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FINE-GRAIN FINANCE:
Financial Choice and Strategy Among the Poor in Rural North India

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FINE-GRAIN FINANCE

Financial Choice & Strategy among the Poor in Rural North India

ABSTRACT

The paper, based on over a year's fieldwork and a survey of 68 households of two villages in Koraon Block, Allahabad District (Uttar Pradesh) between mid 2000 and late 2001, identifies four key livelihood strategies among poor households. It then examines the way in which each of these groups handle their financial affairs, revealing the needs, resources and relationships that lead them to behave as they do. The current set of local institutional and informal financial service providers is then described and examined, to see the extent to which their services are useful to these four types of household, and where and how they might be improved.

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ACRONYMS & GLOSSARY OF LOCAL TERMS

Acronyms	*Glossary*
BPL – Below Poverty Line (as designated by the Indian government)	*Amin* – A government revenue collector
GoI – Government of India	*Bidi* – a small, leaf-bound cigarette
GoUP – Government of Uttar Pradesh	*Bigha* – a local measure for land equivalent to 0.66 acres
IRDP – Integrated Rural Development Programme	*Casbah* – peri-urban centre in rural region
KCC – Kishan Credit Card	*Ghee* – clarified bUttar used for cooking
LIC – Life Insurance Corporation of India	*Gram Pradhan* - elected representative of a *panchayat* (a village and its surrounding land).
MFI – Microfinance institution	*Harvahi* – system of "attached" ploughmen working for landowners
MP – Madhya Pradesh	*Jajmani* - Ritual and other services provided by specialist castes to village elites
NBFC – Non-Banking Finance Company	*Kharif* – the main cropping season for paddy (June-September)
NGO – Non-governmental organisation	*Purdah* – the tradition of seclusion of women practiced by Muslims and some high-caste Hindus in some parts of India
NPA – Non-Performing Assets	*Rabi* – the secondary cropping season for wheat and gram (November-February)
PACS – Primary Agricultural Co-operative Society	*Tehsil* – the smallest revenue & judicial unit of the Indian Government
RRB – Regional Rural Bank	*Tola* – hamlet
SC/ ST – Scheduled Castes, Scheduled Tribes	
SP – Special Component Scheme (for SCs & STs)	
UP – Uttar Pradesh	

CONTENTS

1. Introduction[1]

The hype that has accompanied the rise of microfinance as a tool to poverty reduction often obscures the challenges which remain in the provision of financial services to the rural poor. Among the South Asian region's larger microfinance institutions (MFIs) principally in Bangladesh, the problem has been one of achieving scale while allowing for flexibility. While MFIs have achieved impressive outreach and efficiency through standardised products and systems, this has often been at the cost of innovation and choice in products and services offered to customers (Matin, Hulme & Rutherford 1999). By contrast, many smaller MFIs (particularly in India) have insisted on a devolved and participative approach which has loaded up costs borne by clients and led to the exclusion of those who don't select themselves and "participate" adequately (MCRIL 2001).

The banking sector faces different constraints. The region's public sector bankers, in spite of generous incentives and financial support from government, still struggle to reach those who lack assets considered "securable". Most remain suspicious of group liability as a substitute (Jones, Williams & Thorat 2002) and in the new environment of economic austerity, many are retreating fast from rural to semi-urban and from lending to investments (Kohli 1999). The number and range of private sector players (registered chit funds, deposit collectors and non-bank finance companies (NBFCs)) reaching India's rural towns has grown rapidly since financial sector reforms of the 1990s. But the government's incapacity to supervise adequately mean that poorer clients are more often approached as easy game for fraud than as potential long-term clients.

The informal sector, with moneylenders, pawn brokers, deposit collectors and "committees"[2], reaches people and parts of life where others fail, in particular, providing lump sums instantly and conveniently to those with no security, and convenient and regular savings devices on a sufficiently small-scale. But reliable services are frequently not available and prices are high. Most rural people, even those with a small and stable asset base, manage their money through employers, landlords and relatives, with a little help from friends, neighbours and co-workers (Rutherford 2000), shifting their wealth between money and non-money forms to hedge risk and increase returns. The relevance of registered and professional financial service providers for most of these people is marginal.

It was this recognition, of the limited relevance of formal and MFI service providers to most of the rural poor, which provided the rationale for a research project carried out by IDPM in northern India between mid 2000 and late 2001[3]. The aim of our research was

[1] We are grateful to David Hulme, Stuart Rutherford, Sanjay Sinha and Meenal Patole for comments on earlier drafts and to EDA Rural Systems for assistance with data processing. Thanks to officers of Cashpor Financial and Technical Services (in particular, to Urmila, Akilesh, Anoop and Rakesh) for introducing us to Koraon, for their help and for many useful discussions. Thanks above all to our respondents in Koraon who sat with us and kept us refreshed over so many hours and responded patiently to incessant questions.

[2] "Committee" is a local term for RoSCAs (rotating savings & credit associations) and ASCAs (accumulating savings & credit associations).

[3] Research following an identical approach was undertaken in three of Delhi's squatter settlements over the same period (see Ruthven 2002 and Patole & Ruthven 2002). Parallel research was also conducted in

twofold. First to understand in detail the constraints of these different institutions in serving the rural poor and the opportunities which appeared to exist for new solutions. Second, to study informal financial devices and money management mechanisms used by the poor from which formal providers can learn.

This report is laid out in the following sections. Section 2 sets out in detail the research approach, methodological issues arising during the research and the analytical outputs generated during the research on which this report is based. Section 3 presents the economic and social context of research and the sample of households covered. Section 4 profiles the financial life of respondents: their income and livelihoods, spending needs and costs, and an overview of financial relations in which they engage and through which they manage their financial needs. Section 5 provides a more detailed discussion on the institutional providers of professional and commercial services (banks, a microfinance institution and cash savings services) and their features which assist and constrain them from reaching the poor.

2. Method

2.1 The Survey

The research required an approach which engaged closely with the clients or users of various financial services and devices without limiting its perspective by association with any particular provider. Most client-oriented research (in and beyond the financial sector) is conducted on behalf of a particular institution (a creditor, investor, donor, product, provider…). We needed to meet clients of various providers and with the broader agenda of understanding the full combination of services and devices used by them, the rationale and preferences of each, the kinds of needs which appeared to be unmet and issues of access, choice and preference. We also undertook limited interaction with those financial institutions identified by respondents as being the most useful[4].

To fulfil these methodological requirements, we framed two types of survey. One covered a small number of households (28) over the whole annual period, meeting them regularly every two weeks to compile comprehensive diaries of financial transactions and money management strategies. We call these respondents "diary respondents". The second covered a larger number of households (40) more superficially over two rounds of interviews to provide a context for diaries and a larger number of poor people in the overall sample. We call these respondents "snapshot respondents".

Bangladesh (see Rutherford 2002). The research was part of the Finance & Development Research Programme of the IDPM. Background, all working papers referenced and detailed data can be found on www.man.ac.uk/idpm.

[4] This research with institutions has been reported in detail by Sinha & Patole (2002).

2.2 An Open & Unstructured Approach

The approach taken for all 68 respondents was deliberately loosely structured. We sought information on repayments, borrowings, lendings, income and expenditure which was then consolidated by household over the year (in the case of diary respondents), by wealth-ranked group, livelihood and device used. In the case of the diary respondents we were observing trends across the annual cycle while snapshot respondents provided "as on" balance figures for current transactions as well as information on devices and services generally used.

In spite of our quantitative intentions, we believed that the only way to acquire quality content from interviews was to undertake them in an open and relatively unstructured manner using a checklist rather than a questionnaire (attached at Annex 1), approaching sensitive issues (such as savings balance) in a roundabout manner rather than directly, drawing out information on household history, the links between financial and other social relations and circumstances faced by respondents. The research experience has only strengthened our view that there are subtle techniques which need to be employed in the extraction of financial information, among the poor as indeed among India's less transparent financial institutions. The use of crude survey techniques to acquire sensitive and complex information, widespread in India, may frequently be misplaced.

2.3 Definitions & Data

A brief to gather all information about financial transactions from 68 rural households might not appear such a complex task. According to the dictionary, a transaction is "*something that is transacted (conducted, negotiated), especially a business deal*"[5]. A financial transaction is thus a deal involving a financial or monetary service or exchange between two or more parties. But during the course of the research it became clear that transactions and arrangements outside this narrow definition would need to be covered by the research since it was proving important for a general understanding of people's financial lives.

Firstly, Koraon is still a cash-scarce economy. As such many transactions in villages (payment of wages, payment for other goods, lending and recovering, borrowing and repaying) are conducted partially or fully in kind. The most common non-cash currency is grain (paddy or wheat) but could also be grocery goods, fuel-wood, cloth and other consumer items. Recording only cash transactions would offer an incomplete picture of the size of resource flows between transaction partners. We have thus included all <u>in-kind</u>, as well as <u>cash transactions</u> in our analysis of flows and transactions relating to <u>borrowing</u>, <u>repaying</u>, <u>lending</u> and <u>recovering</u>.

Secondly, one of the research's key objectives was to understand <u>savings</u> behaviour and potential demand for savings services, whether or not cash-based savings products were available and/ or used. While saving in cash (other than inside one's home) is usually a

[5] Collins English Dictionary

financial transaction because it involves a second party (a bank, a Post Office or a friend or employer), saving in kind may involve an initial purchase but storage and maintenance of the asset will be managed by the saver alone (e.g. a cow or jewellery). Such in-kind saving is beyond the frame of our focus on flow transactions, but we nonetheless felt such purchases and storage devices were critical to understand people's strategies of accumulation and value-creation. Thus our analysis of flows and transactions is confined to saving in cash. But our discussion on the net worth and the potential demand for savings takes into account our data on in-kind purchases and sales of assets where these were not included as a source of income (such as business working stock or a tractor which is hired out) *and* which are generally assumed to appreciate or maintain their value. In our village cases this includes livestock, jewellery and real estate[6].

By contrast, if in-kind assets or savings are lent out and recovered (particularly in the form of gifts to relatives for lifecycle costs which are or will be reciprocated), we have included these in our analysis of transactions and flows. Typically, one household might provide a quantity of cloth or a pair of goats for the marriage of a relative's daughter. While no time frame will be stated, the relative will be expected to pay back the value of the in-kind gift with some increment whenever the giver household requires it to finance a comparable lifecycle expense. We have called these transactions reciprocal gifts.

Finally, our research recorded income and expenditure of diary respondents over the year. In income, we include all wages received in cash and kind, all payment from the lease of assets and all profit (income over expenditure invested) from business and farming activities. In expenditure, we include all "consumption" (food, general household, clothes and health) as well as social investments such as education and marriage, and the loss or theft of assets. Recurring investments (or "running costs") in farm and business, as well as gifts thought to be reciprocal, are excluded since they are accounted for respectively in calculations of income and lending.

At year end the bulk of data we had accumulated related to the 28 "diary respondent" households who had been visited regularly over a 13 month period. For annual quantum and trends this report draws on these longitudinal profiles. For more general case studies on financial service use and preference, the 40 snapshot case studies are also used.

Each of the longitudinal profiles (of diary respondents) generated three outputs:-

(i) Tabulated summaries of transactions, income & expenditure updated every two months (sample at Annex 2)

(ii) Summary format with background, household, income, expenditure & transaction details, as well as comments on current and future financial service requirements (sample at Annex 3)

[6] Of course it is not easy to judge what will appreciate or maintain value and what will not - we don't know whether something will turn out to be a good investment until it pays off. Livestock can die, a business can fail. Conversely, payments generally considered a "consumption" expense will often turn out to be key investments bringing long-term returns (such as education, healthcare or the marriage of a daughter in to a wealthier family). The distinction between saving and spending is thus a matter of careful judgement and chance outcome.

(iii) Mapping the flow in (by borrowing, recovering money owed and withdrawing savings) and out (by repaying, lending money and depositing savings) of the household over the year (sample at Annex 4).

In addition the financial diaries generated two consolidated worksheets:-

(iv) Incidence & quantum of financial devices and services used (Annex 5)

(v) "Balance sheet" profiles for each household at start and end of year, consolidated by livelihood-wealth group (Annex 6).

For snapshot respondents, one-time equivalents of the Annex 3 (summary format) and Annex 5 (table of incidence & quantum of financial devices) were generated. All this data provides the basis for the arguments and conclusions presented in the following sections.

3. Background

3.1 Economy & Markets

Koraon Block lies in the extreme south of Allahabad District, Uttar Pradesh (UP), on a dry rocky plateau, bordered on one side by Madhya Pradesh and on the other by Mirzapur District. It is considered one of the most backward and marginal areas of a district otherwise rich in fertile land around the basins of the two great rivers (Ganga and Yamuna) which run its length. Much of Koraon is a rocky plateau which extends along UP's southern border, into Madhya Pradesh (MP) and Bundelkhand. Just under half of Koraon Block's 250,000 population is categorised as Below Poverty Line (BPL) by the standards of Government of India (GoI)[7]. With a density of just over 200 people per square kilometre, Koraon is sparsely populated (only 35% of the average for UP State).

Koraon's relative backwardness has been gradually redressed since the fertility and productivity of the region was transformed by the construction of a canal irrigation system from the Ban Sagar Dam Project, operational since the late 1970s. Most farms are theoretically fully irrigated, but who accesses canal irrigation first and in a timely manner nonetheless reflects local political economy and spot "droughts" and "floods" are frequently experienced by small and marginal farmers. During the major *kharif* season (June-November) rice is grown on all irrigated land and lentil (intercropped with jute), millet and other resilient grains on non-irrigated land. During the *rabi* (November – March) wheat is grown on irrigated land and gram and maize on both irrigated and non-irrigated. Irrigation, alongside the other components of this "Green Revolution", have encouraged broad-based migration into the region, notably from Bihar and MP.

[7] According to Koroan Block Development Officer (BDO), the GoI uses the following standards to define BPL: All families with <Rs.22,000 total annual income. Annual income is estimated according to the following norms: Rs.600/ acre un-irrigated land; Rs.1200/ acre irrigated land; Rs.1500/ milch cow and Rs.50/ day for wage labour. Wage labourers are assumed to access daily wages for 6 of 12 months in the year. As this report suggests, many assumptions in these norms are faulty and the general effect is a bias towards small and medium farmers and against wage labourers.

Koraon region has no significant industries and farming exists alongside a limited number of non-farm sector piece-rate opportunities, notably, carpet-knotting and *bidi* rolling. Carpet-knotting is a semi-skilled activity which took off in the mid 1970s when demand extended the unit network outwards from the regional centres of Bhadohi and Mirzapur. Contractors from these centres set up and sourced from units which could produce at a lower rate. There are several among Kushphara respondents who were themselves unit managers (managing 10-20 workers each) and over the period, upgraded their living standard significantly from one which was previously based on *harvahi*, [8] sharecropping or *jajmani*[9] service to landlords. But since the mid 1990s the market has plummeted and many of today's petty traders are "refugees" from carpet-based livelihoods.

Bidi-rolling is a relatively unskilled activity with few barriers to entry. But the paucity of wages and sickness of the industry mean that – even for the minority of skilled and full-time rollers – it is unlikely to provide income adequate to effect a shift in economic status. It is generally pursued by poor Muslim women (in *purdah*) and elderly men.

Other than these piece-rate options, small and marginal farmers[10] and landless in Koraon pursue small business (such as mobile trading, bicycle repair services, tailoring or running a taxi service) most of which have capital requirements and ability to bear risk which many among the poorest can not meet. While such trade and consumer services have increased steadily with purchasing power in the region, the casual wage labour opportunities off the farm are mostly in construction and earth moving. This work increased sharply from the mid 1970s and the construction of the canal network. Prior to this boom, village labourers had depended to a lesser extent on off-farm labour further afield in regional cities and infrastructure projects which supplemented livelihoods in sharecropping, livestock, small service and on-farm labour to landlords. Today the situation has changed somewhat from the off-farm labour peak around 1980. Canal building has reduced but increased awareness and mobility connect labourers more easily to canal to black road building sites further afield. Construction (of homes and other buildings) is rising and fast becoming the most significant and best paid source of work[11].

Koraon – which acts as the service centre for both site villages in most respects - has several government and private sector financial institutions. Among its banks are Allahabad Kshetrya Grameen Bank (an RRB sponsored by Bank of Baroda), District Co-operative Bank (which disburses credit through Primary Agricultural Co-operative Societies) and UCO Bank. The Bank of Baroda has a nearby branch in Pasana and the Allahabad Bank, in Ayodhya (whose Service Area includes Barahulla Village). The Post Office has a main office in Koraon and a sub-office in Kushphara, one of the site villages only 2 km from Koraon. Non-Bank Finance Companies include Cashpor (a microfinance institution using the Grameen model) and Appeline, a company offering contractual

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[8] An "attached" labour contract between ploughman (known as the *harvah*) and landlord

[9] Ritual and other services provided by specialist castes to village elites

[10]Small Farmers (as defined by Government of India) hold between 2.5-5 acres (about 4-7 *bighas*) of irrigated land while Marginal Farmers hold less than 2.5 acres (or 4 *bighas*) of irrigated land. Joint family holdings are judged after dividing the total by the number of adult male householders.

[11] For a detailed account of changing labour options and relations see Ruthven 2002 (b).

savings products in the form of debentures of privately owned companies. Agents of the Life Insurance Corporation (LIC) are also active in the area. Some NGOs are promoting self-help groups among village women alongside other activities, including Viklang Sewa Samity and Bal Sewak Ashram, both with their head offices in Allahabad.

There are several commercial moneylenders and pawn-broker-jewellers based in Koraon. But as our paper will show the informal sector is as important for the financial relations embedded in kin, community and employment, as for these commercial relations with moneylenders.

3.2 Community & Sample

Research was conducted in two villages in Koraon Block. Barahulla Village has a population of about 3500 (or 1300 voters). It lies 10 km from Koraon town towards the Mirzapur-Rewa Highway (NH7) close to the border of neighbouring Mirzapur District. The major castes of the village are Kols (23%), an *adivasi* (or tribal) group most populous in bordering districts of Madhya Pradesh, Brahmins (21%) and Harijans[12] (16%) while Rajputs and several Other Backward Castes (OBCs) feature prominently. The main land-owning castes are Brahmins and Rajputs, several of whom have landholdings of more than 50 *bigha*s (33 acres). The village has few landless people but a high proportion of small and marginal farmers among Kols, Harijans and OBCs. The village remains relatively remote from market and urban centres thus limiting labour opportunities off the farm. We undertook research in two of the village's twelve hamlets, among Kols, Brahmins and a mix of OBCs.

Kushphara Village – fast becoming a *casbah* (or peri-urban roadside centre) is only 2 km from Koraon on the Manda road. It consists of two parts totalling an 8000-strong population (or 3000 voters). Muslims (33%) dominate the village and are among the poorest. The main land-owning caste is Patel and the landless are mostly Muslims with a small number of Kols and Harijans. Brahmins and Kushwahas are also significant and have medium or large farms but large farm plots are generally smaller than those of Barahulla, in the region of 20-30 *bigha*s (12-20 acres). Harijans and Kols form the largest group of small and marginal farmers. Kushphara's economy is ever more intertwined with that of Koraon, a town of 25,000 growing rapidly in response to an emergent middle class, its strategic position as a trading and business centre in a triangle of three major highways[13] and its recently upgraded status as a *tehsil*. We undertook research along a single dirt road of the village which takes us through three or four hamlets, predominantly of Muslims and Kols with a few OBCs and higher castes.

For the diary respondents, selection of villages and hamlets was guided by our requirement of a relatively high proportion of poor people, a caste and livelihood mix and

[12] Also known as Dalits or Scheduled Castes (SC), Harijans are a mix of communities traditionally charged with ritually polluting functions and targeted by the government to receive benefits in welfare and positive discrimination. The term Harijan was coined by Gandhi and remains the less political if old-fashioned term used in the Koraon region.
[13] NH7 (Mirzapur-Rewa), NH27 (Allahabad-Rewa) and the main route from Mirzapur to Allahabad.

some evidence of a market for financial services (whether microfinance institution (MFI), bank or private, informal sector). After mapping the hamlets, we conducted group wealth ranking sessions in different neighbourhoods, dividing residents in to three groups of "poor", "medium" and "better-off". We randomly selected 15 households per village aiming for a larger number of poorer than wealthy households and then sought the consent of household heads to interview them regularly over a year's period. In all but two cases households were able and willing to continue throughout the year.

For the snapshot respondents, we took all contiguous households within a defined boundary in a poor hamlet of Kushphara village. The snapshot area was selected because it combined a high proportion of relatively poor people and a high level of engagement with financial services and devices. Since it was considered politically difficult to wealth-rank snapshot respondents, researchers undertook this exercise[14] at the end of research period. The wealth ranking of diary respondents was also reviewed and revised at research end. The objective of this was twofold: households had to be wealth-ranked in relation to the total sample (rather than in relation to their immediate neighbourhoods). The original ranking of each household also needed to be checked against the knowledge researchers had acquired over the year[15].

The following table compiles the criteria generated which guided the wealth-ranking of respondents by residents and researchers. Sample members fulfilled three or more of the criteria for their respective categories.

Table 1: Wealth rank criteria

Rank	Criteria
Better Off	• Current income per capita per month (PC/ mth) >Rs.400 for a dependency ratio >5:1 & >Rs.600 for dependency ratio <5:1 • Family irrigated land >10 *bigha*s (7 acres) • Permanent service job • Movable assets >Rs.20,000
Medium	• Current income PC/ mth >Rs.200 • No food compromise • Family irrigated land >2 *bigha*s • Underemployment[16] for <2 mths/ year • Movable assets >Rs.5000
Poor	• Current income PC/ mth <Rs.200 • Food compromise • Principle livelihood *harvah*, on-farm wage labour or *bidi* rolling • Underemployment for >2 mths/ year • Movable assets <Rs.5000

[14] Where possible we took the support of diary respondents with whom we had long-term and trusting relations.
[15] This review of diary respondents' ranking had two effects. First it increased the number of "better-off" respondents in the wealthier hamlets (who were average in relation to their hamlets but rich relation to overall sample). Second, it increased the number of "medium" respondents in the poorer hamlets (an outcome of the researchers' judgement that the critical cut-off between the very poor and others was marginally lower than it had appeared in the initial ranking). The general effect is thus to make our sample look generally better-off than it had at the outset of research.
[16] Underemployment refers to periods where employment is not considered to be available with adequate continuity or intensity and periods where labour is only available at a daily rate equal to or below Rs.25 or 5 kg wheat per day.

While these three categories are useful in distinguishing economic security and living standards, they do not reveal differences related to livelihood strategy. All but one respondent among the "Better-Off" were large farmers, but there were two distinct strategies pursued by the "Medium" and "Poor" groups which we have tried to distinguish, namely small and marginal farmer labourers and trading and self-employment. Whether ranked as "Medium" or "Poor", those who share livelihood types also share characteristics in assets and income flows which have implications for their financial behaviour. Traders and self-employed people (74% Muslim and the rest OBC, Harijan and Kol) generally have very little land, low liquid assets and relatively high income. Farmer labourers on the other hand (47% Kol, 19% Harijan and the rest a mix of OBC, Muslims and General Castes) have more land but lower income and much less appetite for risk. A minority of farmer labourers have also secured regular jobs (such as assisting the government revenue officer (*amin*), driving for the local bidi factory or operating the machines in a rice mill).

To reflect this important livelihood distinction among the poorer groups, we have recomposed our wealth-ranked groups into four groups which combine livelihood with wealth rank. (a) Better-off farmers; (b) Traders & Self-Employed; (c) Medium Farmer Labourers & (d) Poor Farmer Labourers. The following discussions on income, expenditure and financial behaviour divide respondents into these four groups. The sample of each and their features are summarised in the following table:-

Table 2: Research Sample

Gp No.	Description	Diary sample	Total Sample	% Sample	Income PC/ mth (Rs.)	Land (acres)	Average liquid assets (Rs.)
1	Better Off Farmers	7	13	19	640	41	45363
2	Traders & Self-Empl'd	7	23	33	306	1.3	5193
3	Medium Farmer Labourers	8	16	24	218	2.5	2987
4	Poor Farmer Labourers	6	16	24	173	4.2	2850
	Total/ Average	28	68	100	334	12	14098

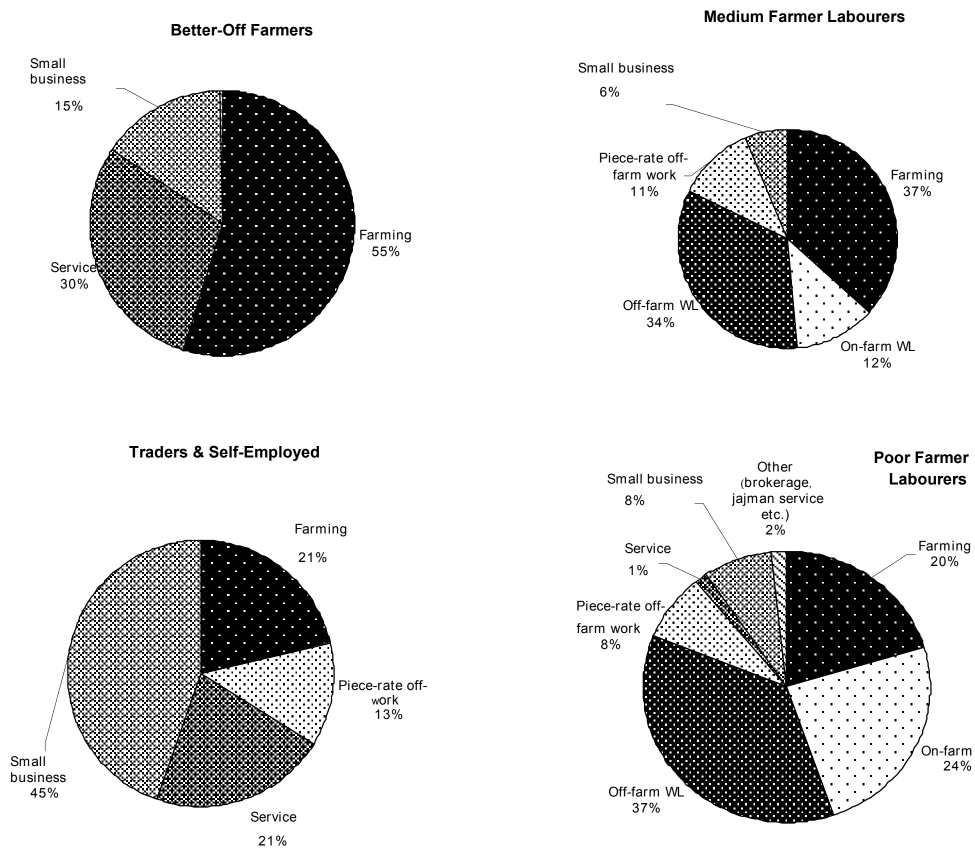
The table shows that while Farmer Labourers make up just over half the total sample, the other half is mostly Traders & Self-Employed with a minority of Better-Off Farmers. In terms of income, land and liquid assets, there is a striking difference between the Better-Off Farmers and all other groups. It shows that other groups have a similar profile but that Traders & Self-Employed have higher income, more movable assets and less land than farmer-labourers. While Poor Farmer-Labourers have on average slightly more land than Medium Farmer Labourers, this reflects a larger number of joint families in this group. On balance, Traders & Self-Employed have a comparable wealth (or poverty) status to Medium Farmer Labourers (while the composition of their wealth is different). Poor Farmer Labourers on the other hand are significantly poorer than both these middle groups.

4. Financial Profile of Respondents

4.1 Income & Livelihoods

The income or livelihood composition of the four groups is illustrated in the following charts. The figures derive from the income contribution of different livelihoods to diary households over the full research year.

Figure 1: Comparing livelihood profiles across four groups



The charts illustrate that Farmer Labourers (whether "poor" or "medium") have the most mixed portfolio of activities and that "Better-Off Farmers" have the most specialised or simple livelihoods. The poorer the Farmer Labourers, the more diverse their income portfolios. Unlike larger farmers and even traders, small Farmer-Labourers are not able to build surplus from any one activity which would allow them to live from it at a later point in the year. They are in constant need of income throughout the year even to get through the next few days or weeks. The main difference between the livelihood profile of the "poor" and the "medium" Farmer Labourers is the degree of food security they can derive from their farm. Medium Farmer Labourers are less dependent on agricultural labour to raise grain for food.

The following line graphs map the monthly income reported over an annual cycle among diary respondents. While Figure 2 includes the "Better Off Farmer" group, Figure 3 compares the income and flows between the three poorer groups.

Figure 2

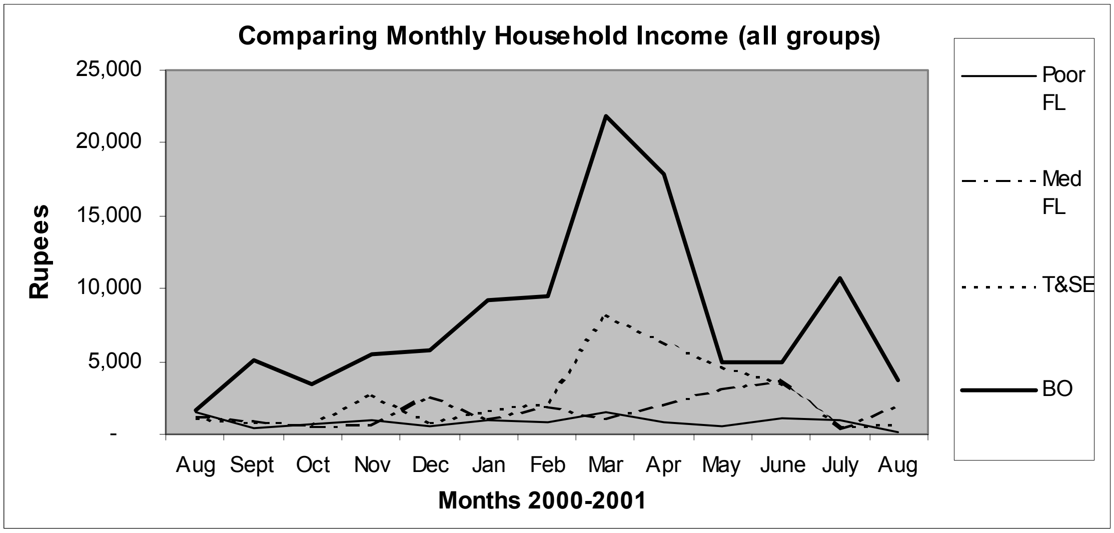
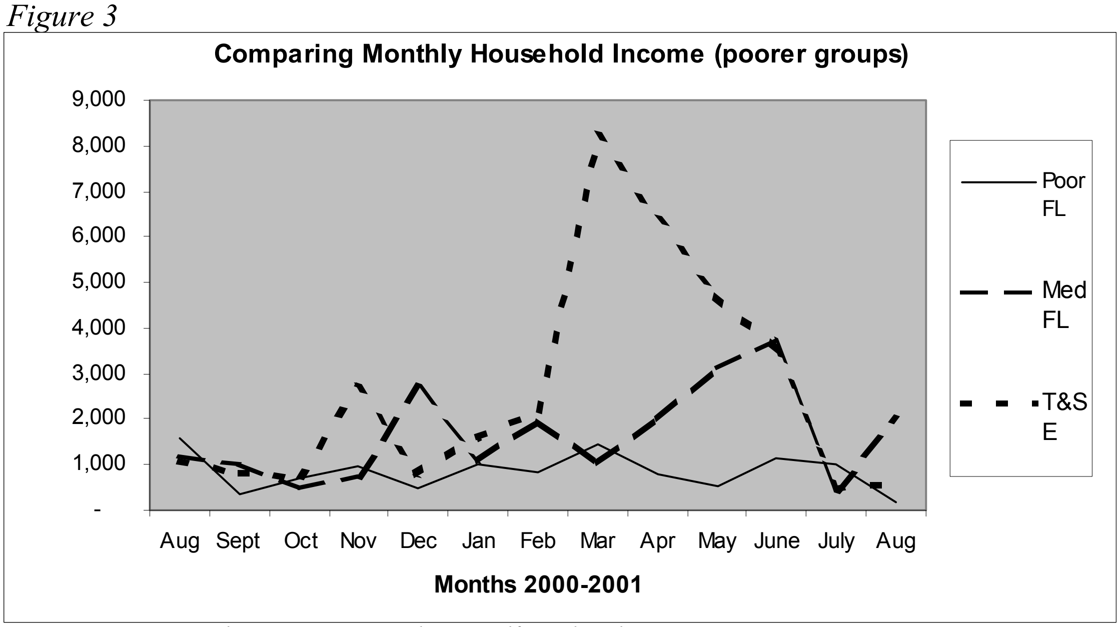


Figure 3



Notes: FL: Farmer Labourer; T&SE: Traders & Self-Employed
Figs have not been adjusted for household size. For the three poorer groups, average household size is similar at around 7 members while in the Better-Off Farmers' group, joint families are the norm, giving an average of 14.

The line graphs show that traders as well as farmers experience a major peak in income between February and May, a period when farming activity is the lowest and the region's wedding season takes place. For food-secure farmers this is the period when crops are sold (thus farming income realised) because prices will be highest and because expenses will be incurred for marriages. For traders and self-employed service-providers (such as tailors, musicians, taxi runners), this is the season when highest sales are achieved. It is striking that the Poor Farmer Labourers do not experience the same peak as the other groups. Since they generally face a grain deficit they have no capacity to sell grain (and thus to benefit from higher prices). Monthly income for these families (hovering between Rs.300 and Rs.1500) has frequent troughs and no significant peaks.

4.2 Financial Needs & Expenditure

For the three poorer groups, festivals and ceremonies were the most important expense during the year averaging about one third of total expenditure. Health was also significant at about 20% of the total. While health and ceremonial expenditure was proportionately lower for the Better-Off Farmer group, this was not the case for spending on general household needs (food, fuel and sundries) which averaged just under a quarter of total expenditure for all groups. The general household spending increased in real terms with income (as families eat well, heat more water etc.), but spending on ceremonies and health did not.

Other important types of expenditure which are similarly proportioned across groups include clothing, house repair and legal fees for land disputes. The profile of Better-Off Farmers is distinct in two additional respects. Firstly, spending on education increases significantly (13% as compared to an average of 1% across the other three groups). Secondly, other costs related with the repair and maintenance of assets (such as farm machinery, motorcycles and jeeps) and payment of bills (notably electricity in Kushphara) increases.

A review of total spending highlights other differences between the four groups. Surprisingly, while income increases consistently from the poorest group (Poor Farmer Labourers) to the wealthiest (Better-Off Farmers), this is not the case with expenditure. The highest absolute spenders are Traders & Self Employed households, spending nearly 170% of their income (per capita) in the average month. While such a huge deficit can clearly not be sustained in the long-term, growth of deficit over the research year reflects increasing indebtedness and investment in expanding business, as well as a possibly disproportionate number of extravagant weddings. Regular overspending is indicative of the business (and high-risk) orientation, as well as the upward mobility, of this group. By contrast, the per capita spending of Better-Off Farmers was only marginally higher than the Farmer Labourer groups and significantly less (42%) than their average monthly income[17].

[17] It is of course possible that our income and expenditure data is faulty due to weaknesses in recording and to reluctance on our respondents' part to disclose details. It is the authors' view however that the data is relatively robust and reflects significant differences between groups in livelihood strategy and risk-tolerance.

Table 3: Comparing expenditure and income across four groups

Group Description	Income PC/ mth (Rs.)	Expenditure PC/ mth (Rs.)	Net Inc/ Exp (Rs.) at year end
Better Off Farmers	640	269	77712
Traders &Self Employed	306	517	(10150)
Medium Farmer Labourers	218	201	4317
Poor Farmer Labourers	173	106	4883

We have shown that, other than the wealthiest respondents, groups generally share the same types of spending requirements. Similarly, different types of expense will be associated with different kinds of financial relation or device through which money (for the expense) can be raised. For example, mundane cash shortfalls or income deficits (in the case of poorer respondents) are likely to be addressed through help from neighbours and advances from employers against labour or wages. Lifecycle or ceremonial costs will more likely be managed through a wide net of relatives with whom borrowers have long-term and reciprocal relations. Costs relating to crises (such as accidents or severe illness) will be managed with the help of close relatives, landlords and employers (particularly in the case of those in attached labour relationships).

In addition to "consumption" expenditure there are two types of regular investment which also need to be managed. Firstly, seasonal or intermittent investment in the farm. Such finance will be raised from landlords (in the case of tenants) as well as from grain and fertiliser traders, the Primary Agricultural Co-operative Society (PACS) and even the bank, for those with larger landholdings. Secondly, some respondents have regular working capital needs for small trading or service businesses. Finance for such purposes will most often be raised from wholesalers, customers or the microfinance institution (MFI) operating in some of the region's villages.

4.3 Overview of Financial Relations of Respondents

A striking finding of the research is that the most widely and frequently used borrowing devices are not the informal "commercial" players (moneylenders and pawn brokers) but familiar and reciprocal contacts (friends, relatives, shopkeepers) who provide small but frequent sums interest-free or at concessional rates. What's more is that such contacts are used by all groups more or less equally. Over the year 86% of households borrowed an average of Rs.7600 from many different friends, neighbours and relatives. Leaning on friends and neighbours was a regular strategy to cover frequent deficits (among the poor) and to bridge cash flow (among the better-off).

In addition to friends and neighbours, shopkeepers play a major role in daily financial life. Fifty percent of households borrowed an average of Rs.3320 each from shopkeepers in the form of goods such as clothes, fertilisers and *ghee*. Fifty-seven percent of households took services on credit (such as a doctor's consultation, a tailor or a tractor on hire…) amounting to an average of Rs.1510 over twelve months. Fifty-seven percent of households also borrowed an average of Rs.1410 in daily groceries from village shopkeepers. Shopkeepers and other service-providers were used regularly by all groups to bridge cash-flow. Since the economy is still largely based on grain rather than cash, people don't have cash regularly available or may store it for town shopping where they are less likely to be permitted purchase on credit.

A significant number of poorer households (46% of sample) also borrowed from intermittent lenders on interest (an average of Rs.2438 over the year). Such lenders are generally wealthy farmers, traders and shopkeepers who lend on request on interest but not regularly or "professionally". Many borrowers in our sample were employed by or worked regularly for those they borrowed from. The equity and power in the relation depends on the leverage and bargaining power of the borrower households. Some are able to draw on employers as a regular source of more-or-less interest-free money to level their cash needs:-

> ***KBH15 Vyas:*** *His and his brothers' families are a huge labour force and able to manage most of their financial needs through their network of employers who forward them cash/ goods/ services in advance against future labour. They face a constant deficit and need to borrow regularly from an array of village moneylenders, but generally paying interest on only those loans for which they repay in cash*[18].

> ***KKP08 Ramanand:*** *With good connections among contractors and an ability to secure frequent and relatively well-paid labour, Ramanand has a supportive network on which he draws for interest-free loans and advances against labour.*

Other households are in a weaker position because their options to secure surplus (through farming or wages) are limited and because they have fewer contacts. Some face constraints (such as chronic sickness or a small family) which prevent them from being able to take advantage of income opportunities which arise. Several such households face regular income deficits during certain times of year (in particular the agricultural lean season between February and June). As such they are less likely to raise interest-free loans from such intermittent sources but more likely to get into attached relations where advances and lump sums are available (or even part of a standard labour contract) but wages are far below market rates.

> ***KPH08 Rahathu Kol:*** *Throughout the research year RK is racked by the pain of his 3 year-old son who has gall stones. He has been told the operation will cost Rs.6000 and is continually struggling for ways to raise this sum. He struggles equally to manage daily essentials and even after considerable effort, is often unable to secure money required. In November 2000 he finds a way to raise the lump sum he needs for his son – by contracting himself to a land owner in a village 30 km away (he has done this several times before but never at such distance). In June 01 he receives Rs.5000 advance and shifts there with his family.*

[18] This and all other indented passages are excerpts from write-ups of interviews with sample households during the research year.

Compared to the widespread use of these various familial, reciprocal and interlocked arrangements, professional or commercial financial services are used by only a minority of respondents in Koraon. By professional and commercial we mean services offered on a priced basis, where transactions are clearly defined and not preconditioned on other relations between borrowers and lenders. Such services include banks, microfinance institutions and professional moneylenders.

Only 13% of households borrowed from banks over the year but this minority were able to secure unbeatably high sums averaging Rs.49,000 in one or two instalments. All but one of these respondents have significant assets in land and good contacts in government. A further 18% of households – all of whom were Traders & Self-Employed – borrowed an average of Rs.12000 over the year in one or two instalments from Cashpor (a microfinance institution operating in some villages). In most cases this was to manage working capital needs (as traders, tailors, musicians…). Fourteen percent of households borrowed just over Rs.2000 from professional moneylenders. Users of commercial moneylenders are distributed across all four groups with a slightly higher number in the Better-Off Farmer group. Many respondents were motivated to take the loan by urgency or crisis with the intent to repay quickly (sometimes "refinancing" with another, cheaper loan).

While the number of transactions or "deals" respondents made with commercial and professional providers was much less than among friends and relatives, the sums raised at one time are usually larger than those which familiar and reciprocal contacts are able to provide. Such services also provide discretion for those who don't wish kin or neighbours to know their financial condition.

In their savings habits, the sample demonstrates a similar preference for informal and reciprocal strategies. Fifty-four percent of households made use of a tin box to store an average of Rs.1563 in small amounts at home over the year. More surprisingly, 43% of households lent "reciprocal gifts" to friends and relatives to an average value of Rs.3917. These were all contributions towards ceremonies and "lifecycle" events (mostly marriages and funerals). Lenders expected them to be returned with an increment when they themselves bear similar lifecycle costs over the coming years. Respondents agreed that such gift-giving is one of safest ways to save, provides increment, ensures security in crisis and cements kin networks.

> ***KKP08 Ramanand:*** *Ramanand's principal savings strategy is to invest in-kind with relatives, in reciprocal gifts that he can call on at a later date when he requires. During the research year he draws down several such gifts given by him to relatives several years earlier to finance his daughter's wedding.*
>
> ***KKP31 Lalloo Ram Kol****: Whenever he has surplus he invests it in kind (property or livestock, often on-sold to relatives) or in reciprocal gifts which he hopes will come back with increment when he needs. While he saves in a tin box for irregular expenses, he sees no value in long-term cash savings.*

An exception to the general prevalence of informal sector mechanisms is the widespread use of open savings accounts of banks (43% of respondents deposited an average of Rs.2204 in bank accounts over the year). While some poorer people's accounts were opened to receive money from a government scheme and now lie dormant, most are in active use. This finding testifies to the branch outreach of banks for savings and is in contrast to the poor reach of bank lending services to the poor (discussed further in 5.1).

Table 4 presents the most widely used services and devices group-wise. All those devices used by more than 40% of respondents in any group are included.

Table 4: Most- used financial services & devices for 68 respondents (group-wise)

	Financial Service or Device	Users (% total Group)	Value of annual flow (Rs.)*
Better-Off Farmers	Bank Savings (current)	83%	12335
	Int-free loans taken (cash)	75%	16167
	Int-free loans given (cash)	67%	19188
	Reciprocal gifts given out	67%	6406
	Life Insurance Corporation Policy	58%	10254
	Groceries taken on credit	50%	2567
	PAC Society loan (cash & kind)	50%	6960
	Goods taken on credit	42%	6080
Traders & Self-Employed	Int-free loans taken (cash)	64%	3514
	Loan from Microfinance Institution	59%	7615
	Tin box savings	41%	1550
	Goods given on credit	41%	3812
	Trade goods taken on credit	41%	9672
	Private loan taken on interest	41%	1489
Medium Farmer Labourers	Tin box savings	69%	1609
	Reciprocal gifts given out	56%	4756
	Int-free loans taken (cash)	50%	1666
	Wage advance taken	44%	2686
Poor Farmer Labourers	Int-free loans taken (cash)	69%	4577
	Reciprocal gifts given out	56%	661
	Tin box savings	50%	1461

**Value of annual flow for borrowings refers to total inflow (i.e. regardless of repayments) and for savings and lending, refers to total outflow (regardless of savings subsequently withdrawn or money lent subsequently recovered).*

The table shows that the range of devices or services used widely increases with the wealth rank of the group. While Poor Farmer Labourers widely use only three devices, Better-Off Farmers widely use eight. The kind of devices and services used widely by each group are not dissimilar. Rather, the better-off the group the more devices they use regularly. The table confirms the point that familiar and reciprocal borrowing and lending is equally important to all groups. As we go up the wealth-rank scale, a larger range of informal as well as formal options are widely used. It also suggests that all three poorer groups are active lenders but that this is mostly in kind (goods on credit or reciprocal gifts out) rather than in cash.

4.4 Saving and Borrowing Flows

The following charts illustrate the overall flow of money into households through borrowings and savings withdrawals (positive upper part of x axis), and out of households through repayments, money lent and savings deposited (negative lower part of x axis). They indicate how people use financial transactions to smoothen income and consumption, and the propensity of households to save and repay at different points in the year.

Figure 4

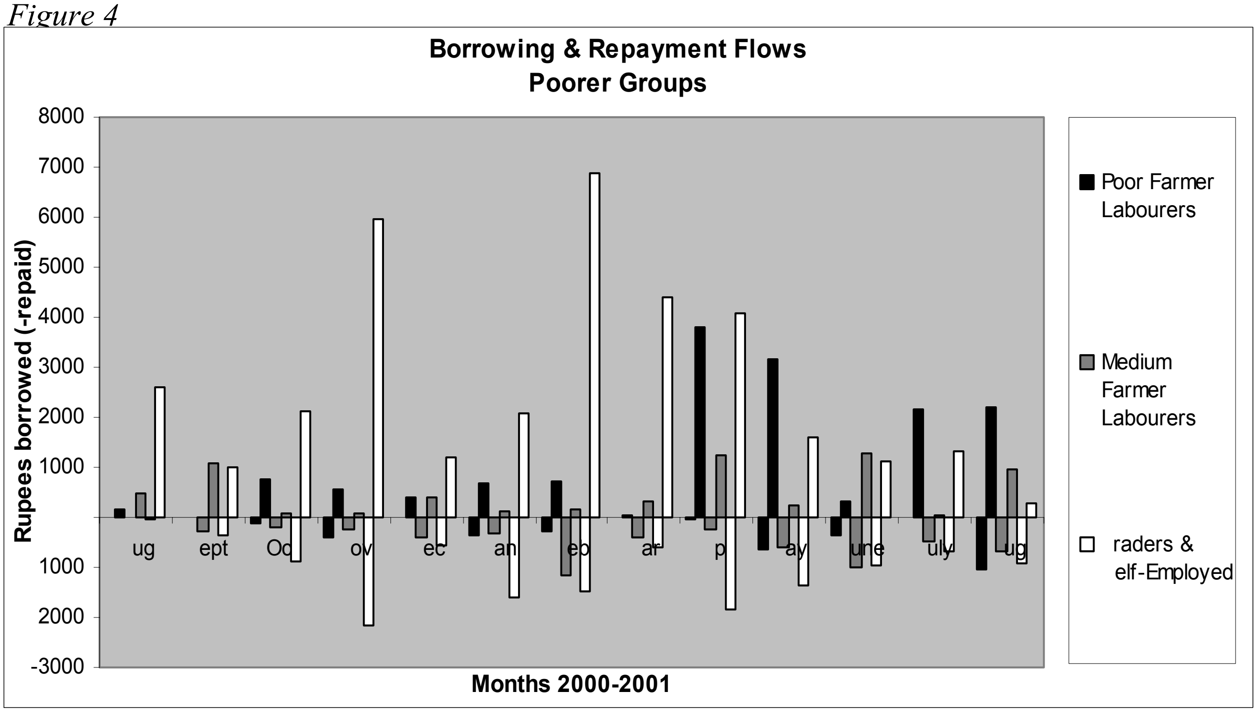
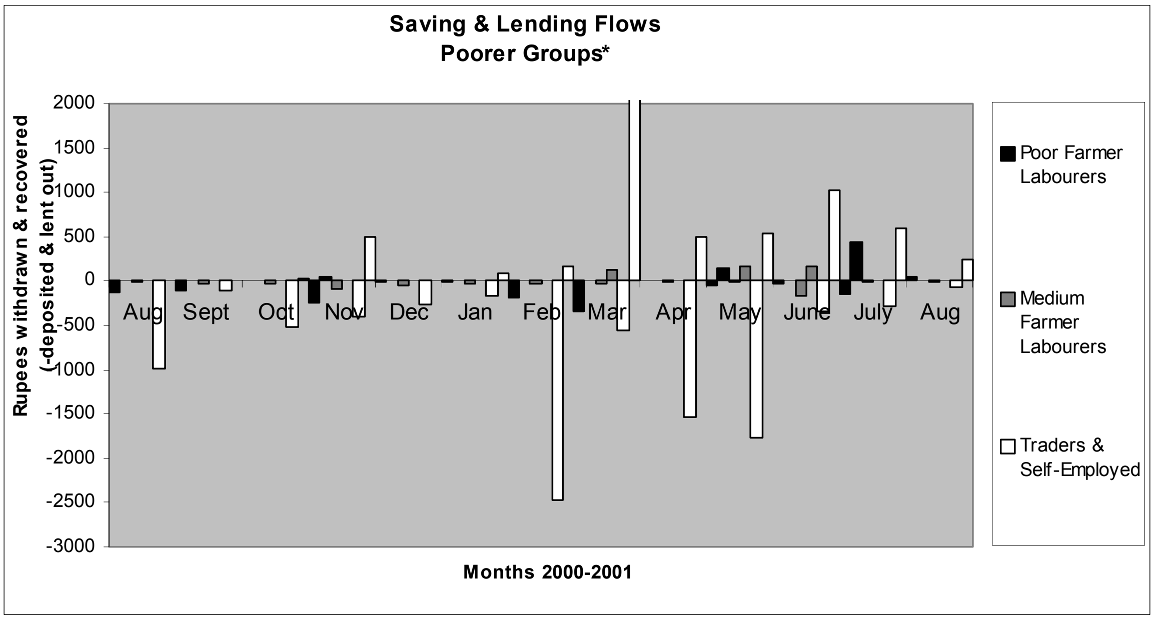


Figure 4 shows that Trader & Self-Employed households borrow and repay significantly more than the other two groups. While this group made a borrowing "deal" every 2.5 weeks, Labourer-Farmers borrowed only once a month. The borrowing levels of Farmer-Labourers are also significantly less than for Traders & Self-Employed while for Medium Farmer Labourers borrowing increased dramatically in the peak marriage season of April and May. Among the three poorer groups, loans outstanding always hovers way over income but the divergence between the two is greatest for Traders & Self-Employed, for whom loans outstanding averaged ten times monthly income levels.

The chart shows that those who borrow more and in larger amounts repay proportionately less of what they owe. Higher borrowers and risk-takers (i.e. traders and self-employed people) tend to be indebted massively beyond the assets they have in hand (in other words they have negative "net worth"). Borrowings and repayments are most evenly balanced among the Poor Farmer-Labourer group. While the income levels of this poor group are significantly lower than self-employed people (by more than 40% in our sample), their liabilities are unlikely to exceed their assets to the same extent. The maintenance of such a high level of debt among Traders and Self-Employed households (in spite of income gains) has implications for stress levels and contingency management which may be less acute in poorer households where indebtedness and income are both lower.

Figure 5



**These savings figures include some in-kind purchases and sales which are standard ways of saving, i.e. livestock and jewelry. Other investments (land, machinery, marriage) are excluded. Lending figures include lending in cash or kind on informal (interest-free) or reciprocal (incremental) basis*

Figure 5 shows that savings and lending activity over the year also appears to be concentrated in the Traders & Self-Employed group. But this is overwhelmingly in the form of goods sold on credit (for which payment is made in cash or kind), rather than in saving by accumulation. Some credit relations are fostered by traders to promote their product, increase their market share and build strategic links. But in most cases traders report that they must be willing to give credit in order to do business at all. This is a symptom of a cash-scarce economy and of tight competition for thin margins and limited purchasing power. Indeed small start-ups in the area frequently close when the costs and practicalities of recovering sales on credit prove unmanageable and large amounts of sales are written off.

Other than these sales on credit, the level of savings among all poorer groups is low. A minority of about one fifth of Traders & Self-Employed respondents and the same proportion of Medium Farmer Labourers invest in cash-savings products with formal sector institutions. But as we will see from 5.3, these are generally taken up when more urgent in-kind investments have been achieved (marriage of a daughter, improvement of a house, business investment, farm machinery and livestock…). Relationships and in-kind assets play a more significant role in managing finances and contingency than cash savings products. The next section looks at some of the institutional providers of savings and credit services and their success and constraints in reaching the poor.

5. Institutional Providers & Low-Income Users

5.1 Banks

Access & demand

10% of sample households borrowed from banks over the year. While two respondents accessed small bank loans through SHG programmes, the other five secured large sums directly (averaging Rs.57,500) in one or two instalments. The profile of this "elite" of individual borrowers is presented in the following table. It shows that the average per capita monthly income of this group is one and a half times the average for our sample, their landholding three times and their liquid assets more than seven times.

Table 5: Profile of individual borrowers from banks (averages for 7 respondents)

PC Income/ mth (Rs.)	Land holding (acres)	Other assets (Rs.)	KCC[19] (Rs.)	Other loan (Rs.)
496	37	105200	48750	66375

These households borrowed mostly against land mortgaged, fixed deposits and (in the case of tractors) assets hypothecated. All had long-standing track records with the bank (mostly from crop loans) and good contacts among bureaucrats and bankers. Yet there were several respondents who – in spite of offering security in land and movable assets – were unsuccessful in their efforts to secure loans. Comments and accounts like the following were common:

> ***KKP43 Raja Ram Harijan:*** *He has tried to get a loan from Bank of Baroda to invest in new business idea (bike shop) but all officials asked for bribes and he's given up*
>
> ***KKP44 Raja Ram Patel***: *He's aware of village Society & the KCC product but does not approach or use these since he is suspicious of the government and wishes to keep his distance. "The government is corrupt to the core"… He's seen the fallout of government loan schemes: only bribes & insults.*
>
> ***KBH06 Kanhaiya Yadav***: *He approached the branch manager for a KCC (where he already has a current account) and was turned away on the basis that it was off-season for agriculture (December). A broker then told him he could fix it for a fee of Rs.700 which then increased to Rs.1000. Ultimately he resolved*

[19] The Kishan Credit Card (KCC) is a generic name for a flexible overdraft facility provided to farmers, first promoted by State Bank of India (SBI) and replicated extensively by Commercial and Regional Rural Banks (RRBs). This and other products referred in Section 5 are more fully discussed in Sinha & Patole (2002).

to go to a money lender: he doesn't like the rules and hassle which come with bank loans.

If even secure farmers and small businessmen give up on the bank, it is no surprise that others (those who fall in the small and marginal or landless categories) don't entertain for a minute the idea of a commercial bank loan. Rather than seeing banks as a universal lending service, the majority of residents (whether farmers, business people or labourers) see them as part of a tightly woven elite of bureaucrats and political office holders, irrelevant to and uninterested in their requirements.

From the viewpoint of "scheduled" communities (i.e. backward communities deemed to require special assistance from government), this is more the case now than ever. Before 1996 and the commencement of banking sector reforms asset-less households (particularly Scheduled Castes (SC) and Scheduled Tribes (ST)) had been targeted under the IRDP and Special Component Schemes[20]. Here we review those respondents who had accessed loans successfully and the long-term effects of the IRDP era.

The IRDP and Special Component (SP - for SC and ST households) Schemes reached about 20% of sample respondents. The bulk of disbursements took place between 1990 and 1996 but it was not until early 1999 that both schemes were officially closed. The context of closure was large scale recovery failure by the banks.

Table 6: Profile of defaulters of IRDP Scheme (averages for 13 respondents)

Name of family head	PC Inc/ mth (Rs)	Land holding (acre)	Other Assets (Rs)	IRDP/ SP debt o/s
Average	215	4	14338	11575

Table 6 provides the profile of IRDP/ SP defaulters in the research sample. It provides a clear contrast with Table 5: the average per capita monthly income of this group is 64% of the sample average and landholdings average a third of the sample average. Whatever can be said about the management and recovery failure of the IRDP programme, it demonstrates the commendable depth of outreach achieved by the schemes in contrast to the shallow outreach of commercial (or non "sponsored") loans in the contemporary post-IRDP environment.

Among the Farmer Labourers who accessed IRDP or SP loans, there are those who entered the deal with "their eyes open" and, through contacts and networks, successfully accessed loans (probably with little intent to repay):-

KBH15 Vyas: *In the past Vyas's family has secured repeated access to government schemes, holding a handful of IRDP and PACS loans which remain only partially repaid. Vyas is now being chased by the local administration and flees when the officials come. Nonetheless, he's still considering how he might*

[20] The key reform to affect the IRDP and other "sick" government sponsored schemes was the requirement to declare and classify non-performing assets (NPAs – i.e. long-term bad debts) for the first time. This meant that it was no longer possible to accrue income from these loans (thus inflating profits) nor to claim bad loans as assets on the balance sheet.

access a new scheme for SCs/ STs which he's heard about through his friend the Gram Pradhan of Barahulla.

KBH11 RK Harijan: *RK Harijan has an all-time record of Rs.41,000 in four loans overdue to the Allahabad Bank and PACS combined. When the bank officials call on him he runs away but is unperturbed. As a community leader with good contacts in the Block Office, he is confident of securing privileged treatment in the future.*

But there are several respondents who appear to have entered the loan contract with little idea of the terms and conditions (both formal and "informal") and several say they succumbed to pressure to take the loan from brokers known to them (junior government officers, labour contractors and local political leaders). Several believe they were to benefit from a grant and now find themselves saddled with a loan they cannot repay and harassed by the law, causing embarrassment and loss of prestige.

KBH02: Dangar Kol: *The family has once received a government loan under pressure from the local broker. In spite of receiving Rs.8000 at relatively low interest with a relaxed repayment schedule, the experience has bred distrust in Dangar. Firstly he's aware the broker took the full Rs.7000 "subsidy" component meant for him and secondly, after a long gap police are now chasing him to pay the balance Rs.9000 due and he fears the consequences.*

KBH12: Sakha Kol: *Like other Kols, Sakha is keenly aware of poor transparency & discretionary treatment with which government/ bank schemes are handled. In spite of her eligibility (and success) in accessing such schemes, Sakha is suspicious and does not proactively seek access.*

Such cases demonstrate that the banks neither had an appraisal nor a recovery system in place to handle the schemes. Yet this evident failure of management does not necessarily indicate a failure of impact. The money was used by respondents for a range of investment and household purposes (including business start-ups, land and machinery purchase, livestock and marriages) which in most cases sustained benefit for several years.

With subsidized schemes now closed, the banks' outreach to the poor has decreased dramatically. With many such loans still outstanding a proportion of the poorest borrowers are now blacklisted with little chance of qualifying again. While the quality of bank services to Better-Off Farmers and those in government jobs is improving, even the Medium Farmer-Labourer group (with 5 or more acres of land) are largely un-banked. While the IRDP is widely maligned, relative to the current period it was a time when banks reached the poor even if this was one-off and they failed to get the money back. The management failure of the IRDP in Koraon is now being compounded by its stigmatisation of poor borrowers in the eyes of bankers. Whether they're blacklisted or not, most of those with landholdings under seven acres are not considered creditworthy.

Value of services & developmental impact
From discussions with bankers in Koraon, it is clear that conditions of lending to landed farmers are increasingly flexible. The new environment of prudential norms in asset classification, income recognition and focus on recovery mean that bankers treasure good and reliable clients ever more. With profitability a priority there is tighter competition for such clients, both farmers and others classified as outside the Priority Sector. This has pressured banks to provide a quicker, more streamlined service in products offered and documentation requirements. The Kishan Credit Card (KCC), first pioneered by the State Bank of India and replicated by all commercial banks, is a key illustration:-

> ***KKP50 Rama Shankar Singh:*** *The KCC facility allows him to manage frequent cash shortages, to meet non-agricultural costs and lend to others, and to avoid selling grain in smaller quantities at a lower rate which he would otherwise be forced to do.*

In theory, it is now possible for a marginal farmer (owning only 1 or 2 *bigha* non-irrigated land) to raise an overdraft to the value of his annual income simply by submitting his land title deed. But in practice bank managers in the region appear cautious and some avoid publicising the formal terms and conditions of their products. Some argued a contradiction in this customer-friendly framework and the reality of financial discipline to which they must conform.

It is unclear yet whether the benefits of improved service and flexibility will trickle down to poorer groups since their access is still in question. It is likely that some managers may be motivated enough to use informal ways to appraise and check new and smaller clients which – together with standard requirements of land title, hypothecation and guarantors, would be adequate. Others will shy away from increasing outreach and their branch viability will depend more on growing and maintaining larger clients, reducing transaction costs and remitting surplus to Head Office for investment.

Because of their Priority Sector mandate and security requirements, the banks' business has been concentrated in the agricultural sector. It is here that their development contribution thus needs to be measured. Agricultural development intensified in the Koraon region since the mid 1970s. But other than some changes in farming techniques for paddy and wheat, innovation in farming appears generally to be low in Koraon (with the exception perhaps of Bihari migrant farmers). This could be for reasons of culture or habit (i.e. techniques are not known, markets are not familiar) or it could relate to government policy[21]. Or simply that the risks of innovation remain too high for farmers to take at present.

It is our contention that the nexus of benefits which large farmers can secure through government and political clout may also be acting against innovation in the region and that banks are an important part of this. While large farmers interviewed (say, with anything more than ten acres) clearly benefit from scale economies, they benefit

[21] Some writers, in particular, Sen (2001) have suggested that the minimum support price (MSP) policy of the government has thwarted innovation because it acts as a disincentive to grow anything but wheat and paddy.

disproportionately from "non-market" privileges which keep their costs low and their yield and sales price high. Unhindered access to cheap credit from government banks is one such privilege, enabling them to raise the capital to invest more cheaply and easily than is possible for small farmers. Other privileges include higher ability to control irrigation flows due to political influence; cheaper labour solutions which can be arranged through tenant or "attached" labour and (in the case of a minority of very large farmers) sales through the Food Corporation of India (FCI)'s purchase points at the Minimum Support Price (MSP) of the government[22]. Such privileges secured by larger farmers constitute a favourable business environment additional to the scale economies they already enjoy. They thus have little incentive to innovate (in spite of having the financial muscle and capacity to bear risk).

Table 7: Average Output versus expectations on marginal farms of labourers 2000-2001

	Land cultivated (*bighas*)	**Expected income (Rs)**	**Actual income (Rs)**	**% expec-tations**	**% Total income**
Poor & Medium Farmer Labourers	5.7	7,410	2,007	27	14
Better-Off Farmers	15	30400	30500	102	55

Conversely, our findings suggest that small and marginal farmers appear to face a disproportionate level of risk, leading to significantly lower returns on investment. Table 7 records actual income against expected income (i.e. an estimate of typical yield made before the start of the farming year) for diary respondents. It compares actuals against expectations of Poor and Medium Farmer-Labourer groups and for Better-Off Farmer groups and shows that actual returns among Farmer Labourers were just over a quarter of expectations while those of Better-Off Farmers were broadly in line with expectations. Thus in what was considered a fairly bad (but not disastrous) year for farming in Koraon, larger farmers were able to raise investment to mitigate risks and ensure yields while this was mostly impossible for small and marginal farmers to manage.

It remains to be seen whether the increasingly flexible credit provided by banks can encourage innovation and contribute more deeply to a growth in the agricultural sector. Yet the banks' coverage and penetration in the farm sector is significant when compared to their caution in the off-farm sector where the validity of security in any moveable form is still in doubt. In theory banks can lend against hypothecated movable assets (such as working stock) but branches around our research site were conservative and tended to avoid this. The only security that the poor can offer (perhaps small, government-donated plots, some gold and a good track record) don't yet feature on the banks' map. The most likely way by which they may become banked (as borrowers as well as holders of open accounts) is through building up their savings base in the bank itself. The potential of such a strategy is explored in 5.3 below.

[22] This price generally sits about Re.1/ kg above the prevailing market price.

5.2 Microfinance Institutions (MFIs)

Access & demand

Since late 1997 Cashpor Financial and Technical Services, a microfinance institution (MFI) with its headquarters in Mirzapur, has been working in Koraon region. Cashpor broadly follows the Grameen Bank (Bangladesh) approach. Loans are given to individual women organised in to groups of five, three to eight of which will make up a Centre. Centres are "recognised" when they have proved their capacity to save regularly (for a minimum of two-three months) and that they know the terms and rules of being a member. Principal among these is their responsibility to repay according to agreed weekly equalised instalments[23] and to share responsibility for the payment of members who pay late or default on their loan. Through providing its service at weekly meetings, following up closely on use and repayment of loan and offering a range of products which have sought to be flexible, Cashpor provides an intensive service the cost of which they seek to recover through relatively high interest rates[24] and sharing of (non-financial) transaction costs with clients.

As on January 2001 (mid-point in our research) Cashpor had 219 groups and over 1000 clients in the Koraon region. From the outset, their outreach was among the poor and poorest village-based communities in the region (Muslims, Kols, Dhaikars (OBCs) and Harijans) but over the course of our research, there was a visible shift towards traders and hawkers operating in small market towns and away from some of the more remote and less business-oriented villages where they had begun work. By the MFI's own account, this was a response to three factors. Firstly, more remote centres (particularly among the labour or poor farmer-labourer class) had shown that demand for finance was low and intermittent, in other words, insufficient for the MFI to serve the centres in a viable way. Secondly, while higher demand was there in a minority of such villages, it was not enough to make up the minimum numbers required for a Centre (three groups or 12 members) and thus to deliver the service at sufficiently low cost. Thirdly, repayment performance in these villages was relatively poor (compared to more trader-oriented communities), further eroding income.

At the start of the research, Cashpor was present in both research villages. While the centre in Kushphara grew in quality and size over the research year, its counterpart in Barahulla was closed in mid 2001 two years after its establishment. The Centre had been in the Kol *tola* (hamlet) and, while there were exceptions, most members were cautious in their approach, taking a single loan and then leaving, or not borrowing again, sometimes not taking a loan at all. Ex-members recounted the shocks and losses which made productive use of the loan impossible and repayment a painful process:-

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[23] I.e. interest is compounded and divided across an agreed number of installments. This is flexible to some extent – a borrower can repay more quickly but not more slowly than agreed. But if she repays early, she will not save on interest.

[24] On 31st September 2001 Cashpor's annual interest rate was 20.5% flat, i.e. charged for the full period on the starting balance. This computes to around 38% interest on a declining balance basis.

> ***KBH14 Tolan Kol:*** *Both Tolan and her daughter-in-law are ex-Cashpor members who left after repaying their respective first loans of Rs.2000. Both women were compelled to use the money for the treatment of the daughter-in-law's two small daughters who fell seriously ill and then died. Nonetheless Tolan repaid the loan according to the agreed installment of Rs.90/ week, making the last installment in early 2001 by means of a small interest-free loan from a neighbour which is still outstanding. Tolan says she can not make good use of such services since she has nothing to do with the loans and an income too inadequate and irregular to repay.*

> ***KBH12 Sakha Kol:*** *Sakha joined Cashpor and took a loan of Rs.2000 in late 1999. She spent Rs.1000 on general expenses and opened a small grocery store with the balance. She couldn't manage the shop which lost money and after closing it, repaid most of the loan from the stock. She faced problems managing the balance when her daughter-in-law fell ill (and died following a miscarriage several months later).*

Cashpor closed the Centre because the demand for a second loan was low and the potential for Centre growth was limited; it became unviable to keep the Centre running for just two or three cash-hungry members. In contrast to the Kols of Barahulla, the Muslim households of Kushphara (all self-employed traders) have a high and regular demand for capital which they can put to immediate use. While they invest all their surplus back in the business (and thus have little interest in cash savings – see 5.3 below), their retained earnings are not enough for growth business plans and they source credit from a wide range of sources for their working capital needs. During the last two years, Cashpor has replaced the wholesaler as their most important creditor. Fifteen households (or 22%) in our sample were active borrowers from Cashpor during the year, 73% of whom were Muslim (with the balance Harijan, Kol and OBC).

Value of services & developmental impact
All active borrowers in the sample were highly appreciative of Cashpor in its unique role of providing working capital regularly, at lower rates than moneylenders, in increasing amounts in a flexible way (be it on the condition that repayment is regular).

> ***KKP06 Jhunna Sonar****: Rama Shankar (son) says having a loan on his head encourages him to work harder and generate a higher turnover since he has to trade if only to manage repayments. This in turn means more income to cover daily needs more easily.*

> ***KKP10 Roshan Ali & Mainum:*** *Before joining Cashpor they thought borrowing on interest was only for emergencies (when there was no choice). With its lower rates, lower social stigma, high transparency and manageable weekly installments, Cashpor has opened up the possibility of "borrowing by choice" i.e. for more experimental, enterprising activities (such as expanding the tailoring shop).*

> ***KKP40 Nanhe Ali:*** *His business is increasing in scale and becoming a bigger part of his livelihood. In general he is less dependent on his trips to Allahabad where he pulls a rickshaw and has not gone since last year.*

Cashpor has played an important role in getting people to trade harder thereby increasing income and to shift from traditional and low-return livelihoods to more risky but more lucrative ones. But its penetration in the economy remains superficial and already, growing saturation in its few favoured sectors is a looming problem.

Households in the Trader & Self Employed group (most of whom were active borrowers of Cashpor) borrowed more than 3.5 times as much as their Farmer-Labourer neighbours during the research year (regardless of wealth rank). Yet at the end of the research year, their "net worth" (i.e. the difference between what they owed and what they owned) was negative by an average of more than Rs.21,000. What's more, this had declined significantly from the start of research. This pattern was in dramatic contrast to the two Farmer Labourer groups who showed a mild increase in net worth through the year (in spite of a poor harvest) from Rs.1800 at the start of research to Rs.4000 at the end.

While it could be argued that young start-ups (such as most of those financed by Cashpor) should perhaps not be judged by their owned equity for the first few years, it is uncertain whether Cashpor's investments will create wealth sufficient to balance the increasingly tight competition in those sectors financed.

> ***KKP40 Nanhe Ali:*** *Competition is increasing because of Cashpor itself. He tries to address this by having good relations with his customers.*
>
> ***KKP41 Nazre Alam:*** *While those who started prior to Cashpor were doing okay before, they're all struggling now. Cashpor gives the opportunity for people to start up in business (too easily perhaps). As soon as they see others doing well they can also start up.*

Cashpor's portfolio quality and efficiency indicators in the Koraon region have improved considerably since January 2001, achieved by their gradual shift towards traders and away from labourers based in more remote villages. Since then it has also introduced products (such as the marriage loan and voluntary savings) which appear to be more oriented towards the labour class who are asset-poor and struggle with large lifecylce costs, thought take-up of both of these was limited at research end. The shift which Cashpor has engineered is an important lesson in the very different needs which poor people (at apparently similar wealth-levels) have and the challenges in reaching the poorest.

5.3 Other Cash Savings Product Providers

Access & demand

There are broadly four types of formal-sector savings service providers operating in Koraon: the Life Insurance Corporation (LIC), various banks, the Post Office and a number of private companies (registered as NBFCs or Chit Funds). LIC offers life insurance linked savings products with premiums paid quarterly or monthly for five years or more. Banks and the Post Office offer standard open savings accounts and term savings products (fixed and contractual). Of the two private companies which came up in our research, one (Rashtriya Sahara) was offering contractual daily savings and the other (Appeline Industries) was selling debentures in private companies based in Lucknow. Products differ marginally in returns offered, schedules fixed and the minimum value of deposit or premium required. But a more important distinction is probably whether they use agents or rely on a branch network. While LIC and the private companies actively use agents, banks and the Post Office don't[25]. The group-wise take-up of these products by respondents is summarised in the following table.

Table 7: Group-wise take up of cash savings products & average deposits over year

	LIC		Bank Savings		Post Office		Private Companies	
	%	Rs.	%	Rs.	%	Rs.	%	Rs.
Better-Off Farmers	58	10,254	83	15,000	25	16,667	8	1700
Traders & Self-Employed	18	1930	18	2400	27	10578	5	2400
"Medium" Farmer-Labourers	19	2133	38	1100	19	2867	0	0
"Poor" Farmer-Labourers	6	5000	6	4000	13	2350	0	0

Notes:
% columns refer to percentage of group members who use the product
Rs. columns refer to average deposit made by users over the research year.

The table shows that the level of take-up among the Better-Off Farmers is significantly higher than for other groups. The level of surplus they generate insures that they can finance in-kind investments (such as farm equipment, a permanent house, livestock, higher education for their children) as well as essential lifecycle costs (marriage, funerals) and *still* have surplus available. They have reached the stage of investing in cash savings products since other investment options (which may be higher return) have already been covered. To spread risk and diversify their investments (in spite of lower returns) they move in to LIC policies and Post Office or Bank deposits.

Some of the Medium Farmer Labourers (and the poorer among the Better-Off Farmers) in principle see the value in cash-based savings products. But they are unable to spare so much surplus or keep it from these more pressing in-kind uses. During the research some were beginning to test the value:-

> ***KKP27 Harishchandra:*** *With two of his sons now earning and with the objective of becoming self-reliant, he is contemplating cash savings products for the first time. He's thinking about the Post Office and meets the Postmaster regularly. He's been approached by Appeline agents but is not quite ready to sign up, convinced that it would be a hassle to deposit and withdraw.*

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[25] Agents are appointed by the Post Office only for the sale of government bonds known as Savings Certificates.

The profile of use of cash savings (Table 7) is concentrated in the government sector (LIC, banks, Post Office). This is perhaps a reflection of the "boom and bust" era of the early 1990s when hundreds of new companies reportedly started marketing savings and investment products through agents. Within one or two years of operation, most companies fled either by fraud (whether of agents or management) or by compulsion in the face of a deteriorating business environment[26]. It is in spite of this history that some respondents are determined to save in cash and willing to do business with agents and try out new arrivals.

The research indicates that people take up new products overwhelmingly because someone they trust suggests that they do so. This may be a patron, a friend, relative or neighbour who may or may not be themselves an agent but who encourages those close to them to do as they have done. Most respondents who took up savings products through an agent knew the agent well. The narrative below was common among respondents:

> ***KKP50 Rama Shankar Singh****: He was encouraged to take the LIC policy by an agent relative based in Mirzapur. He preferred to take it from this relative because he trusts him in spite of the inconvenience of paying premiums at some distance. At the same time the close relation enables him to pay premiums late and intermittently.*

Value of services & developmental potential

For the majority of sample members, cash savings products are still seen as something for the better-off, something you do when you've already taken care of the multiple demands on cash for lifecycle, investment and general daily needs. The key question is whether or not this is necessarily the case. Are cash savings products always of little interest to the poor and if so why?

> ***KKP16 Amar Bahadur:*** *From the age of 12 he learnt to weave carpets, set up his mother in a grocery store and worked as a taxi help, then a truck driver saving the money for his marriage before returning home six years ago. Three years ago he got a regular job as a driver with the local* bidi *factory. His wages are low but he's more relaxed and can still put aside Rs.200-300 each month. Having built his family a* pukka *house he is finally able to relax and consider savings options. For the first time he feels it might be worthwhile to open a bank account. He's also been approached by several LIC agent-friends and is considering a policy.*

The above case shows the potential of cash savings products in helping to upgrade livelihoods. But such stories are uncommon. For most of the trader and farmer-labour class, the possibility of cash savings products is precluded by two prior concerns. Firstly to manage the irregularity of their income. Secondly to secure some kind of cushioning from shocks which can destabilize so dramatically. Because of irregular income poorer people find it hard to commit to a fixed payment at fixed intervals. Because of lack of cushioning from shocks they find it hard to sustain savings activity across the next shock encountered (probably within a year or two).

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[26] We are grateful to officers of CFTS (Cashpor) as well as our respondents for this insight.

An exception to this general rule was among some "scheduled" communities (ST and SC) with close links with government. Through education and contacts, such households were engineering a shift from casual labour-based chronic poverty to "service class" (be it in the informal sector). They were seeking jobs like drivers, taxi-runners, mill hands, shop assistants and assistants to government *amins*. In this trajectory cash savings products (which work best where clients are salaried or "stipended") had a key place:-

> ***KKP48 Ramsajeevan Kol & KKP57 Triloki Kol:*** *Triloki is not business-minded and has no interest in borrowing money. By contrast he's keen to save in cash but can't manage it until he has a reliable income. He takes an LIC policy but, after losing his permanent employee status, he's unable to pay beyond the first premium.*
>
> ***KKP24 Dileep Kumar Harijan:*** *Dileep is not business-minded and thinks farming's too unprofitable to invest in it beyond their small farm which provides for some of the family's grain needs. Rather, his strategy is to secure regular income and continue to invest in cash-based savings. He's an active saver with two Post Office savings accounts. He's also tried & been burned by Krishi Exports four years ago but is not too discouraged. He regularly distributes reciprocal gifts to relatives which he can call on when he needs. His next priority is to take out an LIC policy.*

Cash savings products play an important developmental role. But in an economy still based in kind and offering an array of higher return (higher risk) investments in small business, livestock and even government jobs, they are most used at a relatively late stage of household development when other options for investment have been exhausted.

For those communities who shy from risk and seek steady income through informal sector "service jobs", cash savings can provide an important accompaniment to regular wage-based livelihoods. Other poorer people are unable to take advantage of such facilities due to irregular income and poor cushioning from shocks. A key area for future product development will be insurance-linked savings which can assist in cushioning shocks while at the same time, help to build an asset base.

6. Conclusion

This report has described the financial life of residents of two villages in Koroan, Allahabad District, Uttar Pradesh. The context is an agrarian economy which, in spite of expansion in the irrigation network and other promotional policies over the last two decades, remains based on low-value grain crops of paddy and wheat. With cash-crop and off-farm opportunities limited, size of landholding is still the critical indicator of wealth and status and greatly influences access to cheap bank finance.

Our sample of residents has been discussed with respect to their wealth levels and livelihood strategy, key factors which shape and guide their financial behaviour and the range of savings and credit devices they access. We have divided our 68 respondents into four broad groups (Better-Off Farmers, Traders & Self-Employed people, Medium

Farmer-Labourers and Poor Farmer-Labourers) and explored for each group, how respondents make a living, their income flows, their financial needs and expenditure and the financial services and devices they use, when and why. We have sought explanation for the relatively limited relevance of formal and MFI service providers to the rural poor, as well as indicators of opportunities which may exist for new solutions.

The research demonstrates that the use of informal mechanisms like reciprocal gifts, interest-free lending and borrowing and taking credit in kind from shopkeepers, is widespread and does not decrease with increasing wealth. As we go up the wealth scale, respondents regularly accessed an increasing number and range of devices, including those used by poorer respondents. In Koraon, greater access to the formal sector does not preclude use of informal mechanisms.

Use of bank credit is open only to a minority whose landholdings are generally above 5-7 acres. Because of its low price, the quantities provided and increasing convenience, bank credit provides a significant advantage to those farmers to whom it is available. At the same time, Koraon's bankers are still cautious towards forms of security other than land and mortgaged movables such as tractors, thus barring access to a large section of the small business class, as well as farmers with holdings of small and marginal size.

Cashpor has succeeded where bankers have failed, in lending profitably to a large section of the landless through substituting security with peer pressure and track record. But they require minimum numbers and minimum lending demand to run a viable operation and this constrains them from reaching not only farmer-labourers whose borrowing needs are more intermittent but also the minority of "self-starter" entrepreneurs who reside in villages where there are not adequate numbers to make a viable Centre. Cashpor excludes many small and marginal farmer-labourers on the grounds that they are too wealthy but our research amply demonstrates that these Farmer-Labourers are as poor and frequently poorer than the Traders and Self-Employed group where Cashpor is concentrated. But with only intermittent borrowing needs and a high-risk and low return livelihood, small farmers are a hard market to serve (as the bankers are well aware).

The exclusion of many farmer labourers from institutional finance is a symptom of the limitations of agriculture in the region and of the concentration of government support and privilege in the hands of a minority landed elite. To become a force for change, banks will need to increase their outreach even within the agricultural sector and to develop policies and products which promote innovation and higher value cropping. These might include financing the development of market and storage infrastructure for cash crops, tie-ups with seed and buy-back companies and schemes to facilitate the purchase and lease of land.

Cashpor's contribution to the development of the off-farm sector in our study villages is limited by focus on petty trade which is absorbing purchasing power without necessarily deepening growth which would generate further purchasing power. This relatively shallow penetration of the local economy could be enhanced through a diversification of portfolio to larger clients (with higher investment capacity) and focus on the small-scale but intensive on-farm or horticultural sector which is so far neglected by the banks.

For the poorest among the Farmer-Labourers, access to any institutional finance will depend on their capacity to build up an asset base which allows them to manage shocks and contemplate higher wage (but more risky) income options. Until they have a level of "consumption security" they will be unable to contemplate borrowing other than in emergencies. Savings products which permit intermittent payment and combine the right mix of flexibility and discipline, while also offering protection from shocks through insurance links, could play a critical role in securing such consumption.

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