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THE DELUGE OF DEBT: UNDERSTANDING THE FINANCIAL NEEDS OF POOR HOUSEHOLDS

B.S. Suran
D. Narayana

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This paper was prepared as a part of the Sabbatical project on ''Cost allocation Studies'' in multi-functional NGOs inrolred in SHG-Bank programme done by the author.

The study was planned and executed with the able assistance of Prof. K.N. Nair and Prof. D. Narayana, who spared a lot of their valuable time. Their sharp observations and erudite comments has been a source by inspiration and helped completion of the study. I wish to thank Prof. S.Neelakantan for his invaluable observations and editorial assistance. However the responsibility for the contents and opinion expressed rests with the author.

ABSTRACT

This paper is about the financial lives of poor households. It examines the different sources of income and expenditure of the poor households residing in a coastal settlement in Kerala. The method of financial diary for data collection is adopted for the study. The sample size is 13. The study finds that more than 50% of the poor households in the socially excluded hamlet are not yet connected with the formal institutionalised system for their financial needs. The poor frequently borrow small amounts from money lenders, friends and relatives even though about 46% of the households had access to SHG [Self Help Groups] or bank linkages. In the sample households, the maximum amounts of over 72% of such loans were less than Rs 500. Debt or borrowed funds constituted about 47% of the resource inflow for the sampled households. The share of food in the expenditure basket of the poor was very high, regardless of the occupation and the source of livelihood of the household. The paper suggests the need for a relook at the design of financial products that banks offer to these underserved, vulnerable clients. The paper also urges more research in the area, and also a clear client consultation process before designing financial products for the poor.

Key words: Poor households, Financial inclusion, SHG, Kerala, Moneylender

JEL Classification: G2, G20, G21

1. Introduction

Financial services for poor people in developing countries are often declared to be awful or near absent. The prime issue is not really the quality of service, though the quality is recognised to be deficient; time and again it is access to financial services that is critical; be it savings, credit, remittances, insurance or investment. For many people, the chief source of credit is a pawnshop or a moneylender who may charge staggeringly high interest and may even beat them up if they fail to pay on time. For the bankers the challenges arising out of delivery of financial services to the poor are high risk and sizeable transaction costs; often compounded by the illiteracy of the clients. For them, the path of reaching the revered goal of cent percent financial inclusion is a taxing and perfidious one.

India has a long history of Government effort to ferry financial services to the poor and informal sector workers. The early beginnings can be traced back to the credit cooperatives initiated at the start of the 20th century. The intensive expansion of the commercial banking sector took place after the nationalisation of the banks in 1969 followed by setting up specialised institutions like Regional Rural banks in 1975, and the massive expansion of banking infrastructure to rural hinterlands. The 1990's witnessed the Indian banking system initiating and spreading delivery systems like the SHG-Bank Linkage programme, and different financial products like Kisan Credit Cards, no frill accounts and General Credit Cards with the intent of greater and faster financial inclusion.

These initiatives should have brought about greater inclusion of the poor. There are anecdotal evidences of the villages becoming free of moneylenders. There are also published views indicating that the interest rates in the informal financial sector have come down due to the spread of the SHG-Bank Linkage programme. Have these changes made a difference to the way the poor handle financial transactions, especially the size of borrowings, the frequency and the reasons why they are obtained. The present study attempts to understand and map the financial flows of the poor households and how they manage the little money available to them. The objectives of the study also includes understanding : How do poor labouring class households in the coastal region of Kerala cope during the difficult periods when fish trawling (major economic activity in the region) is officially banned? How do the households manage the income received? Is it easier to save larger sums for lifecycle needs and investments, while smaller ones get spent on trivial things? The present study is a modest attempt at examining the purposes for which vulnerable poor[1] households borrow; and to identify their income, borrowing and consumption patterns.

The paper is organised as follows. Section II describes some of the major initiatives for enabling greater financial inclusion. Section III discusses the existing literature on the subject. Section IV enunciates the study location, sample size and methodology used for the study. Section V, briefly presents the results from the study. Section VI provides a concluding discussion.

2. The Initiatives for Financial Inclusion

Though many governmental initiatives have been made through the Reserve Bank of India and NABARD in the past 2-3 decades for enabling greater outreach of the financial schemes to the poor, the usage of the expression "Financial inclusion" is a more recent phenomenon.

1. A household is defined as poor if it has low consumption levels, and vulnerable if it is unable to smooth consumption in the face of idiosyncratic income fluctuations.

Financial inclusion is defined as "the process of ensuring access to timely and adequate credit and financial services by vulnerable groups at an affordable cost".

As already mentioned, one of the earliest and serious efforts at enabling greater inclusion to the financial sector has been through linking informal groups of SHGs with formal banks in the organised sector. Since then, there have been numerous efforts at intensifying the spread of this infectious SHG-Bank Linkage programme across states by NABARD and its partners. The present coverage of the programme and its outreach toward the poor households has been presented in Table 1.

The status report on microFinance by NABARD states that 4.2 million SHGs maintain savings bank accounts with banks as on 31 March 2007 with an outstanding savings of Rs 35127.10 million. With an average size of 14 members in each SHG, the programme now connects with 58 million poor households across the country. As indicated in Table 1, the banks had collectively issued loans amounting to Rs 65703.90 million to 1.1 million SHGs during the year 2006-07, however, 2.9 million SHGs had loan outstanding as on 31 March 2007. Thus, a brief computation of credit provided to SHGs suggests that the programme (credit linkages) now touches the lives of almost 40.6 million households across the country. Kerala state has seen a massive expansion of the SHG-Bank Linkage programme under the stewardship of the Government initiative called Kudumbhashree which now provides credit to about 17.7 million households in the state[2]. These figures suggest a very impressive coverage of the poor households under the microFinance programme.

Besides the SHG and microFinance related initiatives, efforts have been made by the Reserve Bank of India through its recent policy

2. Presuming the average size of the SHG/NHG of kudumbhashree to be of 14 members and the programme covering one woman per family.

(Amount Rs in million)

Table 1: Spread of the SHG-Bank Linkage Programme

Year	SHGs Credit Linked- during the year- All India *		*Priority sector* / Agri loans outstanding	SHG as % of Agri advances	SHGs Credit Linked- Kerala State		% share #
	No	Amount	Amount		No	Amount	
2004-05	797457* 2	29942.50	*3749530* 1242690	2.4 %	30662*	1266.40	3.8 %
2005-06	964611*	44990.80	*5101750* 1738750	2.6 %	34957*	2325.90	3.6%
2006-07	1105749*	65703.90	*6326470* 2301800	2.8%	117964**	6293.30**	

Source : RBI and NABARD-HO, Mumbai

Note: * Figures of SHGs provided bank loans (includes fresh and repeat loans) during the year.

** July 2008 cumulative data pertains to kudumbhashree groups only, promoted by state government, sourced from www.Kudumbhashree.org

\# share of the state of the linkage programme (no. of SHGs credit linked) .

proposals to ensure greater financial inclusion by banks. This *inter alia* comprised opening numerous "no frills accounts" i.e., savings accounts without any prescribed minimum balances and conditionalities (Table 2), or offering multi-purpose General Credit Cards (GCC) to poor with the objective to provide hassle-free credit based on the assessment of cash flow and without insistence on security, specified purpose or any end-use stipulations. Further, to enhance the physical outreach of the formal banking system and to enable inclusion, banks have been permitted to use the services of Non-Governmental Organisations / Self Help Groups (NGOs/ SHGs), Micro Finance Institutions (MFIs) and other bodies to serve as intermediaries in providing financial and banking services through the use of Business Facilitator and Correspondent models.

Table 2 : Number of No-Frills Accounts opened by Banks in India

Category of banks	Year ended 2006	2007	2008	% growth over previous year
Public Sector Banks	332,878	5,865,419	13,925,674	137 %
Private Sector Banks	156,388	856,495	1,879,073	119 %
Foreign banks	231	2,753	33,115	1202 %
Total	489,497	6,724,667	15,837,862	135 %

Source: Annual Report of the Reserve Bank of India, 2007-08.

The banks have been recording very impressive growth in opening " no frills accounts" in response to the call made by the Reserve Bank of India. Cumulatively, the banks have opened more than 15.83 million accounts as on 31 March 2008 (Table 2). The Public Sector Banks have taken a major share of this onerous task.

Another product designed by NABARD that has made sizeable penetration among the households is Kisan Credit Card (KCC); though not specifically focused at poor. It is yet another innovative tool targeted at agrarian communities to improve farmer's accessibility to bank credit, using simpler credit delivery procedures and providing more flexibility in use of credit. The scheme has been in operation since 1998 in all the States across the country. The latest figures compiled by NABARD (August 2008) indicates that the banks have cumulatively issued 76 million KCCs throughout the country with cumulative sanctions amounting to Rs. 2843120 million (Table 3).

Table 3: Cumulative Number of Kisan Credit Cards issued to Farm Families by Banks

Region	Year	No. of KCCs issued	Amount sanctioned (Rs in million)
Kerala	2006-07	3,17,523	11037.80
All India	2006-07	74,70,240	402995.80
Kerala	Cumulative (Aug 08)	28,21,076	79767.90
All India	-do-	757,10,155	2843119.60

Source: RBI, Annual Report 2007-08 & NABARD, 2008

These achievements were made possible by the vigorous efforts of the banks, at the behest of the Government, to ensure that all farmers are issued a KCC. The figures reported are cumulative; however, it is possible that live operating KCC accounts could be considerably lower. Nevertheless, it is an impressive achievement suggesting a near carpet coverage of the entire farming community of the country.

The only comparable data measuring the extent of outreach of the banking system is that of NSSO, 2003, which suggests a different picture - i.e., 51.4 per cent out of the total 89.3 million farm households do not access credit, either from institutional or non-institutional sources (NSSO, 2003). Further, NSSO, 2003 indicates that apart from the fact that exclusion in general is large, it also varied widely across regions, social groups and asset holdings. The survey also clearly revealed that poorer the group, the greater was the exclusion. Similarly, as of 2003, the proportion of rural households availing banking (deposit) services was 30.1 per cent, while the corresponding figure for urban households was 49.5 per cent. The extent of exclusion was higher for specific population groups and regions. However, it is possible that major achievements in issuing KCC could have occurred in the three years from 2004, as the Government of India has been strongly exhorting the need for doubling agriculture credit in the period spanning 2004-2007. The varying estimates of the level of exclusion have also been noted by the recent Report of the Committee on Financial Inclusion (2008).

The findings of NSSO, 2006 survey clearly indicated that the poor in the state of Kerala had a high incidence of indebtedness in the rural areas at 39% as against the National average of 27% in 2002. Similarly the average amount of cash borrowings per household was much higher in the state (Rs11,066) than the national average (Rs 3,726). As regards farmer households in 2003, 82.3% of their outstanding loans were taken from formal agencies, which was considerably higher than the national average of 57.7%.[3] A noteworthy feature about the farmers in Kerala was their lower dependence on the money lender as their source of borrowing, which was only 7.4% as against the national average of 25.7% (NSSO, 2006a).

Another measure for enabling inclusiveness for these constrained rural communities and households is the National Rural Employment Guarantee Scheme of 2005 (NREGS). Unlike the earlier schemes of the

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3. Kerala has a very large network of financial institutions catering to the credit needs of the agricultural sector. In the formal sector, there are around 6,153 branches of various institutions like banks, cooperative institutions providing agricultural credit. Total loans issued to agriculture and allied sectors in the state by all institutions recorded an average annual growth of 16.7% during 2000-01 and 2004-05, which was much higher than the growth of NSDP from agriculture (at current prices) during the above period of 3.5 %.

Government of providing capital subsidies for setting up enterprises, this programme focuses on guaranteeing wage employment for the rural unemployed. The scheme aims at enhancing the livelihood security of the people by guaranteeing hundred days of wage employment for a person in each household in a financial year. The details of the enrollment under the scheme and the amount expended during 2006-7 are tabulated below:

	House holds demanding employment	House holds provided employment	Person days employment (lakh days)	Amount expended (Rs. in million.)
Kerala	104927	99107	20.48	278.90
All India	21188894	21016099	9050.56	88233.60

Source: NREGS Report - 2006-07

Though the scheme is not intended to be a part of financial inclusion, the Committee on Financial Inclusion (2008) has noted that in certain states such as Andhra Pradesh, all wage payments under NREGS are made through bank accounts allowing withdrawals using biometric cards, and also has endorsed this innovative approach. As of now, the scheme entails routing all the wage payments through formal institutionalized system to plug likely leakages in wage payment. The programme is now being implemented in stages and presently covers 330 districts only. Thus, the programme is expected to necessitate a greater degree of inclusion of the wage employed poor with the formal financial system. Though the scale of this inclusion is expected to be very limited and scant, still it could pave way for the bankers to look at designing possible financial products for this segment in future.

Despite an array of initiatives by the Government and the range of financial products in the bank's shelf, many poor continue to be excluded by banks. This is particularly paradoxical for a state like Kerala which has a highly literate population, an intensively banked rural neighbourhood with limited geographically secluded areas, as also a good lateral spread of SHG programme in the state. These persisting complexities bring greater interest to the subject of financial inclusion in a state that houses largely urbane population. But, the present research work attempts not to seek answers to these issues, but to see from where poor households access their financial needs and where they get them fulfilled.

3. Strapped Financial Services for the Poor and Underprivileged

No coverage of literature about the "poor and their money" can go without the mention of the moneylender. There is no doubt that the moneylender provides easy access to credit, but many argue that the image of the moneylender is unnecessarily tarnished in the literature (Sharma and Chamala, 2003). Part of the reason for their poor image is that they charge exorbitant interest rates varying between 100% and 500% per annum (CGAP, 2002). A group of researchers also argue that the risk taken by the moneylender is less because he does not suffer from the asymmetric information problems to the extent suffered by formal institutions (Arvind, 2007), as he is often living in the same village or in the same locality as the borrower and, on many occasions, has clear sight of the credit history of the borrower.

Poor people want to save and can save. If they do not save, it is very often because of lack of opportunity rather than lack of capacity. There are many occasions in the lives of the poor when they need sums of cash greater than what they could borrow and the only reliable way of getting hold of such sums is by finding some way to build them from their own savings. The poor know how to save and manage their cash flows (Rutherford 2002). The real challenge for the poor is finding ways to meet money required in lump sums. So they need financial services to facilitate them to save rather than just to provide credit. Hence, issues pertaining to savings and credit for the poor needs to be viewed together, perhaps suggesting a lesson or two to people who plan and design microFinance products for the poor. Studies have also documented that the loan products available in the formal sector do not address the needs of the poor. Therefore, there is still a big gap between the needs of the poor and the offerings made to them (Fisher and Sriram, 2002). In a review of the literature on delivery of financial services by MFIs, Sriram and Smita, (2006) suggest that the microFinance delivery approach in India is mainly twofold or rather pigeonholed into the 'grameen' type with little flexibility and the self-help group (SHG) type with more flexibility.

Another interesting piece of research is the analysis of a moneylender's diary (Reddy, 2007) that throws up important clues about the pattern of informal borrowings by excluded populations from organised money market in rural villages. The study, which analyses the data over two decades, concludes that about 76 per cent of borrowings were within Rs 300 per person and nearly a third of the total borrowings were within Rs 50. The study also concludes that the highest percentage of the borrowing in kind was in the form of seeds and materials to carry out other activities connected with agriculture, suggesting the importance of the role of the moneylender in meeting the production needs of the rural borrowers.

The frequently used sources of borrowing for the poor were not moneylenders and pawnbrokers, but familial and reciprocal contacts such as friends, relatives and shopkeepers, who provided small sums as interest-free or concessional rate loans (Ruthven and Kumar, 2002). Thus, studies highlight the limitations of the financial services provided by the formal institutions, be it the banks or the microFinance institutions. They also bring to light the diversity of needs of financial services and the large number of different sources that the poor access or employ to meet their financial needs.

Although research has focused on how the poor access the informal systems and the limitations associated with it, we know little about how poor people use and manage their money. The concept of financial diaries, a data collection method initially conceived by Hulme and Rutherford, has been a noteworthy attempt in this context. The concept involves tracking household cash flows over long periods of time. It captures two key elements that are generally not observed in one-time household surveys viz., 1) The complexity of a household's financial transactions, and 2) the success or failure of financial management, i.e., assessed by observing a build-up of savings or how quickly a loan is paid off over time. A study of 250 households in Bangladesh, India and South Africa testifies that the poor use, on an average, ten different types of financial instruments (Collins, 2005). A similar study by the same author in South Africa reports that poor saved an astonishing 21% of their income every month. However, these savings rarely get accumulated over several months due to unexpected emergencies or opportunities for spending, thus leaving poor households with little savings to use for an intended purpose. The study also reported that households accumulated savings month by month and by the end of ten months, the median household had 14% more in net financial assets than what they started with. Funerals provided frequent unexpected financial shocks in South Africa often costing up to 7 months of income. Most of the households are also not prepared for long-term goals like retirement. Only 15% of single adults and 18% of married couples in the Financial Diaries samples would have saved to cover more than 5 years of retirement support by the time they retired. Another composite household portfolio study by the same author reported that poor households used, on an average, 17 different financial instruments, which included four savings instruments, two insurance instruments and 11 credit instruments.

Of these financial instruments, 30% were from formal and 70% were from informal sources. Ruthven (2002) used the same financial diary methodology in India and her results echoed much of what was found in earlier studies of Rutherford. The results confirmed that lifecycle purposes (births, marriages, deaths) were the primary motivation for raising and spending lump sums of money. However, health spending was also disproportionately high for poorer households and a key reason for saving or borrowing large sums of money. House construction was another extremely important reason. The results also confirmed that the most widely and frequently used financial devices were family and reciprocal contacts. Leaning on friends and neighbours was a regular strategy to cover deficits and to bridge cash flow.

Given this background of work in the financial lives of the poor, the present study attempts to appreciate how the poor laboring class households in the coastal region of Kerala cope during the difficult periods when fish trawling (major economic activity in the region) is officially banned. And the study also tries to understand how the income streams and their spending / saving / investment patterns change with different livelihood sources of incomes.

4. Study Location and Sample

The geographical setting for the present field study is a small, socially excluded hamlet of 40 odd households in Puthenthara ward of Neendakara Village in the coastal District of Kollam in Kerala State. The village is located 12 Kms away from District Headquarters and is classified as a rural area, though the place has every semblance of an urban slum - inadequate sanitation facilities, leaky pipes, garbage dumps and marshy water logged surroundings. All the surveyed households had obtained support or governmental subsidy for construction of houses, though many continue to live under thatched (Kutcha) roofs. Similarly, most of the pieces of land for house construction were small measuring 3-5 cents (0.03-.05 acre) either allotted by the government or partly purchased. Most of the households also had access to some form of governmental support like monthly rations - food grains, kerosene (used as fuel), old age pension or fishermen's subsidy /pension during lean seasons.

Though the fieldwork was initiated to cover a sample size of 15 households, it could be completed only in 13 households. The first part of the study attempted to gain an understanding of the economic and social background of the randomly chosen households and their willingness to participate in the daily survey. However, two households refused to co-operate or share information on a continuing basis and were willing to co-operate, if government subsidy or payments were guaranteed to them. A profile of the respondent families is given in the Annexure.   Data was very difficult to come by on a daily basis along these lines. The participant households had at least one earning member.[4] Most of these households made regular visits to the Panchayat office, had regular contacts with it and had reasonable understanding of the various schemes and programmes being implemented through the local self government.

A focus group discussion was held with 7 members (5 women & 2 men) of the community to identify the likely categories of income and expenditure that a typical household would incur. The present study attempted to capture financial inflows and outflows of poor households by recording data on their income sources, consumption, savings and investment patterns and the like on a daily basis. This was accomplished by compiling a record of daily household transactions by regular interviews with the selected households over a period of 50 days during this period.

The time period chosen for the study was one of the most difficult, as the major economic activity i.e., mechanized fishing, came to a virtual standstill in the region with the onset of monsoons. The geographical proximity of the location to the fishing port and urban area had advantages for the labouring poor, as they had easier two way access to

4. All the households selected were stated to be casual labourers, with no regular paid jobs, the occupation quoted by them varied viz., site workers, labourers, blacksmiths, washer women, fish peeling worker, part-time tailor etc

wage employment, be it in the fisheries sector like peeling, boat cleaning, ice breaking or in homestead farms, construction sites or the government run National Rural Employment Guarantee Scheme (NREGS).

5. Results

As already mentioned, financial inclusion is the process of ensuring delivery of financial services to vulnerable groups which is timely, adequate and at an affordable cost. The exercise of inclusion is a great challenge even when one assumes that it aims at the minimal first part of reaching out to the unbanked. However, Kerala state has a palpable record. The extant literature of Reserve Bank of India indicates that Kerala has one of the largest percentages of population with bank accounts (89%) as against the National average of 59%. Though the present study was not intended to assess the level of financial inclusion or its affordability for the poor, a mention of the limited connect of the sampled households with formal institutions, had been included in the results of the study.

5.1. Financial Exclusion, Frequent Borrowings and Debt Burden

Although the sample size of the present study was small to evaluate the outreach programmes of the banks, it appears that this hamlet was outside the business and commercial considerations of nearby bankers. Out of the thirteen families, only four households (31 % of the sample) had membership in any SHG and six households (46 % of the sample) had some access to bank facilities. Multiple memberships in SHGs were a common feature as stated by members of households. Out of the 4 households having membership in SHGs, 2 households had joined more than one SHG. This was because those members felt that they had some leisure to attend meetings, or avenues to save or even felt that they could derive some additional benefits. One of them had subsequently left the SHG due to internal group conflicts. One of the women members working as a part-time maid had opened a savings account at the instance of the landlady in the local post office, which had become inactive now.

The balances maintained in these savings accounts were often the barest minimum statutorily required to be maintained and the members had a tendency to withdraw all amounts exceeding that. In the short period spanning about 50 days, the 13 sample households did borrow from moneylenders on 49 occasions.

All the households covered had accessed money from moneylenders or relatives during the short period covered by the study. Most of the loans availed from moneylenders ranged between Rs 100-500, with an average of Rs 226 only.

A few of the reasons for such frequent and petty borrowings were easy availability of loans at the doorstep and a great appetite/high demand during the relatively harsh economic phase, when the options for wage income marginally slows down. In the present study, about 72 % of the borrowings involved sums below Rs 500/-. Thus the study also corroborates the findings of Reddy (2007) that about 76 per cent of borrowings of the poor are for small sums, in that study within Rs 300.

From the supply side perspective, the present day moneylender is relatively a lesser-known person for these communities than in the past. He does not reside in the locality. He makes regular visits to homes seeking the requirement of funds on a regular basis at convenient time i.e., late evenings. The timing and allurement is unavoidable for all prospective borrowers & possible loan takers. Further, as the amounts demanded (and given out) are small, the money very quickly gets exchanged between the hands of moneylenders and borrowers.

This puts questions on the traditional assumption that the moneylender has a clear knowledge of the borrower's credit history because he is from the same village or locality. Additionally, in the present study area, the moneylender is not the exclusive source of credit, but the easiest. The study also does not confirm the earlier observation of Ruthven & Kumar (2002) that the most frequently used borrowing

Table 4: Frequency and Source of Credit

Family	Source of Debt & number of times availed				
	SHG	Bank	Friends /Relatives	Money lender	Total
1	2	2	1	6	11
2	-	-	-	4	4
3	-	1	1	7	9
4	-	1	-	5	6
5	-	1	-	1	2
6	-	1	1	3	5
7	-	-	-	2	2
8	-	-	-	2	2
9	-	-	1	4	5
10	-	-	-	3	3
11	-	-	-	3	3
12	-	-	-	5	5
13	-	-	-	4	4
Total	**2**	**6**	**4**	**49**	**61**

Table 5: Frequency and Quantum of Borrowings of Households by Source

(Amount in Rs)

Amount	No. of times	No. of households	Total Amount by source		Average	
			Money lender	Relatives & friends	Per loan	Per House-hold
<100	11	6	380 (10)	50 (01)	39.1	71.7
100 to 500	27	13	6100 (27)		225.9	469.2
>500 - 1000	7	7	7000 (07)		1000.0	1000.0
>1000 - 2000	5	3	6000 (03)	4000 (02)	2000.0	3333.3
>2000 - 5000	2	11	5000 (01)	5000 (01)	5000.0	10000.0
> 5000	1	1	10000(01)		10000.0	10000.0
All	53	13				

- Figures in parenthesis indicates frequency sources for the poor were friends, relatives and shopkeepers, who provided small and frequent loans, interest-free or at concessional rate. However, as highlighted in the literature, there are clear limitations in the existing product range of credit for the poor provided by the formal institutions. On the contrary the achievements reported about the stellar increases and growth rates of financial inclusion or lateral expansion of the SHG programme are far from true. About 54% of the sample households continue to be excluded by the formal system. Thus, even in places like Kerala, with its high incidence of literacy and awareness, carpet coverage of communities by the formal institutions or a cent percent financial inclusion initiative through government support still remains a far cry.

An assessment of the various sources of cash inflow for the sample households revealed that wages (employment) formed the major source of income for the poor. It formed 49% of the cash inflow for the sample households (Table 6). This was followed by borrowings, which constituted about 47% of the resource inflows for the sample households.

The borrowings inter alia were from formal and informal sources. Borrowings from informal sources like moneylender/ landlord (22%) as also from friends and relatives (5.9%) which together formed 28% of the cash inflows during this period. Borrowings from informal sources were a pervasive phenomenon and all the households studied had reported at least one borrowing episode from this source during this lean period. The borrowings from informal sources ranged from Rs 25 to Rs 10,000. These borrowings were normally smaller in size, with one exception of Rs 10,000 taken for house construction. Borrowings from formal sources like Bank or SHG, though smaller in frequency, was larger in amount. Thus, despite about 50% of sample households having connections with banks/linkages with SHGs, there is clear predominance of debt especially from informal sources in the financial lives of the poor.

As expected the share of food in the expenditure basket of the households was very high, irrespective of the occupation and the source

Table 6: Sources of Cash Inflow for the Sample Households (Amount in Rs)

Inflow category	Frequency	Total	% share	Average Amount	Per Household	
					Max	Min
Loan from SHG	2	4320	2.73	2160	3120	0 (1200)
Loan from Bank	6	29500	18.61	4917	8000	0 (1000)
Friends / relatives	4	9050	5.90	2260	5000	0 (50)
Money lender / Land lord	49	35280	22.26	720	10000	30
Pay/wage	588	77805	49.08	132	600	40
Agri income	3	330	0.21	110	205	0 (60)
Saving /other receipts	11	828	0.52	76	525	0 (25)
Others-pension	12	1100	0.69	92	450	0 (50)
			100.00			

Note: figures in parenthesis indicates the smallest denomination of inflow if present in a sample household, while there were few families without the said source of cash inflow, which is indicated as zero.

Table 7: Expenditure and Cash Outflows for the Sample Households Studied (Amount in Rs)

Expenditure Heads	Total	% share	Average /HH	Range	
				Maximum	Minimum
Daily needs / Consumables					
Food	43771	28.38	3367.0	6070	1921
Clothes	5295	3.43	407.3	1500	0
Cosmetics	3555	2.30	273.5	430	93
Kerosene-Fuel	6465	4.19	497.3	778	299
Transportation	8923	5.78	686.4	1530	276
Bills / Rent	2170	1.41	166.9	1000	0
Medical Expenses					
Health	6870	4.45	528.5	1330	110
Investment, Savings & Assets					
Assets & income GA	16240	10.53	1249.2	13000	0
Consumer durable	7265	4.71	558.8	2020	0
Education	3550	2.30	273.1	802	0
Chitty	3580	2.32	275.4	600	0
Debt servicing					
Repayments	14692	9.52	1130.2	2650	280
Other Social Expenses					
Social function	24110	15.63	1854.6	5270	400
Others payments /Entertainment etc	7350	4.76	565.4	1240	280
Festivals /wedding		0.00	0.0	0	0
Total		**99.71**	**11830.6**		

of livelihood activity that the household pursued. It ranged between Rs. 1921 to Rs. 6070 per household for a period spanning 50 days (Table 7). The per capita expenditure for food ranged between Rs. 384 to Rs. 1214 for the said period; thus forming 28% of the expenditure for the average household. Though, most of the households' surveyed made purchases of groceries in cash, the local shopkeeper did provide grocery items also on credit. It's therefore likely that the expenditure for food could be underreported in few households and the payments could have been made at a later date after the study period.

The other major items of expenditure incurred were for attending or hosting social functions. This formed 15.63 % of the family budget and ranged between Rs. 400 to Rs. 5270 per household during the 50 day period. Repayments of borrowings formed 10% of the total expenditure for sample households during the study period. Though, expenditure for acquiring income generating assets such as houses showed a high average of about 11%, this was mainly because one of the sample households was undertaking a house construction work incurring substantial expenses. Apart from that one instance, very few families had acquired any assets/ consumer durable during this period. This was evident from the fact that the expenditure incurred for acquiring an asset (including house construction) ranged from Rs. 13,000 for a household to NIL in many other sample households studied. Expenditure for heath and treatment of ailments was rather low and formed about 4.5% of the total family budget during this period.

The study revealed that deferring consumption or setting aside surpluses was an available option for these vulnerable households. All the households studied had incurred expenditure on seven different expenditure heads viz., food, social functions, fuel, repayments of loan/ debt, transportation, health and cosmetics. However, the two most recurrent expenditure needs were food and fuel. Though the poor households studied were aware of the likely risks of existence and the future life cycle needs, they did not have any mechanisms or plans in place to cope with such unexpected eventualities. Thus, this segment of the labouring poor was living a virtual hand to mouth existence.

The study attempted to look at fungibility[5] issues often enunciated in microFinance, especially with respect to larger loans availed and used. Another aspect looked at was the time interval between availing the fund and its usage. The earlier studies on fungibility by Von Pishke & Adams (1980) point out how the interchangeability and fungibility of credit use affect product designs and project evaluations. Their paper also suggest three forms of fungibility viz., additionality (like expenditure rising to match credit available); substitution, (switching money into different inputs or products from those first anticipated) and diversion, (where funds are completely redirected from the purpose for which they were intended to some other purpose). In the present study, there was only one case of loan availment during this 50 day (study) period by an SHG member from the group. The loan from SHG (Kudumbhashree) was available for income generating activity and the SHG seemed to prioritize member requests for an education loan, health related issues etc. Therefore, the loan was availed quoting such purposes, though it was used for purchase of consumer durable in the house.

Similarly, most of the bank loans[6] (as detailed in Table 8) availed by the households were purported to be for production or other related issues while it appeared to have been used for purposes like attending social functions or hosting social events. In the instant study, as most of the loans availed were not for a specified credit purpose (excepting the housing loan). Thus, it allowed some degree of interchangeability and accommodation to the client. Thus in microFinance, some degree of acceptable levels of interchangeability, based on client priorities and

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5. Relates to usage of funds for equivalent purposes or uses which are interchangeable. Further, it is believed that the cash flows to a household's kitty flow from various sources and therefore, cannot be strictly attributed to be used for a specific purpose especially when the amount in question is small in size. There is a great degree of fungibility of fund use.

6. Loan amounts more than Rs. 2000/-

Table: 8. Fungibility, Time Gaps between Borrowings and Loan Use

Source of loan	Amount		Loan usage	
		no. of days- after availment	Amount	Purpose
SHG	3,000	2 days	2,000	Consumer durable-TV
Bank	2,000	3 days	1,800	Social function
Money lender	2,000	Same day	2,000	Social function & cloths
Bank	5,000	2 days	3,500	-do-
Bank	2,200	> 10 days		Not used
Bank	2,000	3-7 days		Diffused usage, including repayment
Money lender	10,000	5 -7 days	10,000	House construction
Friends	5,000	5-7 days	5,000	House construction
Money lender	5,000	2 days	2,000	Social function & others like repayment of loan
Money lender	2,000	3-4 days	1,500	-do-
Friends	2,000	3 days	1,000	Social function
Bank	3,000	2 days	2,000	TV
Bank	5,000	2 days	3,600	Social function, feast, dress etc

needs in the end use, is witnessed whereas all smaller loan amounts are used exclusively for consumption. One notable exception is the comparatively bigger loan availed for housing purposes, which was used for the intended purpose.

Fungibility of credit use in microFinance has now been accepted and acknowledged. Clients use the funds borrowed for an activity for other household expenses (Legerwood, 1998). Accordingly, it has become usual for some authors to state that the purpose is not as important as the borrower's capacity to repay. Another aspect is that most of the loans availed are used up by households within a 2-4 days span or within a maximum of one week's time, as evident from Table 8.

Conclusions

The existing array of financial services of the banks or the delivery initiatives including SHG has not made complete penetration into rural hinterlands. Many households continue to access the services of the informal institutions and sources. The microFinance products of the banks like SHGs, no frills account and General Credit Cards, which were designed to match the needs and requirements of the poor; allowing greater frequency of borrowing and repayments have not touched the lives of many secluded communities. Though, a few have joined the SHG mechanism or availed loan facilities, their dependence on moneylenders is high. This clearly suggests the weakness in the design features of the SHG product, as only one loan can be availed at a time from them. SHGs should be permitted to use flexible systems like cash credits. They must introduce multiple need based credit, based on projected savings potential of SHG. No household studied had accessed the supple, multipurpose loan product called GCC, or a no frills savings account. This indicates that some financial products of the banking sector have continued to remain in their showcases without any practical application.

The poor use an assortment of predominantly credit oriented financial products from the formal and informal sector. The low quantum and high frequency of borrowings are perhaps unique to this segment of the population studied suggesting that we need is not really microFinance…but something even smaller, nanoFinance say loans in the range of Rs 2000-5000 to predominantly meet consumption and in certain cases working capital needs . However, administration and delivery of such nanoFinance would remain a challenge for the formal banking sector. The GCC which is a multipurpose credit card issued by banks needs to be scaled down to enable more frequent hassle-free transactions by the cardholders. However, the banking sector would continue to have its aversion of financing consumption needs of the poor as it is still pre-occupied with thoughts of financing only income generating activities.[7] Perhaps distribution of nanoFinance or nano credit card (NCC) or a scaled down version of GCC would continue to be a high cost transaction for the formal system. Then its cost could be brought down by integrating technology like in a Smart-Biometric card, which would enable the poor to access credit from cash dispensers or low cost ATMs.

Another option would be to provide the poor with pre-charged cards with an upper limit to the total amount that could be drawn which would enable them to draw up to the limit at their will. Such predominately consumption based credit card could be the first step for the banker to build relationship with the unbanked poor client. It is important for institutional lenders to recall that poor are generally honest and repay their debts to money lenders promptly. The same could be expected to happen to them if relationship is build and grants of loans are not influenced by unprincipled norms and delays.

There is a need for more research into the financial lives of the vulnerable poor to appreciate the reasons for their continued link with

7. For formal institutions like banks financing income generating activities would give an implicit indemnity that the principal and interest could be returned. But financing consumption would not give any such assurance to the lender. This perhaps suggests the rational for the organised institutions like banks to be preoccupied with financing income generating activities.

moneylenders. This could perhaps help recommend what features need to be integrated into the existing financial products being offered to these segments by banks. But, any attempt at redesigning and reshaping the existing products should be done in consultation with the potential clients. While simplicity, convenience and low transaction cost for the provider and client is a concern, it may perhaps be worthwhile even looking at a single product for savings cum credit for such segments.[8]

B.S. Suran *worked as a Research Affiliate at the Centre for Development Studies Thiruvananthapuram from February 2008 to January 2009. He is currently serving as Deputy General Manager, NABARD at Ahmedabad. His areas of interest are rural finance, micro finance and rural development projects.*

e-mail: suranbs@gmail.com

D. Narayana *is Professor at the Centre for Development Studies, Thiruvananthapuram. His research interests include Decentralisation, Marginalised social groups, Population and Health.*

e-mail: narayana@cds.ac.in

8. Where interest is charged by banks on the debit balances as loans and interest is paid to the client on the credit balances as surpluses / savings in the account.

ANNEXURE

A Brief Profile of the Households Surveyed

	Particulars	Families / households												
		1	2	3	4	5	6	7	8	9	10	11	12	13
1	Occupation	C+HM	C+ st	FC	FC	C	C+ WM	C	P	BS	C	F	W	F
2	Size of HH (no)	7	5	4	4	4	6	4	4	3	4	7	6	4
3	SHG membership	K & SS (-)	K	N	N	N	K & J	N	N	N	K	N	N	N
4	Bank Account	Y	Y	Y	N	N	Y	N	Y	N	Y	N	N	N
5	House	P	Ku	Ku	Ku	Ku	P	P	Ku	Ku	P	P	P	P
6	BPL families	Y				Y	Y						Y	Y
7	SC /ST	Y		Y			Y						Y	Y
8	Regular Income	Y		Y			Y		Y				Y	Y
9	Ill persons in HH	Y												Y#
10	Women Headed Families	Y							Y					

	Particulars	Families / households												
		1	2	3	4	5	6	7	8	9	10	11	12	13
11	Poultry Birds (no)	5	2			6	1	5	2		3	6		
12	Goat (no)						1+1							
13	Children in Marriageable age	Y			Y		Y							
14	TV ownership	Y		Y			Y	Y	Y		Y	Y		Y
15	Fridge ownership								Y					
16	Chitty*	Y												

All the families/ households identified had per capita incomes level less than a $ / day

- C= Casual labourer, HM=housemaid part time, st= stitching, FC= labourer in fisheries sector, WM=watchman, P= fish peeling, W=Washer man/women, F= fisherman, BS=Blacksmith.
- K= Kudumbhashree, SS= Streeshakthi (-) left, N= NO, J=Janashree / Gurushree, Ku= Kutcha, P =Pucca,
- Rest of the cases Y = Yes , N = No

* Many join chitty or chit funds like athha chitty are run and managed by local residents or nearby residents, but many have stayed away at present, fearing potential loss based on past experiences

Y # = Mentally challenged

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