done a series of studies to provide financial toolkits for bankers and others. These studies recognize the growing interest in introducing savings products in MFIs. MicroSave and the CGAP collaborated to study the dynamics of institutional change in transformation of a microcredit institution to a MFI (Wright, Christen and Martin, 2000). They studied Association for Social Advancement (ASA), which is an important model for microcredit institutions planning to introduce savings products. ASA was a microcredit institution working only on credit delivery and recovery system based on Grameen methodology. Loan sizes and disbursements were standardized, operating systems were simple and only compulsory savings were collected. Though the facility of compulsory savings was available earlier, ASA decided to provide access to more savings products. For them, this provided relatively cheap capital, increased outreach, increased lending while maintaining the portfolio quality and reducing poverty and vulnerability. ASA's primary motivation to develop a savings program was to provide its clients improved financial services the contact and stakes would improve the quality of its own portfolio and reduce dropouts. But ASA realized that there was a gap between the saving products offered by the institutions and the need of the people. They found that sometimes, flexible savings/voluntary savings do not necessarily generate inexpensive sources of capital.

There are other studies examining this issue. A good financial service enables the poor to manage money effectively and allows them to use it when required in a quick, affordable and transparent manner. Rutherford (2000) argued that the best way to design a product was to ask people about their own preferences, because they were best judges. This knowledge helps financial service providers to design products that would be close to people's heart and would extend benefits to them. Ruthven and Kumar (2002) argue that the success of the money lenders, deposit collectors, pawn brokers who reach people where others fail, was in providing lump sums instantly, with no security, and also regular savings devices on a sufficiently small-scale basis. There are many tricks that the formal institutions need to learn from informal players if they want to widen their client base to reach the poor. An interesting finding of this study was that the frequently used borrowing sources were not moneylenders and pawnbrokers, but familiar and reciprocal contacts such as friends, relatives, and shopkeepers, who provided small and frequent sums interest-free or concessional rate loans. On savings, Wright (1999) argues that in many instances the poor have "illiquidity preference" which is a committed savings mechanism that prohibits them from withdrawing in response to trivial needs and allows them to escape from the demands of their relatives for loans or assistance. It was also found that poor give importance to security and liquidity aspect of savings and do not look for significant returns.

Rutherford (2002) did a one-year study using financial diaries to understand the financial flows of 42 low-income Bangladeshi families. The study revealed that better managed MFIs were considered "reliable" among the formal and informal financial service providers. MFIs and poor households would benefit if MFIs had a better understanding of the demand for financial services by the poor and deliver products accordingly. The study showed that poor actively manage their financial resources but they need reliable sources on a frequent and flexible basis to transact.

The state has launched several programs to assist the poor. But these programs started with limited knowledge of how individuals cope with poverty, and failed. Many times the initiative of the people made programs successful and not the nature of the program. This was found true in most developmental activities (Krishna, 2001). The factors associated with becoming poor were quite different from factors associated with escaping poverty. Therefore the programs of the state needed to get an appropriate focus (Krishna, 2003). A study in 12 villages of Rajasthan found that diversification of income sources; irrigation and information on various opportunities were key factors in overcoming the poverty trap. Factors like expenses on health care, social functions like marriage and funerals and high-interest loans pulled the poor into the poverty trap. The social factors that pull them into the poverty trap were mostly not in their control. Even the programs of state aimed at poverty reduction were unable to neutralize the negative effects of these social factors. Many times assistance from the state was unable to trickle down to the grassroots. However Krishna (2003) has argued that the state support through poverty reduction schemes had a positive effect in making poverty more tolerable.

A similar study in Gujarat showed a different picture. Gujarat being economically sound and more industrialized, it was expected a priori that poverty reduction would be greater than Rajasthan (Krishna et. al, 2003). But the results showed that despite higher growth rates, poverty reduction was of the same order as Rajasthan. In addition to expenses on healthcare, and social expenses, debt bondage also played a role in people slipping to poverty. These studies conclude that there were multiple reasons for households to slip into poverty. The authors argued that falling into poverty is not just the converse of escaping from poverty but more than that.

It is evident that there is considerable interest amongst scholars in examining the financial flows of the poor. Our study is different from what we have reviewed. It focuses on regions recognized as backward. The objective of our study is twofold. First, we understand the financial flows of the poor with the help of an empirical analysis. Second, we understand the finer nuances of savings habits and credit behaviors. The paper presents the results of a pilot study conducted in Alsigarh village in Rajasthan. This study is a precursor to an all-India study.

3. Methodology

The consideration for us was to choose between case study method and a survey method to carry out this research. Since the larger objective of the study was to roll out an investigation across the country, we found that a survey would give a common template to make regional comparisons and draw generalisations. A questionnaire was designed to capture data on various parameters. The design ensured that we use significant events in the last decade as time markers to gather financial data on how these events were managed. We also had asset purchase and sale as additional markers. These helped us in associating the financial flows – savings, borrowings (both formal and informal) with the ups and downs of a family, and in triangulating the indebtedness data.

3.1 Sample Selection: Choice of the Area and Village

This study has its focus on families defined as poor. All families under the "below poverty line (BPL)" category fell into our focus population. It is not our intention to debate the methodology adopted by the state in defining the "poor". For this study we take the definition as given. As the idea of the study is to look at how poor cope with their financial flows, we believe that even if there is an error in poverty classification, it would do no harm to the overall design. This is based on the presumption that the findings would be used for developing financial products that would be offered to a continuum of clients from the very poor upwards. The artificial boundary of a poverty line is only helpful in drawing the sample.

While we wanted to base the study in some of the most backward districts in India, the choice of Udaipur was made purposively. The selection of Udaipur was driven not only by its general backwardness, but also the presence of Seva Mandir, a large Non-Governmental Organisation (NGO) working in that area. The exact location – village Alsigarh, block Girwa was selected in consultation with Seva Mandir. We then worked with the list of BPL families supplied by the local authorities. The village had around 1500 families of which 390 were classified as BPL households. Since 390 was a large number we restricted our study to one hamlet - Kherai Phala that had 156 families, with 49 in the BPL list. While the intention was to cover all the families in the hamlet, we ultimately ended up studying only 36 families due to limitations of time. This paper presents the findings from these families.

To start with the data pertaining to the village were collected. These details are summarised in Table–1.

3.2 Design of questionnaire

For collecting household data, a detailed questionnaire was designed, with a view to capture financial flows of families over a long horizon of time. The base data were the demographic and asset profile of a household. Other data were built around this to get the financial history of the household. We collected details of income, indebtedness and savings. We sought inputs from local resource persons to include questions/ asset in the checklists specific to the geographical region.

Table –1 Profile of Alsigarh Village

<table>
<tr><th colspan="5">Size of the population (in number)</th><th colspan="2">Male</th><th>Female</th></tr>
<tr><td colspan="5">Adult</td><td colspan="2">1329</td><td>1311</td></tr>
<tr><td colspan="5">Children* includes children between 6-15 years of age.</td><td colspan="2">540</td><td>539</td></tr>
<tr><td colspan="5">No of BPL Households</td><td colspan="3">390</td></tr>
<tr><td colspan="5">Land Available in the village</td><td colspan="3">554.86 Hectares</td></tr>
<tr><th colspan="8">Distance (in km) of infrastructure facilities (0 if located in the village)</th></tr>
<tr><td>Panchayat</td><td>0</td><td>Commercial bank</td><td>15</td><td colspan="3">Railway Station</td><td>30</td></tr>
<tr><td>NGO</td><td>0</td><td>Bus route</td><td>01</td><td colspan="3">Hospital</td><td>05</td></tr>
<tr><td>Primary school</td><td>0</td><td>Regular market</td><td>30</td><td colspan="3">Secondary school</td><td>05</td></tr>
<tr><td>SHG</td><td>0</td><td>Post office</td><td>0</td><td colspan="3">Cooperative society</td><td>-</td></tr>
<tr><th colspan="8">Other Details</th></tr>
<tr><td colspan="3">Reasons for out-migration</td><td colspan="5">1.High unemployment
2.Low levels of wages for jobs in the village
3.Availability of temporary jobs in the nearest vicinity</td></tr>
<tr><td colspan="3">Natural Calamities faced in the last 2 years</td><td colspan="5">Drought</td></tr>
<tr><td colspan="3">Major sources of money transaction in the village</td><td colspan="5">1. Village money lenders
2. Shop keepers
3. Family & relatives</td></tr>
</table>

We collected information on the income flows, agricultural land, physical assets, saving habits, loan transactions and the details of the events that happened in the family in the last ten years. Although the questionnaire was not divided into different stages, each question collected specific information. This collectively gave an idea of the financial flows of a family. In the first part we collected data on the general family details, including income, inward and outward remittances. The second part collected information on land holding and details of other physical assets, including dwelling and livestock details. In this process we captured the information on financial transactions while purchasing or selling assets, the mode of financing and the purpose of purchase. The third part focused on the physical assets, where we captured the information on mode of financing, purpose of purchase, and its value. If any asset was been sold, we found the amount realized from the sale. By seeking this information, we tried to understand the process of acquisition and sale of assets and the circumstances under which they are acquired or sold. In the fourth part we captured savings and indebtedness details of the family. We also asked the respondents to rank the sources with whom they had savings and loan transactions to get a feedback on their comfort levels, details on accessibility, costs, security and liquidity of the products they used. We also asked them the amount of maximum savings and loans and the source where it has been parked or drawn in the last ten years. This roughly gave us an idea of the reach of the financial institutions and at the same time told us about the extent of convenience and faith the poor placed on these sources. It helped us find which of the formal or informal source provided most acceptable product. Similar details were collected on indebtedness. In the last part we collected details of the events that occurred in the last ten years – such as - marriage of the children, health expenses, and purchase of assets or funeral expenses. These event details capture the financial flows involved with birth, death, education marriage and emergencies. This gave insights into how such events are financed and managed.

3.3 Administration of the questionnaire

Alsigrah is 35 Kms away from Udaipur and is connected by buses and jeeps. This is a tribal area; all the dwellings in the village are dispersed. The distance between the houses made our data collection more effective as there was no disturbance from other families. This expanded the attention span of the respondent greatly. There was, however a small problem about our identity. This was because a recent survey was conducted by the state to review the list of BPL households. So, it was difficult to get data in the initial days. However, we established that we were not from the Government, but were associated with Seva Mandir the data started flowing in freely.

The questions on which we had difficulty in getting data were about health-related problems and expenses. They were unwilling to talk about the issues. These details were collected in a circumspect manner. Data was not forthcoming on some sensitive issues as well. As this is a tribal area, there is a prevalence of bride price as against dowry in the plains. Getting data on bride price paid was difficult. Unlike traditions of other places, in this village a girl had the right to choose her own husband and for that she could stay at the prospective groom's place before the formal wedding, to find out whether the house is suitable for her. If she does not like the place, she has the freedom to walk out. If the marriage happens, the groom has to pay the bride price and also bear all the expenses of the conduct of marriage. We had instances where a boy had married twice or thrice in a period of two to three years. Capturing these expenses, when the boy married more than once was difficult. The community as a whole bears a fair amount of expenses by way of gifts for the first wedding. However this is not repeated for subsequent weddings if the first one fails. Collecting information on subsequent weddings was difficult, though there would have been significant expenses incurred on this event. Our data is inadequate on this count.

In this area people had a small piece of land, productivity was low and most of the produce was consumed. The levels of monetization were also low. Imputing a value for self-consumption was therefore difficult. Using events as time markers were useful, but that gave us the data on financial flows at the event point. However several respondents were unable to articulate their outstandings, due to low levels of awareness on aspects of repayment and the split between interest and principal.

The data was collected using men and women investigators. We found it was better to use women investigators for data collection. Using women helped us because:

- Respondent-women available for a longer part of the day. Therefore, chances of drawing a blank or need to re-visit the household were minimal
- Women had the time to patiently answer the questionnaire and were able to recall details more clearly than men, and responded to women investigators well.
- Women were not suspicious and did not have a tendency to hide

However the downside of collecting data exclusively from women put a question on accuracy. Ideally this data should have been triangulated by a short interview of the men. But due to constraints of time, this could not be done[3]. The findings of this study should be interpreted in the light of this shortcoming.

4. Findings

4.1 General Household and employment profile

We used data from 34 of the 36 households from which we collected information. The two households that were omitted were outliers, one being extremely poor and the other being at the other end of the spectrum. These 34 households had total 181 individuals – an average of around 6 persons per household. The basic demographics are given in Table 2. A third of the population was under the age 15.

Table 2: Distribution of age across the sample	
1-15 years	79
16-30 years	52
31-45 years	26
45 years and above	24
Total	**181**

Usually areas of poverty are associated with a high prevalence of child labour. Our pilot indicates that, of the 79 children (under the age of 15), 16 were perusing some vocation or the other, mainly in agriculture, procurement of minor forest produce and travelling to Udaipur to work in non-farm enterprises. Of the others above the age of 18, there were only two persons who claimed to be unemployed. Only 16 children of the total 79 under the age of 15 are studying. The other 49 children who were not in school might have either been employed in some chore or the other, which the families chose not to reveal or were too young to start work.[4]

The levels of education were low. Udaipur is listed under the 100 most educationally backward districts in the country[5]. There was nobody who had attained education beyond the primary level, and about two thirds of the people were illiterate.

Table 3: Level of Education across the sample	
Illiterate	126
Literate	18
Primary Education	37
Total	**181**

Only two adults did not have any primary employment. Most of the employment opportunities were seasonal in nature. Given this, there is an opportunity to introduce financial products that aid the smoothening of cash flows of these poor people. The details of the employment status are given in Table 4.

---

[3] We are thankful to M S Ashok for drawing our attention to this issue.

[4] Neelima Khetan, the CEO of Seva Mandir feels that this data on child labour might be understated. This is based on her impressions of having known the area for a while.

[5] This data is from www.indiastat.com and is based on a response to a starred question in the Parliament.

Table 4: Distribution of the sample according to employment status		
Status	**Primary employment (Nos)**	**Secondary employment (Nos)**
Unemployed	47	65
Student	16	0
Housewife	24	0
Agriculture (including wage labour)	51	43
Non-farm enterprise (seasonal)	28	6
Non-farm enterprise (Regular)	2	0
Cutting of grass/MFP collection	2	38
Service	1	0
Any other	10	29
Total	**181**	**181**

4.2 Income Profile

Households had income from agricultural and non-agricultural sources. The income from non-agricultural sources was higher than from agriculture (Table 5). Continuous drought for the past three years and non-availability of cultivable land might have driven them to seek income from non-agricultural sources. Many persons from the village go to Udaipur City to work with non-farm enterprises. Connection with the city has played a major role in diversification of livelihood opportunities. The new income streams discovered out of diversification from the present job has pumped in extra cash to the regular cash flow (Krishna, 2003). High debt had also forced them to come out of the village and look for alternatives that fetch them regular cash flows.

Table 5: Income details for different occupations		
Source of Income	**Ave income per person employed per annum (Rs.)**	**Per capita Income of households per annum (Rs.)**
Agriculture	1,329	752
Agricultural wage labour	10,800	2,700
Non-agri enterprises (seasonal)	10,621	2,392
Collecting MFP/Grass (primary emplmnt)	1,950	480
Overall Income from Non-agri sources	-	519
Per-capita income from all sources		6,843

Sometimes the income is in kind. We captured this by converting the flows into monetary terms. For instance grass and minor forest produce collected, contributed significantly to the income flow of the household. These were monetised. In the upper end households where the income is more than Rs. 4,000 per capita we found that more than one member of the family got regular work in Udaipur. Some of them also had land, adding to their flows.

Although we did not find households abandoning agriculture, Table 6 shows that agriculture is not lucrative and finding wage employment seems to be an alternative. The households falling in the lower income group, continued depending on agriculture, and were unable to move out of the poverty trap.

Table 6: Income sources - agriculture and other			
Per capita income of HHs	**From Agriculture (No of HHs)**	**From other sources (No of HHs)**	**Total income (No. of HHs)**
0-2000	2	33	01
2000-4000	19	00	14
More than 4000	13	01	19

Table 7: Asset Details		
Asset list	**Number**	**Approximate value of the Asset (Rs.)**
Physical Assets		
Cycle	01(01)	200
Scooter	01(01)	7000
Clock	09(08)	940
Watch	10(08)	2210
Radio	05(05)	2300
Cot *(Charpai)*	24(20)	5100
Chairs	01(01)	50
Elec Connections (Number of bulb points)	15(15)	3500
Utensils (Apprx value)	-	17900
Farm implements	52(25)	11500
Pump	01(03)	8000
Jewellery (Silver (Approx Value)	-	213600
Jewellery (Gold) (Approx Value)	-	1500
Mahua trees	08(08)	-
Livestock		
Cows	37(26)	33700
Bullocks	55(32)	66000
Buffaloes	08(08)	9200
Goat/Sheep	81(30)	35650
Poultry	41(16)	6720
Land (area in acres)		
Own irrigated land	0.375(02)	22000
Own rain fed land	20.5(34)	81000
Own non-cultivable land	11.7(25)	232000
Leased rain fed land	1.875(11)	66000
Leased non-cultivable land	0.375(02)	10000
Dwelling		
Small	17(17)	
Medium	20(16)	
Large	01(01)	

Figures in parenthesis show the number of households have these assets.

4.3 Asset profile

The assets owned by the families are given in Table 7. From the list we see that apart from utensils, cots *(charpai)* and rudimentary farm implements, there is pretty little in the form of assets that the households had. The most significant asset in the households was silver. It was found during the field visit that most of the assets listed were not usually sold. People in the village prefer to borrow in times of crisis at fairly high rates of interest, rather than liquidate any assets and if they need to sell their assets they would first sell livestock but would not touch the jewellery. All respondents had a dwelling unit of their own. Some of them had two dwelling units, but the families used both. None of the families had leased out land, while several families had leased in land.

4.4 Borrowings

The profile of borrowings is shown in Table 8. The maximum number of loan accounts was with moneylenders. However, the average size of a loan from moneylender was smaller than other sources. In all, borrowing from moneylender and other informal sources accounted for almost 85% of the number of loans and 80% of the amounts borrowed. Borrowing from relatives and from commercial banks had a significantly high average loan size. There was no significant difference between the source from which Group I and Group II had borrowed.[6] It appears that SHG was not an option for Group I households. The formal sector has been unable to reach this segment of the population. The reasons might pertain to transaction size and costs. Even the SHGs were working with the upper end of the poor families.

Table 8: Borrowing details from different sources

Details of the monetary transactions				Break up of the client base	
Sources	**No of Loan A/cs**	**Amount (Rs.)**	**Ave Loan size (Rs.)**	**Group I 19 HHs**	**Group II 15 HHs**
Commercial banks/ Post office	05 (7.8)	49,000 (17.33)	9,800	02	03
Money lenders	42 (65.62)	134,100 (47.45)	3,193	18	24
SHG	04 (6.25)	2,700 (0.95)	675	00	04
Relatives	12 (18.75)	91,800 (32.48)	7,650	06	06
Any Other	01 (1.56)	5,000 (1.79)	5,000	00	01
Total	64	282,600	4,415	26	38

Note: Figures in parentheses represent the percentages of borrowers under each loan source where the total acts as 100. The total does not add up to the number of households as some households have multiple loans. Some of the loans from family sources are interest bearing, and some are not. The moneylender charges around 3% per month, payable monthly.

When we compared loan amounts and borrower profiles, we found that the commercial banks have a bias towards making loans for productive assets (Table 9). The bank had given one loan for social consumption[7] out of five loans made. The health-related expenses, contributed to higher expenditure.

---

[6] Group I = Percapita income less than Rs.4000. Group II = Percapita income more than Rs.4,000

[7] Consumption loans are those that are borrowed for purposes of regular events for buying food, education, and other day-to-day events. We classify social consumption loans as those borrowed to conduct social events such as wedding, funeral and feasts.

Table 9: Number of loan accounts classified on source and purpose						
Purposes Sources	**Gen.Consumtn**	**Soc.Consumtn**	**Health related**	**Buying assets**	**Litigation**	**Other[8]**
Commercial Bank/ Post office	-	01 (6.66)	-	03 (15.78)	-	01 (25.00)
Money lender	06 (66.67)	08 (53.33)	10 (62.5)	15 (78.94)	01 (100.00)	02 (50.00)
SHG	01 (11.11)	01 (6.66)	01 (6.25)	-	-	01 (25.00)
Family/Relatives	02 (22.22)	05 (33.33)	04 (25.00)	1 (5.26)	-	-
Any other source	-	-	01 (6.25)	-	-	-
Total borrowers	09	15	16	19	01	04
Total loan amount	12700 (4.5)	138500 (49.00)	45600 (16.13)	74800 (26.46)	2000 (0.70)	9000 (3.18)

The borrower portfolio was diverse for the moneylender. The moneylender had extended loans for consumption, social consumption, health expenses, buying assets, and also to meet charges for litigation. The moneylender loans for assets were mainly for the purchase of livestock. All SHG loans were for consumption. People borrowed mainly for consumption, social consumption and health related expenses from the family sources. The community usually funded the social events in the village – the expectation was that the recipient would pitches in when there was a similar event in others' family. Therefore the borrowings for marriage and funerals were usually from informal sources. However, the community would not chip in if somebody got married for a second time.

Only one loan from the family sources was for buying assets. Table 9 and 10 indicate that people borrowed from moneylenders for asset purchase. Borrowing from moneylenders for emergency purposes, is understandable, but the larger share in asset purchase indicates that there is scope for formal institutions to step in. We should also note that the most frequent purpose for borrowing is "health related". Health expenses indicate not only "out of pocket" expenses, but loss of income because the person would be incapacitated. These causes accounted for 16% of the loan accounts while social consumption accounted for 49% of the accounts. This is a cause for worry, and is similar to the findings by Krishna (2003), where the major causes for slipping into poverty were because of these factors. In spite of drought for last three years, the heavy expenses on social consumption are somewhat baffling. The data on significant events, their average costs and source of funding was collected. Table 10 has the details.

4.5 Savings Profile

Table 11 shows the savings of the poor in institutions. Most of the savings in the bank and in the post office were fixed deposits. There was one recurring deposit account. Savings in SHGs were on the monthly basis. Many members were irregular in their savings. Most women kept savings in SHGs and with informal sources.

[8] Includes loan for shop repair, loan taken to honour the guarantee of a friend's loan, emergency expenditure for an accident, and a panic withdrawal from the SHG without citing reasons.

Informal savings included cash stashed away from the daily earnings. Even this was irregular as there is no regular income flow in the household. So whenever there was a little money available with the women either by selling the MFP, vegetables or bamboo, they preferred to save in the safe earthen container inside the house but away from their husbands' eyes. From the data on financing of asset purchase and financing of significant events, it was evident that savings are very sparingly used for outflows. Sale of assets and jewellery was not seen at all in the sample households. Savings are perceived to be a different compartment that was to be used sparingly.

Table 10 Significant Events and how they were financed

Event Detail	No. of Events in the past years	Ave. amt spent (Rs)	Savings used (Rs)	Borrowings (Rs)	Source for borrowings
Marriage of the Children	19(17)	13,432	1,895	11,537	Bank (1) Moneylender (8) Informal sources (10)
Health problems of family members	31(20)	1,955	674	1,281	Moneylender (9), SHG (1), Informal sources (19)
Construction of house	10(06)	7,570	1,800	5,770	Moneylender (6), Informal source (4)
Purchase of agri. Land	07(04)	3,457	428	2,428	Moneylender (6) Informal source (3)
Funeral Expens	04(04)	1,200	-	1,200	Informal source (4)
Other (includes events like Gauri Puja, Bhumi Puja	18(14)	3,989	906	3,083	Moneylender (10), SHG (1) and Informal source (2) Savings (5)

Figures in parenthesis in column two indicates the number of households that have borrowed in the last few years. Figures in parenthesis in the last column indicate the number of events that have been funded by a particular source.

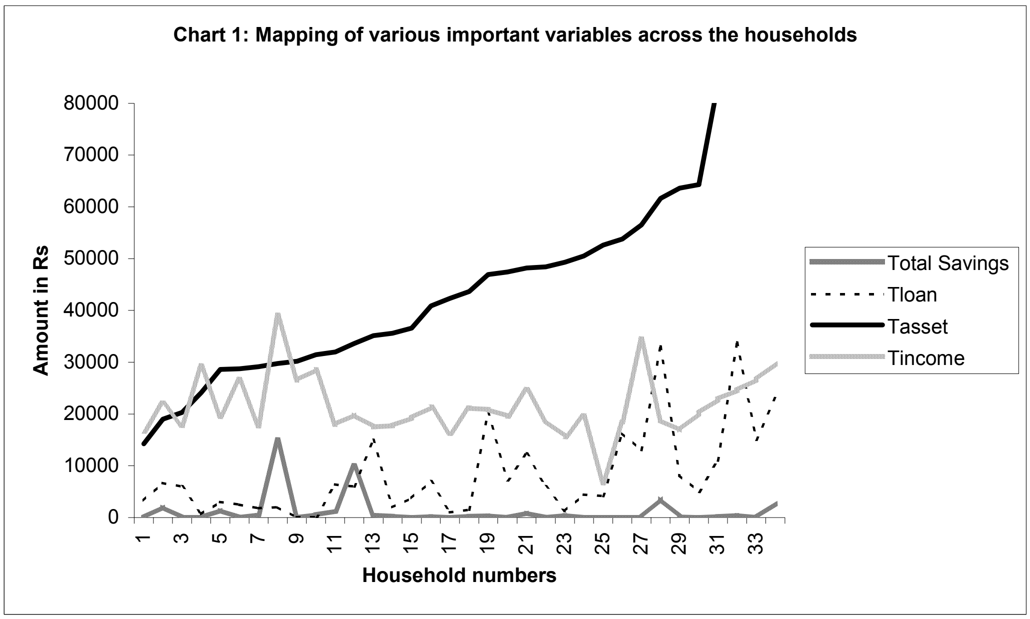
Table 11: Number of savings accounts in different sources

Details of the Savings transactions				Clients belonging to:	
	No of Accounts	Amount (Rs)	Ave saving (Rs)	Group I 15 HHs	Group II 19 HHs
Postal Deposits	4 (11.11)	6,300 (11.60)	1575	03(03)	01(1)
Commercial Bank/ Coop accounts	3 (8.34)	27,500 (50.65)	9267	02(02)	01(1)
SHG	16 (44.45)	5,090 (9.37)	318	06(04)	10(09)
Informal sources	12 (33.34)	13,700 (25.23)	1142	04(03)	08(06)
Investment in Assets	1 (2.76)	1,700 (3.13)	1700	-	01(01)
Total	36	54,290	1508	15*	21*

Figures in parenthesis in columns pertaining to accounts and amount of savings indicate percentage of the total. Figures in parenthesis in the last two columns pertain to number of households.
**There are 12 HH which have got 15 Savings account in <Rs 4000 category and 18 households which have 21 savings account in >Rs. 4000 category.*

The total assets owned by the poor were 10 times more than the total borrowings on an average. An overall look at the income, savings and borrowings data indicates that the level of indebtedness is not alarming [Chart 1]. In almost all cases the overall borrowing was less than their annual income, and far less than the total worth of the assets they had. In this sense no respondent suffered from a negative net-worth. However, what seemed to be very prevalent is stashing money away in pots, as there were no alternatives available for savings. Formal sources were accessed only by a handful of people and they also seemed to have multiple accounts. This problem was faced both in the borrowing and the savings departments. It is interesting to note that most of the assets are illiquid assets.

Chart 1



5. Concluding Notes

Mapping the financial flow of the poor requires careful investigation of the income and expenditure patterns and the most important is the involvement of the people themselves. This paper illustrates the results of a study conducted in one village of Rajasthan which was under the influence of drought for last three years and has experienced some rainfall this year. Being near to the city solved some of the important problems – particularly pertaining to wage employment and helped them to diversify their livelihood sources. Even health related expenses would be have been lower due to greater access in Udaipur. Although there are various studies conducted to identify the factors that drag people into the poverty trap, the major finding of this study are that the overall asset-savings-income profile of the poor in this village give a comfort while compared to the indebtedness. However, most of the assets and savings are illiquid, forcing the poor to borrow at high cost and service such loans. The data on income might be a bit distorted, as the year of study was a non-drought year after three years of continuous drought.

The study indicates the failure of institutions to penetrate the savings and loan market. Even if we assume that the "emergency" needs would be met by the local sources, the institutions (including microfinance mechanisms like SHGs) were unable to make inroads into financing non-emergency planned needs such as asset purchase and house construction. There is a need for an appropriately designed savings product – a major attribute of the product must be safety. Liquidity and return does not seem to be a concern as most savings is in a "pot" stashed away.

It is important to note that significant borrowings also come from relatives thereby reinforcing the social bonding in the community that we studied. This is also evidenced in the way marriages and other social events are financed. The poor seem to be smoothening their interest costs by resorting to informal, zero cost borrowings for certain purposes. This has an important indication for us. There has been a very strong fungibility argument for pricing loans uniformly, by MFIs. This is seen both in the Grameen style and SHG type of organisations. One of the arguments is that this takes care of adverse usage of credit (the oft-cited example is subsidy based production credit being used for social consumption). However, the pattern of borrowing and the use to which the poor have put the funds in our sample indicate that if we can ensure the end use, there is a case for differential pricing of loans. It also proves that informal structures ensure that even in consumption, this could be limited by social systems – the example being the non-availability of finance from the social system for second and subsequent marriages.

The study re-confirms the findings of earlier studies – the most killing expense is health related. This leads the poor into further indebtedness. The borrowings for health expenses form one of the most significant chunks of borrowing. We also noticed that there was no significant difference between the upper end of the poor and the lower end in having access to formal institutions both for savings and loans and in either case the dealings with these institutions were limited. A combination of factors like information about income opportunities, accessible and cheap health care facilities, credit on affordable terms and awareness about the unnecessary expenses on social functions would help them in managing their money judiciously.

Although we could gather valuable information but still there are certain things missing and the study does not capture like the relation between the cost of borrowing with and without collateral – particularly with moneylenders, long term flows and whether these households have been better off as compared to a decade ago and the effect of diversification of income streams in dealing with difficult situations – particularly considering that the sample area was affected by severe droughts in the past three years. A significant gap was also found in the lack of data collected on current expenditure.

References

Chavan, Pallavi (2003): Moneylender's Positive Image: Regression in Development Thought and Policy. *Economic and Political Weekly*, Vol. 38, No 50, December 13, pp. 5301-5304.

Economic Survey 2001-2002 (2002): Poverty, Chapter 21, pp.166-231, New Delhi: Government of India

Fisher, Thomas and M S Sriram (2002**): Beyond Micro-Credit. Putting Development Back into Micro-Finance** New Delhi: Sage-Vistaar.

Government of India (1993), Report of The Expert Group on Estimation of Proportion and Number of Poor, Perspective Planning Division, New Delhi: Planning Commission.

Krishna, A (2001): Moving from the Stock of Social Capital to the Flow of Benefits: The Role of Agency. *World Development*, Vol. 29, No 6, pp. 925-943.

Krishna, A. (2003): Falling into Poverty: Other Side of Poverty Reduction. *Economic and Political Weekly*, Vol. 6, pp. 533-542.

Krishna, A et.al. (2003): Falling into Poverty in a High-Growth State: Escaping Poverty and Becoming Poor in Gujarat Villages. *Economic and Political Weekly*, Vol. 49, pp. 5171-5179.

Mutesasira, L (1999): Savings and Needs in East Africa: An Infinite Variety, in *Potential Products and Product Development Services.* Nairobi: MicroSave Africa.

Ruthven, Orlanda and Kumar, S. (2002): *Fine Grain Finance: Financial Choice and Strategy Among the Poor in Rural North India.* IDPM WP No. 47 Manchester: Institute for Development Policy and Management.

Pradhan Basanta K and Subramanian A.(2001): Structural Adjustment, Education and Poor Households in India: Analysis of a Sample Survey. *Paper presented at the World Bank workshop on "Poverty Reduction and Social Progress: New Trends and Emerging Lessons; Regional dialogue and consultation on WDR2001 for South Asia",* April 4-6, 1999, Rajendrapur, Bangladesh**.**

Rutherford, S et.al. (2002): Innovative Approaches to Delivering MicroFinance Services: The Case of VSSU, West Bengal. Nairobi: MicroSave Africa.

Rutherford. S (2000): **The Poor and Their Money** New Delhi: Oxford University Press.

Rutherford. S (2002): *Money Talks: Conversations with Poor Households in Bangladesh about Managing Money.* IDPM WP No. 45. Manchester: Institute for Development Policy and Management.

Sharma, S and Chamala, S, (2003): Moneylender's Positive Image: Paradigms and Rural Development. *Economic and Political Weekly*, Vol. 38, No 17, April 26, pp. 1713-1720.

Sriram, MS (2002): *Information Asymmetry and Trust: A Framework for Studying Microfinance in India.* IIMA Working Paper Series 2002-09-02. Ahmdeabad: IIMA.

Wright, GAN, Christen, RP, and Martin, I, (2000): Introducing Savings in Microcredit Institutions: Study of ASA, Nairobi: MicroSave-Africa.

Wright, GAN (1999): Two Perspectives on Savings Services. Nairobi: MicroSave Africa.