Financial Transactions of Self Help Group Member Households - What savings products suit them?

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Abstract

The present enquiry is aimed at developing appropriate savings and loan products for the benefit of self help group (SHG) members based on household cash flows and savings behaviour. The research questions that the present study mainly addresses are: i) Is there any significant seasonal variation in the monthly households income and expenditure? ii) What is the saving behaviour of SHG member household? and what are the problems in promoting savings? iii) How do the households mobilize funds and/or credit in addressing household credit needs? iv) How do the households prioritize social & life-cycle credit needs, mobilize funds, and repay loans? What kind of savings and loan products are suitable to the SHG member households in light of their financial status?

The study was carried out in Kaler block of Arwal district and block of Saran district of Bihar covering a total of 90 households (45 households from each block) that have membership in SHGs. The study found that the SHG member households are largely dependent on labour and agriculture. There are wide seasonal variations in the annual income and expenditure of households. Many households have small amount of savings with two-three agencies. The informal credit agencies still have their monopoly in the rural credit market. The magnitude of household credit is high among higher social categories. The large number of households have given top priority to marriage, health and educational credit needs; and depended on, and indebted to informal credit sources. A lion share of credit is borrowed for social & life-cycle needs. There are many repercussions on the household income, expenditure, savings and borrowings as most of the households repaid loans from household income, cumulative savings, sale/mortgage of assets and borrowed new loans. The households need awareness on various financial institutions, financial literacy, promotion of voluntary savings for social & life-cycle needs and liberal credit under SHG bank linkage programme.

Key words: Self Help Groups, Savings, borrowings, life-cycle ceremonies, microfinance, informal and formal credit sources, financial literacy, SHG bank linkage.

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1 Introduction

1.1 *Context of the study:* In India very few self help group (SHG) federations offering various savings products to their member SHGs or to the SHG members directly. There is a felt-need for savings products to meet the needs and aspirations of SHG members. Absence of opportunities to deposit withdrawable savings invariably leads to indebtedness: at every emergency a certain accumulated amount of resources are required by the poor households. Not having multiple savings products at the level of SHG and SHG federations undermines the self-financing capacity of the poor and greatly reduces their ability to establish or expand micro enterprises and other income-generating activities.

1.2 *Objectives and methodology of the study:* The broad objective of the present enquiry is to understand the financial transactions (earnings, savings and borrowings) and the appropriate financial products needed by the rural households. The specific objectives of the study are:

i) to know the income and expenditure of the rural households;
ii) to know the savings behaviour of rural households;
iii) to know the debt status of the households;
iv) to know the issues in promoting savings and mobilizing credit;
v) to understand the coping strategies and issues of the rural households in addressing social and lifecycle credit needs; and
vi) to develop savings products suitable rural poor SHG member households.

The study covered 90 SHG member households from Arwal and Saran districts of Bihar (45 in Kaler block of Arwar district and another 45 from Digwara block in Saran district). The blocks were purposively selected where APMAS is working. Based on the location (block headquarter, major Panchayat and interior) and presence of various service providers (SHGs, village level federations, banks, insurance, microfinance institutions, chits, other formal and informal financial institutions), three villages were selected in each block. While selecting households in the selected village, the study team has kept in mind the social categories, membership in SHG and location of the household within the village.

Both qualitative and quantitative data were gathered from SHG member households. An interview schedule was prepared and administered to collect data on household's earnings, savings, borrowings, social and lifecycle needs, opinion of households on financial services from formal and informal sources. PRA exercises were conducted with the villagers to understand the monthly cash flows of households. Fieldwork was carried out during Nov-Dec 2012. The filled in schedules were edited, and the data was entered into the computer for further analysis.

The findings of the study are broadly presented under six headings namely i) socio-economic conditions of SHG members and their households, ii) financial status of the households – income expenditure and surplus/deficit, month-wise cash-flows of households, iii) household savings and opinion of households on the savings service providers, iv) household borrowings, v) ranking of social and life-cycle needs and coping strategies, vi) savings and other financial products needed by SHG members.

2 Socio-economic conditions of SHG members and households

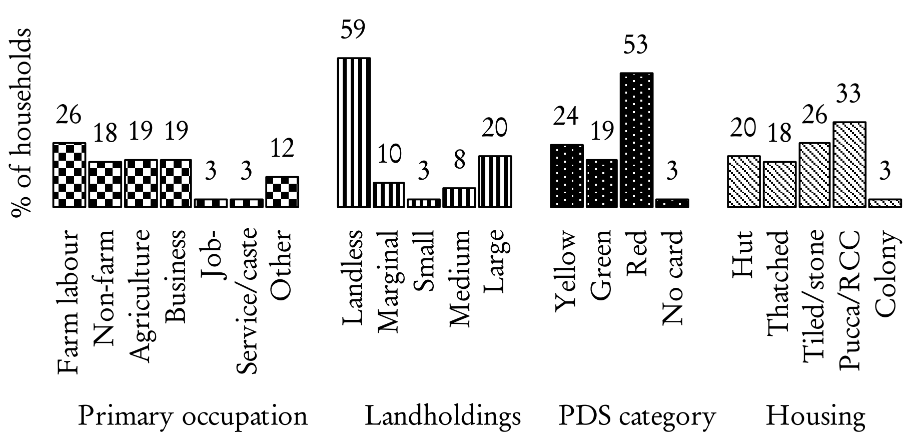
2.1 *Social profile of respondents:* The data in table-1 shows that majority of the respondents are middle aged between 20 and 40 years old (66%) followed by between 41-60 years (34%). Most of the respondents are married (92%); however, there are 6% of the respondents are widowed and are vulnerable. A little more than one half of the respondents are illiterate and the remaining are literate; of the literates, majority of the respondents studied between 6th and 10th standard (26%) followed by primary schooling (23%). Of the total 90 households, 54% are Backward Classes (BCs), 21% are Scheduled Castes (SCs), 11% are minorities, and the remaining are Scheduled Tribes (STs) (6.7%) and Open Categories (OCs) (6.7%). About one half of the respondents are SHG leaders and another half of the respondents are members in SHGs. It shows that majority of the SHG members are middle-aged, married, illiterate and belongs to lower social categories.

Table-1: Social Profile of Respondents (in %)

Social category						Age in years			Marital status				Literacy levels			Position in SHG		
ST	SC	BC	Minorities	OC	Total	20 - 40	41 - 60	Total	Married	Unmarried	Widowed	Total	Illiterate	Literate	Total	Leaders	members	Total
7	21	54	11	7	100	66	34	100	92	2	6	100	51	49	100	51	49	100

2.2 *Livelihoods of households: The* data in fig-1 shows that labour is the primary economic activity of many households (44%) followed by agriculture (19%) and business (19%). Majority of the households are landless; however, of the households having land (41%) nearly one half of the families are large farmers (20%) and the other are marginal, small and medium farmers. Further, majority of the landless households primarily engaged in farm and non-farm labour. The housing conditions show that many are living in poor

Fig-1: Economic Profile of Sample Households



houses –hut (20%), thatched (18%) colony houses (3%). The data shows that majority of the households have 'Red/Anthyodaya Ration Card' (53%) followed by 'Yellow/ Annapura' (24%), and 'Green' (19%) rations cards[1]. About 30% of the households have enrolled with microfinance institutions, and 3% are elected to Panchayat Raj Institutions (PRI) as 'Ward Member' or 'Surpanch'. The above discussion shows that majority of the SHG member households are landless, primarily depend on labour and agriculture, and are living in poor housing.

3 Household income and expenditure

3.1 *Income:* The annual income of households varies from Rs. 13,000 to Rs. 1,95,000 with an average of Rs. 50,990. However, majority of the household's annual income is of Rs. 26,000-50,000 (51%) followed by Rs. 51,000-75,000, more than Rs. 75,000 (17%) and less than Rs. 25,000 (12%) (see table-2). It shows that majority households belong to below poverty line (BPL) category, whose annual income is less than Rs. 50,000.

Table-2: Annual Income and Expenditure of Households

S. No.	Amount Rs. in '000	Income		Expenditure	
		Households	%	Households	%
1	< 25	11	12.2	7	7.8
2	26 - 50	46	51.1	57	63.3
3	51 - 75	18	20.0	18	20.0
4	> 75	15	16.7	8	8.9
	Total	90	100.0	90	100.0

The average annual income of households in Kaler block of Arwal district is very high with Rs. 62,278 when compared to Digwara block of Saran district (Rs. 39,700). The average annual income of household of various social categories is different from one to other. Of all the social categories, the average annual income of BC households is high with Rs. 54,339 and low for SC households with Rs. 46,194 when compared to other social categories (OCs – Rs. 50,467, Minorities – Rs. 46,730, STs - Rs. 46,433). The average income of the households and the economic activities are correlated. The average annual income of households engaged in jobs is high with Rs. 1,04,667 and it is low of the households engaged in non-farm labour with Rs. 41,813 when compared to other primary economic activities of the households (business Rs. 61,871, agriculture Rs. 54,437, service/ caste occupations Rs. 48,967 and farm labour Rs. 47,569).

3.2 *Expenditure:* The annual expenditure of sample households varies from Rs. 19,000 to Rs. 1,49,000 with an average of Rs. 45,988. The data in table-2 shows that majority of the households have an annual expenditure of Rs. 26,000 – 50,000 (63%) followed by Rs. 51,000-75,000 (20%), more than Rs. 75,000 (9%) and less than Rs. 25,000 (8%). The average annual expenditure of a household in Kaler block of Arwal district is high (Rs. 51,223) as compared to Digwara block of Saran district (Rs. 40,753), could be because of large average

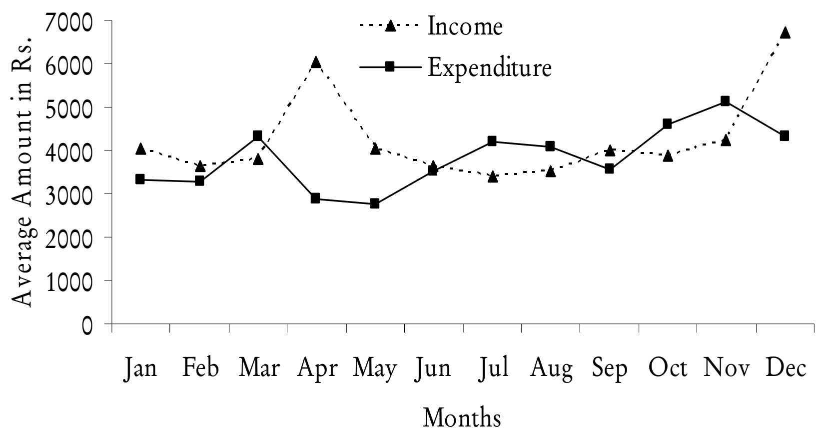
[1] *The Red / Anthyodaya Ration Card house-holders, who are below poverty level category, are eligible to get 35 Kgs of wheat at the rate of Rs. 3 per Kg, 35 Kgs of rice at the rate of Rs. 2 per Kg and 2.5 liters of kerosene per month. The Yellow/ Annapurna Ration Card house-holders, who are below poverty level category, are eligible to get 35 Kgs of wheat at the rate of Rs. 5 per Kg, 35 Kgs of rice at the rate of Rs. 3 per Kg and 2.5 liters of kerosene per month. The Green Card house-holders are eligible to get kerosene only.*

household income. The average annual expenditure of Muslim households is high at Rs. 55,070 when compared to other social categories.

The average annual expenditure of households depends on the primary economic activity of a household. The expenditure of the households, whose primary economic activity is job (private or government), is high with Rs. 78,333 and low of the households engaged in service/caste based economic actives with Rs. 36,977 when compared to the other primary economic activities of the households (business Rs. 57,594, farm labour Rs. 43,720, non-farm labour Rs. 41,675, agriculture Rs. 41,617 and others Rs. 39,464).

3.3 ***Seasonal variation in household income and expenditure:*** The data in fig-2 shows that the average income of households is low in the month of July at Rs. 3,383 and high in the month of December at Rs. 6,724 when compared to other months in the year. However, there is not much difference in the average monthly income of households, except during April and December months. Where as the average expenditure of households is low in the month of May at Rs. 2,761 and high in the month of November at Rs. 5,128 when compared to other months in the year. Where as, there is a gradual increase in the average household expenditure. Further, it has steadily increased or decreased once in two/three months, thrice in a year. The average households' income is more than its expenditure in the months of January, February, April, May and December due to sale of agriculture produce and availability of more employment. The average expenditure of households is more than income during March, July, August, October and November months due to more expenses on agriculture inputs and/ or crop harvesting, children's education & marriages and low employment due to rainy season and lean agriculture operations. This is one of the areas for savings product development by harnessing seasonal surplus household income, and to reduce dependence on traditional money lenders by developing various loan products.

Fig-2: Month-wise Average Income & Expenditure of Households



3.4 ***Surplus/Deficit Income:*** The data in table-3 shows that about one half of the sample households have more annual income than expenditure, i.e. surplus (52%); another one half has more expenditure than income, i.e. deficit (47%). The amount of surplus varies from Rs. 800 to Rs. 1.06 lakh with an average of Rs. 20,325. The amount of deficit varies from Rs. 400 to Rs. 46,600 with an average of Rs. 12,029. The percentage of households have deficit income is high among the households engaged in farm labour (13 out of 23 households), and there is no deficit income among the households engaged in private or government jobs. Considering the fact that the average surplus being much higher than average deficit with equal percentage of households having either surplus or deficit, smart savings products could possibility ensure that the local financial needs are met by the local surplus available by encouraging savings among those households that have surplus and ensuring that they have feel that their savings is safe and they are able to earn an attractive return on their savings.

The social categories and annual household budget are correlated. The higher the social category of the households, the higher the percentage of households having surplus income, these two are positively correlated. In other words, social category increases, the percentage of households have deficit income decreases. The data shows that majority of the OC (67%) and BC (63%) households have surplus income or more income than expenditure; where as, majority SC (68%), ST (67%) and Minority /Muslim (50%) households have deficit income or annual expenditure is more than the income. There is no significant difference between the size of the households and the percentage of households has surplus or deficit income.

Table-3: Surplus and Deficit Income of Sample Households (HHs)

HH income	Social Category						HH Primary Economic Activity								HH Size		
	ST	SC	BC	Minorities	OC	Total	Farm labour	Non-farm labour	Agriculture	Business	Jobs	Service caste.	Other	Total	Small (1-5 acres)	Large (> 6 acres)	Total
1. Surplus	1	6	31	4	4	46	10	8	10	9	3	2	4	46	9	37	46
2. Deficit	4	13	18	5	2	42	13	7	7	8	-	1	6	42	9	33	42
3. Neither	1	-	-	1	-	2	-	1	-	-	-	-	1	2	1	1	2
Total	6	19	49	10	6	90	23	16	17	17	3	3	11	90	19	71	90

There is no significant difference in the percentage of small (47.4%) and large (46.5%) households having deficit income. However, there is a significant difference between small and large families in the average amount of surplus (small families Rs. 14,915 and larger families Rs. 21,787) and deficit income (small families Rs. 8,178 and larger families Rs. 13,079). This could be because of presence of more non-working members in small families and more working members in large families.

4 Household savings

4.1 ***Household savings and the agencies:*** The households have savings with multiple agencies such as i) banks (37%), ii) microfinance institutions (MFI) (1%), iii) self help groups (99%), iv) post office (6%), v) insurance companies (41%) and vi) savings/insurance companies (18%) (See table-4). Of the total 90 households, majority of the households have savings with 2-4 agencies (59%) followed by one agency (41%).

The data in table-4 shows that of all the social categories, many BC households have savings with banks, life insurance corporation (LIC) and other insurance companies when compared to other social categories. Further, many households depended on agriculture, farm labour and job have savings account in banks when compared to the households depended on other economic activities. There is not much difference between SHG leaders and members in savings with different financial agencies. Further, other than savings with

SHGs, majority of the household don't have savings with banks, post office and insurance companies. The percentage of households having savings with post office is very low, even though the postal services are available closest to the community.

Table-4: Household Savings with Different Agencies																	
	Social Category						HH Primary Economic Activity								Position		
Name of the agency	ST (N=6)	SC (N=19)	BC (N=49)	Min (N=10)	OC (N=6)	Total (N=90)	Farm Lab. (N=23)	NF Labour (N=16)	Agriculture (N=17)	Business (N=17)	Jobs (N=3)	Service Castes (N=3)	Other (N=11)	Total (N=90)	Leaders (N=46)	Members (N=44)	Total (N=90)
1. Banks	3	5	21	3	1	33	9	4	9	6	2	2	1	33	18	15	33
3. SHG	6	18	49	10	6	89	23	16	17	17	3	3	10	89	46	43	89
4. Post Office	-	2	2	1	-	5	1	1	-	2	-	1	-	5	2	3	5
5. Insurance	4	7	20	4	2	37	6	7	7	9	-	1	7	37	26	11	37
6. Ins. Com.	-	5	10	-	1	16	5	2	5	3	-	1	-	16	7	9	16

4.2 ***Cumulative savings of households:*** The amount of household savings varies from Rs. 200 to Rs. 42,425 with an average of Rs. 5,905. The data shows that majority of the households have a total savings of less than Rs. 5,000 (62%) followed by Rs. 50,000-1,00,000 (19%) and more than Rs. 1 lakh (19%). Of the total savings of Rs. 5.31 lakhs, major portion is with insurance companies (71.5%) followed by banks (17%), SHGs (6%) and post office (5%). The average amount of savings made by the households is varying from agency to agency. The amount saved with the insurance companies is high with Rs. 9,012 and low at SHGs with Rs. 376 when compared to banks (Rs. 2,758).

4.3 ***Issues and problems in the promotion of savings:*** The households have expressed many issues and problems in promoting savings with various agencies (see table-5). They are as follows:

i) *Awareness:* The households have low awareness on various agencies accepting savings and various types of saving products/services that they can access.

ii) *Safety to savings:* The households have opinioned that there is a high protection to their funds in case of banks and post office. But there is low to moderate protection to member savings in SHGs, insurance companies and Chits as there is a possibility of misuse of funds by the SHG leaders, insurance agents and chit owners. More over, the SHGs and chits are informal institutions run on members trust on each other.

iii) *Credit services on savings:* Even though credit services are linked to savings, it is difficult to get loans from bank, microfinance institution, post office, insurance companies and chit funds because of complex and lengthy procedures. However, it is easy to get loans from SHGs.

iv) *Rate of interest:* Many households have said that the rate of interest paid by the agencies on members' savings is not attractive. If SHGs pay interest on savings, members may possibly consider SHGs as one of the best options for promotion of savings.

v) *Difficulties in withdrawal of savings:* Many households have reported that there are many difficulties to with draw savings – withdrawals not allowed at all times, more locking period of savings, accessibility, location, transaction costs, lengthy procedures, less benefits in case of pre-matured withdrawals. SHGs being the closest to the SHG members, they might consider voluntary savings in SHGs if those savings could be withdrawn when needed.

Table-5: Opinion of Households on Institutions Promote Savings

Details	Banks	MFIs	SHGs	Post Office	Insurance Companies	Chit Funds
1. Awareness	Low	Low	Moderate	Low	Low	Moderate
2. Location	Access; fairly away	Access; within the village	Access; within village	Access in a walkable distance	Services are in their vicinity	A section of HHs
3. Protection	High	Moderate	Moderate	High	Moderate	Moderate
4. Reliability	More	Less	Moderate	More	Moderate	Less
5. Procedures	Complex	Simple	Simple	Complex	Complex	Simple
6. Withdrawal	Difficult	Difficult	Easy	Difficult	Difficult	Difficult
7. IR on savings	Low 3% -9%	Low or No IR	No or low 0% to 6%	Low	Low	Moderate 18%-36%
8. Credit services	Small loans on savings	Small loans on savings	Loans are savings linked	Small loans on savings	Small loans on savings	Large loans on savings

vi) *Difficulties in promotion of savings:* The households have mentioned many problems and issues in the promotion of savings as a) low and irregular cash flows of households, b) location of the agency, c) complex account opening procedures, d) high transaction costs and e) periodicity & amount of savings.

5 Household borrowings

5.1 *Credit sources:* The rural households borrow loans from multiple sources on various lending norms for various purposes. Of the 90 households, 95.7% of the households have borrowed 1-4 loans with an average of 1.87. Many households borrowed from only one source (36.7%) followed by two (30%), three (25.6%) and four (3.3%). The data in table-6 shows that a large number of households borrowed credit from money lenders (61.1%), followed by SHGs (50%), friends & relatives (38.9%), microfinance institutions (24.4%) and traders (10%). The sample households have borrowed loans from formal (28.9%), informal (23.3%) and both (43.3%) credit agencies.

5.2 ***Magnitude of household debts:*** The households have borrowed a total loan of Rs. 25.35 lakh with an average of Rs. 29,474 per household. Of the 90 households, majority of the households have the debt less than Rs. 20,000 (57.8%); however, about 21% of households have borrowed more than Rs. 30,000. The household credit varies between social categories. The average household loan of STs is low with Rs. 8,221 and high among Minorities with Rs. 49,930 when compared to SCs (Rs. 23,563), BCs (Rs. 26713) and OCs (Rs. 38,250). The average household credit, whose primary economic activity is agriculture is high with Rs. 43,788 and low among the households those engaged in jobs with Rs.

15,967 when compared to other primary economic activities of sample households (non-farm labour Rs.18,633, service castes Rs. 23,000, farm labour-Rs. 29,407 and business Rs. 33,012).

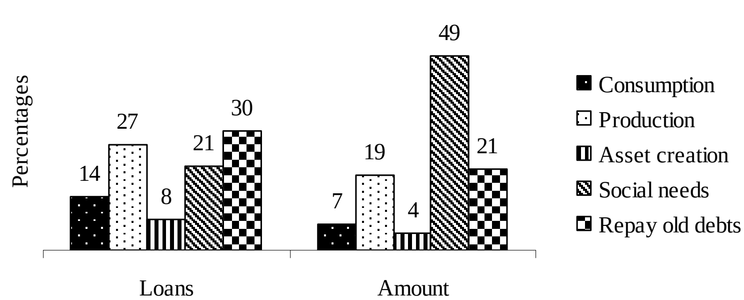
The data in table-6 shows that of the total loan of Rs. 25.35 lakhs, major portion is from money lenders (50.8%) followed by friends and relatives (31.8%), microfinance institutions (13%), SHGs (2.2%) and others. The average loan sizes of different credit agencies vary from one to other. The average loan size of money lenders and friends & relatives is high with Rs. 23,400 and Rs. 23,031 and it is low of SHG with Rs. 1,263 when compared to other credit sources. Further, the average loan borrowed from informal sources is almost six times (Rs. 35,810) as compared to formal credit sources (Rs.5,941). Of the landholding categories, the average household credit is high among medium farmers with Rs. 60,586 and low among marginal farmers with Rs. 10,767 when compared to small (Rs. 11,500), large (Rs. 20,825), and landless categories (Rs. 30,272). Of the landless category, majority of the households primarily engaged in both farm and non-farm labour and business.

Table-6: Source-wise Household Borrowings

S. No.	Credit source	Households		Amount in Rs.		
		Number	%	Amount	%	Average
1	SHG	45	50.0	56,850	2.2	1,263
2	MFI	22	24.4	3,29,325	13.0	14,969
3	Money Lenders	55	61.1	12,87,000	50.8	23,400
4	Friends & relatives	35	38.9	8,06,100	31.8	23,031
5	Traders	9	10.0	44,800	1.8	4,978
6	Others	2	2.2	10,700	0.4	5,350
	Total	86	95.6	25,34,775	100.0	29,474

It shows that majority of the households borrowed loans from multiple sources those includes formal, informal and both. None of the sample households have borrowed loans from banks and cooperatives. There is a high dependence on informal credit sources, especially money lenders and friends & relatives. Though one half of the households accessed credit from SHGs, their contribution to household credit is trifling. The household credit is high among the higher social categories, and the households engaged in agriculture and business activities.

Fig-3: Purpose-wise Percentage of Loans and Amount Borrowed



5.3 ***Purpose of loans:*** The data in fig-3 shows that of the total 168 loans, many loans are for repaying old loans (30%) followed by production (27%), social needs (21%), consumption (14%) and asset creation (8%). Of the total borrowings of Rs. 25.36 lakhs, nearly one half of the amount is for social needs (49%), and the other one half is to repay old debts (21%), production (19%), consumption

(7%) and asset creation (4%) purposes. The percentage of loans borrowed for consumption, production, asset creation and to repay old loans are high as compared to the percentage of amount borrowed for each of them. The percentage of amount borrowed is more than double as compared to the percentage of loans taken for social needs. It is because of large volume of loans for social needs (Rs. 34,689) when compared to consumption (Rs.7,370), asset creation (Rs. 8,565), to repay old loans (Rs. 10,202) and production (Rs. 10,774) loans. It shows that large volume of loan borrowed for social needs when compared to other household credit needs.

5.4 ***Opinion of households on the lending practices of credit agencies:*** During interactions, the households have reported the advantages and disadvantages of lending practices of both formal and informal credit agencies. They are as follows:

i) *Credit services at door steps vs. distant locations:* The informal agencies that provide credit are in their vicinity, and the services are delivered at their door step immediately without any delay. Where as the formal credit agencies are located at 5-20 km away from their villages, and take much time to provide different services.

Table-7: Opinion of Households on the Lending Practices of Credit Sources

Particulars	Formal credit sources			Informal credit sources		
	Bank	MFI	SHG	ML	F&R	Traders
1. Location	Far away 5-20 km	Within the village	Within the village	Within the village	Within the village	In &Outside the village
2. Services	Not at door steps	At door steps	Not at door step	At door steps	At door steps	One-two visits
3. Access to savings	Rarely save	No savings	Can access	No savings	No savings	No savings
4. Access to loans	Very difficult	One-two requests	Good access	One-two requests	One-two requests	Multiple requests
5. Procedure	Complex 1-6 months	Simple 1-2 weeks	Simple 1-2 weeks	Simple 1-2 weeks	Simple 1-2 weeks	Simple 1-2 weeks
6. Loan size	Medium & large	Small & medium	Small & medium	Small to large	Small to large	Small & medium
7. Purpose	Limited	All	All	All	All	Limited
8. Loan term	Reasonable 1-2 years	Rigid < 1 year	Reasonable 1-2 years	Reasonable 1-3 years	Flexible 1-2 years	Reasonable 6-12 months
9. Collateral	Required	Mostly no	No	Mostly no	Mostly no	Mostly no
10. Timeliness	Not timely	Timely	Timely	Timely	Timely	Timely
11. Mode of repayment	Rigid Monthly/ quarterly	Rigid Weekly/ monthly	Flexible Monthly/ At the end	Rigid At the end	Moderate to rigid At the end	Flexible to rigid At the end
12. Multiple loans	One loan	1-2 loans	1-2 loans	Mostly one	Mostly one	1-2 loans
13. Rate of interest	Low (14%-18%)	High (24%-48%)	Low-high (12%-24%)	High (24%-36%)	Moderate (18%-24%)	High (24%-36%)

ii) *Flexible vs. rigid lending procedures:* Getting loans from informal sources is very easy (no/less documentation, not linked to savings, one /two visits, mostly no collateral) than getting loan from formal institutions (savings linked, more number of visits, difficulties in producing collateral).

iii) *Loan to all purposes vs. limited purposes:* The informal credit agencies provide loans to consumption, social and income generation activities and asset creation purposes. Where as formal institutions provide credit for income generation activities only.

iv) *Timely vs. untimely loan:* The loans from informal credit sources are timelier as compared to formal institutions.

v) *Flexible vs. rigid loan repayment norms:* The loan repayment norms of informal credit agencies are flexible and suitable to the household cash flows. Where as, the repayment norms of formal agencies are very rigid and not much suitable to the rural households' cash flows.

vi) *High vs. low rate of interest on loans:* The interest rate charged by the informal credit agencies is very high when compared to formal credit agencies.

The above discussion reveals that except the exorbitant rate of interest, the lending norms of informal credit agencies are more advantageous than the formal credit agencies. This could be one of the reasons for more dependence of rural households on informal credit agencies, even though the loans are expensive.

6 Social and life-cycle credit needs – Prioritization, fund mobilization and repayment of loans

To understand the cash flows and the prioritization of social and life-cycle needs namely i) marriage, ii) birth of a child, iii) death, iv) chronic illness, v) fairs & festivals, vi) primary schooling and vii) secondary schooling, the study team has collected information from the sample households by using a seven point scale, in which one (1) indicates top priority and seven (7) indicates least priority.

6.1 ***Ranking of social and life-cycle needs:*** The data in table-8 shows that on one hand majority of the households have given 1st and 3rd priority to marriage (53.3%), 1st and 2nd priority to chronic illness (51.1%), 2nd, 3rd and 4th preference to primary schooling (66.6%), 1st, 2nd and 3rd preference to secondary schooling (72.3%). On the other, majority of the households have given 6th and 7th preference to child birth (82.2%) and death (70%);

Table-8: Ranking of Social and Life-cycle Credit Needs (% of HHs)

S. No.	Rank-ing	Marriage	Birth of Child	Death	Chronic Illness	Fairs & Festivals	Primary Schooling	Secondary Schooling
1	1st	34.4	00	1.1	32.2	3.3	10.0	18.9
2	2nd	12.2	3.3	4.4	18.9	11.1	22.2	27.8
3	3rd	18.9	1.1	4.4	10.0	16.7	23.3	25.6
4	4th	11.1	5.6	8.9	17.8	23.3	21.1	12.2
5	5th	10.0	7.8	11.1	15.6	35.6	14.4	5.6
6	6th	8.9	18.9	50.0	3.3	8.9	7.8	2.2
7	7th	4.4	63.3	20.0	2.2	1.1	1.1	7.8
	Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

majority of the household has given 4th and 5th preference to fairs and festivals (58.9%). It shows that majority of the households have given top priority to marriage, health and education and least preference to fairs & festivals, birth of child and death. It could be because of essential social functions of family - providing education to children, arranging marriages to children, extending support to sick members etc.

6.2 *Social & life-cycle credit needs and coping strategies*

6.2.1 ***Fund mobilization strategies:*** To cater to social & life-cycle credit needs, the households have followed multiple strategies, broadly categorized as internal/within and external/outside household sources. The Internal sources include (i) household income, (ii) savings and (iii) sale & mortgage of assets. The external sources include loans from (i) friends & relatives, (ii) money lenders, (iii) microfinance institutions and (iv) traders. The data in table-9 shows that majority of the households are primarily dependent on external sources, specially friends and relatives, money lenders and traders to meet social and life-cycle ceremonies expenses. However, some households have mobilized funds from internal sources by sale & mortgage of assets and agriculture produce. Similarly, majority of the households have depended on external sources to meet health expenses that are unexpected. Most of the households have met children's educational expenses from the household income and savings; a few households depended on external sources. In the same way, majority of the households have met expenses fairs & festival from household income and savings. However, a good number of households depended on traders.

Table-9: Social & Life-cycle Credit Needs and the Coping Strategies (% of HHs)

Strategies	Marriage	Child Birth	Death	Chronic Illness	Fairs & Festivals	Primary Schooling	Secondary Schooling
A. Internal or at household level							
1. Wages	--	01	02	--	39	87	83
2. Agriculture income	--	02	32	15	--	--	--
3. Savings	16	12	11	13	27	09	08
4. Sale & mortgage of assets	22	17	02	13	--	--	--
B. External /Outside the household							
1. Friends & relatives	43	7	24	28	07	--	06
2. Money lenders	14	17	29	23	04	04	03
3. Traders	--	42	--	08	23	--	--
4. Microfinance Institutions	03	--	--	--	--	--	--
5. Postponement of events	02	01	--	--	--	--	--

The above discussion reveals that on one hand, majority of the households depend on external sources for credit to meet large expenses related to life-cycle events and health. Consequentially, majority of the households have been paying large amount of interest from household income and savings which has adverse implication on household expenditure.

6.2.2 ***Loan repayment strategies:*** The data in table-10 shows that majority of the households have repaid loans from household income. However, some households have repaid loans by withdrawing savings, sale of household assets and a few have borrowed new loans to repay old loans. As a result, there is an influence on households' income, expenditure, savings, and borrowings – i) loss of income generation assets due to mortgage and/or sale of assets; ii) cut on food and other consumption expenditure to repay large loan principle/instalments and or interest on loans; iii) burning of savings leads to insecurity; iv) new loans to repay old loans pushed into debt trap over a period.

Table-10: Loan Repayment Strategies (% of HHs)

S. No.	Fund source	Marriage	Child Birth	Death	Chronic Illness	Fairs & Festivals	Primary Schooling	Secondary Schooling
1.	Household economic activity	83	100	83	84	83	92	80
2.	Withdrawal of savings	--	--	11	3	16	--	10
3.	Sale and or mortgage of assets	11	--	4	9	--	--	--
4.	New loans to repay old loans	6	--	2	4	1	8	10

7 Conclusions and way forward

7.1 *Conclusions:* The study was carried out in Kaler block of Arwal district and Digwara block of Saran district of Bihar covering 90 households having membership in SHGs with an objective to design various savings & loan products suitable to SHG member households. The conclusions of the study are as follows:

i) *The rural households are largely dependent on labour (both farm and non-farm) and agriculture.* Large number of households belongs to BPL category- poor housing, low annual income, no /small extent of land, possessing 'red ration card' those can avail food material on subsidized prices through PDS.

ii) *There is a wide difference in the annual income and expenditure of sample households*. The household income is positively correlated with social categories and primary economic activities of the households. The average annual income of households engaged in business and non-farm activities is high when compared to other livelihood activities. Similar trends are observed in annual household expenditure. More or less an equal number of households have a surplus and deficit income which implies that through innovative and need-based savings products, the deficit families can be supported by the families that have a surplus. There *are seasonal variances in the household income and expenditure patterns.* However, there is no significant increase or decrease in the household income except two/three months in a year. Where as, there is a gradual increase in average household expenditure. Further, the average household income has steadily increased or decreased once in two/three months, thrice in a year.

iii) *Many households have small amount of savings with two-three agencies (banks, post office, and insurance companies) besides SHGs.* Of all the agencies, the insurance companies are in the forefront. This is one of the niche areas for intervening diverse products of savings through SHGs.

iv) *Traditional/informal credit agencies still have monopoly on the rural credit market.* Large number of households have borrowed multiple loans from multiple sources. However, none of the sample households have accessed a loan from formal financial institutions, particularly banks. The reasons for high dependence on informal sources and no/or less access to formal institutions are multiple and diverse.

v) *The magnitude of credit is high among higher social categories and the household's primarily engaged in agriculture and labour.* Large number of household borrowed to repay old loans followed by production (mostly for agriculture inputs) and social needs; where as large portion of loan amount is for social needs followed by to repay old loans and production purposes.

vi) *Of all the social and life-cycle credit needs, large number of households gave top priority to marriage, health and education* as they are most important social functions of family to wards its members. On the other hand, significant number of households has given least preference to fairs & festivals, birth & death day ceremonies as these are secondary and tertiary roles of family. The households have followed two-pronged approach to mobilize funds for household credit needs.

vii) *Large number of households depended on, and indebted to traditional credit sources*. Most of the households mobilized funds from external sources especially traditional sources to meet the large expenses of marriage, health and education; where as, funds from internal sources/household income to meet the small expenses of fairs & festivals, birth and death ceremonies.

viii) As most of the households repaid loans from household income, cumulative savings, sale/mortgage of household and productive assets and borrowing new loans to repay old loans, *there are many negative than positive implications on household's income, expenditure, savings and borrowings such as loss of income generation assets, cut on consumption expenditure, burning of savings and debt trapping.*

7.2 Way forward

i) *Awareness creation on types of formal financial institutions:* There is an urgent need for building confidence and faith among the households by creating awareness on various types of institutions that provide much needed financial services: savings, credit, insurance and money transfer, as the households are unaware of them and to avoid frequent deception of false agencies. A campaign to provide economic education and financial literacy for SHG members and their households in the most important intervention needed.

ii) *Financial literacy through SHGs & SHG federations:* As many development professionals realised that the SHGs and SHG federations are the chief means to achieve financial inclusion, promote large number of SHGs and SHG federations to provide various kinds of financial services and financial literacy in the areas where the formal financial institutions have not reached. Each village should have a financial literacy facilitator who comes from the same village and has the experience of using different financial services from different financial institutions. More importantly the SHG representative must be trained to be a financial literacy provider and given necessary materials for effective training.

iii) *Voluntary savings:* At present, compulsory savings are common among the SHGs. The Self Help Promoting Institutions (SHPIs) should design appropriate savings products encourage voluntary savings for future social and life-cycle needs, particularly health, education and marriage during the months that the households have surplus income or high cash inflows.

iv) *SHG credit linkage under SHG bank linkage programme:* More focus on, and implementation of SHG credit linkage programme to overcome the problems and issues in accessing financial services from formal institutions, particularly under the cash credit facility larger credit limits could be approved for mature SHGs. Further, banks should supply large credit through SHGs for agriculture inputs expenses, which in turn reduces dependence on money lenders, whose interest rates are exorbitant.

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