

Financial Flows of Rural Poor A Study in Dungarpur District

A Study carried out under the Sir Ratan Tata Trust Fund for
Research Collaborations in Microfinance

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Introduction

- Most of the rural markets have been addressed from the “supply side”
- “Inclusion” could be very interesting to examine from the “demand side”
- There are larger changes in the economy that affect the way banks function
- Pressures on profitability of banks are increasing

Trends in Banking

- Closure/re-location of rural branches [including RRBs]
- Average account size increasing
 - Small Borrowal account from Rs.10,900 [1997] to 25,660 [2003]
 - Agriculture direct account size from Rs.13,521 [1997] to 35,607 [2004]
- Microfinance – both SHG Linkage and MFI models are growing. Even new generation private banks are participating in this growth

Need for the study

- There is a big market “out there”
- Core strength of public sector banks are in “social banking”
 - Market opportunity to act as specialists on behalf of private sector banks, with significant arbitrage opportunities
 - Extant presence, sunk costs in physical facilities, excellent manpower
- Cost of exit high. Cost of re-entry higher.
- Need to understand the demand side

Design of the study

- Bank as the pivot
- Erstwhile service area as a range
- Selection of 7 “phalas” from 4 distance zones to cover the area.
- Full coverage of “poor” families in the selected phalas
- Detailed questionnaire on the financial flows, indebtedness and savings related aspects

Our Market: Dungapur District

- 872 revenue villages, 850 have electricity connection
- 1.1 million population, about 1.0 million in rural areas
- Literacy rate at 48% [male 66%, female 31%]
- Population density 294 per square km. More than average density of Rajasthan, less than average density of India

Dungarpur District - Contd

- 385000 hectares about a third is cultivable
- 108,000 hectares cropped in 2003
- 139,000 holdings [~ 202,000 HHs]
- 56% holdings are less than 1 hectare, 21% less than 2 hectares
- 27,520 hectares irrigated, but only 13,000 hectares have a II crop.
- Low rainfall [720mm average] , high variability [380 mm in 2002-03]
- Subsistence agriculture – very low market arrivals

Dungarpur District: Banking

- 72 branches [61 of commercial banks]
[Pop per Branch outlet: Dungarpur 18,000; Rajasthan 17,000 and India 14,949]
- Total Deposits Rs.5.4b; Loans Rs.1.2b; CD Ratio 28%
[National average CD Ratio 66%]
- Deposits per branch Rs.88m; Loans per branch Rs.25 m
- Deposits per capita Rs.4,875 [National average Rs.16,700]
- Loans per capita Rs.1,083 [National average Rs.10,474]
- Banking Penetration less than 10% of the households –
Challenge for financial inclusion

Data: Demographics and Education

- 416 BPL Households were used
- 2538 persons in those houses [4% above 60 years of age]
- 61% literate, only 2 graduates
- 29% children below age 6 already in school
- 70% of children below 14 are in school [16% unemployed]
- Only 23% of children in age group 15-17 are continuing education [43% unemployed]
- 5% of children below 14 and 9% of children in age group 15-17 are already married

Data: Employment

- Data collected on primary and secondary employment
- 3% of the employable population are unemployed, 37% report their primary employment as “housewife”
- Primary Employment:
 - 25% Agriculture, 14% Agri Labour, 2% enterprise, 3% service, 11% migration and 5% others
- Secondary Employment
 - 48% Agriculture, 39% Agri Labour, 2% enterprise, 1% service, 5% seasonal migration and 5% others

Data: Incomes

Total Cash Income		
Income Source	Average per HH (Rs)	Number of HHs
Personal	14,051	415
Agriculture	(620)	366
Common	1,690	141
Remittances	(40)	143
Total per HH	14,030	416
Total Per Capita	2,300	

Personal Income: Break Up

**Table 4-6 Details of Cash income from Individual Employment Categories
(includes both primary and secondary employment)**

Employment	No. of Individuals	No. indicating positive income	Ave of those who had positive income
Agri-Labour	538	493	3,544
Non-Farm Labour	45	41	7,674
Business/Enterprise	11	4	3,100
Service	53	50	11,936
Migration	192	186	8,631
Others	270	246	4,553

Data: Expenses

Details of Annual Cash Expenses Incurred by the Households

Expenditure Head	Average expenditure per HH	Number of HHs
Food	5,282	416
Clothing	1,256	414
Fuel	626	362
Feed (animals)	894	237
Medical	1,000	413
Conveyance	456	411
Social Expenses	904	413
Repairs /Maintenance	516	348
Education	845	303
Litigation	986	17
Migration	705	224
Alcohol	549	268
Other	1,764	37
Total	11,608	416
Total per capita expenses	2,055	

Data: Net Position

- 148 families reported expense greater than total income [Rs.679 deficit per capita, Rs.3,721 per HH]
- 268 Families had surpluses [Rs.978 per capita, Rs.5,814 per HH]
- In general personal incomes cover expenses and contribute to the common pool. However, common activities [like agriculture] are net users of financial resources

Assets: Land

- Almost all families [except 11] have access to a small patch of land
- However, the average holding size is just about an acre of rainfed land. Only 161 households had access to some form of water facility
- Only one instance of land purchase in last 10 years
- 22 instances of land sale, mostly to meet lifecycle and household needs

Assets: Livestock

- **Milch Animals in 357/416 households**
Instances of purchase is only 56 in last 3 years. Most augmentation is through natural reproduction process
- **Bullocks in 294 households [ave 2 per hh]**
Instances of purchase is 85 in last 3 years [more than milch animals]
- **Goats in 287 households [43 instances of purchase in last 3 years]**
- **Small holdings of sheep/poultry**

Livestock: Mode of Finance

- Most purchases were made from own sources
- Moneylender finance was the next highest
- Banks had financed livestock in only 10 instances in the past 10 years
- No significant instances of sale
- Income from this sector is also marginal.
Not much of commerce, largely subsistence

Assets: Dwelling

- 391 HHs live in kuccha houses, 25 in pucca [opportunity for small housing finance?]
- In terms of size, less than a third have relatively small dwellings [scope for improvement]
- Only 2 HHs use kerosene as fuel, 72 HHs do not have separate areas for cooking or cattle shed
- Only 1 HH has a toilet
- 25% of the HHs have undertaken some construction activity in the last 10 years

Assets: Dwelling

- Average value of the dwelling unit is Rs.30,000
- Only one instance of sale of dwelling unit in the last 10 years
- Most of the construction was self-financed, followed by finance from Moneylender
- Banks/Co-ops financed only 27 units in the last 10 years.

Assets: Other Physical Assets

Details of Ownership of Physical Assets [Stock]

Asset	No	HHs	Asset	No	HHs
Cycle	53	52	Farm Implements – Mech	36	33
Clock	272	255	Other Farm Implements	182	107
Watch	119	96	Well	133	125
Radio	37	37	Pumpset	45	40
Almirah	2	2	Mahua Trees	199	106
Mobike	2	2	Utensils (bronze and copper)		309
String Cot (<i>charpai</i>)	1587	409	Jewellery		142
Chairs	37	23	Storage Space		300
Table	4	3	Households having none of the above assets		2
Bullock Cart	49	50			

Physical Assets: Some highlights

- Poor families tend to have more collectively used assets than privately used assets [clock against watch]
- While bullocks were owned in both Dungarpur and Sagwara, bullock carts were owned only in Sagwara area – terrain and caste issues
- Low density of bicycles compared to other parts [terrain?]
- Electricity – last mile problem in Dungarpur

Assets: Purchase pattern

- Most frequently purchased Asset: Charpai [cultural differences between Rajasthan and South]
- Other frequently purchased assets: implements, cycle [small numbers]
- Other assets are usually held for a long time
- Well, storage space, furniture are assets that are possibly bought once in a lifetime!

Assets: Financing

- Most of the assets are bought through self-financing
- External finance for big-ticket items
- Money lender finance for bullock carts and jewellery. Bank finance for wells, pumpsets and implements
- Remittances seem to have a role in some of the asset purchases

Assets: Sale

- No instances of sale of assets, except for jewellery
- Jewellery sold/forfeited for the following reasons
 - To meet household expenses
 - To meet health related expenses
 - Social expenses, purchase of house, livestock
 - Education and litigation [in stray cases]

Savings

Current Savings Balance Parked at different Outlets		
	Ave savings per HH	No of HHs
Post office	162	30
Bank/coop	6,365	38
Company	2,212	15
Chit fund	78	15
MFI	70	121
Informal	312	383
Temp Asset	1,906	55
Total	1,297	396

Savings: Highlights

- Significant presence of banks/co-ops
- Most other savings happen through informal channels
- Most asset purchases are funded by own sources [possibly parked in informal channels, or stashed away]
- Is the banking system missing out on an opportunity?

Savings

- Preferred frequency for savings: monthly [cash flows from wage earnings?]
- Withdrawal largely for consumption smoothing, social needs and health related
- Banks are ideally suited for offering flexi-savings products
- Banks seen as safe places to save, but have a low perception score on “access”. How do we make banks friendly?
- Overall scores indicate that people are looking for safety, liquidity and access for their savings. People are not looking for very high returns. [Banks are most suitable to provide all the three]

Indebtedness

Details of Indebtedness with Various Institutions		
Source of Loan	Total	
	Ave Amt	No of HHs
Cooperatives/Banks	12,868	57
Company/Chit Funds	3,033	6
SHG	2,017	35
Moneylender with collateral	4,463	142
Moneylender (no collateral)	4,526	129
Family with interest	10,369	29
Family without interest	5,483	156
Contractor	4,900	12
Friends with interest	3,550	12
Friends (no interest)	3,974	19
Others with interest	3,833	6
Others without interest	6,000	2
Loans in kind	3,706	280
Total	12,447	363

Indebtedness: Highlights

- Most borrowings are from informal sources
 - A mix of free loans from friends-relatives
 - A chunk of costly moneylender finance
- Banks have touched about 1/8th of the households surveyed
- Overall 342 households have more debt than savings, only 75 households have more savings
- Given that more people borrow than save, are the banks missing out on an opportunity?

Indebtedness: Highlights

- While the preference for savings frequency is monthly, the preference for repayment periodicity is usually annual [bullet receipts from agriculture, remittances might be the reason]
- The modal interest rate of loans contracted is 36%, with instances on the higher side more than the lower side
- Most loans are contracted for consumption/social purposes. Health seems to be recurring item
- Access to loans seems to be a predominant consideration with the households. They do not seem to really bother about the cost of the loans. Even moneylenders seem to get an okay score on costs.

Significant Events

- The most significant events that have happened in the last 10 years pertain to lifecycle needs-
 - Marriage
 - Health
 - Death
 - Childbirth
- There are also instances of livestock and asset purchase

Significant Events

- The most expensive events are
 - Marriage [Rs.14,000]
 - House construction [Rs.9,000]
 - Asset purchase [few instances Rs.10,000]
- The other events that need finances are
 - Health [Rs.5,000]
 - Childbirth [Rs.3,500]
 - Death [Rs.5,000]
- All the above are pressure points on the personal economy and a good safety net through a well designed savings product has to be built around these

Significant Events

- In terms of frequency of occurrence the following order was indicated
 - Marriage
 - Health
 - Childbirth
 - Death and
 - House construction
- Some of the above can be planned with a specific time horizon, some can be provided for

Implications for Banks

- The data was from the poorest of the people from one of the most backward areas – and if we can see potential for financial inclusion, there is more to be done
- The banking system is seen as an aspirational destination – around 60 households are engaged with the formal financial system even amongst the poor

Banks: Constraints

- Not designed to do “extension banking”
- Challenge to attract the customer to the counter
- Interest rates are a sore point.... are there creative ways at making rural lending more attractive?
- The poor do not seem to be overly worried about cost, more about access.

Banks: Three Horizons

Image Advantage: Seen as safe places to save money, thus the strategy has to be savings led

1. Attract more and more customers to the bank [a place to hang out]
2. Savings and safety nets are necessary to mitigate risks to the poor as well as the bank. So make savings the pivot
3. Enter the credit market through existing customers

The customers need to be built and nurtured, there is no short-cut

Banks: External Interventions

- Actively leverage with “state” for infrastructure and market development
- Leverage with NGOs for reaching the last customer at the last mile
- Look at migration positively. Banks are the only institutions that can look at remittance products pro-actively. With CBS being rolled out, small value transactions should be possible on the technological platform

Introspection

- Is this a market we are willing to leave?
- Is this a market that we are handing over to new-generation banks who can come out with creative mechanisms of “absentee-banking?”
- Are we willing to leave gaps in the rural markets for fly-by-night or resident usurious operators?
- Can we fill up the market through formal regulated players?

Thanks

Partners in this research:

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