

A STUDY ON RURAL FINANCIAL SERVICE IN PARADHIPI GRAM PANCHAYAT



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This study is conducted in Paradhipi Gram Panchayat of Nayagarh block of Nayagarh district of Orissa. This study reflects the rural financial services in Orissa.

Methodology

On a broad frame, the study was conducted using qualitative research tools - principally the case study methodology. This would be supplemented by quantitatives - both through collection of primary and secondary data.

Probabilistic Proportionate sampling was done by taking 15 Percent households from each village and all total 11 villages of the Paradhipi Gram Panchayat.

At the individual client level data collection was done through the design of an elaborate structured questionnaire. This questioner was developed based on a pilot study. This questionnaire was administered to a substantial. The questionnaire was administered keeping in mind the geographical spread, and the income and asset segments of the poor.

At the group level, PRA, RRA, Focus Group Discussion was conducted to understand the rural pschy guiding the Rural Financial Services.

A) Assessment of Saving Potential and the Forms of Saving

A.I.) Forms of Saving

Various forms of Savings were identified in the 11 villages of Paradhipi Gram Panchayat. The sample study was made taking 15 per cent households from each village of Paradhipi Block. It was observed that People used to keep saving in four major forms i.e., cash in bank, cash in hand, gold, livestock (Sheep, Goat and hen) and cash in SHG. Around 12 per cent people kept their saving only in bank. Though the banking facility was not up to mark. There were two branches of commercial banks i.e., one branch each from Puri Gramya Bank and Indian Overseas Bank. Still 12 per cent people relied more on these banks though the transaction cost was high. It was observed that 10 per cent people used to keep their entire saving in form of cash. The motive of keeping the cash in hand was to avoid the transaction cost of saving. Saving in form of gold was rarely found in the villages. As savings were of very less amount, people preferred to keep them in other forms. Two per cent people were found keeping their saving in form of gold. On an average 8 per cent people kept their saving in form of assets like livestock i.e., sheep, Goats and hens.

Whenever the need for money arises, they used to sell these livestock products to meet the financial need. Twenty five per cent people kept their money only in SHG's. As the transaction cost for borrowing is very less in SHG's, so saving in SHG became more profitable and easy. Nine per cent people had their saving both in form of cash in bank and cash in hand. Some cash was kept in hand for meeting the urgent need of money. Cash in hand is highly volatile so some cash was kept in bank. Six per cent people had their saving both in form of cash and gold. As gold can be sold out easily, 6 per cent people kept their saving in form of gold and cash. Around 4 per cent people kept their saving in the combined form of cash in bank and livestock. Seven per cent people had their saving in form of both cash in bank and gold. These people belonged to high-income group. So the saving was in form of gold and cash in bank. It was observed that 5 per cent people used

to have their saving in form of cash and livestock's. These people were highly illiterate they were insecure about the banking systems. Seven per cent people had their saving in form of cash and deposit in SHG. These people did not like the banking transactions, as the transaction cost of saving in the bank was high for them. Around two per cent villagers had their saving in form of cash in hand, cash in bank and deposits in form of SHG's. These people were from high-income groups. Also 3 per cent people had their saving in form of cash , live stock and SHG's.

FORMS OF SAVINGS	(Percentage) %
Bank	12
Cash	10
Gold	2
Livestock	8
SHG	25
Bank and Cash	9
Bank and Gold	6
Bank and Livestock	4
Cash and Gold	7
Cash and Livestock	5
Cash and SHG	7
Bank, Cash and SHG	2
Cash, Livestock and SHG	3
TOTAL	100

A.II.) Considerations in Choosing the Saving Forms

The villagers used different form of savings due to the difference in class structure, banking facilities nearer to the village, literacy level and certain other factors. The villagers of the villages nearer to the banks used to keep their savings in banks where as villagers of the village remain at a distant from the banks rely more on SHG's and preferred to keep money in form of livestock or gold or keep money in form of hard cash. The rich villagers used to keep their money in banks. Also they were keeping their saving in form of Gold as every village has SHGs and other mandals, most of the poor villagers kept their saving in SHGs and Mandals.

A.III.) Estimation of the Amount of Saving in Last One Year

The average amount of saving per person in last year(2002) was calculated to be Rs.1200.This amount was the final saving in the month of December. Though there were some more saving in the earlier months but later on that was utilized for other consumption and production purpose.

A. IV.) Purpose of Credit

People have borrowed for different purposes: -

1. Buying of seeds
2. Buying of fertilizers
3. Buying of plant protection chemicals

4. To buy assets such as plough, bullocks, bullock carts, potters wheel, handloom etc
5. For social functions in the family such as marriage, childbirth etc.
6. Consumption purposes when crops fail.
7. For educating their children
8. For medical purposes.
9. To start a new enterprise
10. To construct their home
11. To meet the unforeseen situations like flood, famine, cyclone etc.

At the very bottom in terms of income and assets, and most numerous, are those who are landless and are engaged in agricultural work on a seasonal basis, and manual labourers in forestry, This segment requires, first and foremost, consumption credit during those months when they do not get labour work, and for contingencies such as illness. They also need credit for acquiring small productive assets, such as livestock, using which they can generate additional income.

The next segment is small and marginal farmers and rural artisans, weavers and those self-employed. This segment mainly needs credit for working capital, a small part of which also serves consumption needs. In rural areas, one of the main uses of working capital is for crop production. This segment also needs term credit for acquiring additional productive assets, such as irrigation pumpsets, borewells and livestock in case of farmers, and equipment (looms, machinery) and worksheds in case of non-farm workers.

The third market segment is of small and medium farmers who have gone in for commercial crops such as surplus paddy and wheat, cotton, groundnut, and others engaged in dairying, poultry, fishery, etc.

B) Maa Kalijai Mahila Mandal - A Case Study

Location: Thuabari

GP: Paradhipi

Block: Nuagaon

Dist: Nayagarh

Date of Establishment: 24.04.2001

Concerned NGO: NISWARTHA

Linkage Bank: Indian Overseas bank, Nuagaon, Account no- 3260/116117

Date of account opening :2.07.2001

No. of members: 18

B.I.) Proceedings of the SHG from Inception

Meeting	Date	No of members present	Area of discussion
1	24.04.2001	22	Women empowerment, SHG formation
2	05.05.2001	19	Naming of Mahila Mandal, Election of president, secy., membership savings of Rs. 20.00 per head
3	25.05.2001	20	Discussion on bank Account in the IOB, Nuagaon
4	10.06.2001	20	Resignation of old president and election of new president, Expelled of one member and addition of two new members, discussion on kharif vegetable cultivation
5	21.06.2001	19	Opening of bank account at IOB, Nuagaon
6	10.07.2001	19	Discussion on account of last month, collection of monthly fees, resignation of two members from the group because of personal reasons
7	11.08.2001	18	Discussion on account of last month, collection of monthly fees, Consensus on starting of lending money within the group, Nomination of two members to attend the regional meeting at balanda school.
8	11.09.2001	19	Discussion on account of last month, Interest by the group members for the winter vegetables, Discussion on community mobilization in the leprocy eradication campaign, Awareness on the group formation by the NISWARTHA member
9	11.10.2001	15	Discussion on the diarrhoea preventive campaign, problems on seedling of vegetables, fine of Rs. 5.00 on absence in the general body meeting of every month.
10	11.11.2001	17	Nomination of two members to attend the regional meeting, Discussion on preventive for

			the every child and pregnant women in the village
11	11.12.2001	18	Enterprise development, current condition on the winter vegetables.
12	11.1.2002	18	Discussion on account of last month, Discussion on pulse polio preventive programme of the GOI, the distribution of fertilizers to the members for the winter vegetables by the NISWARTHA
13	11.2.2002	19	Collection of monthly savings, resignation of one member due to his inefficiency with his membership fees of Rs. 140.00 and joining of new member.
14	11.3.2002	18	Nomination of two members for the exposure visit to Puri district by the NISWARTHA, withdrawal of Rs. 2000 form the A/C NO-3260 of IOB, Nuagaon and allotting that money to one member for agricultural purpose.
15	11.4.2002	18	Discussion on account of last month, Discussion on preventive for the every child and pregnant women in the village, Loan extension to two members of amount of Rs. 400/- for personal purpose.
16	11.5.2002	19	Collection of monthly savings, Collection of Rs. 955 from the vegetable cultivation, Awareness on preventive measure for sunstroke, Loan to one member of amount of Rs.400/-
17	11.6.2002	18	Discussion on awareness of accounts by all the members from the next month, Rs.5000 loan to the groups for mushroom cultivation and for that all members have to provide straw for cultivation
18	11.7.2002	18	Collection of monthly savings, Loan of Rs.50/-
19	11.8.2002	18	Collection of monthly savings, regret for the failure of mushroom cultivation , discussion on coming winter vegetables cultivation
20	11.9.2002	18	Loan of Rs.300/- for fertilizer application to one member, discussion on poultry rearing in the group.
21	11.10.2002	18	Collection of monthly savings. Consensus on not extending any loan to members due to drought situation this year, regret for not cultivating winter vegetables due to lack of water.
22	11.11.2002	18	Collection of monthly savings
23	11.12.2002	19	Collection of monthly savings, Discussion on group federation, discussion on child labour

B.II.) General Norms of the Mandal

- The meeting on 11th of every month.
- The number must be limited to 20 only.
- The account is in the name of the president and secretary.
- Any type of decision in the group should be in consensus.
- The fine for absentees in the general body meeting is Rs. 5.00.
- Late submission of monthly saving will carry a fine of Rs. 2.00 per month.
- The interest rate for the internal loan to the members is Rs. 3.00 per Rs.100.00 per month.
- Loan disbursed among the group members on priority basis decided by the group.

B.III.) Account Sheet of the Maa Kalijai Mahila Mandal

Upto the month of December,2002

Sl. No.	Name of the member	Loan advance	Memberships savings	Repayment		Loan	Overdue		Fine
				Principal	Interest		Principal	Interest	
1	Patar sahuo	-	20	-	-	-	-	-	-
2	Padma sahuo	500	20	-	15	-	500	-	-
3	Manju Sethi	2000	20	-	60	-	2000	-	-
4	Jhari Sethi	-	20	-	-	-	-	-	-
5	Sukuti sethi	-	20	-	-	-	-	-	-
6	Nalini Sethi	-	20	-	-	-	-	-	-
7	Sarojini Sethi	100	20	-	3	-	100	-	-
8	Ingili Sethi	500	20	-	15	-	500	-	-
9	Manika Sethi	800	20	-	24	-	800	-	-
10	Gaila Swain	2000	20	-	60	-	2000	-	-
11	Sandhya Sethi	-	20	-	-	-	-	-	-
12	Sukanti Sethi	-	20	-	-	-	-	-	-
13	Jhuni Sethi	-	20	-	-	-	-	-	-
14	Hulas sethi	-	20	-	-	-	-	-	-
15	Sumei Sethi	100	20	-	3	-	-	-	-

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16	Santi Sethi	700	20	-	-	-	700	21	-
17	Tuni Sethi	300	20	-	9	-	300	-	-
18	Manju Sethi	-	20	-	-	-	-	-	-

<u>INCOME</u>	<u>EXPENDITURE</u>
Todays monthly fees collection- Rs. 360.00 Todays interest collection- Rs. 189.00 Last months cash in hand- Rs. 84.00 Total- Rs. 633.00	Todays bank deposit- Rs. 600.00 Cash in hand- Rs. 33.00 Total -Rs.633.00

Cash in Bank- Rs.2636.00
 Deposit of this month- Rs. 600.00
 Loan extended in the group- Rs. 6900.00
 Cash in Hand- Rs. 33.00
 Total Fund of the group- Rs.10169.00

B.IV.) Role of NGO in Promotion of SHG

The concerned NGO "NISWARTHA" (National Institute of Social Work and Reformative Thought on Human Affairs) was established in the year 1987. The missionary zeal with sincere commitment to work at the grass root have reflected in the younger days of the associates of the NSS volunteers and some schoolteachers of Nayagarh district have taken up diversified community development work. The initial focus area was on extending health service facilities like health checkup camps, deimmunisation, eye operation camp and providing reading room facilities. The initial funding was through the contribution by the members. It would be appropriate to mention that NISWARTHA as a team is equally represented by women who share in the decision making process.

B.V.) Bank Linkage of the SHG

The SHG was linked to IOB, Nuagaon. The linkage was done by the recommendation of the NGO working in that area (NISWARTHA). The NGO has many working projects that area and also had linked other SHG's to the bank, which were performing well so the bank had no problem in accepting this SHG linkage.

The credit disbursement to the group was done only after proper assessment of the group. Firstly they are checked for meeting the NABARD guidelines and secondly the saving history of the SHG.

The Bank had released the initial credit amount only after assessing the group based on the NABARD guidelines, and after assessing bank had released the sum which was equal to the savings amount that they had at IOB (saving: credit 1:1). Later based on the repayment performance the amount was increased to three times the savings.

The credit taken by the SHG was for production purpose (mushroom cultivation). The bank undergoes frequent monitoring through its field officer to assess the use of loan amount.

C) Source of credit available and ranking of each source based on parameters related to credit transactions

The lack of access to credit for the poor is attributable to practical difficulties arising from the discrepancy between the mode of operation followed by financial institutions and the economic characteristics and financing needs of low-income households. For example, commercial lending institutions require that borrowers have a stable source of income out of which principal and interest can be paid back according to the agreed terms. However, the income of many self-employed households is not stable, regardless of its size. A large number of small loans are needed to serve the poor, but lenders prefer dealing with large loans in small numbers to minimize administration costs. They also look for collateral with a clear title - which many low-income households do not have. In addition bankers tend to consider low-income households a bad risk imposing exceedingly high information monitoring costs on operation.

The informal financial sources generally include funds available from family sources or local money lenders. The local money lenders charge exorbitant rates, generally 60% interest due to their monopoly in the absence of any other source of credit for non-conventional needs. The informal financial sources were also friends and neighbours and shop keepers.

C.I.) Credit Ranking

Source of credit	Ranking for short term loans	Ranking on the basis of availabilities/ accessibility	Ranking on the basis of transaction Cost	Ranking on the basis of interest rate	Ranking for long term loans
Money Lender	1	1	1	5	5
Friends and neighbors	2	2	2	4	4
SHG	3	3	3	3	3
Co-Op societies	4	4	4	2	2
Bank	5	5	5	1	1

C.II.) Estimation of Transaction Cost of Borrowing

The sample study was done taking 50 farmers who received loan from different sources for different purposes. Most of the farmers preferred to take loan from moneylenders as the transaction cost of borrowing the loan was low and the availability of the loan was high.

The transaction cost of borrowing from bank involved are:-

1. The opportunity cost of the borrower's time
2. Borrower's traveling expenses incurred in negotiating, acquiring and repaying the loan
3. Traveling expenses of a guarantor from his place to institution
4. Cost of photograph and stamp duty
5. Cost of photocopying necessary documents

Source of credit	Opportunity cost of borrower's time(Rs.)	Borrower's traveling expenses (Rs.)	Traveling expenses of the Guarantor (Rs.)	Cost of photograph and stamp duty(Rs.)	Cost of photocopying necessary documents (Rs.)
Bank	130	2	2	6	3

Total average transaction cost of borrowing from bank=Rs143

Total average amount borrowed from the bank=Rs.3700

The transaction cost of borrowing from moneylender

1. cost of documentation(in some cases)

The average cost for documentation per person was Rs.5

Transaction cost of borrowing from SHG

1. Cost of documentation

The average cost of documentation was Rs.2 per person.

Source of credit	Transaction cost of borrowing	Rate of interest (%)	Availability
Bank	143	16	Low
Money Lender	5	60	Very high
SHG	2	36	High
Co-Op Society	74	16	Low

C.III.) Credit Interlinking

The first and foremost form of credit interlinking was between credit and contracts. The lender provides credit to the farmer in the cropping season and the wife of the farmer works in the house of the lender. It was observed that 7 villagers out of the 100 samples, had taken loan from the rich persons from their village and in return the family members of the se farmers worked as servant in the house of the lender. The agreement was the lender will not take the interest of the loan but a family member will work in the house of the lender. The borrower will have to pay only the principal amount at the agreed time.

It was also observed that, Farmers borrowed money from the lender during the cropping season due to shortage of money for the production purpose. For that , he was forced to sell the agricultural products ie, paddy at a lower price than that of the prevailing market price. In two villages 4 farmers were forced to sell their paddy to the money lender at a price Rs.290/bag where as the prevailing market price was Rs.330/ bag.

C.IV.) Case Study - Sudarshan Sahoo of Thuabari Village

Mr.Sudarshan Sahoo had taken loan Rs.1200 from the village money lender for buying agricultural inputs ,which was to be paid in 6 months.

- Interest rate was = Rs.5/Rs. 100 per month
- Total amount of interest was = Rs.360
- Total amount ie, principal + interest = $360+1200 = 1560$
- The farmer sold 5 bags of paddy to the money lender and paid the balance Rs.110 at the end of the 6th month.
- The farmer selling 5 bags paddy @290/ bag but the prevailing market price was Rs.330/ bag.
- Total Gain by the moneylender= $40(330-290) * 5 = \text{Rs. } 200$
- The extra interest for 6 month was Rs. 200 . So the extra interest per month was Rs.33.3
- The extra interest per month per Rs.100 is $33.3/12 = \text{Rs. } 2.77$
- The explicit interest per Rs.100 per month was $5+2.77 = \text{Rs. } 7.77$

D. Summary of some SHG's in paradhipi gram panchayat

Sl. No	Indicators	Case-I	Case-II	Case-III	Case-IV
1	Name of the Group	Maa Ramliandi Mahila Mandala	Beenapani Mahila Mandala	Maa Mangala Mahila Mandala	Maa Sulia Mahila Mandala
2	Village	Karadapalli	Kasikiari	Muskabiari	Ragadi sahi
3	Age of the group	7yrs	2yrs	2yrs	3yrs
4	Purpose of formation	Socio-Economic Development	Socio-Economic Development	Availing credit	Socio-Economic Develop
5	Group size	15	16	20	20
6	Homogeneity				
	6.1 Age group	30-50	35-45	30-40	35-40
	6.2 Sex	Female	Female	Female	Female
	6.3 Marital status	Married	Married	Married	Married
	6.4 Education	Literate & Illiterate	Literate & Illiterate	Literate & illiterate	Literate & Illiterate
	6.5 Social category	All SC's	All OBC	All OBC	OBC
	6.6 Economic category	All BPL	BPL & APL	BPL & APL	BPL & APL
	6.7 Area of residence	Same Village	Same Village	Same Village	Same Village
7	SB Account	Yes (PGB,Nua)	Yes (IOB,Nua)	Yes (District coop.)	Yes (IOB, Nua)

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8	Norms with regard to				
	8.1 Savings	Yes	Yes	Yes	Yes
	8.2 Credit	Yes	Yes	Yes	Yes
	8.3 Fine	Yes	Yes	Yes	Yes
	8.4 Meeting	Yes	Yes	Yes	Yes
	8.5 Leadership	Yes	Yes	Yes	Yes
9	Execution of norms	Partially	Partially	Yes	Partially
10	Saving				
	10.1 Amount	10	10	10 - 20 (varying)	10 (varying)
	10.2 Periodicity	Monthly	Monthly	Monthly	Monthly
	10.3 Regularity in saving	Regular	Regular	Regular	Regular
	10.4 Total amount with the group	13,348	6,550	11,827	14,000
	10.5 Fine to the defaulter	--	--	--	--
11	Credit				
	11.1 Internal credit	65%	76%	85%	79%
	11.2 Rate of interest	36%	30%	36%	30%
	11.3 Purpose of loan	Consumption	Consumption	Consumption & Production	Consumption
	11.4 Repayment period	12 month	12 month	12 month	12 months
	11.5 Rate of payment	90%	95%	100%	85%
	11.6 Fine to the defaulter	--	--	5	--

12	Meeting				
	12.1 Frequency	Monthly	Monthly	Monthly	Monthly
	12.2 Regularity	Regular	Regular	Regular	Regular
	12.3 Attendance	85-90%	90-95%	90%	90%
	12.4 Degree of Participation	70%	80-85%	85%	80%
13	Cash in bank	4,322	1,380	1,627	2700
14	Cash in Hand	320	170	200	300
15	Leadership				
	15.1 Type	Democratic	Autocratic	Autocratic	Democratic
	15.2 Tenure of leader	One year	One year	One year	One year
	15.3 Decision making	Collective	Leader	Collective	Collective
16	Records/Registers				
	16.1 Maintenance of records	By president	Secretary	President & secretary	NGO Worker
	16.2 Quality of maintenance	Average	Good	Good	Good
17	Dependency on NGO	Some extent	Average	Low	High

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ⁱ The Study was conducted to have an understanding of the Rural Financial Services in Orissa and the study was conducted in the Paradipi GP of Nayagarh District of Orissa. Paradipi GP has 11 villages.

On behalf of MPAssociates Pvt. Ltd., Bhubaneswar, Mr. Debadutta K. Panda & Ms. Jasmine Mohanty had conducted this study with the support of NISWARTH, a NGO at Naygarh.