Status of Microfinance in Rajasthan
CHAPTER 4
STATUS OF MICROFINANCE IN RAJASTHAN

Rajasthan is located in the northwest of the country, in an area which Sadhan’s survey specifically highlighted as remaining less targeted by microfinance institutions. The rate of growth in microfinance may not be as high as in other states, yet Rajasthan has still seen a rapid increase in the microfinance sector. According to the “Status of Microfinance Sector in Rajasthan” published by the Center for Microfinance in 2010, the number of self-help groups and credit disbursal had increased three times in the previous three years [16]. As with the general trend across the country, the primary model used to deliver microfinance services in Rajasthan is the SHG-Bank linkage model. However, there still remains a much greater need for microfinance outreach in the region than that which is currently being provided.

Government programs on poverty alleviation and the policies impact the microfinance sector to a great deal. The microfinance needs also get impacted by various developments at district, state and centre level. This chapter captures some of the major developments from Government, banks and voluntary organizations in terms of new interventions and policies that would impact the microfinance sector in Rajasthan. Only the schemes and trends which bear direct relation to microfinance services of the poor have been captured in the chapter.

4.1 DEVELOPMENTAL SCHEME UPDATES
4.1.1 Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)

The scheme provides a legal guarantee for one hundred days of employment in every financial year to adult members of rural households willing to do unskilled manual work at the statutory minimum wage. The objective of the scheme is to provide employment to rural poor on one hand and to build assets for rural development on the other.
MGNREGS in Rajasthan [17]  

<table>
<thead>
<tr>
<th>Year</th>
<th>Money spent on wages (in Rs. Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>4375.79</td>
</tr>
<tr>
<td>2009-10</td>
<td>4099.54</td>
</tr>
<tr>
<td>2010-11 (Till July)</td>
<td>486.89</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8962.22</strong></td>
</tr>
</tbody>
</table>

MGNREGS started in 2006 in selected 100 districts and from 2008 it was upcaled to all districts. In Rajasthan its implementation is considered successful. Till July 2010, 65 lakhs households have got employment and over Rs. 8960 crores have come in the rural economy of Rajasthan in form of payments to labors. A cash inflow of this quantum has helped poor to meet expenses on child education, food & fodder, agriculture inputs etc. It can be said that had MGNREGA not been there, poor would have taken loan from money lenders at 25-60% interest rates to meet such expenses or would have migrated. Over 50% [18] of households in Rajasthan are estimated to have benefitted from the scheme.

Financial progress as per data provided by MGNREGS indicates that the scheme has been successful in providing employment to rural poor. However, it is not known as to what extent the assets for poverty alleviation have been built. Though there has been no impact study to prove or disprove asset creation, preliminary
findings indicate that in Rajasthan, majority of projects have been on making rural roads and de-silting old water bodies and digging new water bodies on common lands.

MGNREGS is often criticized for raising the agricultural wage and thereby increasing the agricultural costs. However, in Rajasthan, agriculture is primarily sustenance agriculture. Therefore, the chance of wage rate increasing is unlikely, even though no evidence is present for or against the argument. The payments under MGNREGS are routed through banks, post offices and cooperative societies. Thus people have started getting exposed to these formal institutions. This is a positive development and would help in financial inclusion as well.

4.1.2 NRLM (National Rural Livelihood Mission)

NRLM has been conceptualized by Ministry of Rural Development, Government of India. It is to replace the (SGSY), a scheme which was primarily designed to promote self-employment oriented income generating activities for the BPL (Below Poverty Line) families in the rural areas.

NRLM aims at taking a different approach to issues faced in SGSY. Main thrust areas in NRLM comprise a) Targeting all poor & not just BPL; b) The subsidy to be used as seed capital for long term credit linkage; c) Focus on building institutions of the poor e.g. community based organizations (CBOs, SHG federations etc); d) Dedicated support structure for SHGs and SHG Federations; e) skill development trainings specially off-farm trainings; f) Resource mapping at various levels and matching it with market demand before selecting activities for community livelihood promotion; and g) tracking financial conditions of households over a period of time.

4.1.3 District Poverty Initiative Project (DPIP) II

The Government of Rajasthan completed DPIP Phase I in December 2007 and is preparing to follow it up with a second phase called Rajasthan Rural Livelihood Project (RRLP). The RRLP is expected to build on the experience from DPIP, and other ongoing livelihood projects in India. The RRLP aims to increase and sustain income of the poor, especially women, in 17 districts covering 111 blocks.
4.2 LOAN WAIVER AND ONE TIME SETTLEMENT OF DEBTS SCHEME

Following the farmers distress and farmers suicides in various parts of the country, Government of India launched Loan waiver and one time settlements of bank debts scheme in 2008. The scheme was to waive off Rs. 60000 crores bank loan of marginal and small farmers so that they can get fresh credit from banks and do not have to fall in debt trap by usurious informal loans.

Small and marginal farmers holding land up to two hectares were entitled for complete waiver of loans, while farmers holding more land than that were eligible for a one-time settlement relief of 25%. It was envisaged that Loan waiver will bring out distressed poor from clutches of debt trap and strengthen them to build their livelihood.

The scheme got implemented but there are different opinions on whether it really benefitted the poor. Data is not available on the number of poor (whose loans were waived off) who could get fresh loans from banks. There are anecdotal evidences from field that people faced enormous difficulties in getting fresh loans from banks. Many bank managers still consider them defaulters (as they have not repaid the loan) and strongly believe that such schemes would have negative impact on the financial discipline of poor.

According to the National Sample Survey [59th Round, 2004-05], 51.4 percent or just over half of farmer households in the country did not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27 percent of total farm households had any loans from formal sources (of which one-third also borrow from informal sources). Among the marginal farmer category, as many as 80 percent did not have any borrowing from formal sources. Therefore, it can be deduced that target group of loan waiver scheme was not exactly for which the scheme was launched.

In loan waiver scheme, only agricultural loans were waived off. Since SHG's microfinance loans didn't fall in this category, SHG loans were not waived off. This resulted in resentment in some SHGs who perceived them to be sufferers at end of the
day rather than beneficiaries. Repercussion of the scheme included adverse effect on repayment rate of SHGs, who thought that their loans too will be waived off.

The massive scale of loan waiver scheme squeezed the human resource capacity of banks to an extreme. During 2008-09 and 2009-10, significant proportion of bank staff was engaged in loan waiver claim processing. This had negative impact on SHG Bank linkage.

4.3 FINANCIAL INCLUSION

4.3.1 Dedicated Fund to promote financial inclusion

Government of India set up Financial Inclusion Fund and Financial Inclusion Technology Fund in NABARD in 2007-2008. With an aim to support developmental activities through promotion and technology, these funds will see infusion of aggregate Rs. 1000 crore in both the funds. The funding will be contributed by the GoI, Reserve Bank of India (RBI) and NABARD in a ratio of 40:40:20.

4.3.2 Financial inclusion in villages with population in excess of 2000

Finance Ministry, in consultation with RBI, has decided to provide banking facilities, along with insurance and other financial services, to habitations having population in excess of 2000 by March, 2012. (This will be followed by targeting habitations having population in excess of 1000). This will be achieved through business correspondents and business facilitators.

4.4 MUSHROOMING OF MULTI LEVEL MARKETING TO COLLECT SAVINGS FROM POOR

In last few years, there has been an influx of “doorstep financial services providers” which provide saving linked schemes to poor in Rajasthan. Their activities have ballooned in last few years. Their structure mirrors that of a Ponzi scheme in which returns are paid to investors from their own money or money paid by subsequent investors, rather than from any actual profit earned. A Ponzi scheme is meant to default later, if not earlier in its day of operations, when the bubble gets burst.
There has also been an influx of (Multi-level marketing) schemes in which members are incentivized to add more members under each member to do business. With every new addition, existing members get benefitted.

A quick learning from successful operations of such schemes, many of which are not regulated by RBI, SEBI or IRDA, indicates that a fertile ground exists for banks to meet demand of poor. It is ironic that Doorstep Financial Services Providers which are regulated by none hold a free hand in whatever they do and are able to run scot free in case of frauds. State government and RBI need to take stern action to bring such unregulated entities under their purview, which usually come to public notice only in case of fraud alarm.

4.5 INTEREST SUBSIDY OF 50% ON LOANS TAKEN BY WOMEN SHGS [19]

The state government has decided to give 50 per cent subsidy on interest to Self Help Groups (from July, 2010) if the SHGs repay to banks on time. This is a positive trend and incentivizes SHGs to be regular in payment. This development should also encourage banks to give more credit to SHGs.

4.6 STANDARD MICRO-INSURANCE PRODUCT FOR RURAL & SOCIAL SECTOR

IRDA’s proposed standard product is aimed to provide a comprehensive package of insurance covers to relevant persons belonging to economically weaker sections in rural and urban areas. The product is proposed to link with KCC, farmer clubs, SHGs which would enable the insurers to reach out to the policy holders easily for premium payment and other servicing.

4.7 POLICY TRENDS HAVING IMPACT ON MICROFINANCE SECTOR

In last few years, there has been paradigm shift observed in the policy and programs of poverty alleviation. Now the policy makers and development practitioners are looking at financial inclusion and microfinance from a different perspective. Some noticeable trends are discussed below-
4.7.1 **Addressing all poor rather than targeting only Below Poverty Line (BPL)**

In the past, approach of poverty eradication was limited to targeting 'Below Poverty Line' families only. Idea was to provide relief and propel growth of the BPL poor by providing them with one time subsidy. For example, under SGSY (Swarnjayanti Gram Swarozgar Yojana) scheme, subsidy was given to SHGs of BPL members. However, this approach of targeting BPL has not fetched desired results. A negative implication of this policy has been increase in demand of 'BPL card' from relatively richer segment of poor and, therefore, lot of BPL benefits not reaching intended beneficiaries.

New poverty alleviation programmes like MGNREGS, NRLM, RRLP, MPOWER etc. are approaching poverty eradication through 'financial inclusion', in which focus is not just on BPL but a set of poor people, including BPL. The new approach aims at impacting more and more poor irrespective of whether they fall in BPL, thereby increasing outreach and building strong institutions of the poor.

4.7.2 **Focus on institutions of poor (e.g. SHG Federations and CBOs)**

Mobilization of all the rural poor households into functionally effective, self-managed and self-governed institutions of the poor has now become top priority of policy makers and local development practitioners. It is perceived that 'institutions of poor' are more sustainable and effective as compared to individuals dependent upon outside support. Federating self help groups in higher-level institutions increases their "voice" and bargaining power with the private sector, market and other state actors. NRLM, which has replaced SGSY, and DPIP II (RRLP), which has replaced DPIP I, have 'focus on institutions of poor' as one of their key thrust areas.

NGOs involved in the sector have found 'federations' to be the next step for SHGs' growth. There is growing acceptance of the whole idea of federating SHGs. This is pronounced by increasing number of federations over the years.

4.7.3 **Use of one time subsidy and grants as seed capital**

In the past, focus has been on providing one time subsidy/ grant to BPL households and SHGs. Government schemes like SGSY and DPIP Phase I have focused more on subsidy component to individuals rather than building their credit linkages with banks. Such schemes have resulted in leakages, delay in payments, false
delivery and bureaucratic interventions. Adding to that, amount of subsidy has been limited and un-replenishable.

Compared to schemes mentioned above, new schemes like MPOWER, NRLM and DPIP Phase II (RRLP) focus more on building credit linkages of poor with banks rather than providing one time individual subsidies. Idea is to invest in building institutions of the poor by providing seed capital and then grooming them to save. Remaining amount for growth is fetched from banks as credit. This approach is more sustainable. Moreover, since bank credit is unlimited (of course, if repaid regularly), it serves as reliable, long term solution as compared to short term focused subsidy/grant.

4.7.4 From group enterprise to micro-entrepreneurs’ group

SGSY scheme supported and promoted group enterprises. However, group enterprise approach has been proved wrong beyond doubt over time. It has been well established that individual enterprises (or at max, partnerships) are natural, more sustainable and more effective from business point of view. Individual enterprises have got wider acceptance over the years.

4.7.5 Rollback of private banks from Microfinance

In microfinance sector, many private sector banks came forward 3-4 years back to provide credit to poor through SHGs and MFIs. The models involved, to name a few, partnering with microfinance institutions, using business facilitators for microfinance services etc. However, either due to operational losses or due to implementation issues, these banks faced expansion issues. Rather than finding solutions to the problems, these banks starting rolling back. The implication was that the channels for provision of financial services to poor were narrowed.

4.7.6 Shrinking Donor Funds for promotion and nurturing SHGs and SHG federations

Due to influx of large number of microfinance institutions, which are raising commercial capital and which are returning commercial Return on Investment (ROI) to investors, donor agencies have started taking a relook at microfinance sector. Over last 2-4 years, microfinance has become somewhat of a new “asset class”. A number of private equity investors and commercial venture capitalists have made significant
investments into the sector. Same microfinance institutions, who were hand-held and
groomed by donor agencies during initial days, have now become favourites of large
commercial investors, who are willing to deploy huge amounts of cash for minority
stake of equity.

These developments have led to change in perception of many donor agencies
which are now looking at sector as 'profit-making' and 'commercial'. Donor agencies
have therefore started distancing themselves from microfinance sector. This has
negative implications for community based microfinance programs (read SHGs),
which are meant for empowerment of poor. Community based microfinance is being
deprived of financial support that is required at initial stage.

4.7.7 Impressive growth by MFIs

Credit outstanding by MFIs is estimated at Rs. 527 crores as of March, 2010
while credit outstanding through SHG bank linkage is estimated at Rs. 501.3 crores as
of March, 2010. This indicates that out of Rs. 1028.3 crores total credit outstanding in
microfinance sector as of March, 2010, almost 51.25% has been captured by MFIs.
What is more interesting is that this 51.25% has been captured over a period of little
over 3 years, while SHG bank linkage has been there for more than 10 years.

4.8 INNOVATIONS IN MICROFINANCE SECTOR

Over last few years, microfinance sector in Rajasthan has seen innovative
approaches being tested to counter the challenges of poverty alleviation. A few of
them have been captured below-

4.8.1 Producer Companies

Last few years have seen Producer Companies becoming a reliable and
successful model of empowerment of poor. This reinforces the belief that future lies
in promoting “people's institutions”. A producer company is owned by its members
who are required to be 'primary producers', that is, persons engaged in an activity
connected with, or related to, primary produce. Members' ownership or equity in
Producer Company is not publicly traded. Some examples of successful producer
companies that have emerged in Rajasthan include Grameen Aloe Producers
Company Limited (GAPCL), Ginger Producer Company, Jhadol, Maitree, Tonk,
Jhambu Khand Kisan Producer Company Limited.
4.8.2 Mobile phone based MIS

MITRA (Mobile Information Technology for Rural Development) is an initiative of People's Education and Development Organization (PEDO), a Dungarpur based NGO. MITRA is a mobile based management information system (MIS), which generates full-fledged reports. MIS captures real time information through mobile and generates reports with following info—Capital, cash book, deposits, ledger, investment, member history, saving report etc.

4.8.3 Financial Inclusion of tribal through community based microfinance (Dungarpur Project)

Bank of Baroda, in collaboration with PEDO and CmF, took up Dungarpur as a pilot district for SHG-Bank Linkage and for strengthening livelihoods of poor by providing timely and sufficient credit through Self Help Groups. Initiative involved credit of Rs. 55 crores through SHGs, support for promotion of 300 new SHGs, training of all branch managers of Bank of Baroda and its sponsored RRB, skill training of SHG members, issuance of Kisan credit cards, banking products counselling and microfinance training to tribal youth.

Over the last 3 years since launch of project, about 12,000 tribal families have accessed credit of Rs. 320 million and used it for their income enhancement.

The major learning from this pilot project has been that commercial banks can reach out to poor effectively through Self Help Groups. The project has also demonstrated that SHG-Bank linkage is done in focused manner and on scale, can contribute towards financial viability of rural bank branches. Secondly banks should invest in creation of new SHGs and link it with credit targets. A unit of 300 SHGs in two years will cost the bank Rs. 15 lakhs and generate a credit portfolio of minimum Rs. 150 lakhs per year, earning gross annual revenue of Rs. 15 lakhs.

4.8.4 Weather Based Insurance Scheme (WBIS)

Weather based insurance scheme is running in pilot stage in Rajasthan. This scheme provides payouts only if the key weather indicators, such as rainfall, temperature exceed or fall short of the specified range. WBIS will prevail for farmers who have availed loans. Private players like ICICI Lombard charge insurance premium in the range of Rs. 138 to Rs. 2647 to provide compensation for various
crops in range of Rs. 5000 an acre to Rs. 40000. In another instance, the compensation for every acre of paddy, maize and ground nut is Rs. 10000 while the premium is Rs. 276 for paddy, maize and Rs. 386 for ground nut.

4.9 DEMAND FOR MICROFINANCE

In Rajasthan, cash inflow for a household broadly includes daily wages from agriculture & nonfarm (including MGNREGS); sale proceeds from agriculture and animal products, 'animal sale', remittances by family members who have migrated etc. The cash outflow is primarily on expenditure incurred on food, clothes, education of children, household expenses, cattle feed, local conveyance, health, alcohol etc. In addition, there is substantial expenditure on life events like marriage, birth, death; on health related events and construction of house; and investments like deepening of wells/new wells, pump sets, tractors etc.

Given this context, savings and credit have been found to be the two prime financial services that poor needs. However, as most of their livelihoods are uncertain in nature (for example, uncertainty due to illness, death of livestock, crop failure etc), insurance is of utmost importance. Further, due to increased migration of work force from villages to cities within and outside Rajasthan, remittance has become a key service that migratory work force needs these days.

4.9.1 Profile of Poor in Rajasthan

Rural Poor

Most of the rural poor depend on agriculture for their livelihood while others, rear animals to supplement their income. The average annual income of rural household is estimated to be Rs. 54,159 [20]. A large number of poor in rural Rajasthan migrate to earn their livelihoods. Over 64% of rural households in southern Rajasthan report migration, which contributes to 46% of household incomes (UNDP, 2004). Key reasons reported for migration are stagnant agriculture and lack of diversified sources of livelihood. People from tribal areas in southern part go to adjoining Gujarat. In rest of the places, there is substantial migration from villages to nearby towns and cities like Jaipur, Kota and Jodhpur.
Urban Poor [21]

In urban areas, a significant proportion of the poor are daily wage labourers working on construction sites and other works, followed by those employed in shops, factories on salary basis, followed by those who are self-employed (but comprise less than 20% of the urban poor). Urban poor are a heterogeneous group consisting of recent migrants/ fresh settlers at one hand and permanent settlers at another end. Urban poor live in slums which typically lack even meager infrastructure. Around 16.9% of the urban population consists of slum dwellers in Rajasthan. Most of urban poor have irregular cash flows. Majority of their income is spent on procuring basic necessities like medical expenses, food, child education, debt servicing etc. The average annual income of urban household is estimated to be Rs. 77,000 [22].

4.9.2 Demand of Savings

More than 72% of rural families and over 90% of urban families have been found to save [23]. Apart from few families, mostly destitute, who live hand to mouth, others (even beggars) have been found to be saving some amounts for future needs. Most poor families save for repair of house, construction of new house, marriage of children, celebration of festivals; buying agriculture inputs, pay old debts etc.

Rural Poor

For rural poor, the income from agriculture and allied activities is seasonal in nature, primarily around the harvest season. Thus, most rural households have surplus for some time after the harvest of crops. Even the landless agriculture labourers, generally considered at the bottom of the poverty index, have regular employment in this season and tend to save. Rural poor save money as cash in pocket/house, saving in recurring deposits in post office, buying insurance (mainly life insurance of LIC), saving in SHGs, chit funds/ committees, and in companies.

During last 5-10 years, numerous companies like Tulip Global Pvt Ltd [24], Mitashi Tradelink Ltd. [25] among many have started a successful “MLM” (Multi-level marketing) scheme to mobilize deposits. Other companies like Peerless [26]; Sahara Financial Services [27] mobilize savings from rural areas by providing 'service at doorstep'.
Households earn from remittances and non-agriculture wage labour, therefore saving products that offer 'recurring' deposits and 'daily' collection at 'doorstep' are in demand. e.g. Rs. 50 collected every day 25 days a month. The market size of saving products in rural Rajasthan is estimated to be over Rs. 11000 crores [28].

**Urban Poor [29]**

Fresh settlers/ recent migrants save cash at home. Families that have lived in city for more than five to ten years (called permanent settlers) have a bank account and most of the family surplus is deposited in bank. Saving is also done through loaning to friends and purchase of property in ones native village. Agents of RNBCs like Sahara, Pearless etc and Chit Fund Managers are active in the slums and play a key role in financing of life cycle events.

Fresh settlers express their insecurity about saving at home. However due to the lack of saving products and services, they use informal ways of saving. This lack of saving options further increases their dependence on credit for meeting their expenditure. Permanent settlers have relatively more saving avenues but still crave for better saving options viz. Doorstep financial service. The market size of saving products in urban Rajasthan is estimated to be over Rs. 4500 crores [30].

**4.9.3 Demand of Credit**

The credit need of poor can be classified in to three categories a) Credit needed for investments such as capital investment (to buy assets) or as working capital; b) Credit needed to meet household consumption; c) Credit needed to finance life events like marriages, house construction, serious health emergencies etc. The poor are not a homogeneous group and their livelihoods vary a great deal in wage labour, agriculture, animal rearing, petty businesses etc. Therefore their credit need varies too.

**Rural Poor**

It has been found [31] that about 24% outstanding credit to rural families is from banks and cooperatives whereas rest 76% is from various informal sources like moneylenders, friends and relatives etc. The credit from informal sources comes at very high cost i.e. at 24% to 60% annual interest. The immediate propensity of poor is to pay off costly loan from moneylenders [32] and then to use it for meeting their
consumption needs, health expenditures and after some time, to make small investments to augment their livelihood sources e.g. seeds and other inputs, fodder for animals etc. Once these needs are fulfilled, poor start making investments on assets (capital investments) like deepening of wells, pipes for irrigation, purchase of animals and so on.

On an average a poor family needs about Rs. 15000/- credit (in multiple doses) every year to meet their consumption and small working capital needs. This translates into total annual credit demand of Rs. 8700 crores [33]. If sustainable livelihood is to be ensured and people have to be brought out of poverty, then a family would need at least Rs. 50,000/- credit (cumulative) over a period of 2-3 years [34]. If the demand is to be seen within the overall framework of 'livelihood finance' then the micro credit market can be estimated to be around Rs. 29,000 crores in next 2-3 years [35]. Out of this, total credit need in agriculture and allied sector is estimated at Rs. 19200 crores [36] (Agriculture crop loan 15100 crores, Term Loans 3800 crores and agro processing 300 crores).

**Urban Poor**

It has been estimated [37] that more than three fourth of the poor households in urban areas are indebted, with moneylenders emerging as the main source of credit. Less than 10% have been found avail credit from banks. Most of the credit is available at the rate of 24% -36% per annum. Most loans are taken for life cycle events and housing. In case of fresh settlers/ recent migrants, credit is primarily for consumption, for sending remittance, for marriages and for unpredictable expenditures due to illness, accident, loss of spouse's job etc. In case of permanent settlers, availing credit is relatively easier. It is normal for tea vendors and fruit stall owners' etc. to get 2-10 days credit. Such settlers take credit at interest rates of typically 2% p.m. to meet large expenditures like marriages, property acquisition etc.

As per study conducted by Aajeevika Bureau, credit needs of migrants are:

- Food loan- for ensuring food and nutrition to families left behind as migrants move to new places in search of jobs;
- Transportation loan- for travel expenses from the village to the destination point;
- Tools loan- for newly trained plumbers, electricians and carpenters;
- Uniform loan- For those in catering and hotel services and Enterprise
loan- For those confident enough to set up seasonal businesses outside villages, for example ice cream and sugarcane juice vending.

Total annual credit demand in urban areas is estimated to be Rs. 2700 crores [38]. If the demand is to be seen within the overall framework of 'livelihood finance' then the urban micro-credit market can be estimated to be around Rs. 9,000 crores in next 2-3 years.

4.9.4 Demand of Insurance

Rural Poor

The major risks [39] that rural household faces are four types: Life, Health, Animal Illness and death of earning member of the family.

Risks faced by rural households in last three years
a) Death in family – about 17% HH faced this risk
b) Death of livestock – about 57% of HH faced this risk
c) Health and illness - about 43% of HH faced this risk
d) Crop failure - about 69% of HH faced this risk

Current practices [40] of rural poor

Poor households in rural areas spend 19% of their income on health & illness, 14% of income on livestock death and 20% of income on crop failure. Therefore, more than 50% of poor's household expenses in rural areas are lost on items that should ideally fall under non-life insurance coverage. In contrast, only 7.5% of the households have insurance policy, that too life insurance. Non-life insurance is something unheard of.

Need and Potential for Insurance products

Estimating demand for insurance assuming a) 'life' insurance coverage equal to two years' household income and 'non-life' insurance coverage equal to 50% of household income, it can be deduced that there is demand of Rs. 1.35 lakhs [41] of insurance coverage per household in rural area, provided household is ready to pay [42] around Rs. 50 [43] as premium per month. This translates to market demand of over Rs. 130,000 crores [44] market of insurance coverage in rural areas in Rajasthan.
In other words, this translates to potential premium turnover of over Rs. 600 crores for insurance companies per annum in rural areas.

Urban Poor

The major risks [45] that urban households face are health and life.

Risks faced by urban households in last three years
a) Death in family – about 18% HH faced this risk
b) Health and illness - about 42% of HH faced this risk

Current practices [46] of urban poor

Poor households in urban areas spend over 26% of their income on health & illness. Therefore, more than 26% of poor's household expenses in urban areas are lost on items that should ideally fall under non-life insurance coverage. In contrast, only 10% of the households have insurance policy, that too life insurance. At times of crisis, poor resort to taking credit at very high rate of interests from informal sources and sometimes, end up losing all their savings and assets during the course.

Need and Potential for Insurance products

Estimating demand for insurance assuming a) 'life' insurance coverage equal to two years' household income and 'non-life' insurance coverage equal to 26% of household income, it can be deduced that there is demand of Rs. 1.74 lakhs [47] of insurance coverage per household in urban area, provided household is ready to pay [48] approximately Rs. 70 [49] as premium per month. This translates to market demand of over Rs. 50,000 crores [50] market insurance coverage in urban areas in Rajasthan. In other words, this translates to potential premium turnover of over Rs. 250 crores for insurance companies per annum in urban areas.

4.9.5 Demand of Remittance

It is estimated that there are around 1.39 crores [51] migrants in Rajasthan accounting for approximately 5.68% of the total migrants in the country. Migrants use informal sources like self carry, transfer through friends/relatives, or in kind remittances in the form of consumer goods etc. Formal financial institutions offer the
remittance services such as bank transfers and money orders. But recent settlers/migrants do not approach formal institutions and services. Moreover, the service fee charged by banks (7%) and post offices (5.3%) makes remitting small amounts at frequent intervals unviable. Primary research indicates that there is unmet demand as far as remittances are concerned, though there is no authentic data for estimation.

### 4.10 INSTITUTIONAL SETUP FOR DELIVERING THE MICRO FINANCIAL SERVICES

The microfinance providers can be broadly grouped into three categories viz. informal, semi formal and formal. In Rajasthan, the Bank-led Self Help Group-Bank Linkage programme (SBLP) and MFI-led microfinance programme are reaching out to the poor in a most significant way.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Microfinance Delivery Institutions</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Informal Sector</strong></td>
<td>Money lenders who typically charge interest rate of 24-60% p.a.</td>
<td>- Credit (with collateral and without collateral)</td>
</tr>
<tr>
<td></td>
<td>Friends and Relatives</td>
<td>- Credit (largely on interest and sometimes without interest)</td>
</tr>
<tr>
<td></td>
<td>Commission agents</td>
<td>- Credit for all purposes</td>
</tr>
<tr>
<td></td>
<td>Petty Shopkeepers, Kirana Shops</td>
<td>- Deposits</td>
</tr>
<tr>
<td><strong>Semi Formal Sector</strong></td>
<td>Self Help Group which are members based institutions, the SHGs are unregistered</td>
<td>- Thrift, Credit (Also link members to other mF services like insurance etc.)</td>
</tr>
<tr>
<td></td>
<td>SHG's higher-level organization like 'clusters' and 'federations' come under Semi Formal category. They are registered.</td>
<td>- Intermediate between banks and SHGs (Mainly capacity building of SHGs, facilities linkages with banks, etc.) &amp; insurance services</td>
</tr>
<tr>
<td></td>
<td>Beesi, Chit fund</td>
<td>- Saving</td>
</tr>
<tr>
<td><strong>Formal Sector</strong></td>
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### Formal Sector

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<th>Cooperatives banks</th>
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|                      | Credit, Savings                                        | Credit, Savings      | Insurance term and endowment | Savings, money transfer, payments of NREGA | Credit, mainly through SHGs but to individuals also | Credit and insurance
- Savings in form of term deposits only after permission from RBI | Savings in form of recurring deposits                  | Gold Loan
- Provide credit against collateral of jewellery. They typically charge interest rates of 12 - 27% p.a. on declining basis. |

#### 4.11 INFORMAL SYSTEMS OF MICROFINANCE

With the formal financial institutions reaching only about 30-35 per cent households, there is an obvious dependence on informal sources. Through 15 short studies carried out collaboratively with other agencies/individuals across the state, CmF tried to capture some insights into the savings, credit and risk mitigation mechanisms prevalent in the twilight zone between needs of the poor and access.

From the cash flow study [52], it came out that the most important source of credit is friend/relative and about 40 per cent of total credit is from them (37 per cent on interest and 3 per cent without interest). The second most important source of rural credit is moneylenders, who provide about 37 per cent of credit. It is found that the moneylenders have their own assessment about creditworthiness of the borrower and they ask for a guarantor. But from very poor people, they also ask for collateral.

The studies have confirmed that savings are an important source towards asset creation. Savings often get channelled into purchase of land, livestock and jewellery.
These don't generate any regular income for families but there is a sense of appreciation of value of the same.

Temporary surpluses also get channelled to short term loans to friends and relatives. This enables liquidity as well as safety and ensures a source of finance for times of need. Sharing of resources through systems such as notra - prevalent in South Rajasthan – where families raise funds for a specific purpose from the community. The norm of reciprocity is strong with the amount being received as an interest free advance that must be returned when the contributor organizes a notra. Similar systems for providing gifts for marriages were evidenced elsewhere in the state.

Following are some of the ways that are commonly adopted by poor to save money:

4.11.1 **Cash Saved at Home**

This is the most prevalent way of savings. Rural households save large amounts at home due to limited outreach of banks. Both men and women save cash at home, though the latter at times saves even without the knowledge of other members in the household. In most households women also save from the amount meant for household expenditure. Money is stashed away in spice pots, red chilli pots, under mattresses, *gulaks*, in the granary and many other places. Majority of the small deposits are stored as cash parked at home, also because liquidity and accessibility is the determining factor and not returns from saving while selecting a saving avenue. In rural areas, about 75% of the savings (number and not amount) is in the form of cash at home.

Besides, saving to meet household expenses, people also save for festivals like Diwali to exchange gifts, buy new clothes and for emergency situations. In urban areas, the situation varies, as it is generally the recent migrants/fresh settlers that save at home, other poor household find it unsafe to keep cash at home.

4.11.2 **Saving in the form of loans given to friends/relatives:**

This is the most common means of saving in both rural and urban areas. Loans are given to known people with or without interests. In fact, in rural areas loans from friends/relatives have the largest share in fulfilling the credit need of the population. It is an attractive form of saving for households with surplus, as it ensures high returns
and security. The average returns on such savings is around 24% per annum, much higher than offered by any formal institutions. Cash saved at home and money loaned to friends/relatives accounts for about 34% of total savings in rural areas.

4.11.3 Gifts to Relatives and other community members – The Neutra System

The Neutra system is generally practiced within the members of a caste residing in one village, a practice of mutual exchange of gifts and money during functions especially marriage. A family receives gifts and money from relatives and other members of the community during a marriage in the house. The gift received is formally noted down and a list maintained of all the gifts received. The practice is to give higher value gifts when the guests have a function in their house. Households have been reported to take loans for giving gifts in particular when a close relation is involved. Like wise the cost of the gift also varies on the closeness of the relation with the family. This traditional way of saving is the neutra is an important source of financing expensive functions amongst many communities in the state.

4.11.4 Savings through Chit Funds

Chit Funds though not common in rural Rajasthan are quite prevalent amongst urban poor. It is generally the men who are members of a chit fund. Households with regular source of income are members of more than one chit fund. In a chit fund a particular number of individuals come together to pool a specific amount of money periodically. The total amount of money collected in one meeting is given to a member through lottery or via bidding. In case of bidding, the highest bidder gets the amount and has to pay an interest on it. The advantage of chit fund is that people are able to get a large sum of money at one time, which can be used for purchase of high price products or to meet social expenses like on daughter’s marriage.

4.11.5 Saving with moneylender

People in rural areas save with moneylenders as and when they have surplus, and in turn get an interest on it. The moneylender in turn lends the money out for a higher interest rate. The benefit of this avenue is easy accessibility and liquidity as the person can withdraw his saving from the moneylender when he needs the money. However, this is limited to economically better off families.
4.11.6 Investment in Land

With rapid urbanization and rising land prices, purchase of land in pan urban areas has become an important avenue of saving. This is done by people residing in urban areas and also rural people in villages adjacent to the city/town. The land is sold to a real estate developer at a much higher price after 4-5 years or even lesser time. People have also taken loans in villages adjacent to Jaipur to buy additional land, as they are sure that the value of land would almost double in the next couple of years.

Remittances are an important source of purchasing more agriculture land in rural areas. Temporary migrants save and invest in land in their native village.

4.11.7 Investment in the form of Ornaments

Investing in silver ornaments is an important way of saving. Most women receive jewellery at times of marriage and other social functions like childbirth. In most households ornaments are either inherited or received as gifts. It is rarely that women buy ornaments for their own use. Most households have silver ornaments; gold is limited to a few economically better off households. Though rarely sold, the ornaments are commonly used as collateral for loans from informal sources.

4.12 CREDIT

Moneylenders and friends/relatives provide loan for all events. Overall, 92% of loan for meeting the expenses on events like marriages, death feast etc. comes from informal sources like moneylenders, friends/relatives etc, and only 8% loan (for events) comes from banks and cooperatives. [53] With the increasing policy thrust towards inclusion of the poor in the mainstream financial institutions, it is important to also learn of informal systems and draw lessons from that to reach out.

Money lending is no more a monopoly of traditional moneylenders (Mahajans, traders etc.). These days’ people who have surplus income provide a large part of credit. Lack of saving avenues in rural areas has also given impetus to money lending by non-traditional moneylenders. They provide credit to people whom they know well or to their kith and kin. They also charge interest almost equal to the rates charged by traditional moneylenders.
4.12.1 Informal Credit Systems prevalent in Rajasthan

(a) Khandi System

The Khandi system of credit is the most popular. Under this system the loan has to be repaid in fixed monthly instalments. The loan is convenient to both lenders and borrowers, as instalments are paid regularly. However the effective rate of interest is very high in this system. The cash transactions are well documented in this system – the money lender maintains his books and also a diary is maintained by the borrower in which he takes the signature of the lender after every repayment. The effective rate of interest is around 3.6 per cent per month under this system. Increasingly in villages the repayment period is being fixed as equal instalments in 10 months. This makes the lenders money secure as the repayment period has reduced. However, the effective rate of Interest is further increased up to 4.27 per cent per month.

(b) Balloon Loan System

The credit for agriculture purpose is available at @ 2% monthly rate of interest. For amount below Rs 20,000 no written formalities like stamp agreement is required. The amount is just written in the diary for keeping a record. The repayment is done when agriculture harvest comes. This includes principle plus interest for the agriculture season. If harvest fails then it is rescheduled for next season. If the repayment is not done on time even after rescheduling of the loan then the moneylender starts cultivating the land of the borrower till he/she repays the amount with interest.

The rate of interest varies with the type of client. If the client's credibility with the moneylender is good and terms are good then the loan is provided at 2% monthly rate of interest. In other cases the rate of interest becomes 3%. This is especially when the need is urgent and amount is more. Loan for agriculture purpose involves seed purchase and land levelling purpose.

There is no installment system but to repay the principal and interest rate at the end of the loan term. Like Mr. Ramesh has taken a loan of Rs. 20,000 and committed to repay Rs. 25,000 after a year. After one year he repaid the committed amount at 25% annual interest rate.
(c) **Cash Security**

In some cases the cash security of 10% is taken at the time of providing loan. Although presently this is rarely practiced but such practice involved providing credit at 2% rate of interest and upfront deduction of 10% cash security at the time of providing credit and interest is charged for entire amount. There is no provision of providing interest on the security amount. e.g. If a person needs 10,000 rupees, he gets Rs. 9000 in hand and repays at the end of year Rs. 12,400. Interest on Rs. 1000 for one year becomes Rs. 240. Thus the cost of credit for Rs. 10,000 is Rs. 2,640. Thus effective rate of interest becomes 26.4% annually and 2.2% monthly.

**Satki system** - This system for taking credit is now rare. It was prevalent few years back. Under this system, lenders deduct 10% of what is demanded by borrower at the time of disbursal of loan. But the borrower has to return the full amount with interest.

**Beej Babna** - This system is very unique in nature as it does not involved transactions of money but seeds. During session farmers borrowed seeds from Sahukars, relatives etc. and at the time of harvesting they return double the quantity. This system is called **Beej Babna** & still in practice.

(d) **Grains and fodder lending**

This system is happening within the village where people lend grains and fodder. People could borrow grain/fodder from a farmer at the time of harvest and returned in a one and half times of the gram/fodder at the time of the next harvest. In case fodder or grain is not available to recover then the loan has to be repaid in cash.

(e) **Notra System**

Notra system is a very common system of mutual help in the form of monetary help or in kind at the time of a person's need. In this system the needy family is inviting to close relatives and friends in a particular day for a special cause like help for marriages, health care, house repairing or building, repayment of loan amount. People are helping in a monetary form, which are ranges from Rs 50/- to Rs 2000/- as per their financial capacity and closeness to the need person. In this system people are anticipating their helping amount back at the time of their own Notras. In this Notra system one can't calculate return on investment, because it is a system of mutual help in the society.
Example: Binod Meena has organized a Notra for repairing of his house repairing. He invited around 30 families with an expectation amount of Rs. 20,000/ and had got help of Rs. 18000/ . Two of his close friends named as Suna Meena and Kishan Lal has contributed Rs. 1000/ and Rs 2000/- respectively in that Notra. Mr. Suna also organized Notra in next year for his daughter marriage and receives back from Binod Meena Rs. 1200/- . And after two year Mr. Kishan Lal has organized Notra for purchasing of a agricultural land where Mr. Binod contributed only Rs 1000/-. 

(f) Security deposit (Girva system)

This method is very popular in the village. In this case people are depending upon traditional moneylenders by depositing securities like ornaments (silver or gold) with fixed rate of interest per month. The borrower has to deposit some ornament and will get half of the actual market rate of the ornament cost from the moneylenders. For example: Mr. Goutam has need of Rs. 3000/- loan from money lender, so he went with 300gms of silver ornament which cost around Rs. 6000/- and got the required amount at the rate of 2% per month. He returned the loan amount with interest after six month, which is Rs. 3360. So here, the effective rate of interest is 24% per month.

(g) Delinquency Management

There is no such hard and fast rule in between lender and borrower. In case of not repayment of loan, the borrower has to lose his or her security deposit/mortgage. No doubt the moneylender always keep continuous watch on borrowers for repayment, if a borrower is being shown as defaulter then the lender uses help of local people and abusive language. In Notra system if any body not involving or escaping from this mutual help concept then that family may debar from social inclusion system.

Money Lender/Sahukar

This system of taking credit is prevalent in the district. Person who needs money approach the money lender and after an informal discussion on interest rate & time of repayment money is given to the concerned person. This process of taking credit is of two types:
a) With security deposit - Although this method is not very popular in the village, but in some cases moneylender asked for some security deposit. It can be land, jewellery, house utensils, livestock etc. the demand of security deposit from moneylender side becomes quite demanding when the borrower is new to the lender. This mechanism of security also affects the rate of interest i.e. lower than the market rate of informal system. For example, if a Sahukar lend at 6-7% to a new borrower then with security deposit the rate may come to a lower value of 5% pm.

b) Without security deposit - Very few people in the district go for security deposit due to constraint of resources. Majority of person take credit without security deposit with variable interest rate which depends on some factors like:

1. Credibility of person in eye of lender - If the person has good record of repayment in the past, then he can easily take credit otherwise he has to convince moneylender & sometime it becomes very frustrating for the borrower.

2. Introducer of the borrower - This is one of the crucial factors in deciding the interest rate. If introducer (a person known to lender & borrower) is well known to the lender and his (introducer) record in terms of the cases he brought earlier are good then the interest rate generally goes down.

Gram Commission Agent (Arhatia)

Gram Commission Agent or locally known as Arhatia is a common source of credit among farmers. The money is loaned usually for agricultural use such as fertilizers, pesticide, and cultivation but it is not only confined for such purposes. Often, as wedding ceremonies are expensive events, especially female wedding, the loan for paying wedding bills is also taken from Arhatia.

Based on interviews with the villagers, from Arhatia, the duration of loans vary between six months to a year, or until the time of harvest. Generally, outstanding credit with interest is paid back by selling the crop to Arhatia. Often, time of harvest is seen as the time for repayment of credit and beginning of new credit for the preparation of sowing of next crop.
Depending on trading relations with *Arhatia*, the amount of loan and interest rates varied between 2.5 - 4 percent, calculated every six months. If unpaid, the outstanding interest is added to the principal and on this new principal, interest is charged.

The amount of credit could also vary. Generally, for most villagers, it varied between Rs. 10,000 to Rs. 50,000. This credit amount could be much higher (between 1-2 lakhs) in certain cases but is available to few whom the *Arhatia* trust and have surety about return. Higher amount of credit is given at much lower rates of interest than in comparison to smaller amounts.

However, the landless or daily wage labourers have no access to such credit from *Arhatia*. This does not strictly translate that *Arhatia* does not give credit to non-farmers. Often, *Arhatia* does extend small credit to landless or daily wage labourers but requires collateral to ensure repayment and a financially well to do witness from the village, often not exceeding Rs. 10,000 (generally Rs. 5,000) and at higher interest rates. The interest can vary from 4-5 percent.

**Local Shopkeeper**

There are four grocery shops in the village. All shopkeepers are Meo by caste. The oldest grocery shop, which is 20 years old, is the busiest shop in the village. Goods are available to shopkeeper from their wholesalers on credit. Usually, this credit is limited to a one month period without interest. After one month, the wholesaler charges interest to the village shopkeepers.

The information given below is based on an interview with the most prosperous shopkeeper in the village.

This shopkeeper also owned agricultural land and hence it was easier to make repayment in crop to *Arhatia*. According to him, *Arhatia* was their preferred source of seeking credit. Usually, the credit was given at the rate of 2-3 percent.

In the village, often, goods and groceries were sold on credit. The shopkeeper kept an account of the sale and charged Re 1 extra on the goods price, if sold on credit. For example, if a customer bought goods on credit worth Rs. 20, at the time of
payment, the customer was charged Rs. 21. Almost all villagers were able to seek such credit from the shopkeeper. According to the shopkeeper, there were no cases of defaulters in the village and most villagers were able to pay their dues later or sooner. Additionally, the shopkeeper did not charge any interest, even if the creditor failed to pay timely or on request.

Barter system is another common form of transaction between the villagers and shopkeepers especially during harvest season. Villagers could trade their harvest such as mustard, and pay their outstanding credit. Furthermore, the shopkeeper also procured mustard or wheat from the villagers, usually in small quantities, at market price and exchanged it for goods available in shop. While we were there, two kids from the village brought few kilos of mustard (by collecting mustard left over, after harvest in the mustard field) to sell to the shopkeeper in exchange for some goods from the shop.

**Milk Trader or Doodwalla**

Milk Trader or commonly known as *Doodwalla* in the village, is a popular source of credit among villagers who raise animals for milk. Especially, buffaloes are a common source of milk for the family and raising income by selling milk to *Doodwalla*. Milk traders buy milk from animal owners and sell it for profit in the near by cities.

The *Doodwalla* gives credit to potential families for purchasing milk animals such as buffaloes, varying from Rs. 10,000-20,000. Such credit is paid off by selling milk back to respective *Doodwalla*. In return, *Doodwalla* buys milk from creditors for Rs. 2 less per litre than the existing rate of the milk in the village. For example, in Nandanheri, the current rate of milk per litre was Rs. 12 and if a person took a credit for Rs. 10,000 the *Doodwalla* will pay for milk, Rs. 10 per litre (Rs 2 less than existing rate), until the credit is paid. However, interest on credit is not customary among *Doodwalla* in this village.

*Doodwalla* also gives credit in small amounts such as less than Rs. 2,000. Such credit is also paid back in milk. Such credit is given without any reduction in milk price or interest. By giving small loans without any incentive, *Doodwalla* creates permanent clients to buy milk.
From non-credit suppliers of milk, *Doodwalla* purchases milk on credit. Milk payments usually vary between weekly, fortnightly or monthly. On request, *Doodwalla* also supplies animal feed for some houses in the village.

(h) **Small Loans from friends/relatives without interest**

This type of loan from villagers/friends/relatives without interest is common among villagers, especially, among the daily wage labourers or the landless. This loan is given in small amounts usually less than Rs 3,000 dependent on borrower’s relation with the lender. Often, there is no fixed time of return for such credit. Since, the credit is given in small amounts, it is assumed by the lender, that it will be returned within a short period, for example, within a month or few days. Further, in some cases, such loan can be as much as Rs. 10,000 taken from close relatives for marriages.

(i) **From the informal societies in the village**

As has been discussed earlier the village level informal society act has the most important source of credit for its members. Members can avail credit facilities in one of the following two ways:

- **Credit auction** - Here in the monthly meeting, after the money is collected, members who need credit declare the amount of money they would pay back extra (interest) if they are allowed to take the money collected during that meeting (this means that the pay back money includes principal amount plus interest). Whoever bids the highest money can avail all the money collected during that meeting as loan.

- **Chit system** - Here names of all the members who have not taken loan from the society are put in a bowl in the form of chits. A lucky draw is taken out and that person is given all the money collected during that meeting. In this system the member does not have to pay any interest. So even if the lucky member does not need the full money he takes that (as the money is interest free).

The informal societies have strict rules. They are as follows:

- If somebody defaults then two guarantors have to come forward to promise that they would make sure the money gets repaid.
Penalty for default varies from Rs. 10/- to Rs. 50/- per day as decided by the members of the society.

(j) Loan from big vegetable wholesalers

The rickshaw pullers work in the Lal Kothi vegetable market of Jaipur. Here big vegetable wholesalers generally employ them. During the times of need these wholesalers act as the main source of providing credit to these people. This method is very good for the creditors too. They can comfortably deduct installments from their daily wages and so do not have to worry about defaults to a great extent. Interest rate varies between Rs. 4 to Rs. 5 per month per Rs. 100 of loan taken.

4.13 WHY ARE THESE INFORMAL SOURCES SO PREVALENT?

The informal system caters to the needs of a large chunk of population. The major reasons for their success, over the years, are:

- **Easy access:** Moneylenders are easily accessible to the poor. They can be contacted at odd hours, at the time of emergency to take credit.
- **Timely disbursement:** Borrower gets the credit on time from moneylenders. Generally the borrower and lender are known to each other, so the credit is disbursed at the time of need. This helps in proper and full use of the loan, which is almost impossible with the formal financial system.
- **Minimum or no formality:** There is no paperwork except that some lenders maintain a personal diary in which the amount and time of loan disbursement and repayment is written. Only in the case of a new borrower, the moneylender asks for collateral.
- **Flexibility in repayment:** There are no fixed schedules of repayment. It depends upon the borrower. At the time of disbursement, the borrower mentions the time frame in which he will repay the whole amount with interest.

4.14 WHAT ARE THE INTEREST RATES IN INFORMAL CREDIT?

The interest rate in the rural informal system varies from 2 per cent to 10 per cent per month. The rate of interest depends on various factors:
• **Relation of introducer with lender:** Generally there is a person who accompanies the borrower at the time of taking credit. This person (introducer) is known to both the borrower and the lender. If the moneylender thinks that this person (introducer) has substantial impact on the borrower, then the rate of interest may be low as compared to a situation where the borrower directly approaches the moneylender.

• **Credibility of borrower:** If the past record of the borrower is good in terms of repayment, there is a chance of a slightly lower interest rate.

• **Urgency of loan:** If a person needs credit instantly, then interest rate increase (during emergencies like health-related issues, it could go up to 10 per cent).

• **Collateral:** If a security deposit or collateral is provided, the rate of interest goes down.

### 4.15 MODE OF REPAYMENT

In most cases, there is **one-time settlement.** At the time of taking the credit, the borrower promises that he/she will repay the amount with interest after a certain period. There is no hard and fast rule in between the lender and the borrower. In case of default, the borrower has to lose his or her security deposit/mortgage. Moneylender keeps continuous watch on the borrower for repayment and takes the help of guarantor, community pressure and even muscle power to recover his dues on case-to-case basis. Informal systems have very good repayment rates.

### 4.16 WHO ARE THE CLIENTS OF THE INFORMAL SYSTEM?

During the study, focus was to identify those who have the access, or those who are the major clients of this system. It was found that persons who are not connected to any formal or semi-formal system (SHG) are availing this service. These people were not aware about the services of formal financial institutions. When asked why they do not have a bank account, the reply was that opening an account was a cumbersome task; bank officials asked for too many documents; and, also that the bank account does not serve their purpose as they need credit in small amounts.
Ramkanya Rana is a common rural women who lives in Nala village; Tehsil Niwai of Tonk district along with her husband and three children. The only source of income for this family was what her husband could get by being the member of the band who played at the wedding processions. As a result, the money would come in the family only during the wedding season. Worried about the fluctuating income of the family she joined the SHG of her area upon the insistence of the neighbouring women. Soon enough she started attending the meetings and was inspired to save money.

One day Ramkanya’s son got seriously ill. Both husband and wife got frightened, since they didn’t have any health centre in their village. The only way left was to take their son to the nearby city hospital. Alarmed at this prospect, Ramkanya’s husband tried his best to borrow some money – but to no avail. When he shared his predicament with his wife she assured him saying that she had taken the money from the SHG and the repayment of the money could be done in installments. Relieved, Ramkanya and her husband took their son to the hospital and got his treatment done. Ramkanya thanks the SHG and the help they gave her at such a crucial time and says that if it had not been for the SHG, her son’s treatment could have been indefinitely delayed.