

FINANCIAL INCLUSION

*The unique needs of those living in the
hill districts of Uttarakhand*



MARCH 2011

CEDAR duly acknowledges the support of Sir Ratan Tata Trust for carrying out this study.

FINANCIAL INCLUSION

The unique needs of those living in the
hill districts of U ttarakhand

Mohit Chaturvedi

Funded By
Sir Ratan Tata Trust

MARCH 2011

CONTENTS

LIST OF FIGURES	iii
GLOSSARY AND ABBREVIATIONS	iv
EXECUTIVE SUMMARY	vi
1. INTRODUCTION	1
1.1 Objective of the Study	1
1.2 Financial exclusion	1
1.3 Structure of this Monograph	2
2. CASH FLOW STUDY FINDINGS	3
2.1 Demographic	3
2.1.1 Religious and Caste Affiliations	3
2.1.2 Economic Status	3
2.1.3 Gender of Household Head	4
2.1.4 Household Size	4
2.1.5 Occupation and Employment	4
2.2 Non-Resident Members	5
2.3 Housing and Amenities	6
2.3.1 Size of Dwellings	7
2.3.2 Kitchen and Shed	7
2.3.3 Amenities - Fuel, Water and Toilet	8
2.4 Asset Portfolio	8
2.4.1 Commonly Held Assets	8
2.4.2 Livestock	9
2.5 Land and Agriculture	9
2.5.1 Landlessness	9
2.5.2 Agricultural Land	9
2.5.3 Orchard	10
2.5.4 Irrigated Land	10
2.5.5 Rain fed Land	11
2.5.6 Barren Land	11
2.5.7 Landholding Size	11
2.5.8 Consumption of Produce	12
2.5.9 Food Sufficiency	12
2.6 Crisis and Coping	13
2.6.1 Crisis	13
2.6.2 Coping	13
2.7 Income and Expenditure	14
2.7.1 Mean Annual Household Income	14
2.7.2 Per Capita Income	14

2.7.3	Mean Annual Income by Sector	15
2.7.4	Household Economic Activity	15
2.7.5	Mean Expenditure	16
2.7.6	Per Capita Expenditure	17
2.7.7	Surplus	17
3.	FINANCIAL INCLUSION	18
3.1	Loans	18
3.1.1	Incidence of Loan	18
3.1.2	Loan Purpose	18
3.1.3	Loan Source	19
3.1.4	Loan Size	19
3.2	Financing of Life Cycle Events	20
3.3	Access to Banks	20
3.4	Savings	21
4.	LIVELIHOODS MODEL	22
4.1	Livelihoods in the Hills	22
4.1.1	Remittance	23
4.1.2	Non-agricultural labour	23
4.1.3	Agriculture	23
4.1.4	Access to Commons	23
4.1.5	Egalitarian Society	24
4.1.6	Below Poverty Line	24
4.2	Targeting - Identification of Poor Households	24
4.3	Changing Livelihoods	24
4.4	Monetization	25
5.	RECOMMENDATIONS	26
5.1	A role for the SHG Microfinance Model?	26
5.1.1	Access to Credit	26
5.1.2	Traditional Support Systems and SHGs	26
5.1.3	Supporting the Social Objectives of the SHG Model	27
5.2	Tailored Financial Products	29
5.2.1	Health and Education Products	29
5.2.2	Insurance	29
5.2.3	Savings	29

LIST OF FIGURES

Figure 1 - Proportion of Below Poverty Line Households by Household Type	3
Figure 2 - Household Size	4
Figure 3 - Primary Occupation of Household Head	5
Figure 4 - Location of Non-Resident	5
Figure 5 - Occupation of Non-Residents	6
Figure 6 - Size of Dwelling	7
Figure 7 - Percentage of Households with Access to Separate Toilets, by Household Type	7
Figure 8 - Commonly Held Assets	8
Figure 9 - Mean Size of Irrigated Land (in nalis), by Household Category	10
Figure 10 - Mean Size of Rain-fed Land (in nalis), by Household Category	11
Figure 11 - Land Holding Size (in nalis)	12
Figure 12 - Months of Food Security - Agriculture	12
Figure 13 - Coping Strategies Used	13
Figure 14 - Mean Annual Household Income (in Rupees), by Category	14
Figure 15 - Mean Annual Per Capita Household Income (in Rupees), by Category	14
Figure 16 - Mean Annual Income by Sector (in Rupees)	15
Figure 17 - Mean Annual Income Household Based Activities (in Rupees)	15
Figure 18 - Mean Monthly Expenditure (Select Items)	16
Figure 19 - Mean Monthly Expenditure by Household Category (Food & Education)	16
Figure 20 - Mean Monthly Per Capita Expenditure by Household Category	17
Figure 21 - Loan Purpose	18
Figure 22 - Important Loan Sources	19
Figure 23 - Average Loan Size	19
Figure 24 - Expenses of Events and Finance from Savings	20
Figure 25 - Incidence of Savings by Household Category	21
Figure 26 - Livelihoods in the Hills	22
Figure 27 - Model for Intervention	28

GLOSSARY AND ABBREVIATIONS

APL	Above Poverty Line
BPL	Below Poverty Line
CEDAR	Centre for Ecology Development And Research
GC	General Caste
HGVS	Himalaya Gram Vikas Sansthan
HLS	Household Livelihoods Security (Framework)
RNFS	Rural Non-Farm Sector
SC	Scheduled Caste
SHG	Self help Group
SRTT	Sir Ratan Tata Trust
ST	Scheduled Tribe
VDC	Village Development Committee

EXECUTIVE SUMMARY

This monograph is a summary of a cash flow study undertaken in the Pithoragarh district of Uttarakhand. It also draws on the experiences of self-help groups formed under various initiatives of the Sir Ratan Tata Trust ('SRTT').

The cash flow study aimed to look at financial needs of households and the extent to which they are being met. The topic assumes importance in the light of the view that financial exclusion reinforces others kinds of exclusion.

The findings of the study revealed that most households live in nuclear families of medium size and are dependent on various livelihoods options, practiced simultaneously. While there is hardship and poverty, the nature of deprivation is rather different from the harsh poverty of the plains of India. Most households have access to basic amenities such as water, fuel, food, and shelter. Subsistence agriculture provides for household consumption but is not enough to meet year round food requirements. Decline in agriculture and a history of serving in the Armed Forces has led to large scale migration of able bodied males from the area. This has led to an economy quite dependent on remittances. Remittances combined with other livelihood strategies such as non-agricultural labour, sale of surplus (in rare cases), pension, and access to common property resources to rear livestock has resulted in surplus cash at the household level. Encouraged in part by the high level of remittances, most households have bank or post office accounts.

When considering the livelihood model of the hills, and the current level of financial inclusion - is there a role for traditional microfinance, where small loans are extended and repaid over time? Small loans have a limited utility in this area as indicated in the average loan size, and satisfaction with the existing financial arrangements. It is more likely that small and medium enterprise ('SME') loan window would work better in the hills.

The SHG Microfinance Model could have a role to play in the hills, however this role is less in terms of the financial aims of the microfinance model, and more in terms of their social objective. SHGs can help build social capital; they can be a platform for dissemination of ideas, debate, and a platform for social and economic development. They have an important role to play. For example, *Mahila Mangal Dals* have been quite active in the campaign against alcohol. In the hills in particular focus needs to be directed towards their social objectives, not simply their 'savings' objectives.

The social objectives of the SHGs can be supported by supporting the women who are members of the SHGs, limiting the number of SHGs to one per village – regardless of the number of projects – and by developing the SHG Federation Model.

At the same time as promoting the social objectives of SHGs, targeted financial products can be developed to service the needs of those living in the hills. As savings are not being

actively re-invested, the savings are at risk of being eroded in real terms due to inflation. These products could focus on protecting savings against inflationary effects, and targeting the priorities of those living in the hills. Such

instruments might include bonds, mutual funds and term deposits. They might also include insurance, especially of livestock and agriculture, and products for, health and education.

1. INTRODUCTION

1.1 Objective of the Study

This monograph presents the findings of the Sir Ratan Tata Trust (“SRTT”) funded study on financial inclusion and practices of the people of Pithoragarh district of Uttarakhand within the larger context of their socio-economic and geographical settings. The study was designed and supervised by the Centre for Ecology Development And Research (“CEDAR”) and facilitated by Himalaya Gram Vikas Sansthan (“HGVS”), Gangolihat. The findings are presented under various sections – demographics including migration patterns, amenities including housing, asset portfolio, crises encountered and coping strategies, income and expenditure patterns, and financial dealings including loans, savings, major expenses, and insurance.

The study was designed to understand financial needs in the remote and rugged areas of the Central Himalayas. Such understanding would lead to recommendations to conceptualize new projects and to improve existing ones.

1.2 Financial Exclusion

Financial exclusion has been at the centre of policy and development debates for some time now and is variously defined. What is it? While many in India continue to take a narrow view of financial exclusion as a lack of access to deposit accounts, the Rangarajan Committee on Financial Inclusion views financial inclusion as 'lack of access to diverse

and relevant financial services and products at an affordable rate'.

Financial exclusion has attracted the attention of policy makers in the light of a growing recognition that financial exclusion puts the underprivileged at a disadvantage and reinforces other forms of exclusion such as social, political, and economic. Financial exclusion acquires three broad dimensions in India. One of these is geographical whereby South, West, and North India report a better scenario of financial inclusion than East, North-East, and Central India. Within this category, remote and rugged areas such as the hilly areas of Uttarakhand report a high level of exclusion.

Financial inclusion, particularly in the case of microfinance, tends to focus on *access* to savings and/or *access* to credit. In the 'model situation' a farmer would borrow money to improve his or her *production* activities, for example through installing an irrigation system, buying livestock and so on. However, we are all familiar with the anecdotal situation where the rural poor borrow relatively large amounts of money for *consumption* activities, such as a wedding or purchase of a television - and then struggle with the repayments.

1.3 Structure of this Monograph

This monograph presents a snapshot of the financial situation of those living in the Pithoragarh district. The study reveals that the challenge in this area is not so much about lack of savings or access to credit, but rather that the development reality is that there are

limited options for re-investment into productive activities in the hill districts.

As savings are not being actively re-invested, the savings are at risk of being eroded in real terms due to inflation. At the same time as building a local skill base to develop new avenues of productive investment in key sectors including agriculture, tourism and small and medium enterprise ('SME'), targeted financial products could be developed. These products could focus on protecting savings against inflationary effects, and targeting the priorities of those living in the hills. Such instruments might include bonds, mutual funds and term deposits. They might also include insurance, especially of livestock and agriculture, and products for, health and education.

Chapter 2 presents the key findings of the cash flow study, including demographics, non-resident members, assets, land holding, crises, income and expenditure. These findings provide a backdrop against which our understanding of financial inclusion can be developed.

Chapter 3 specifically considers the issue of financial inclusion, with reference to incidence of loans, loan source, financials of life cycle events, access to banks and savings.

Based on the evidence presented in the two preceding chapters, Chapter 4 provides a summary of the livelihood model of people living in the hill districts, and Chapter 5 offers recommendations for the SHG Microfinance Model and future financial interventions in the hill districts.

2. CASH FLOW STUDY FINDINGS

2.1 Demographic

2.1.1 Religious and Caste Affiliations

Though the household survey did not ask respondents their religious affiliation, secondary data suggests that the population is overwhelmingly Hindu. 63% of the households belonged to the general caste (“GC”) category while 36% were scheduled caste (“SC”).

The proportion of scheduled tribe (“ST”) household in the sample is lower than their proportion in the population of the district. This is because they reside in the high elevation areas of Pithoragarh, which were not covered by the study. The population of such areas is sparse.

2.1.2 Economic Status

62% of the households reported being below the poverty line. Disaggregating by caste and gender of the household head, the findings

(Fig. 1) reported a higher incidence of poverty among SC households and, surprisingly, male headed households.

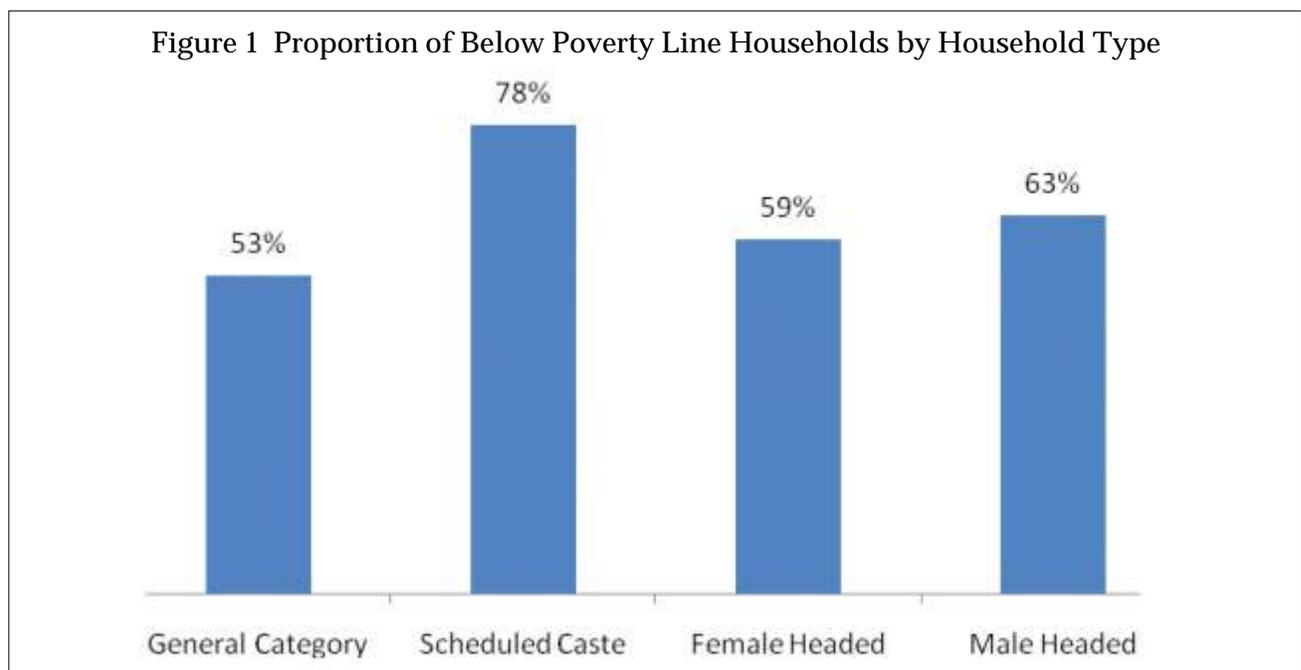
2.1.3 Gender of Household Head

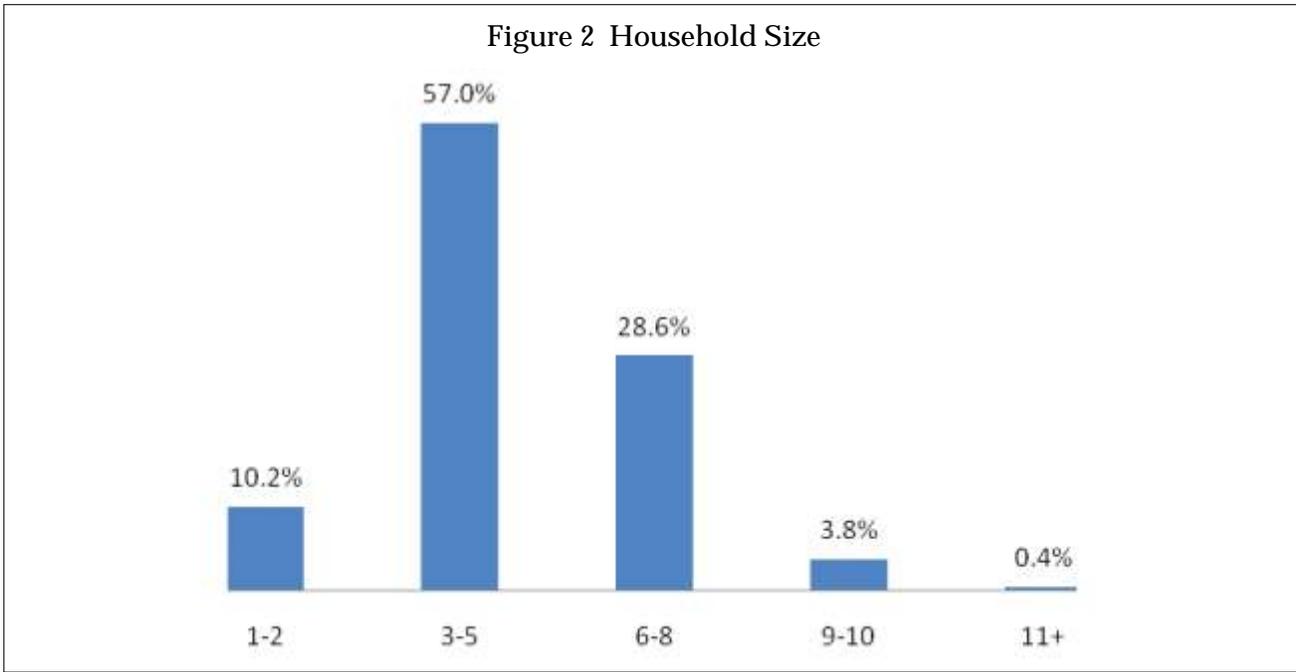
85% of the households were male headed and the remaining 15% of the households were female headed. For the purposes of this study, female headed households are those households that do not have an adult male whether for reasons of migration or mortality.

It should be borne in mind that female headed households are a result both of the marital status as well as migration. The latter explains why the incidence of poverty should be lower in female headed households as they are often recipients of remittance.

2.1.4 Household Size

The average size of the household was 4.87 with the size ranging from 1 to 11. The size distribution of households is presented in Figure 2.



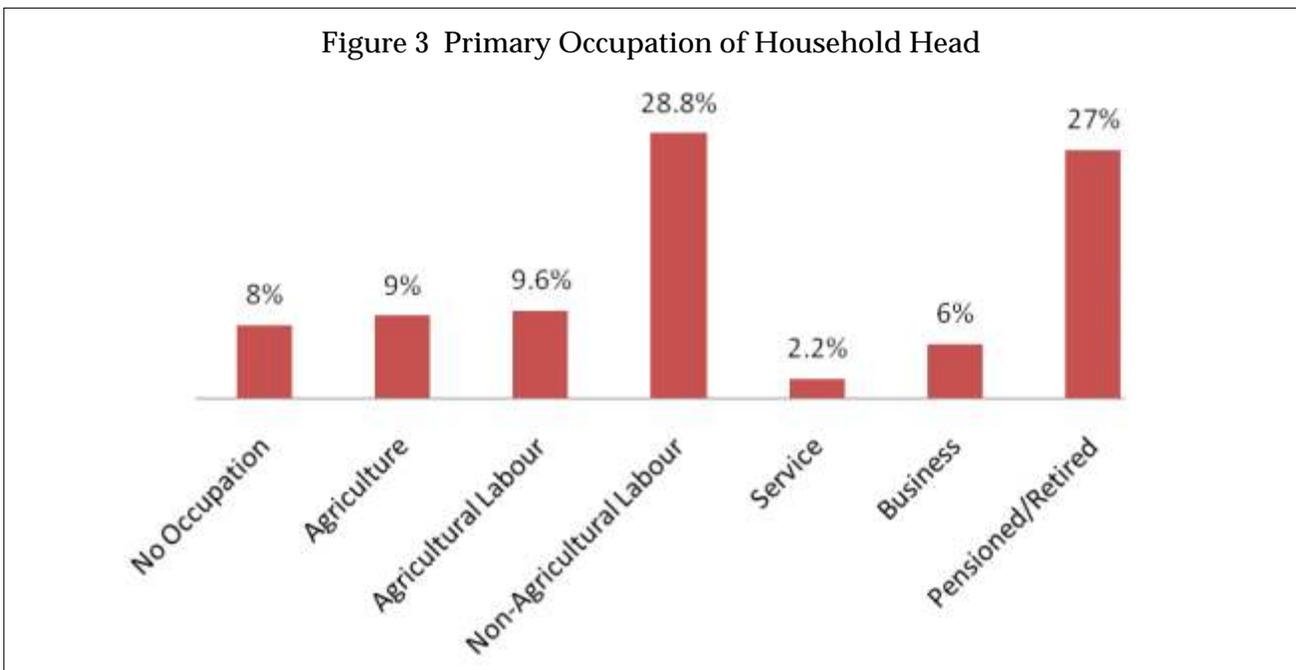


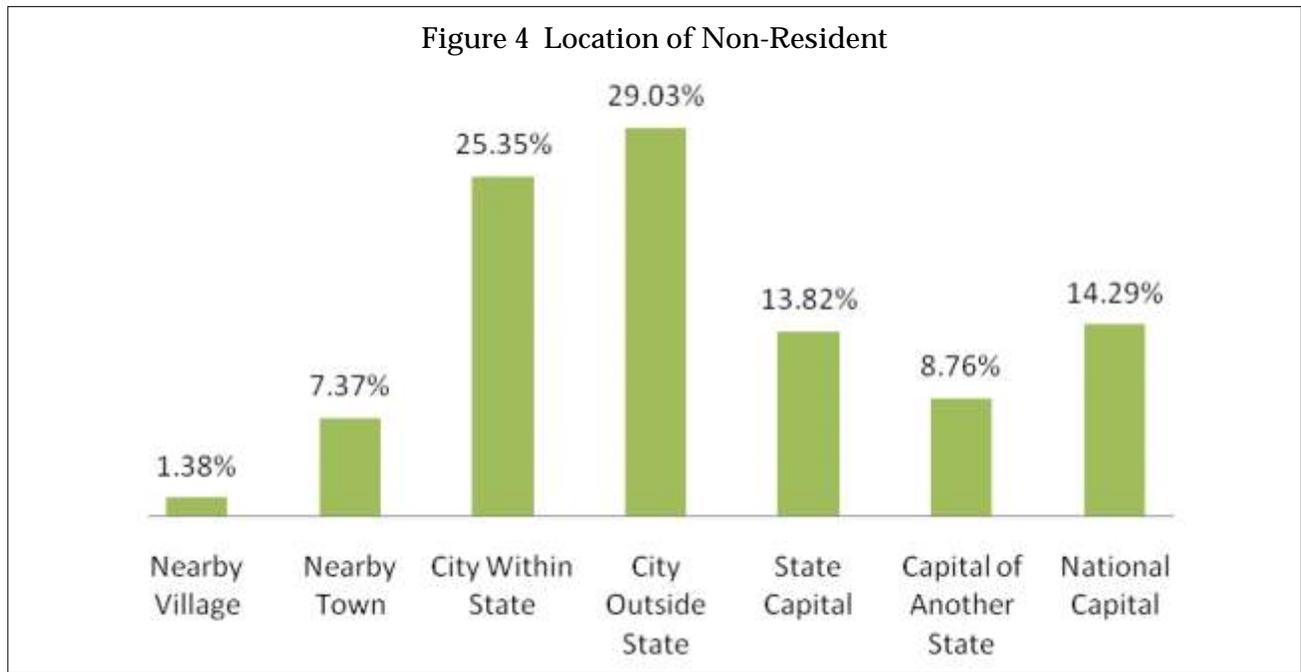
Male headed households, scheduled caste households, and BPL households are significantly larger than female headed households, GC households, and above poverty line (“APL”) households respectively.

2.1.5 Occupation and Employment

Rural Non-Farm Sector (“RNFS”) is the single most important source of employment (Fig.3).

This is followed closely by people who once worked but have now retired and receive a pension. While there is a vibrant agricultural sector, it is essentially subsistence in nature and, therefore, is not a major source of employment by itself. A large proportion of people receiving pensions suggests that while there is a diversity of occupations, there is a





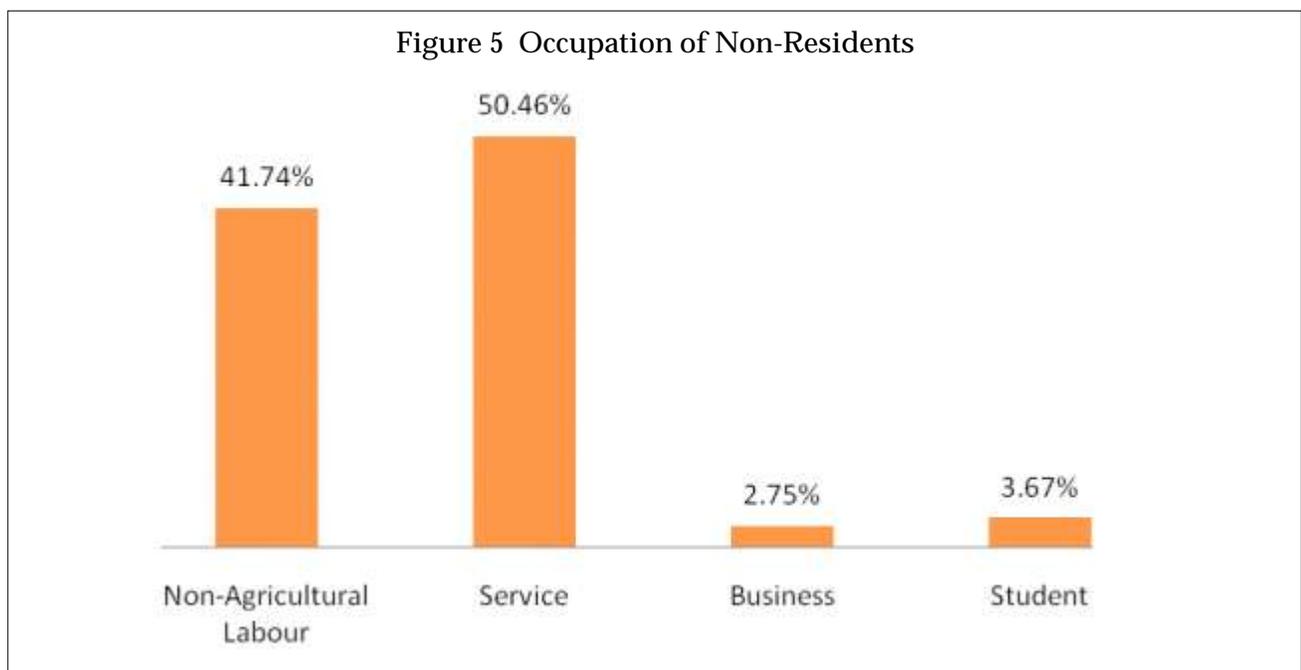
high degree of reliance on external job market for employment.

2.2 Non-Resident Members

The reliance on work outside is also reflected in the preponderance of non-resident members. A large number of households (44%) interviewed reported having at least one non-resident member. Non-resident

members are invariably males though in very rare cases they might be accompanied by their spouses.

Most non-residents (Fig.4) have moved to urban areas. This points to stagnation of rural economy and lack of prospects, perceived or real, in villages. Over 50% of the non-residents are outside the state, close to 15% in Delhi.



Non-residents are working as non-agricultural labour or in the service sector.

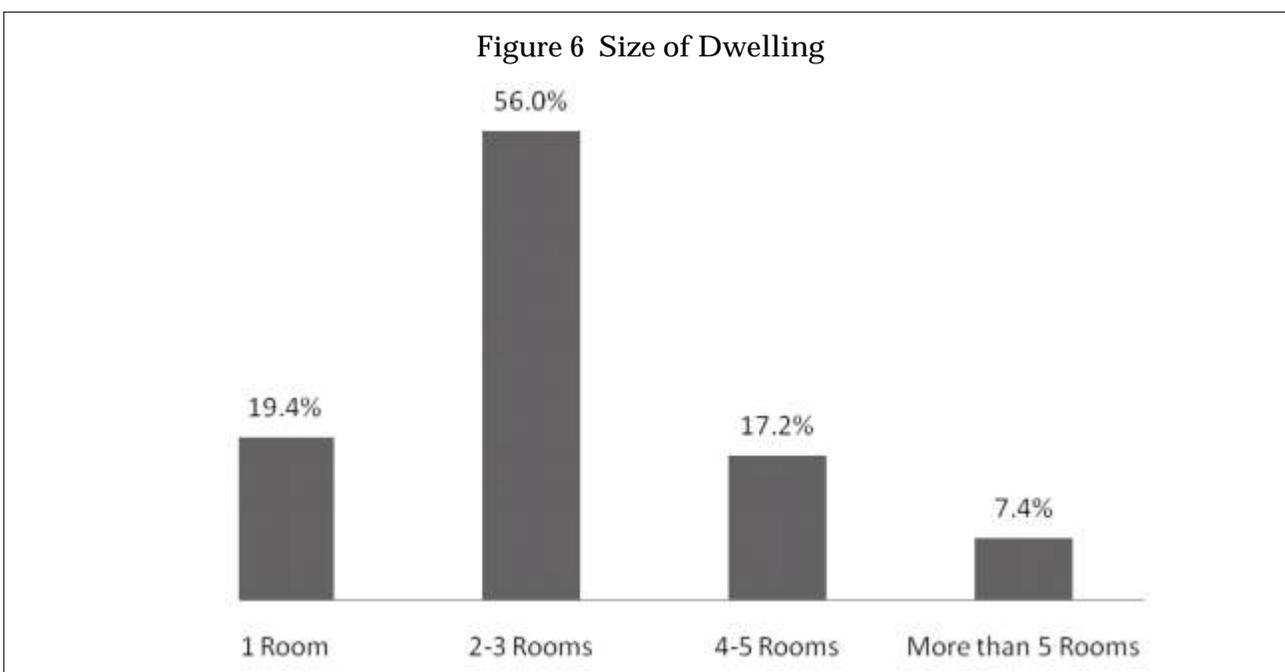
An overwhelming majority of non-resident members are engaged in income generating pursuits while being away from home (Fig.5). This, along with pensions flowing in, further reinforces the importance of ties to the external economy for employment and income. 74% of the non-residents send money back home in the form of remittance. The average remittance per year was calculated at Rs. 30, 347 per household.

The results on average remittance per year are as expected. Men in Uttarakhand have been going out of their villages in search of work for a long time. They would work and at some point come back to their villages. A number of them worked in the armed forces. Of late, recruitment in armed forces has declined, incidence of migration has increased, and migration has become permanent in nature. Most non-resident

members are in the age group 20-50 years, in other words, the most productive component of the workforce. This has negative consequences as well as positive.

2.3 Housing and Amenities

92% of households live in single family dwellings, which suggests that they are nuclear in nature. The remaining 8% are in multiple family dwellings. 94% of the dwellings are inherited while only 4% are purchased or built by the households currently residing in them. Mud, wood, cement, and stone are the most commonly used construction materials. There is a reliance on locally available material but use of outside materials such as bricks, iron, and cement is increasing. This could be due to increasing connectivity via roads, paucity of local construction material, government restriction on quarrying, and external influence exerted through non-resident members.



2.3.1 Size of Dwellings

Most dwellings are of medium dimension as shown in the graph (Fig.6).

2.3.2 Kitchen and Shed

Only 56% of the dwellings have separate kitchens whereas 93% have separate sheds for animals. Such a high proportion of sheds for animals is indicative of their importance in the livelihoods of the communities studied. Access to kitchen varies significantly by social groups. These differences are presented in the chart below.

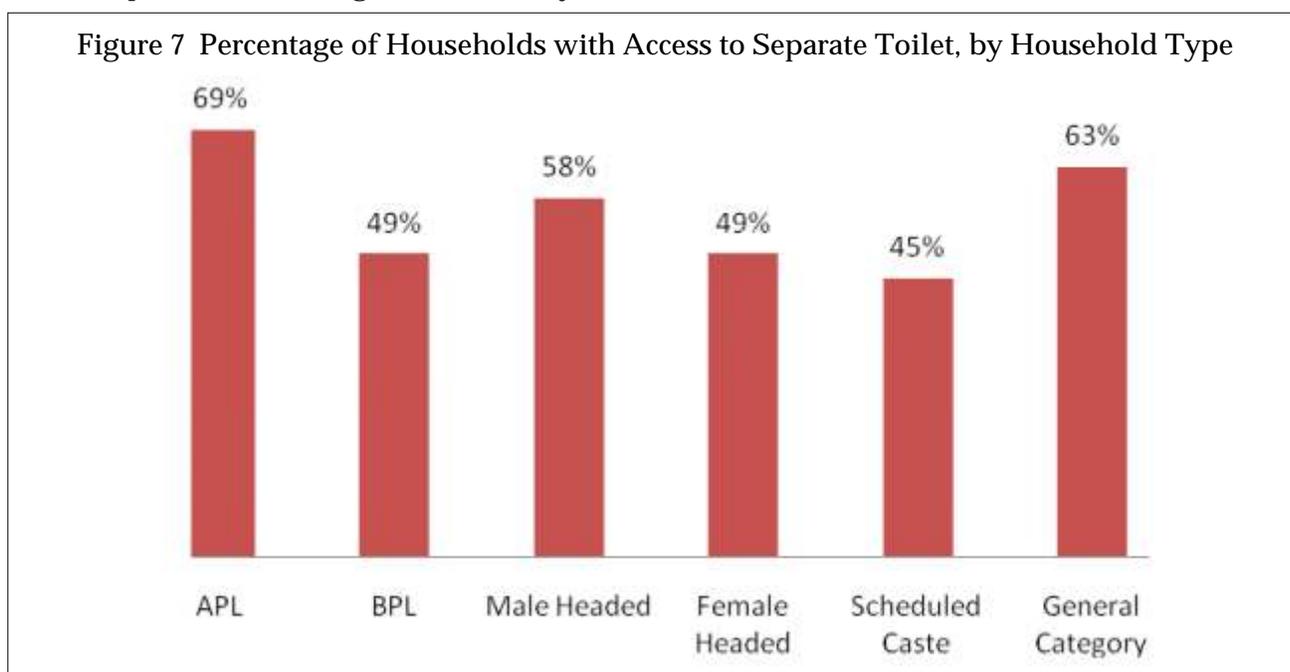
2.3.3 Amenities - Fuel, Water and Toilet

91% of the dwellings have an electricity connection and 9% use LPG as the main fuel for cooking. The remaining 89% rely on firewood for cooking purposes. The work of gathering firewood is left to women and has repercussions on time available to them to participate in other activities, such as SHG meetings. On a positive note, 99% of the households spend less than an hour on a round trip to fetch drinking water. 96% rely

on gravity pipe schemes for drinking water. 85% of the households have modern toilets - though without flush facility. Such high incidence of water and sanitation facilities (Fig.7) is also because of the participation of these villages in *Swajal* project and water and sanitation projects of Sir Ratan Tata Trust ('SRTT').

2.4. Asset Portfolio

The survey probed for commonly available and used assets to correlate asset portfolio with income and expenditure. The advantage of this approach is that if a strong correlation between asset portfolio and income/ expenditure is detected, subsequent studies can use asset portfolio scores to place households in various income/ expenditure categories without having to worry about collecting income/ expenditure data, which is generally considered tedious and tricky.



2.4.1 Commonly Held Assets

Radio/Tape, TV, plough, and mobile phone are some of the most commonly held assets (Fig.8). Whereas radio/tape and TV are more consumerist in nature and suggest a degree of economic well being, the plough reflects the importance of agriculture, and mobile phones suggest a gradual penetration of modern technology and opportunities that technology brings along.

The role of technology, especially telecommunication, in development has been of interest to development practitioners. In the remote hilly areas, telecommunication, especially the cell phone, has alleviated the sense of isolation. However, it has also made local produce and markets more accessible to outside traders, who can, with the help of better means of communication, come to buy and sell at the time best suited to them. If technology can benefit traders from outside the area, it can also help the local communities. But technology does not

function in isolation. It can only function as a part of a larger scheme. So, for example, while it would help a farmer to know what is the best time to sell their produce, that information is of little use if farmers do not have the means to store produce and release it at the most profitable time.

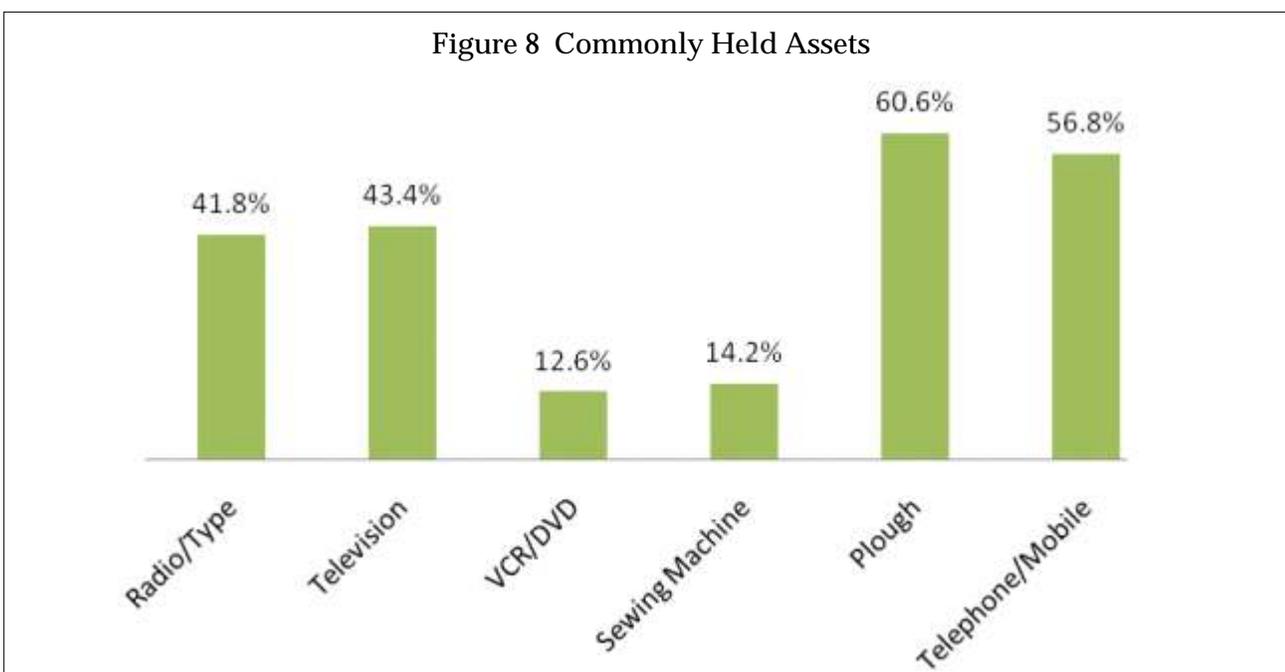
2.4.2 Livestock

95% of the households have livestock of some kind. The most important are cows and buffaloes, ox for agriculture, and goats for meat.

2.5 Land and Agriculture

2.5.1 Landlessness

4% households are landless. Surprisingly 63% of the landless households are GC and only 37% are SC. 79% of the landless households are BPL. Incidence of landlessness is highest among the age group 21-50 and then 60 years or more. Only 21% of the landless households are female headed. The incidence of landlessness is rather low when compared with other parts of India, especially the



plains, this is a major factor in preventing abject poverty and dependence on systems of patronage.

2.5.2 Agricultural Land

94% of the households have agricultural land of some kind and cultivate it. 2% households have agricultural land but do not cultivate it. Those who have land but do not cultivate it are those who have a salaried job, a business, or are too old to cultivate land. The average size of landholding is slightly over 12 *nalis*.

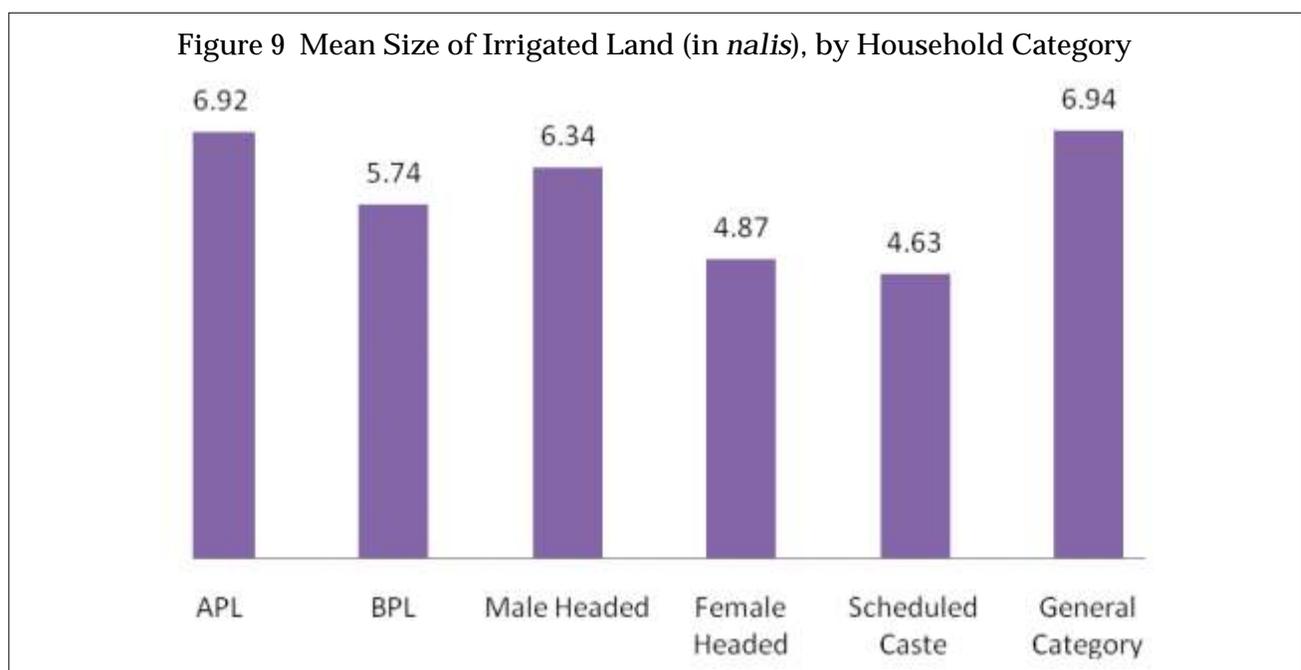
2.5.3 Orchard

47% of the households reported having orchards (which is a homestead in most cases) while 34% did not have orchards. 19% did not respond. The average size of an orchard is 1.2 *nalis*. Important crops grown are potato, onion, vegetables, banana, mango, lemon, *malta*, and orange. Access to orchards is significantly lower for SC and BPL households as compared to GC and APL households respectively.

2.5.4 Irrigated Land

Agricultural productivity is contingent upon irrigation, especially in regions that have seasonal rainfall. The hills are no different in this respect. However, in the hills irrigated land is scarce and avenues to increase land under irrigation limited and costly. 47% households did not have access to irrigated land while 41% reported having access to irrigated land. The data suggests that there is little correlation between access to irrigated land and social categories. However, the proportion of female headed households with access to irrigated land is significantly lower than male headed households. There is also difference in size of plots.

The mean size of irrigated land plots is 6.15 *nalis*. Female headed and SC households have the smallest mean plot size for irrigated land (Fig.9). There is a difference between APL and BPL households as well, with APL reporting larger irrigated plots than BPL but the difference in size is not substantial. Finally,



standard deviation of mean plot size is quite large for male headed and GC households. This indicates presence of outliers which are inflating the mean for these two categories.

2.5.5 Rain fed Land

In the absence of irrigation facilities, a large proportion of agricultural land is used for rain fed agriculture. 73% households reported access to rain fed land while 9% reported lack of access to rain fed land. 18% respondents did not respond. The mean size of rain fed plots is 6.89 *nalis*. However, large standard deviation suggests presence of outliers.

Once again GC, APL, and male headed households have larger plots than SC, BPL, and female headed households respectively (Fig.10). However, they also have a bigger standard deviation. Therefore, the difference may not be as large as it appears to be.

2.5.6 Barren Land

38% of households reported access to barren

land while 44% reported not having access to barren land. Barren land is used, almost exclusively, for grass cultivation. Access to barren land has consequences for the ability of a household to rear livestock.

2.5.7 Landholding Size

As stated earlier, the average landholding is 12 *nalis*. It is 12.4 *nalis* for male headed households and 9.4 *nalis* for female headed households. The mean size of landholding is 14 *nalis* for GC households and 8 *nalis* for the SC households. The difference in the mean size of landholding is small when APL and BPL households are compared. The APL report a mean size of 13 *nalis* while the BPL report a mean size of 11.5 *nalis*. The distribution of total landholding by size is shown in Fig.11. A majority of households have landholdings ranging between 5.1-15.0 *nalis* and has a near normal distribution pattern.

Figure 10 Mean Size of Rain-fed Land (in *nalis*), by Household Category

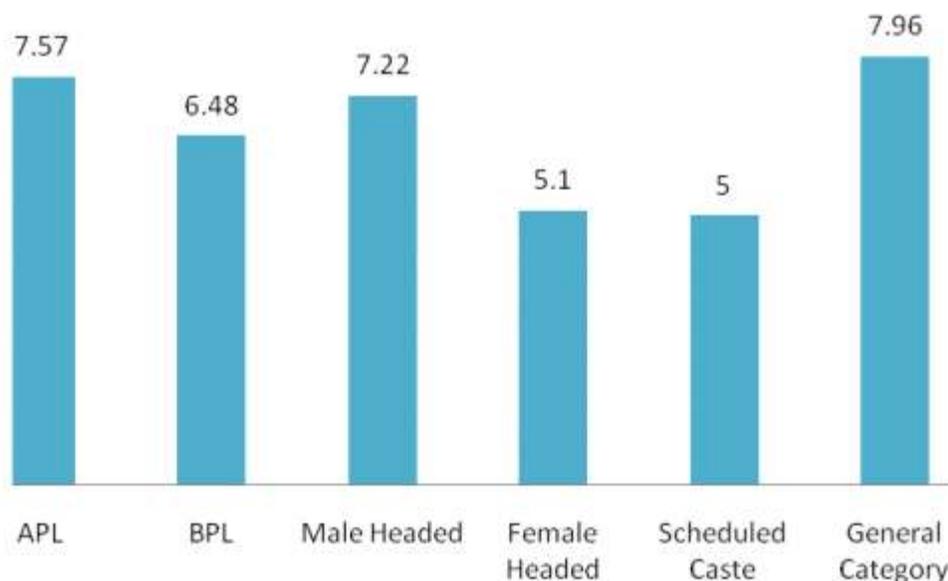
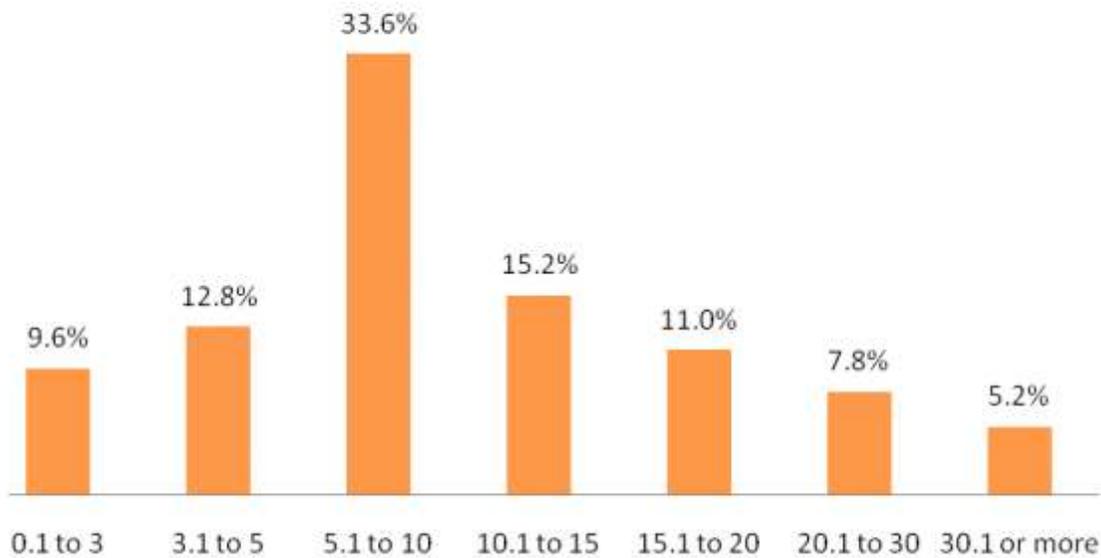


Figure 11 Land Holding Size (in *nalis*)



2.5.8 Consumption of Produce

10% of households sell some produce in the nearby markets but for most land owning households, the agricultural produce is consumed within the household. Where produce is taken to the market, it is sold either within the village or in nearby villages and towns.

2.5.9 Food Sufficiency

On average, agriculture meets the household food requirement for less than two months. However, there are variations in this variable as depicted in Fig.12. These variations are due to differences in the size of the landholding, quality of inputs, irrigation, and agricultural techniques. Household size is also an important determinant of the extent of food

Figure 12 Months of Food Security - Agriculture



sufficiency from agriculture. The correlation between the size of landholding and months of food sufficiency from agriculture is 0.5 and is significant at 0.01% level.

2.6 Crisis and Coping

2.6.1 Crisis

Households were questioned about the crises they faced in the last twelve months, if any, and their response to it. About a third of the households reported not facing any crises. Others reported diverse crises situations. It should be noted here that when households said they had suffered a crisis situation, they were actually referring to a period of discomfort or, in most cases, a state of shock. About 31% of the households reported having suffered from high prices of food items, 11% from inadequacy of pastures, 6% from prevalence of human disease and 7% from prevalence of crop disease. Animal disease, water scarcity, and poor health of earning members were also reported by about 3% of the households each.

2.6.2 Coping

Just as crises were diverse so also were coping strategies (Fig.13). Most households used savings to tide over crises or else reduced expenditure. 'Other' refers to a plethora of strategies such as buying fodder, seeing a doctor, getting water from other sources, etc. As is clear from the graph, loans are not very important to tide over a crisis situation. This also suggests low intensity of crisis situation and availability of resources to tide over a crisis situation.

2.7 Income and Expenditure

2.7.1 Mean Annual Household Income

Income data was collected at the levels of individual and household activities. The two were added to arrive at the total household income. The most important sources of income are pension, remittance, non-agricultural labour, agricultural labour, and business. Agriculture is not a major source of income. It is primarily subsistence in nature. Mean annual income is Rs. 47, 948/-. There

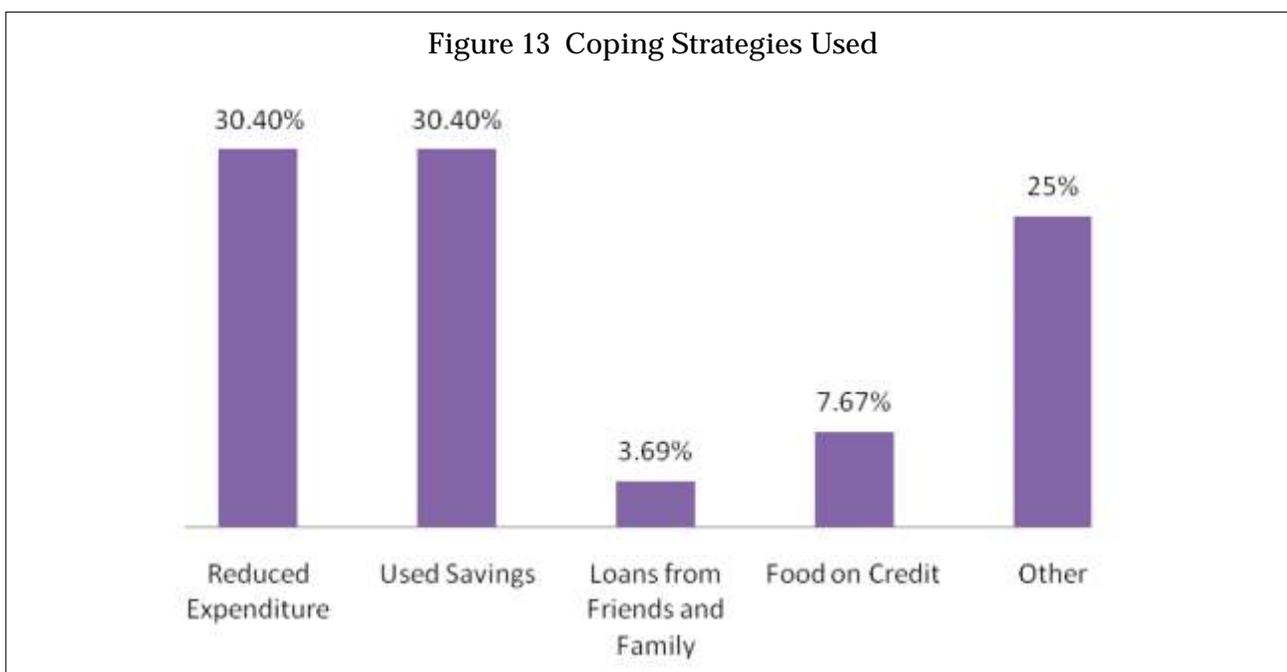


Figure 14 Mean Annual Household Income (in Rupees), by Category



are wide variations between social groups (Fig.14) with APL, GC, and male headed households earning more than BPL, SC, and female headed households respectively.

2.7.2 Per Capita Income

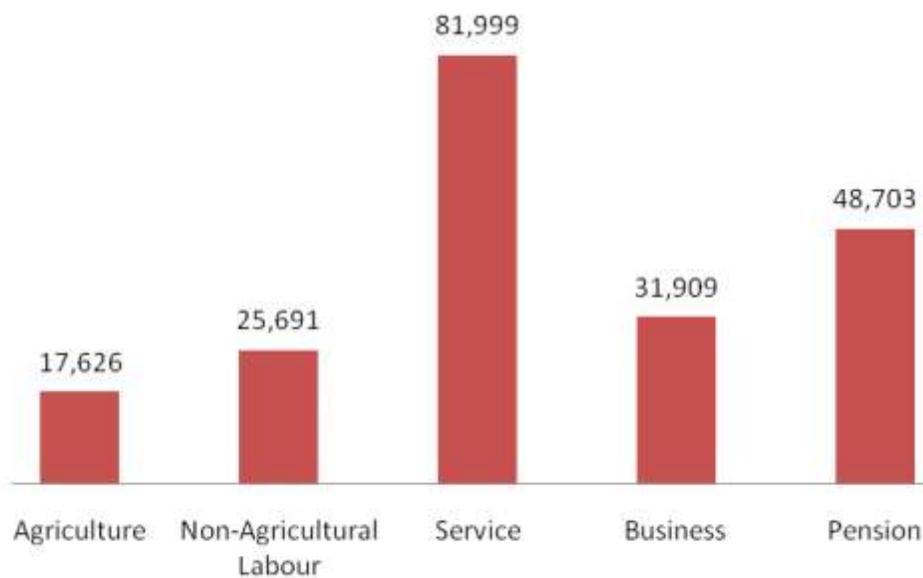
Income estimates at the household level can be misleading. Therefore, it makes sense to calculate per capita income. The mean per

capita income is estimated at Rs. 11, 535 per annum. Comparing household income with per capita (Fig.15), we find that female headed households are actually better off than male headed even though in terms of household income female headed households come across worse off:

Figure 15 Mean Annual Per Capita Household Income (in Rupees), by Category



Figure 16 Mean Annual Income by Sector (in Rupees)



2.7.3 Mean Annual Income by Sector

There are also differences in income by sector (Fig.16). The mean annual income is highest for the service sector and lowest for agricultural labour.

2.7.4 Household Economic Activity

Households also supplement their income by

engaging in various household based income generating activities . Important among these (Fig.17) include dairy, fruit and vegetable, and sale of animal produce, largely meat. Remittance, which is not a household based economic pursuit, is also included here for reasons of ease of presentation.

Figure 17 Mean Annual Income Household Based Activities (in Rupees)

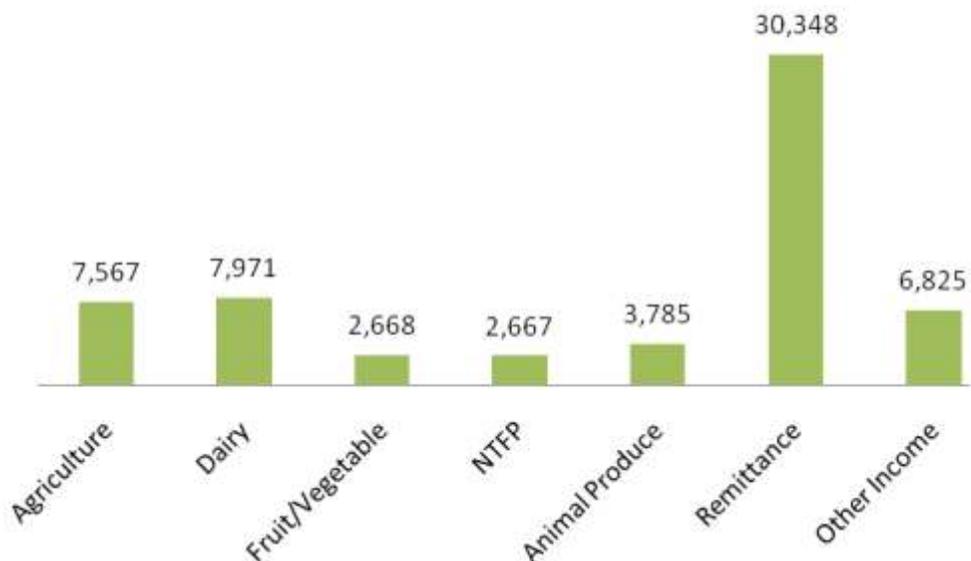
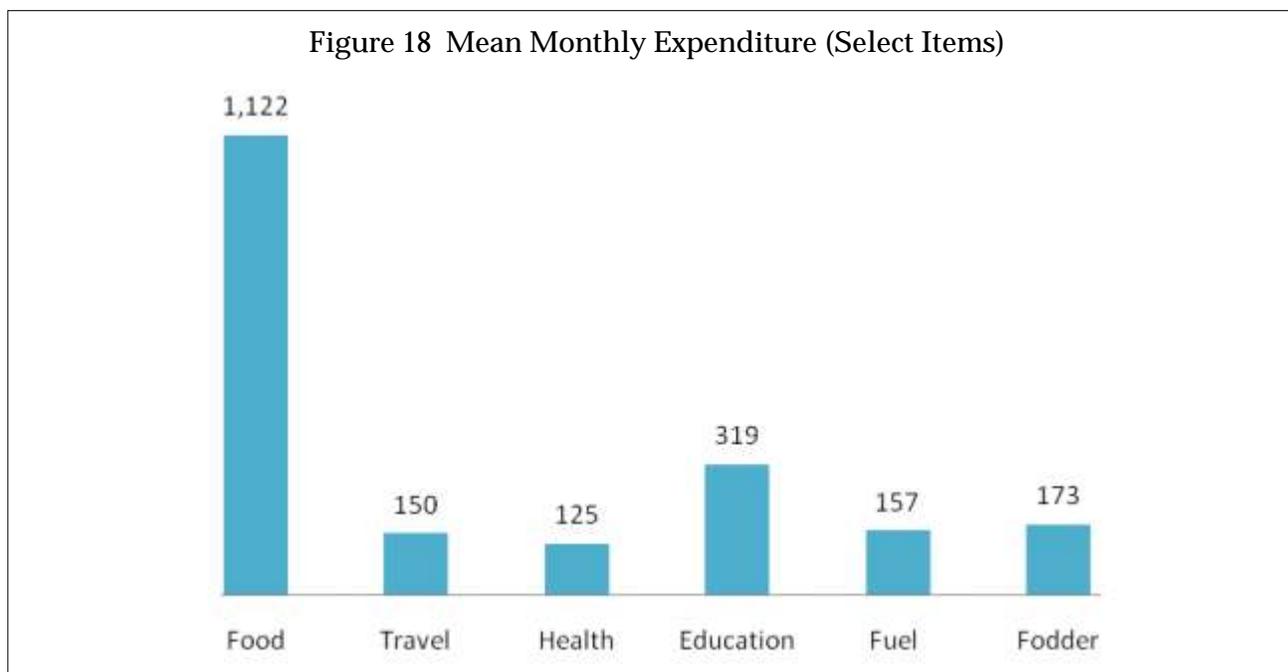


Figure 18 Mean Monthly Expenditure (Select Items)



2.7.5 Mean Expenditure

Mean annual expenditure is Rs. 21,450/-. The major categories of expenditure include food, education, health, travel, and fodder (Fig.18). There are wide variations in these expenses between different groups. Variations in the monthly expenditure on food and education across APL-BPL and SC-GC households are presented also (Fig.19).

The differences in these expenses have serious consequences for human capital formation in the weaker sections.

2.7.6 Per Capita Expenditure

The mean monthly expenditure was calculated at Rs. 498/- a month or Rs. 5, 976/- a year. There are differences by socio-economic categories (Fig.20).

Figure 19 Mean Monthly Expenditure by Household Category (Food & Education)

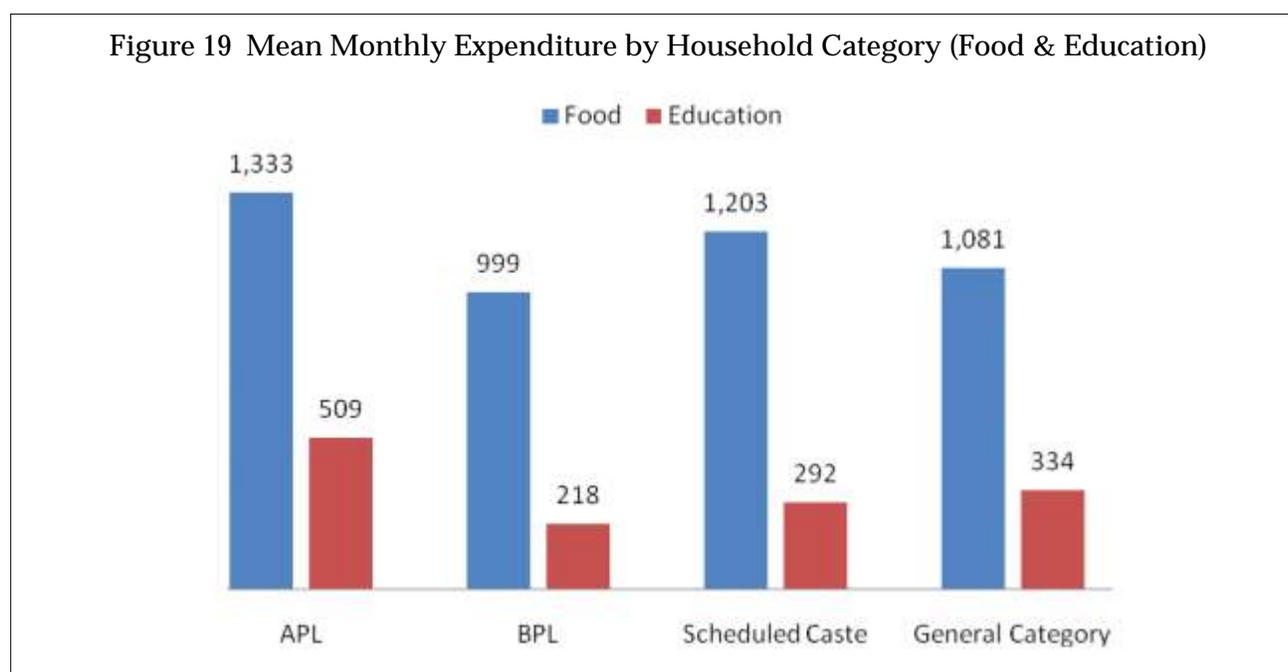
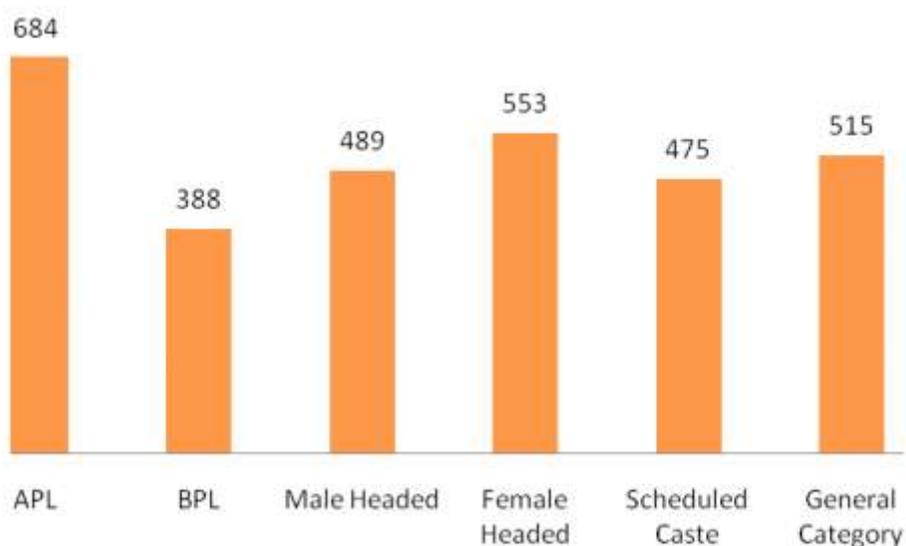


Figure 20 Mean Monthly Per Capita Expenditure by Household Category



2.7.7 Surplus

A comparison of the mean per capita annual income and the mean per capita annual expenditure reveals a per capita surplus of Rs. 5, 739/- per annum. This surplus is saved and used for procuring assets or to meet the

expenses incurred at major life events such as marriage, birth, and death. The quantum of surplus is higher for GC, female headed and APL households.

3. FINANCIAL INCLUSION

3.1 Loans

3.1.1 Incidence of Loan

28% of the households reported having taken a loan in the past. There are variations in the incidence of loans across social groups. The economically weaker sections report a far higher incidence of loans.

3.1.2 Loan Purpose

Loans were taken for various reasons (Fig.21). Most loans were taken for housing, followed by marriage, livestock purchase, and health purposes. The purpose of loans does not vary significantly across social groups. However, the proportion of SC households taking loans for health related expenses (18.3%) is higher than the mean proportion. Similarly 4% of BPL households reported taking loans to meet food expenses. The same figure for female headed households was 18%. Having said this, the loans are mostly taken for capital building or productive purposes. Accordingly

this shows a low likelihood of a households getting into a debt trap in the current social and economic circumstances. The debt trap issue is further clarified by source of loans.

3.1.3 Loan Source

Close to 40% of the loans came from banks, 11% from co-operatives, and 8.5% from SHG sources. This along with 2% for government department takes the total from formal and semi-formal sources to about 61%. 37% of the loans came from relatives (Fig.22)..

The importance of different sources of loan varies across social groups. Loans from relatives are overwhelmingly important in female headed and BPL households. For BPL households 42% of the loans came from relatives. Similarly, in the case of GC households 45% of the loans were sourced from relatives. Banks are the single most important source of loan for APL households accounting for 62% of the loans.

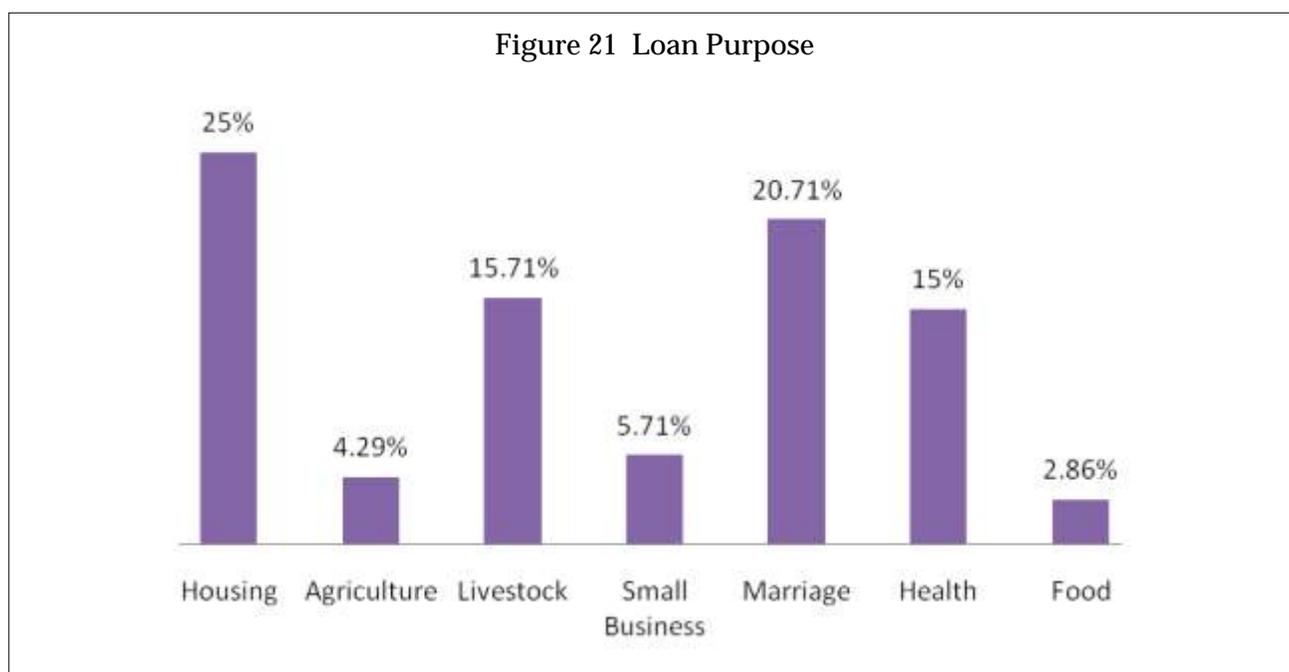
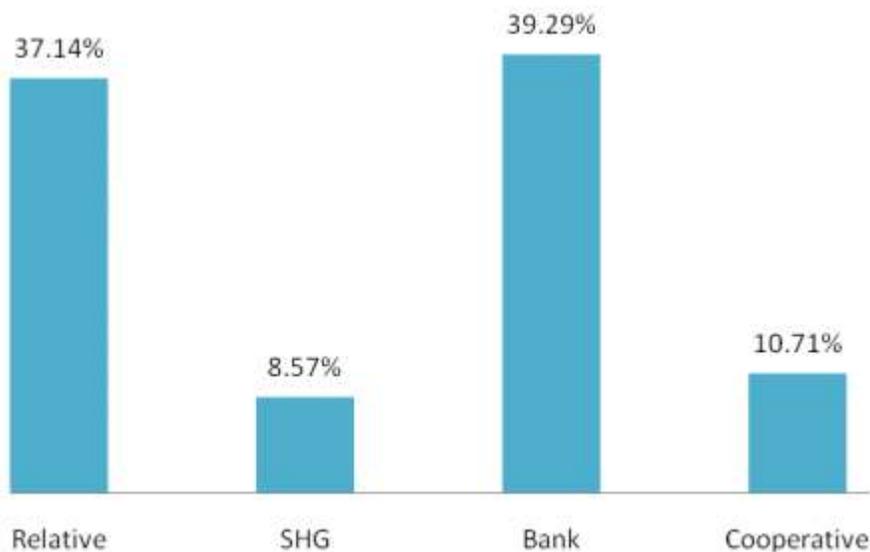


Figure 22 Important Loan Sources



3.1.4 Loan Size

The average loan size was Rs. 30, 567/. However, there are significant differences (Fig.23) in average loan size across social groups.

The difference in average loan size notwithstanding, the figures give an idea of the loans demanded by people and what

delivery mechanism would work or not work. At the current level of demand, 86% of the households with loans said that their credit requirements had been met.

3.2 Financing of Life Cycle Events

Major expenses that people incurred were on purchase of livestock (namely cows, buffaloes, and goats), marriage, birth, death,

Figure 23 Average Loan Size

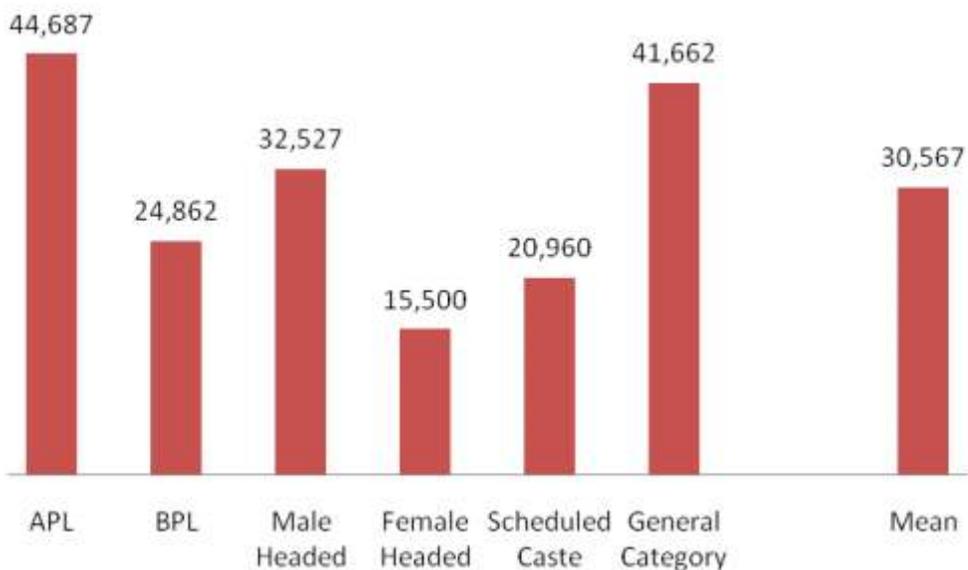
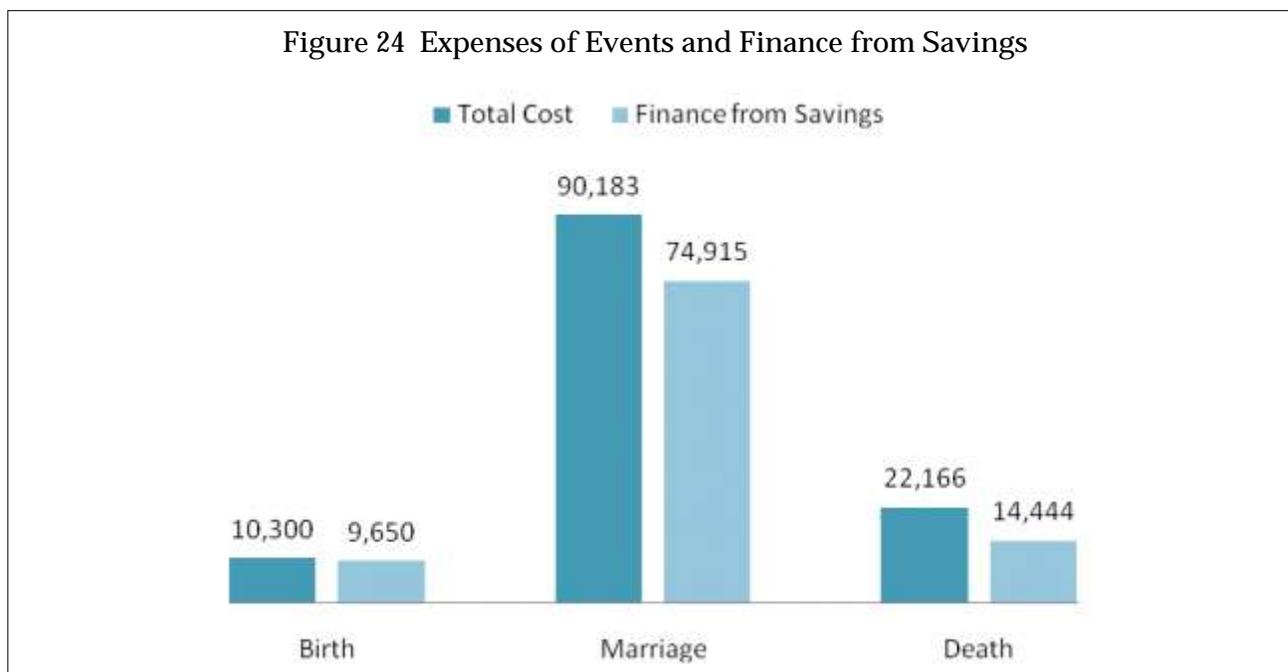


Figure 24 Expenses of Events and Finance from Savings

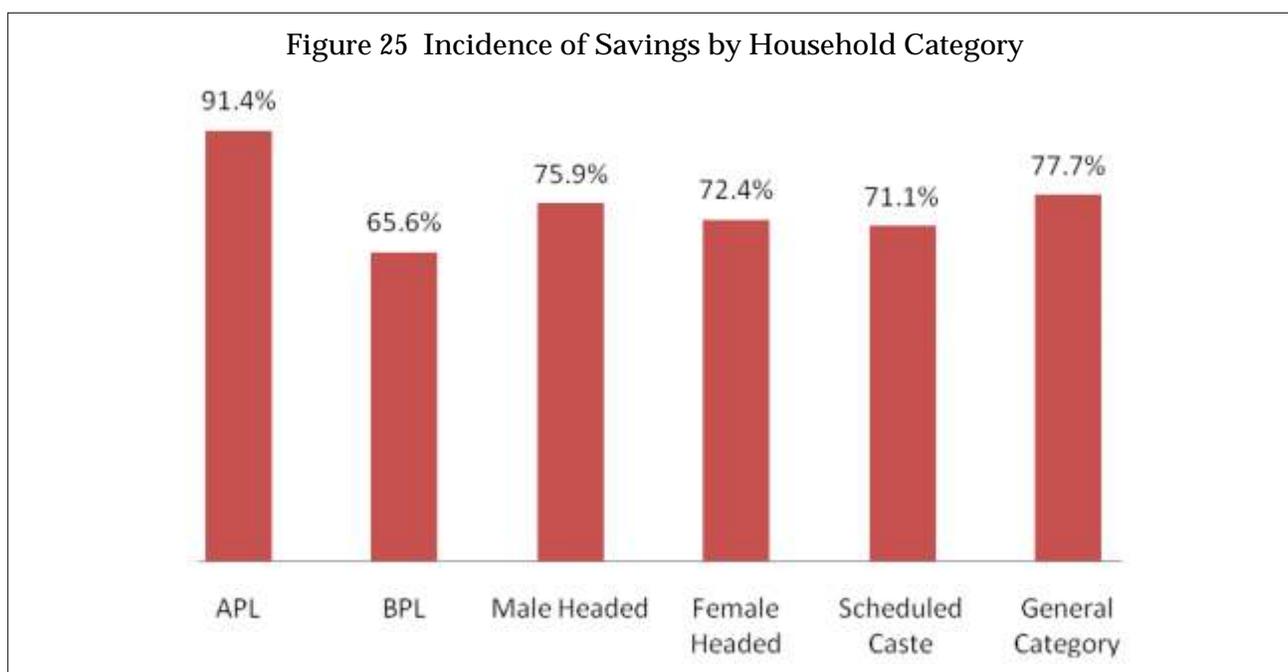


and housing. To give an example, the average cost of weddings reported was Rs. 90, 183/- of which Rs. 74, 915/- was paid for by savings (Fig.24). Where loans were taken, they came from mostly from relatives and, in some instances, from Banks. Expenses on major life cycle events and the financing of the same from savings are presented (Fig.24).

3.3 Access to Banks

81% of the households have bank or post office accounts. The variation across socio economic groups is only minor. Most of these exist either because pension is transferred via these accounts or remittance comes in through these accounts. In any case, this is a fairly high rate of financial inclusion. Where households do not have bank/post-office

Figure 25 Incidence of Savings by Household Category



accounts, the lack of accounts is attributed to difficulty in operating the account including lack of finances/savings.

3.4 Savings

75% of the households in the study reported

savings. The incidence of savings varies across socio-economic groups (Fig.25).

Savings are mostly kept in banks and post offices, 71.3% and 16% respectively.

4. LIVELIHOODS MODEL

4.1 Livelihoods in the Hills

While there is hardship and deprivation in the hill communities, the nature of poverty is different from poverty experienced in the plains. In the hills the poverty is less extreme and there is a lower degree of inequality both in terms of gender and social class. This difference in this poverty can be understood when we consider the context in which the diversified livelihoods of the people of the hills have developed.

Financial inclusion must be considered against the background of this livelihood model. Furthermore, financial products must

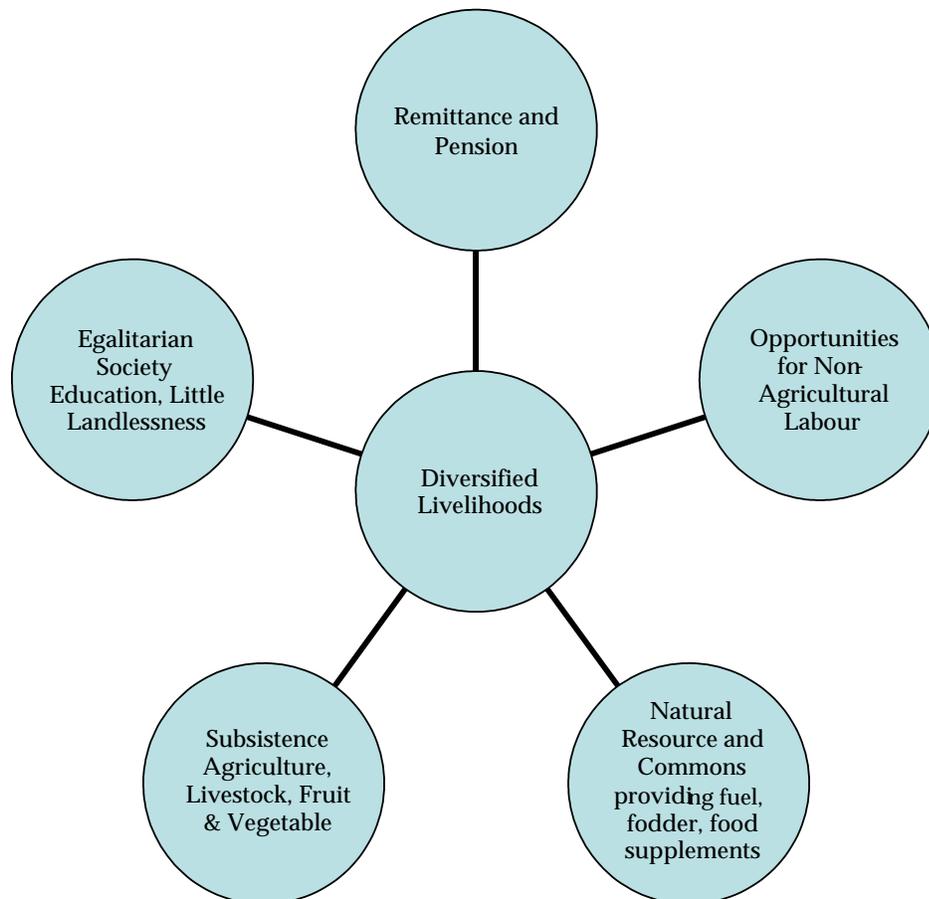
be designed and targeted with this model in mind.

4.1.1 Remittance

Most households would have one or more members living and working away from home. They would send money home in the form of remittance. This transfer is not regular but sporadic. Most workers would bring money home when they visit or would send it home with their friends. Wire transfers, money orders, etc. are not unheard of but quite rare. Pensions are transferred directly to the bank/PO accounts of the pensioner.

4.1.2 Non-agricultura Labour

Figure 26 Livelihoods in the Hills



The rural non-farm sector ('RNFS') engages a large proportion of people working locally. Most would do physical labour. Some would be working in shops and other service sector enterprises in nearby small towns. The cash flow from non-agricultural labour is more regular than remittance, though, during the rainy season and the peak agricultural seasons, income from non-agricultural labour declines.

Together, remittance, pension, and income from non-agricultural labour form the cash component of the household livelihoods strategy.

4.1.3 Agriculture

Agriculture is largely subsistence in nature. In the few cases where agricultural produce is sold in the market, only limited quantities are sold and the income from such proceeds is seasonal. Agriculture does provide sustenance to households by meeting the food requirement partially. Having said this, agriculture appears to be in a state of decline and is increasingly unable to meet the food requirements. This means that food has to be procured from the market, which, in turn, leads to increased monetization of the economy and the consequent need to migrate or move to RNFS. Most agricultural work is done by the women of the house.

4.1.4 Access to Commons

Women take care of the livestock. Almost all households would have livestock. Among these, cows and buffaloes are the most common and are mostly reared to meet household needs for dairy though, in some

cases, milk and milk products might also be sold locally. One reason why livestock is common is the access to common property resources and forest. Together the two provide fodder and fuel to meet household needs. Some households also supplement their income by collecting non-timber forest produce.

4.1.5 Egalitarian Society

Hill communities have traditionally been more egalitarian than the communities in the plains. Women can participate in public domain and caste consciousness, while present, is not as severe as in the plains. All this, coupled with prevalence of education, very low incidence of landlessness, and relatively participatory decision making has meant that one does not see the kind of underclass that exists in the communities of the plains.

4.1.6 Below Poverty Line

Even though the level of deprivation in the hills is not as severe as in the plains, there are groups that are considered poor. The 'best' indicator of the poverty status of a household is the economic category it falls in. BPL or below poverty line households are considered economically deprived. Is BPL (in terms of having a BPL card) a good indicator of the poverty status and can it be used for programming purposes? The answer is NO. Even though, BPL households are worse off than the APL households, as reflected in the size of landholding, the number of non-resident members, the size of remittance, etc., the difference is not as substantive as one would expect. The BPL households are

definitely not necessarily the poorest households in the villages. In any case the proportion of these households is so large as to make the category useless for purposes of targeting.

The 'poor' households are those that do not have a regular income, are landless or near landless, old age households, or widowed households.

4.2 Targeting - Identification of Poor Households

Can the poor households be identified through participatory assessment? It should be possible to do so. One indicator, the size of the dwelling, which is quick and easy to assess has been identified by this study as being an effective indicator of economic well being.

4.3 Changing Livelihoods

There has been a decline in the agricultural sector. This has been due to erratic rains and water shortage, and poor quality of inputs. This has decreased food self sufficiency from agriculture, which has come down from 6 months to 3 months. Growing fruits and

vegetables is a profitable business but it is constrained by paucity of water. Migration has resulted in fallow land, which has come under grass. Decline in agriculture has increased out migration and the consequent dependence on agriculture. People move to the plains where they work in the private sector. There was a time when recruitment in the armed forces was quite high but that has changed. When people cannot or do not want to move out, they work in the rural non-farm sector including tourism, transport, retailing, construction, etc.

4.4 Monetization

Remittance, pension, and income from non-agricultural labour have created a cash based economy. This has increased the demand for products but has also led to problems of alcoholism, refusal to work, etc. People have invested in building new houses. This has created employment opportunities, but the benefit of these investments has gone to outsiders. The construction material is procured from the plains as also is a lot of labour.

5. RECOMMENDATIONS

5.1 A Role for the SHG Microfinance Model?

When considering the livelihood model of the hills, and the current level of financial inclusion, is there a role for traditional microfinance, where small loans are extended and repaid over time?

5.1.1 *Access to Credit*

Small loans have a limited utility in this area as indicated in the average loan size, and satisfaction with the existing financial arrangements. Credit component could be thought about gradually once the demand increases. Demand for credit is a function of avenues and capacity for investment. However, it is more likely that small and medium enterprise ('SME') loan window would work better in the hills. The SHG Microfinance Model, does not, therefore, adequately serve the financial needs of those in the hills. Recommendations in terms of financial products are discussed in 5.2 below.

5.1.2 *Traditional Support Systems and SHGs*

The SHG microfinance model has various aims. As well as the financial aims of encouraging savings, and providing access to credit, the SHG model is also designed to develop support networks, to provide a forum for discussion and idea sharing, and to build social capital.

Traditionally village communities in the hills have acted as one large, multi-purpose self help group. Large public works such as building retaining walls, laying pavements,

cleaning of water sources were taken up by the village as a whole. Help to the individual household during house construction/repair, marriage, agricultural labour, etc. were and to some extent are still provided on a quid pro quo basis. However, these arrangements are on the decline. State machinery and NGOs have made the village and its institutions redundant. Help to individual households is still extended but that too is on the decline. Increasing inequality, out migration, and monetization are responsible for these changes.

An example of this change is that people prefer not to take loans from informal sources if they can help it. There is a hidden cost to such loans, which can never be repaid. People who extend loans benefit from free labour, social support against will, and, in some cases, matrimonial matches. The non-financial cost of informal loan is very high.

The SHG Microfinance Model could have a role to play in the hills, however this role is less in terms of the financial aims of the microfinance model, and more in terms of their social objective. SHGs can help build social capital; they can be a platform for dissemination of ideas, debate, and a platform for social and economic development. They have an important role to play. For example, *Mahila Mangal Dals* have been quite active in the campaign against alcohol. In the hills in particular focus needs to be directed towards their social objectives, not simply their 'savings' objectives.

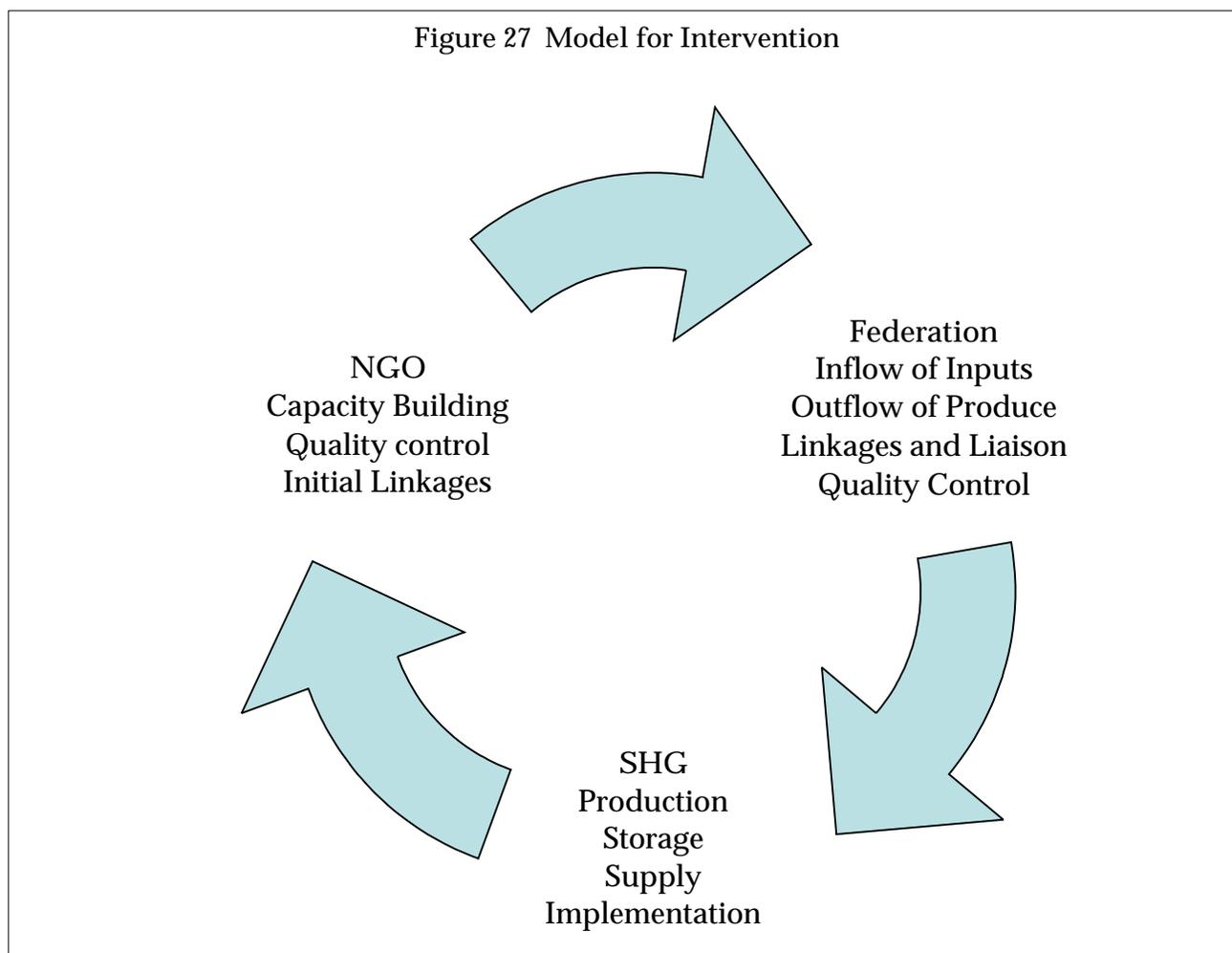
During the course of this study it became apparent that most SHGs are formed because they are a project requirement. They fold up or become defunct once the project ends. A new project comes and the cycle repeats itself. The same is the case with the village development committees ('VDC'). So how can programmes support (and sustain) the social objectives of the SHG model?

5.1.3 Supporting the Social Objectives of the SHG Model

The social objectives of the SHG model (Fig.27) can be supported by supporting the women who form them. For example, the study findings suggest that only 11% of households use LPG as the main source of cooking fuel.

Women who are the primary collectors of fuel wood spend a lot of their time collecting fuel wood. This means that they have less time for activities such as attending SHG meetings. An SHG could lend for procuring LPG facilities on the one hand, and by procuring LPG facilities in bulk from suppliers. This would give an income to the SHG while at the same time strengthen it further by giving members more time for SHG activities.

The social objectives can also be supported through developing linkages between SHGs. One model would be to have only one SHG per village, regardless of the number of projects in each village. Each SHG should be affiliated to an NGO, to provide meaningful support for



their social objectives – not simply to check that they are 'saving'. All SHGs under one NGO should be federated. The work of the NGO, federation, and each SHG should be reviewed annually and a rating assigned to all three. The rating is useful to see where further support, in terms of training and capacity building can be directed. It can also be a guide for funding, in that the rating can be seen as an indicator of a certain level of financial and managerial responsibility. SRTT could also persuade other donors and government to think on these lines and evolve a commonly accepted and effective evaluation mechanism.

Why should this work? As we noted above, there is a considerable degree of cynicism that SHGs last only as long as the project that forms them. While there may be an element of truth in this, there also a number of examples of successful SHG-Federation models. The hill communities suffer from isolation, poor infrastructure, poor connectivity, poor processing facilities, and poor storage systems. There is lack of skills, lack of information, and a lack of linkages. NGO-Federation-SHG model can address these bottlenecks.

However, it is important to bear in mind that building an NGO-federation-SHG model is like building an institution. It cannot be done in one or two years. It will require intensive effort over a considerable period of time. One way to do this to select the best partner NGOs and their best SHGs and work intensively with them for a few years, refine the model, document the best practices, and replicate the model. Finally a model is sustainable only

when people feel involved, have a voice, and feel they benefit from the interventions. Where SHG-Federation model did not work it was not because of the problems with the model but with the opportunities it was generating. Capacity, enterprise and linkages is the way forward.

5.2 Tailored Financial Products

Whilst the SHG Microfinance Model may not appropriately serve the financial needs of people in the hills, there are targeted products that can be promoted. As savings are not being actively re-invested, the savings are at risk of being eroded in real terms due to inflation. At the same time as building a local skill base to develop new avenues of productive investment in key sectors including agriculture, tourism and small and medium enterprise ('SME'), targeted financial products could be developed. These products could focus on protecting savings against inflationary effects, and targeting the priorities of those living in the hills. Such instruments might include bonds, mutual funds and term deposits. They might also include insurance, especially of livestock and agriculture, and products for, health and education.

5.2.1 Health and Education Products

An average household spends in excess of Rs. 300/- on education and more than Rs. 150/- on minor health issues every month. This will only increase. For example, only the poorest send their children to government school. Private schools are expensive. Similarly with increasing private health care, health expenses are also likely to increase.

5.2.2 Insurance

Very few households have insurance and where they do have, it is exclusively life insurance. Insurance of livestock is one area where there is a large unmet demand.

5.2.3 Savings

There is a fairly substantial surplus in the households as indicated by the difference between income and expenditure. This can be absorbed through appropriately designed savings and investment products.

CENTRE FOR ECOLOGY, DEVELOPMENT AND RESEARCH
41, Vasant Vihar, Phase I, Dehradun, Uttarakhand - 248006
TeleFax: +91-135-2763403, Website:cedarhimalaya.org