WORKING PAPER NO: 549

Financial Inclusion in India: A Case Study of Gubbi

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Year of Publication – May 2017

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Abstract

Financial inclusion can play a key role in facilitating inclusive economic growth particularly in a developing economy. An inclusive finance must provide better banking services to all sections of society, especially low-income and weaker sections. The uniqueness of having a bank account is that it not only provides basic banking facility but also finance for investment/production purposes which opens opportunities for enhanced employment.

Since 2005, concerted efforts have been made by the Reserve Bank India (RBI) and National Bank for Agriculture and Rural Development (NABARD) to extend financial inclusion across India, especially to weaker sections of society, as they remained excluded from services offered by financial institutions. In 2003, a study revealed that only 27 per cent of total households had accessed credit from institutional sources including banks and cooperative institutions. In 2012, just about 40 per cent of adult population had bank accounts.

The present study based on a Survey of farmers and non-farmers undertaken in Gubbi in 2013 and early 2014, attempted to examine the impact of such measures by the RBI and NABARD in opening of accounts, availing of loans from formal institutions, ease of transactions, and factors hindering financial inclusion in rural areas. The results revealed that though credit from banks was improving, money lenders continued to be an important source of finance. The major factors that were hampering the banking system to extend credit was lack of awareness of government initiatives, distance from the bank, and long term relationship with money lenders.

The bankers who were also interviewed for the Survey stressed that financial literacy was lacking in the country, BC model was useful but not very successful as attrition rate was high, and technological issues in handsets, especially connectivity, were substantial which were impeding expansion of bank accounts.

Key words: financial inclusion, business correspondents, money lenders, mandi merchants

Acknowledgements: The research assistance provided by Shivakumara Reddy. K, Shara Bhattacharjee, Janardhana Anjanappa and Sowmya. J in preparation of this paper is gratefully acknowledged.

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Section I: Introduction

The Indian economy has been recording high growth rates in the last two decades compared to earlier period, impacting livelihood of many people. However, questions have been raised about inclusiveness of various sections of society, particularly the poor, in the growth process so that India can achieve equitable and sustainable development. A major problem in achieving inclusive growth seems to be lack of access to key services such as banking. Bangladesh experience suggests that financial inclusion could fundamentally change the livelihood opportunities for poor people, smoothen consumption, and provide a strong base for ensuring inclusive growth. However, there are challenges like lack of awareness and financial literacy which have to be addressed by the policy makers. In order to overcome barriers, banking sector has been making various efforts, including technological innovations such as automated teller machines (ATM), credit and debit cards, internet banking, etc. Though introduction of such banking innovations brought a change in urban society, a majority of rural and poor segments of population have been untouched by these changes and are excluded from formal banking.

Financial inclusion can be expected to provide universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products (Planning Commission, 2009). The Committee on Financial Inclusion (Government of India, 2008) defines financial inclusion as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups, such as weaker sections and low-income groups, at an affordable cost. Financial inclusion enables improved and sustainable economic and social development of the country. It helps in empowerment of underprivileged and deprived segments of the society with mission of making them self-sufficient and well informed to facilitate better financial decisions. Also, the objective of financial inclusion is to ensure easy availability of financial services which allows maximum investment in business opportunities, education, and savings for retirement, insurance against risks, etc. by individuals and firms located in rural areas.

The household access to financial services includes access to contingency planning, and credit. Access to contingency planning would help in consumption smoothing and future savings such as retirement savings, and insurable contingencies and access to credit includes emergency loans, housing loans and consumption loans. On the other hand, access to financial services can help in savings and investment based on household's level of financial literacy and risk perception.

Financial inclusion started gaining importance recently in economic literature though historically, Government and the RBI have been aware of the need to bank the unbanked since 1955. The Government and the RBI have been making concerted efforts to extend financial inclusion across the country. The measures initiated by the government include nationalization of banks starting from the State Bank of India in 1955, and other banks in 1969 and 1980; having a network of rural cooperatives and regional rural banks; and organizing loan melas of the 1970s and 1980s. RBI has also been making efforts to extend financial inclusion through policies like priority sector lending since the early 1970s.

In recent years, concerted efforts were made, from November 2005, when the scheme of 'no-frills' account was announced but formal thrust came from 2008 after the adoption of recommendations from Report of the Committee on Financial Inclusion (GOI, 2008). RBI's cautious policy on financial inclusion had been to ensure a balance between equity and efficiency as well as ensuring financial health of banks and preserving their lending capacities. RBI had adopted a bank-led approach and had been neutral to the use of technology by individual banks. Consequently, according to the RBI, in January 2013, banking facility had reached more than two lakh villages with nearly 80 per cent out-reach through the business correspondent model, and nearly 10 crore savings bank deposit accounts including erstwhile no-frill accounts were opened during 2010 to 2012**.** In recent years, after the launch of Pradhan Mantri Jan Dhan Yojana (PMJDY) in August 2014, the reach of banking sector has been extended to nearly 95 percent of households.

The focus of the present study is on following objectives: First, to study various measures initiated by the Government since 2005. Second, to understand extent of bank accounts created and loans availed from such accounts. Third, to examine the ease with which banking services can be availed and understand the relationship between financial institutions and borrowers. Third, to explore the purposes for which loans were taken from banks and other financial institutions. Finally, to understand reasons which impede expansion of banking facilities in rural areas, and financial services that account holders would like to avail from banks. The study, after a grass-root level survey analysis, also aims to recommend measures which can help in reframing existing policies in an effective way in order to provide access to non-banked population. The study is based on a survey that was conducted in six villages of Gubbi Taluk, Tumkur District, Karnataka during 2013 and 2014 – before PMJDY was announced and implemented.

The study is organized in the following sections. The background, dimensions and progress of financial inclusion in India is briefly presented in Section II. In Section III, a brief review of literature is presented. In Section IV, research objectives and methodology adopted for the study is described. In Section V, analysis and interpretation of survey data based on field visits is presented. On the basis of extensive interaction with a number of bankers operating in the survey area, main challenges to financial inclusion are identified in Section VI. Finally, Section VII presents conclusions and policy recommendations.

Section II: Background, Dimensions and Progress of Financial Inclusion in India

The penetration of formal sector financial services in India was low in 2011 with nearly two-fifth of households, according to Census, not having access to formal banking. The factors responsible for this condition can be looked at from both supply and demand side. The reasons for low demand for financial services could be low income level, lack of financial literacy, distance from the bank, etc. The supply side factors included no bank branch in the vicinity, lack of appropriate products to meet needs of poor and rural people, and complex processes, including documentation required while opening or operating bank accounts.

The only means of saving, in absence of a bank account in a formal institution, was through physical assets like cash, jewelry and chit funds. These modes of transactions increased risk exposure, as well as were difficult in transferring resources and making investments in any business venture. Moreover, lack of access to banks marginalized the poor from formal economy, and over a period of time it became expensive for banks, insurance companies and government agencies to transact business with unbanked population. To address the problem of large size of unbanked population, many initiatives were undertaken to provide access to formal financial services to the financially excluded sections of the society. The concept of financial inclusion was first put forward by RBI in 2005 and the concept of business correspondents (BCs) or branchless banking through different banking agents was introduced in 2006. The Government of India had also been initiating various measures and introduced the "Swabhimaan" campaign in 2011 with an objective to cover more than 74,000 villages in order to provide access to banking services to excluded sections of society (GOI, 2014).

Historically, progress in development of financial inclusion in India can be examined by understanding different stages involved in it. The concept of examining financial access became important immediately after the All-India Rural Credit Survey which was completed in 1950s. The results of that survey revealed that farmers relied heavily on money lenders. Only urban areas had large number of bank branches compared to rural areas. Therefore, for increasing level of financial inclusion, the Government of India (GOI), and Reserve Bank of India (RBI) undertook various initiatives like nationalization of banks (1969, 1980); introducing priority sector lending requirements (1974); establishing regional rural banks (RRBs)

(1975); and adopting service area approach (1989) and self-help group-bank linkage program (1989, 1990). Since 2005, the RBI and NABARD have been initiating a number of concerted measures to enhance financial inclusion. These measures are – using business facilitators and correspondents, easing Know-Your-Customer norms, introducing electronic benefit transfer, using mobile technology, opening and encouraging 'no-frill accounts', stressing on financial literacy, opening of customer service centers and credit counseling centers, and introducing Kisan Credit Card, National Pension Scheme Lite, Mahatma Gandhi National Rural Employment Guarantee Scheme and Aadhaar Scheme (Annex 1 and Annex 2).

Some of the specific measures taken by NABARD are project on processor cards and "e-Grama", farmers' club program, instituting National Rural Financial Inclusion Plan, and scaling up of micro finance programmes. The specific initiatives by RBI, include financial literacy through audio visual medium, setting up of ultra-small branches, use of Aadhaar card number, and electronic benefit transfer mechanism. Some specific initiatives taken by GOI are PMJDY, establishing Micro Units Development and Refinance Agency (MUDRA) and introducing series of social security schemes requiring bank accounts.

Although different initiatives of financial inclusion have contributed in changing the landscape of banking in Indian economy, there were still important factors; such as poverty, low income levels, and distance from bank branches that were restricting vulnerable groups from getting access to formal banking system. According to the Census 2011 estimate, only 58.7 percent of total households in India had access to formal banking services and only 54.4 percent households in rural areas had access to formal banking services.[1]

The number of initiatives taken by the Government did not result in expanding penetration of institutional credit in the rural sector. The data revealed that only 24.4 million farmer households in the country (27.3 per cent), out of a total of 89.3 million households had access to credit from institutional sources.[2] In other words, nearly 73 per cent of farm households did not have access to formal credit sources (Table 1, Column 8).

[1] GOI (2014).

[2] Institutional sources include Government, cooperative societies and banks, while non-institutional sources include agricultural / professional money lenders, traders, relatives and friends, doctors, lawyers and other professionals.

Table 1: Farmer Households (HH) availing Loans from Formal Sources of Credit

(No. of Farmer HHs in lakh)

Region	Total House -holds	Loans Taken by Households	Percentage of total Households	Loans not Taken by Households	Percent age of total Househ olds	Loans from formal sources	Percent age of total Househ olds
1	2	3	4	5	6	7	8
Northern	109.5	56.3	51.4	53.2	48.6	27.4	25.1
North Eastern	35.4	7.0	19.9	28.4	80.1	1.4	4.1
Eastern	210.6	84.2	40.0	126.4	60.0	39.5	18.7
Central	271.3	113.0	41.6	158.3	58.4	60.8	22.4
Western	103.7	55.7	53.7	47.9	46.3	45.6	44.0
Southern	161.6	117.5	72.7	44.1	27.3	69.1	42.8
Group of UTs	1.5	0.5	33.1	1.00	66.9	0.2	10.1
All India	**893.5**	**434.2**	**48.6**	**459.3**	**51.4**	**244.0**	**27.3**

Source: Data from NSSO 59th Round (2003) quoted in Report of the Committee on Financial Inclusion (January 2008).

The extent of financial inclusion at the regional level in India was presented by CRISIL with the help of a comprehensive financial inclusion index 'CRISIL Inclusix'. It measured progress of financial inclusion in India based on three critical parameters such as branch penetration, deposit penetration, and credit penetration (Table 2).

Table 2: Financial Inclusion at Regional Level

Region	Inclusix 2009	Inclusix 2010	Inclusix 2011	Inclusix 2012	Inclusix 2013
India	35.4	37.6	40.1	42.8	50.1
Southern Region	54.9	58.8	62.2	66.1	76.0
Western Region	33.9	35.8	38.2	40.9	48.2
Northern Region	33.3	34.8	37.1	39.5	44.0
Eastern Region	24.3	26.3	28.6	30.8	40.2
North-Eastern Region	23.8	26.5	28.5	30.9	39.7

Source: CRISIL Inclusix (June 2013 - Volume I & June 2015 - Volume III).

In recent years, especially after 2014, the GOI, RBI and NABARD have initiated various measures like the PMJDY, followed by other social security schemes which have yielded encouraging results (Table 3).

Table 3: Progress on Financial Inclusion by Banks since 2010 (Year ending March)

Sl No	Variable	March 2010	March 2013	March 2014	March 2015	March 2016
1	Banking Outlets in Villages - Branches	33,378	40,837	46,126	49,571	51,830
2	Banking Outlets in Villages – Branchless Mode	34,316	2,27,617	3,37,678	5,04,142	5,34,477
3	Banking Outlets in Villages – Total	67,694	2,68,454	3,83,804	5,53,713	5,86,307
4	Urban Locations covered through BCs	447	27,143	60,730	96,847	1,02,552
5	BSBDA through branches (No. in million)	60	101	126	210	238
6	BSBDA through branches (Amt. in Rs. billion)	44	165	273	365	474
7	BSBDA through BCs (No. in million)	13	81	117	188	231
8	BSBDA through BCs (Amt. in Rs. billion)	11	18	39	75	164
9	BSBDA Total (in million)	73	182	243	398	469
10	BSBDA Total (Amt. in Rs. billion)	55	183	312	440	638
11	OD facility availed in BSBDA (No. in million)	0.2	4	6	8	9
12	OD facility availed in BSBDA (Amt. in Rs. billion)	0.1	2	16	20	29
13	KCCs-Total (No. in million)	24	34	40	43	47
14	KCCs-Total (Amt. in Rs. billion)	1,240	2,623	3,684	4,382	5,131
15	GCC-Total (No. in million)	1	4	7	9	11
16	GCC-Total (Amt. in Rs. billion)	35	76	1,097	1,302	1,493
17	ICT A/Cs-BC Total Transactions (No. in million) during the year	26	250	329	477	827
18	ICT A/Cs-BC Total Transactions (Amt. in Rs. billion) during the year	7	234	524	860	1,687

Note: BSBDA - Basic savings bank deposit account, OD – Overdraft, KCC – Kisan credit card, GCC – General credit card, BC – Business correspondents, ICT - Information and communication technology.
Source: RBI (2015).

Section III: Review of Select Studies

In the context of India, several studies have been conducted on issues related to banking the unbanked population. A brief review of literature of a few select studies is presented in the following analysis.

To address the issue of large size of unbanked population and limited reach of brick and mortar branches, RBI (2005) proposed extending financial inclusion through business facilitators (BF) / business correspondents (BC), adapting the Brazilian success story in India. The report by the RBI mainly focused on activities required to further accelerate efficient and effective delivery of credit to rural farm and non-farm sectors.

To ensure a wider coverage of banking services, Committee on Financial Inclusion (GOI, 2008: Chairman – Dr. C. Rangarajan) recommended that financial inclusion should be undertaken on a 'mission mode' so that various financial services are available at an affordable cost to vast sections of disadvantaged and low-income groups. The key recommendations were to provide access to mainstream financial products and that banking and payment services should be available to entire population without discrimination. Later, RBI (2014a) focused on the provision of financial services to small businesses and low-income households as majority of these households did not have an account in the formal sector. The main findings were that majority of small businesses were operating without the help of formal financial institutions; and more than half of rural and urban population did not have access to bank accounts.

In a rare study stressing the significance of having a bank account, Shiva (2010) explained various dimensions of the Punjab tragedy of 1970s and 1980s which were responsible for indebtedness of farmers, as majority of the farmers did not have access to banking services. The author argued that Green Revolution resulted in increase in cost of agricultural inputs, leading to increasing debt and declining profit margins. The author observed that lack of access to banking services resulted in making it difficult for the farmers to meet the ends.

To popularize financial inclusion, RBI (2011) focused on issues and concerns of microfinance sector, especially related to ease of transaction. The report provided suggestions for regulating microfinance sector along with interest rates, increasing transparency and reducing problems that are related to multiple lending and over borrowing in order to make transaction process much easier. Similarly, RBI (2014b) examined various challenges to large scale expansion of mobile banking across country to make transaction process much easier. The report divided the challenges into two broad categories – customer enrollment related issues and technical issues. Customer enrollment related issues included mobile number registration, M-PIN (mobile pin) generation process, concerns relating to security as a factor affecting on-boarding of customers, education of bank's staff and customer education. Technical issues included access channels for transactions, cumbersome transaction process, and coordination with mobile network operators in a mobile banking eco-system.

Kumar (2011) attempted to understand the behavior and determinants of financial inclusion in terms of accessibility of various financial services. The key findings of the paper show that, the deposit and credit penetration are positively correlated. In short, the key determinants of financial inclusion are income level, regional economic conditions, income generating employment, and schemes leading to more banking activities.

In 2013, key findings of a study by CRISIL were that though one-half of population had a savings account, only one in seven Indians had access to banking credit. CRISIL (2013) measured the extent of financial inclusion in India in the form of an index. It made use of non-monetary aggregates for calculating financial inclusion with aim of providing suggestions regarding the type of financial services that needs to be provided to rural households in order to raise their standard of living. The parameters used in this index take account of number of individuals having access to various financial services rather than focusing on loan amount.

Ananth and Sabri (2013) attempted to understand challenges and problems faced by financial inclusion in Andhra Pradesh. The authors argued that success of financial inclusion depended on expansion of public sector banks in rural areas, and their role in providing suitable financial products to rural households, since public sector banks play a larger role in government sponsored schemes. Further, authors emphasized on localization and customization of financial products and services rather than centralized and standard procedures. The study concluded that microfinance institution (MFI) lending did not lead to growth of income as only a small part of borrowed money was used for investment purposes. In contrast, Yeshwanth (2015) concluded that participating in microfinance had improved standard of living of households as well as increased access to saving services. The study also revealed that nearly 70 percent of financially excluded households belonged to scheduled castes and tribes. Also, the reluctance of such households from participating in MFI was because of existing strict repayment rules of MFI. In absence of banking institutions, MFIs have been playing an important role in rural areas.

To analyse the utilization of loans, Kamath (2008) attempted to understand the impact of MFI loans on daily household cash flows by analyzing cash inflow and outflow patterns of borrowers of MFI and comparing with non-MFI households. The financial diary methodology was used to collect data and to keep track of 11 months expenditure pattern (September 2008 to August 2009) of households of Ramanagar area, Karnataka, India. The findings highlighted some critical issues – repayment of one MFI loan was done by using other MFI loan; maximum repayment of MFI loan exceeded average income of the households; and none of loans were used for productive purpose but for consumption.

It is an interesting fact that money lenders continue to play an important role in rural areas. Reddy (2007) investigates purpose for which people borrow from money lenders by identifying and analyzing changes in their borrowing pattern over 20 years. The data is collected from a village money lender of Anantapur district in Andhra Pradesh. Money lender lent only to those people with whom he had economic relationship such as tenants and laborers, and sometimes no interest rate was charged in case of mutual help. The empirical findings of this paper demonstrate that relationship building is important and that money lender, who is considered as one who fulfills production needs of the weak and poor, continued to provide finance even when there was an improvement in standard of living of poor.

Section IV: Objectives of the Study

The study is exploratory and descriptive in nature. To evaluate the measures undertaken by the RBI, NABARD and the Government, the study focused on desk research and undertook a survey of a specified rural area near Bangalore. The desk analysis has been discussed in earlier sections. The survey methodology and results are discussed in the following sections.

Objectives of the Survey

1. To examine the impact of measures initiated in recent years by the GOI, RBI and NABARD and understand likely expected outcome in terms of –
    i. Extent of accounts created/opened
    ii. Extent of usage of accounts
    iii. Extent of ease of transaction
    iv. Extent of relationship with financial institutions
    v. Extent to which expenditure/investments have been facilitated
2. To identify measures required to provide access to non-banked population.

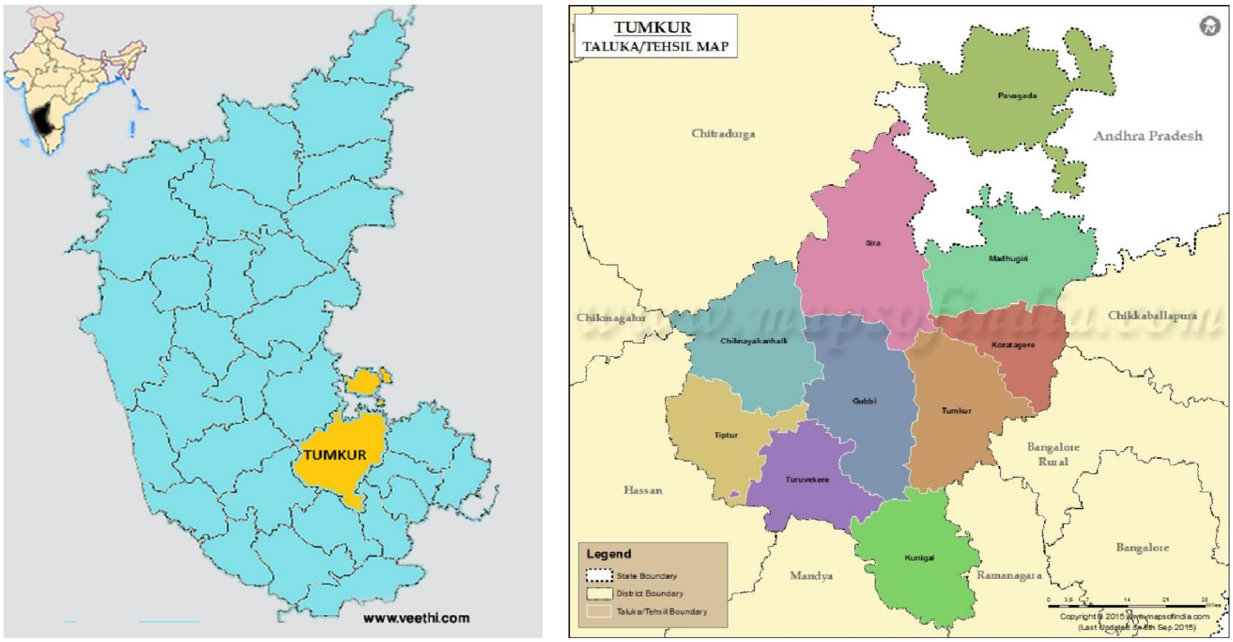
Data Collection

Primary data is used in order to make comparisons between variables. Questionnaire survey method is used to obtain necessary data through randomly chosen sample of 198 individuals, of which 148 are farmers and 50 are non-farmers in the Gubbi Taluk, Tumkur district (Table 4). Random sampling of six Gram panchayats was done in Gubbi during late 2013 and early 2014. The sample farmers and non-farmers were randomly chosen from 6 villages in Gubbi, namely Hosakere, Kodagihally, Kondli, Koppa, Nallur, and Nittur (Figure 1).

Table 4: Sample Size

Types	Koppa	Kondli	Nallur	Nittur	Hosakere	Kodagihally	Total
Farmer	25	26	25	22	23	27	148
Non-Farmer	7	8	9	9	9	8	50
Total Numbers	**32**	**34**	**34**	**31**	**32**	**35**	**198**

Figure 1: Map of Gubbi Taluk



Source: www.mapsofindia.com

The questionnaire seeks information on access to banking facilities for rural poor; extent of accounts created; extent of accounts used; extent of ease of transaction; extent of credit availed; and extent to which investments have been facilitated.

The following financial institutions were working in survey area –

Public Sector Banks: Canara Bank, State Bank of India (SBI), State Bank of Mysore (SBM), and Vijaya Bank.

Kiosks: State Bank of India and Bank of India.

Private Banks: HDFC Bank and Karnataka Bank Ltd.

Regional Rural Bank: Kaveri Kalpatharu Grameena Bank (KGB is a scheduled bank wholly owned by government, sponsored by SBM).

Co-operative Banks: Gruha Mandali Sahakara Bank, Nandini Bank (Nadini Milk Credit Co-operative Society Ltd.), Primary Land Development Bank (PLD), Shri Timmanna Vividoddesha Co-operative Bank, Vyavasaaya Seva Sahakar Sangha Niyamitha (VSSSN).

MFI – NGO: Initiatives for Development Foundation (IDF is registered as a trust under Indian Trust Act)**,** Mysore Resettlement and Development Agency (MYRADA), Grameena Koota, Shri Kshethra Dharmasthala Rural Development Project (SKDRDP is a charitable trust registered as an NGO).

Details of socio-economic status of farmers and non-farmers is detailed in Annex-3.

Section V: Analysis of Data and Findings

The data have been collected with the help of structured questionnaire from 148 farmers and 50 non-farmers residing in the Gubbi Taluk, Tumkur District, in Karnataka. The data is interpreted by distributing the variables and calculating their frequencies into different categories with the help of SPSS software package.

The results are separately presented for farmers and non-farmers.

V.A. ***Farmers***

1. Extent of Accounts Created/Opened

The extent of accounts created or opened by farmers in different financial institutions is presented in Table 5. It can be observed that in total, 96.1 percent of farmers preferred to open accounts in banks compared to 66.7 percent in SHGs, 8.5 percent in MFIs and 18.6 percent in post offices. Interestingly, similar preference is noted for all types of farmers – preferring to open accounts in banks rather than alternatives institutions. In most cases, farmers had only one account in a bank and SHG/MFI (details tabulated in Annex 4.1). A large numbers of small farmers had two or more accounts in banks (36.2 percent) and SHGs/MFIs (40.0 per cent).

Table 5: Farmers having Accounts in Different Financial Institutions

(In percentage)

Institutions Deposits / Savings A/c	Marginal	Small	Semi-Medium	Medium & Large	Total
Bank	93.3	93.5	100.0	100.0	96.1
SHGs	83.3	60.9	71.1	40.0	66.7
MFIs	3.3	13.0	10.5	0.0	8.5
Post office	20.0	13.0	21.1	26.7	18.6
Total Numbers	**30**	**46**	**38**	**15**	**129**

Note: Non-respondents -19.

2. Extent of Usage of accounts

In formal banking institutions, number of loan accounts are highest in case of SHGs as compared with banks mainly because of preferences of marginal and small farmers. Interestingly, large farmers as well as medium and semi-medium farmers prefer banks over SHGs. However, in the overall analysis, including informal sources, the share of money lenders is the highest at 73.6 percent, and it is significantly large for all segments of farmers (Table 6). Small and Semi-medium farmers do avail services of MFIs, but in general, their share is small. The reach of MFIs is restricted to marginal, small and semi-medium farmers whereas farmers also borrow extensively from mandi merchants. Farmers, availing loans from banks, also extensively borrow from other sources, especially money lenders and SHGs (Table 7).

Table 6: Farmers Availing Loans from Different Sources

(In percentage)

Institutions – Credit / Loans	Marginal	Small	Semi-Medium	Medium & Large	Total
Bank	33.3	50.0	73.7	66.7	55.0
SHGs	83.3	58.7	65.8	40.0	64.3
MFIs	3.3	17.4	13.2	0.0	10.9
Money Lenders	63.3	82.6	68.4	80.0	73.6
Mandi Merchants	16.7	32.6	44.7	46.7	34.1
Total Numbers	**30**	**46**	**38**	**15**	**129**

Note: Non-respondents – 19.

Table 7: Farmers having Bank Account and Availing Loans from other Institutions

(In percentage)

Bank Credit / Loan Availed	Credit / Loan Availed from other Institution		Marginal	Small	Semi-Medium	Medium & Large	Total
Yes	SHGs	Yes	90.0	60.9	64.3	40.0	63.4
No		Yes	80.0	56.5	70.0	40.0	65.5
Yes	MFIs	Yes	10.0	26.1	10.7	0.0	14.1
No		Yes	0.0	8.7	20.0	0.0	6.9
Yes	Money Lenders	Yes	50.0	87.0	75.0	70.0	74.6
No		Yes	70.0	78.3	50.0	100.0	72.4
Yes	Mandi Merchants	Yes	20.0	39.1	53.6	50.0	43.7
No		Yes	15.0	26.1	20.0	40.0	22.4
Total Number of farmers Availing Bank Credit / Loan		**Total Farmers Availing Bank Credit (Response - Yes)**	**10**	**23**	**28**	**10**	**71**
		Total Farmers Not Availing Bank Credit (Response - No)	**20**	**23**	**10**	**5**	**58**

Note: Non-respondents – 19.

In terms of amount of loans, the range over the period, is widest for the money lenders with minimum loan extended at Rs. 2,000 and the maximum at Rs. 8,00,000. In the survey, money lenders contribution is largest, significantly more than all others put together in 2013 (Table 8).

Table 8: Amount of Loan Availed from Banks and Other Institutions

(Amount in Rs. '000)

Total Loan Amount							
Year		**Bank - 1**	**Bank - 2**	**SHGs**	**MFIs**	**Money Lenders**	**Mandi Merchants**
2010	Mean	105.00	91.67	17.13	-	130.00	-
	Minimum	40.00	15.00	4.00	-	10.00	-
	Maximum	200.00	250.00	27.00	-	250.00	-
	Sum	945.00	550.00	137.00	-	260.00	-
	N	**9**	**6**	**8**	-	**2**	-
2011	Mean	143.50	131.67	19.07	-	70.91	66.45
	Minimum	25.00	40.00	2.00	-	20.00	20.00
	Maximum	700.00	300.00	100.00	-	300.00	150.00
	Sum	2296.00	790.00	419.50	-	780.00	265.81
	N	**16**	**6**	**22**	-	**11**	**4**
2012	Mean	170.00	67.50	18.07	21.25	92.79	52.32
	Minimum	15.00	20.00	2.00	10.00	4.00	5.00
	Maximum	400.00	150.00	65.00	50.00	800.00	200.00
	Sum	1190.00	540.00	921.50	85.00	6774.00	1622.00
	N	**7**	**8**	**51**	**4**	**73**	**31**
2013	Mean	137.75	92.50	23.34	22.21	83.57	47.51
	Minimum	25.00	25.00	4.00	10.00	2.00	5.00
	Maximum	400.00	350.00	66.00	50.00	800.00	150.00
	Sum	1653.00	740.00	933.50	155.50	7521.00	1663.00
	N	**12**	**8**	**40**	**7**	**90**	**35**

Note: Some farmers did not respond (as per types of farmers).

3. Extent of Ease of Transactions

The banks are generally located at a distance from farmers and therefore more than 90 percent of farmers have to avail transport services, personal or public, to conduct any banking transaction. In sharp contrast, money lenders, MFIs and SHGs are conducting business within walking distance (Table 9). For farmers walking to banks, average distance is 3 kms, while for SHGs, MFIs, money lenders and mandi merchants, it is around 1 km (Annex 4.2).

Table 9: Mode of Transport Used by Farmers to visit Financial Institutions

(In percentage)

Inst.	Transport Mode	Marginal	Small	Semi-Medium	Medium & Large	Total
Bank	Walking	14.3	9.3	7.9	6.7	9.7
	Personal conveyance	21.4	39.5	39.5	46.7	36.3
	Public transport	64.3	51.2	52.6	46.7	54.0
	Total Numbers	**28**	**43**	**38**	**15**	**124**
Post Office	Walking	66.7	50.0	75.0	25.0	58.3
	Personal conveyance	33.3	50.0	25.0	50.0	37.5
	Public transport	0.0	0.0	0.0	25.0	4.2
	Total Numbers	**6**	**6**	**8**	**4**	**24**
SHGs	Walking	100.0	100.0	96.3	100.0	98.8
	Personal conveyance	0.0	0.0	3.7	0.0	1.2
	Total Numbers	**25**	**28**	**27**	**6**	**86**
MFIs	Walking	100.0	87.5	100.0	-	92.9
	Public transport	0.0	12.5	0.0	-	7.1
	Total Numbers	**1**	**8**	**5**	**-**	**14**
Money Lenders	Walking	94.7	97.4	88.5	91.7	93.7
	Personal conveyance	0.0	2.6	7.7	0.0	3.2
	Public transport	5.3	0.0	3.8	8.3	3.2
	Total Numbers	**19**	**38**	**26**	**12**	**95**
Mandi Merchants	Walking	25.0	21.4	18.8	14.3	19.5
	Personal conveyance	25.0	14.3	31.3	28.6	24.4
	Public transport	50.0	64.3	50.0	57.1	56.1
	Total Numbers	**4**	**14**	**16**	**7**	**41**

Source: Annex Table 4.2.

4. Extent of Relationship with Financial Institutions

The role of informal sources of finance has been substantial in the geographical area of our study though formal sources seem to be making in-roads in recent years. In a significantly large number of cases, farmers have been relying on money lenders and mandi merchants for more than 3 years (Table 10).

Table 10: Farmers' First Interaction with Financial Institutions/Individuals

(In percentage)

Institutions	Marginal	Small	Semi-Medium	Medium & Large	Total
Bank - 1					
0 - 1 Year	32.1	16.3	28.9	40.0	26.6
1 - 3 Years	32.1	32.6	42.1	26.7	34.7
3 years & Above	35.7	51.2	28.9	33.3	38.7
Total Numbers	**28**	**43**	**38**	**15**	**124**
Bank -2					
0 - 1 Year	28.6	35.3	26.3	25.0	29.8
1 - 3 Years	14.3	35.3	31.6	25.0	29.8
3 years & Above	57.1	29.4	42.1	50.0	40.4
Total Numbers	**7**	**17**	**19**	**4**	**47**
Post office					
0 - 1 Year	16.7	16.7	0.0	25.0	12.5
1 - 3 Years	50.0	50.0	50.0	25.0	45.8
3 years & above	33.3	33.3	50.0	50.0	41.7
Total Numbers	**6**	**6**	**8**	**4**	**24**
SHGs					
0 - 1 Year	4.0	25.0	14.8	16.7	15.1
1 - 3 Years	64.0	21.4	37.0	50.0	40.7
3 years & above	32.0	53.6	48.1	33.3	44.2
Total Numbers	**25**	**28**	**27**	**6**	**86**
MFIs					
0 - 1 Year	0.0	37.5	60.0	-	42.9
1 - 3 Years	0.0	50.0	20.0	-	35.7
3 years & above	100.0	12.5	20.0	-	21.4
Total Numbers	**1**	**8**	**5**	**-**	**14**
Money Lenders					
0 - 1 Year	0.0	3.2	0.0	0.0	1.2
1 - 3 Years	6.3	9.7	8.7	8.3	8.5
3 years & above	93.8	87.1	91.3	91.7	90.2
Total Numbers	**16**	**31**	**23**	**12**	**82**
Mandi Merchants					
0 - 1 Year	0.0	7.1	0.0	0.0	2.4
1 - 3 Years	0.0	7.1	6.3	14.3	7.1
3 years & above	100.0	85.7	93.8	85.7	90.5
Total Numbers	**5**	**14**	**16**	**7**	**42**

Source: Annex Table 4.3.

On a further granular analysis, data shows that the relationship between farmers, and money lenders and mandi merchants, extends for more than 5 years in many more cases in comparison to formal sources like banks (Annex 4.3).

In terms of frequency of usage of financial institutions, SHGs and MFIs are more popular given the number of times farmers interact with the institutions. However, large number of farmers are making use of banking facilities (Table 11).

Table 11: Frequency of usage of Services Offered by Financial Institutions

(In percentage)

	Marginal	Small	Semi-Medium	Medium & Large	Total
Bank - All					
1 to 5 time in a Month	28.6	46.5	26.3	40.0	35.5
1 to 5 times in 2 to 6 Months	14.3	9.3	18.4	20.0	14.5
1 to 5 times in 7 to 12 Months	21.4	14.0	13.2	13.3	15.3
Very rare (More than One year)	3.6	16.3	18.4	0.0	12.1
Never Used/Not responded	32.1	14.0	23.7	26.7	22.6
Total Numbers	**28**	**43**	**38**	**15**	**124**
Post Office					
1 to 5 times in a Month	66.7	83.3	62.5	50.0	66.7
1 to 5 times in 2 to 6 Months	0.0	16.7	12.5	25.0	12.5
1 to 5 times in 7 to 12 Months	0.0	0.0	12.5	0.0	4.2
Very rare (More than One year)	-	-	-	-	-
Never Used/Not responded	33.3	0.0	12.5	25.0	16.7
Total Numbers	**6**	**6**	**8**	**4**	**24**
SHGs/MFIs					
1 to 5 time in a Month	50.0	20.0	66.7	-	46.7
1 to 5 times in 2 to 6 Months	-	-	-	-	-
1 to 5 times in 7 to 12 Months	-	-	-	-	-
Very rare (More than One year)	-	-	-	-	-
Never Used/Not responded	50.0	80.0	33.3	-	53.3
Total Numbers	**4**	**5**	**6**	**-**	**15**

In terms of informal institutions, marginal and small farmers take loans frequently from money lenders and mandi merchants, probably because of the distance and convenience as banks are located far away and permit transactions only during stipulated time periods (Table 12).

Table 12: Frequency of Interaction with Money Lenders and Mandi Merchants

(In percentage)

	Marginal	**Small**	**Semi-Medium**	**Medium & Large**	**Total**
1 to 5 times in a Month	54.5	43.8	30.8	10.0	**36.7**
1 to 5 times in 2 to 6 Months	0.0	3.1	0.0	0.0	**1.3**
1 to 5 times in 7 to 12 Months	0.0	6.3	0.0	10.0	**3.8**
Very Rare (More than one year)	45.5	46.8	69.2	80.0	**58.2**
Never used/visited/Not responded	0.0	0.0	0.0	0.0	**0.0**
Total Numbers	**11**	**32**	**26**	**10**	**79**

The number of accounts closed in the last two years is the highest for SHGs (Table 13). One of the reasons told by the interviewees was that is because of girl children getting married into another village and therefore their accounts getting closed.

Table 13: Number of Accounts Closed in Last Two Years

(In percentage)

Entity	**Marginal**	**Small**	**Semi-Medium**	**Medium & Large**	**Total**
Bank	10.7	2.3	10.5	20.0	8.9
Total Numbers	**28**	**43**	**38**	**15**	**124**
Post office	0.0	0.0	12.5	0.0	4.2
Total Numbers	**6**	**6**	**8**	**4**	**24**
SHGs	20.0	21.4	33.3	16.7	24.4
Total Numbers	**25**	**28**	**27**	**6**	**86**
MFIs	0.0	0.0	20.0	-	7.1
Total Numbers	**1**	**8**	**5**	**-**	**14**

5. Extent to which Expenditure/Investments have been Facilitated

In a large number of cases, loans were undertaken for production purposes (Table 14). Annex 4.4 to 4.8, represents the purpose, i.e. production[3] and consumption[4], for taking loan from banks by farmers. The focus of loans for productive purposes was on seeds, fertilizer and pesticides, and machinery and equipment. On consumption purposes, loan amount was mainly for education, food, social functions and medical requirements. In general, farmers mainly avail loans for production purposes and to some extent for consumption purposes too.

[3]Borewell, crop loan, livestock, land development, tractor, seeds, drip irrigation, subsidy loan, fertilizers, education, business, agricultural production, jewelry, purchase of land, motor repair, silt, brick factory, labor wages and pipeline.
[4]House loan, clear other loan, marriage, house construction, house expenditure, house renovation and personal expenditure.

Table 14: Purpose of taking Loan from Different Institutions by Farmers - 2010 to 2013

(In percentage)

Purpose 2010 to 13	Marginal	Small	Semi-Medium	Medium & Large	Total
Bank-1					
Production	25.0	92.3	88.2	80.0	81.8
Consumption	75.0	7.7	11.8	20.0	18.2
Total Numbers	**4**	**13**	**17**	**10**	**44**
SHGs					
Production	55.0	74.3	71.1	62.5	66.1
Consumption	45.0	25.7	28.9	37.5	33.9
Total Numbers	**40**	**35**	**38**	**8**	**121**
MFIs*					
Production	-	50.0	100.0	-	63.6
Consumption	-	50.0	0.0	-	36.4
Total Numbers	**-**	**8**	**3**	**-**	**11**
Money Lenders					
Production	70.6	78.7	72.9	73.7	75.0
Consumption	29.4	21.3	27.1	26.3	25.0
Total Numbers	**34**	**75**	**48**	**19**	**176**
Mandi Merchants**					
Production	71.4	70.8	89.3	72.7	78.6
Consumption	28.6	29.2	10.7	27.3	21.4
Total Numbers	**7**	**24**	**28**	**11**	**70**

* In our sample no loan was availed in 2010 and 2011.
** In our sample no loan was availed in 2010.

The rate of interest has been an important variable in loans and varies widely between different sources (Table 15). The rate of interest on loans to farmers from banks, for production or consumption purpose has been narrowing and ranged between 9.75 percent to 10.90 percent in 2013 and 7.00 percent to 13.65 percent in 2010 and 2011. In case of SHGs, the range in 2013 varied from 12 percent to 24 percent and 12 to 36 percent in 2011. The rate of interest of MFIs ranges between 4.0 and 24.0 percent. In the study, in case of money lenders and mandi merchants, the rate of interest ranged between zero percent and 60 percent. The zero percent rate of interest has to be carefully interpreted as the money lender was generally a mediator between market and farmer for the crop which was hypothecated to the money lender. In the discussion with bankers and BCs, it became apparent that money lenders and mandi merchants were becoming aware of the stiff competition from increasing penetration of banks, BCs, MFIs, and

SHGs. Therefore, for their long-term and well-established clients, money lenders were relatively flexible in their terms of loans. In addition, when crops have already been hypothecated with the money lenders or mandi merchants, then the money lenders may not charge any explicit rate of interest for very short-term loans. In such cases, some interest amount is already factored in the hypothecated crop but even the borrower may be ignorant of that fact.

Table 15: Range of Interest Rates, Tenure and Amounts of Loans - Farmers

	Banks	SHGs	MFIs	Money Lenders	Mandi Merchants
Interest Rates (interest per annum)					
2010	7.00-13.65	12.00 - 24.00	-	*0.00 - 24.00	-
2011	7.00 – 13.65	12.00 – 36.00	-	24.00 – 60.00	24.00 – 36.00
2012	7.00 – 10.90	12.00 – 26.00	4.00 – 24.00	*0.00 – 60.00	£0.00 – 60.00
2013	9.75 -10.90	12.00 – 24.00	9.00 – 24.00	*0.00 – 60.00	£0.00 – 60.00
Tenure (in months)					
2010	12 - 60	24 - 36	-	**0 - 0	-
2011	12 - 84	12 – 36	-	**0 - 48	££0 - 12
2012	12 - 36	12 - 36	12 - 24	**0 - 24	££0 - 12
2013	12 - 48	10 - 36	10 - 24	**0 - 48	££0 - 12
Amount (in Rs.'000)					
2010	40 - 225	4 - 50	-	10 - 250	-
2011	25 - 700	2 - 100	-	20 - 300	20 - 150
2012	15 - 400	2 - 65	10 - 50	4 - 800	5 - 200
2013	25 - 400	4 - 66	10 - 50	2 - 800	5 - 150

* Zero interest means – Money lenders will provide loans on goodwill basis (only for friends and relatives) for very short term period. Money lenders, in some instances of friends and relatives, are known to have charged zero rate of interest for short duration loans. In general, in the area of survey, 2 to 3 per cent per month was the prevalent rate of interest by the money lenders. In some cases, money lenders could be the mediator (interface between market and farmer) and therefore the interest rate to the farmer is indicated as zero but crop has been hypothecated.
** Zero tenure means – Money lenders will provide loans on goodwill basis (only for friends and relatives) for very short term period.
£ - Mandi merchants, generally, factor the rate of interest in the volume of crop loans, including factoring of risk of crop failure.
££ - The mandi merchants sometimes provide loans for very short time.

The amount of surplus money is generally invested for production purposes followed by house expenses. Further, expenditure on education is also a significant component where savings are absorbed (Table 16).

Table 16: Surplus Money used by Farmers

(In percentage)

Purpose	Marginal	Small	Semi-Medium	Medium & Large	Total
Save in bank account	0.0	4.7	7.7	10.2	5.0
Invest in gold and jewellery	7.5	0.0	0.9	0.0	2.1
Education	9.3	8.8	4.3	6.1	7.4
House expenses	24.3	18.2	17.1	20.4	19.7
Spend on consumer durables	8.4	6.1	3.4	0.0	5.2
Travel / visit relative	0.0	0.0	0.0	0.0	0.0
Purchase of land / assets	1.9	1.4	1.7	0.0	1.4
Invest on production purpose	40.2	50.0	63.2	61.2	52.5
Any other*	8.4	10.8	1.7	2.0	6.7
Total Numbers	**107**	**148**	**117**	**49**	**421**
Percentage	**100**	**100**	**100**	**100**	**100**

*Any other - education, agriculture, marriage, business, hospital expenses and others not mentioned elsewhere.

The banks are not a preferred choice of savings or investment, probably because of distance and lack of banking penetration, and even a possibility that after a certain threshold of savings in a safe institution, farmers look for higher returns and save in risky ventures like local pyramid schemes (Table 17).

Table 17: Surplus Money used by Farmers – Bank Deposits

(In percentage)

Bank Deposits	Save in Bank Account	Marginal	Small	Semi-Medium	Medium & Large	Total
Yes	Yes	0	7	9	5	**21**
	%	0.0	6.1	8.7	13.2	**6.3**
	No	74	108	95	33	**310**
	%	100.0	93.9	91.3	86.8	**93.7**
	Total Numbers	**74**	**115**	**104**	**38**	**331**
No	Yes	0	0	-	-	**0**
	%	0.0	0.0	-	-	**0.0**
	No	4	5	-	-	**9**
	%	100.0	100.0	-	-	**100.0**
	Total Numbers	**4**	**5**	**-**	**-**	**9**

To understand as to how farmers decided to open bank accounts, the data reveals that business was conducted with banks mainly on the basis of individual's own choice though suggestions made by friends and relatives also influenced the decision. Also, employees of the bank were instrumental in getting farmers to avail banking services. Government schemes played a significant role in decision to conduct business with a bank (Table 18).

Table 18: Farmers' Decision to Conduct Business with Financial Institutions

(In percentage)

	Bank 1	Bank 2	Post Office	SHGs	MFIs	ML	MM
Suggestions made by colleagues/ friends/ relatives	10.5	10.6	4.2	45.3	42.9	3.2	0.0
Self	56.5	44.7	45.8	44.2	42.9	94.7	95.5
Talking to bank people	12.9	12.8	33.3	5.8	7.1	-	-
Based on previous success stories	1.6	2.1	0.0	0.0	0.0	0.0	0.0
Because of government schemes	12.1	8.5	4.2	0.0	0.0	-	-
Any other*	3.2	2.1	12.5	1.2	0.0	2.1	4.5
No suggestion	3.2	17.0	0.0	3.5	7.1	-	-
Total Numbers	**124**	**47**	**24**	**86**	**14**	**95**	**44**

*Any other - Gold loan, LPG, panchayat office, ration card, pension scheme.
Note (1) Multiple responses, therefore, total may exceed 100 percent.
(2) SHGs– Self-help groups, MFIs– Micro finance institutions, ML– Money lenders, MM– Mandi merchants.
Source: Annex 4.9.

The government schemes availed by the farmers are Aadhaar card, Government LPG, Government insurance, Government scholarships, land grants and Pension Scheme (Annex 4.10). Thus, banking finance schemes are not availed because of lack of awareness. In our survey area, farmers were aware of MGNREGA, Aadhaar Card and LPG Subsidy scheme. But very few farmers, less than 1 percent in total were aware of the Kisan Credit Card and General Credit Card (Annex 4.11). The awareness of different financial products generally came from friends and relatives, followed by bank officials, NGOs/CSOs, newspaper advertisements and TV programs (Annex 4.12). In case there is extensive financial literacy, banking penetration can improve further. In the Survey, 41 percent of farmers preferred to take loans from banks, 35.7 percent from money lenders and mandi merchants, and 27.9 percent from MFIs/SHGs (Annex 4.13). A large number of respondents wanted to have more information on availability of crop loans and required documents, agricultural insurance schemes and Kisan Credit Card (Annex 4.14). To improve financial literacy, farmers suggested strengthening NGOs/CSOs, more advertisements on television, utilization of gram panchayats, and SHG-bank linkage programmes (Annex 4.15).

The type of services that were most preferred from financial institutions was availing of credit and loan accounts followed by savings account, tiny deposits, and government schemes (Table 19).

Table 19: List of Services that Farmers would like to avail from Institutions

(In percentage)

Bank	Marginal	Small	Semi-Medium	Medium & Large	Total
Kisan credit card - KCC	0.0	0.0	2.6	0.0	**0.8**
Agriculture credit card - ACC	0.0	0.0	0.0	0.0	**0.0**
General credit card - GCC	0.0	0.0	0.0	0.0	**0.0**
ATM cum debit card	0.0	0.0	0.0	0.0	**0.0**
Withdrawals	0.0	0.0	0.0	0.0	**0.0**
Tiny deposit	3.6	2.3	0.0	0.0	**1.6**
Exchange of bank notes	0.0	0.0	0.0	0.0	**0.0**
Savings account	3.6	2.3	0.0	6.7	**2.4**
Credit / Loan account	67.9	79.1	76.3	80.0	**75.8**
Remittances	0.0	0.0	0.0	0.0	**0.0**
Insurance schemes	0.0	2.3	0.0	0.0	**0.8**
Any other*	10.7	23.3	13.2	6.7	**15.3**
No suggestions	14.3	7.0	13.2	20.0	**12.1**
Total Numbers	**28**	**43**	**38**	**15**	**124**
Post office					
General credit card - GCC	0.0	16.7	0.0	0.0	**4.2**
Tiny deposit	16.7	0.0	12.5	0.0	**8.3**
Credit / Loan account	16.7	16.7	0.0	0.0	**8.3**
Insurance schemes	0.0	0.0	25.0	0.0	**8.3**
Any other*	33.3	16.7	37.5	0.0	**25.0**
No suggestions	33.3	33.3	25.0	50.0	**33.3**
Total Numbers	**6**	**6**	**8**	**4**	**24**
SHGs / MFIs					
Tiny deposit	0.0	0.0	3.4	0.0	**1.1**
Savings account	4.0	0.0	0.0	0.0	**1.1**
Credit / Loan account	72.0	66.7	62.1	66.7	**66.7**
Insurance schemes	4.0	3.3	3.4	0.0	**3.3**
Any other*	4.0	16.7	17.2	0.0	**12.2**
No suggestions	16.0	13.3	17.2	33.3	**16.7**
Total Numbers	**25**	**30**	**29**	**6**	**90**

*Any other - Agriculture, bore well, live stocks, crop and land development, awareness and maintenance of govt. programmes.

Note: Multiple responses, therefore, total may exceed 100 percent.

The major suggestion given by farmers is mainly bank officials to be customer friendly, simplification of identification documents, information available in local language, high penetration of post offices at village level and awareness of women welfare schemes (Table 20).

Table 20: Major Suggestions given by Farmers

(In percentage)

Suggestions	Marginal	Small	Semi-Medium	Medium & Large	Total
Bank					
Communication and documents made available in native language	3.6	0.0	0.0	0.0	0.8
Identification norms to be made easier	0.0	2.3	0.0	0.0	0.8
Bank officials to be customer friendly	0.0	2.3	2.6	6.7	2.4
Identification / status documents	3.6	2.3	0.0	0.0	1.6
Communication / language	0.0	0.0	5.3	0.0	1.6
Transportation / travelling	3.6	0.0	0.0	0.0	0.8
Any other*	0.0	7.0	18.4	20.0	10.5
No suggestions	85.7	79.1	63.2	73.3	75.0
Total Numbers	**28**	**43**	**38**	**15**	**124**
Post office					
High penetration of post office at village level	0.0	33.3	0.0	25.0	12.5
Postal officials to be customer friendly	0.0	0.0	12.5	0.0	4.2
Any other*	16.7	33.3	0.0	0.0	12.5
No suggestions	50.0	16.7	37.5	75.0	41.7
Total Numbers	**6**	**6**	**8**	**4**	**24**
SHGs / MFIs					
Less time for approving loan	4.0	0.0	3.7	0.0	2.3
Increase number of meetings	4.0	3.6	0.0	0.0	2.3
Awareness of women welfare scheme	16.0	7.1	3.7	0.0	8.1
Any other*	8.0	10.7	25.9	16.7	15.1
No Suggestions	72.0	78.6	74.1	83.3	75.6
Total Numbers	**25**	**28**	**27**	**6**	**86**

*Any other - Commission for loan, delay in processing of loan and documentation, flexible repayment period, interest rate, etc.

Note: Multiple responses, therefore, total may exceed 100 percent.

V. B. ***Non-Farmers***:

1. Extent of Accounts Created/Opened

The analysis is based on data collected from non-farmers who have opened accounts in different institutions. It can be observed that SHGs are more popular than banks amongst non-farmers (Table 21). Granular analysis reveals that 96.3 percent of non-farmers had one account in a bank while 75.9 percent of non-farmers had one account in SHGs and MFIs (Annex 5.1). Thus, more non-farmers had 2 or more accounts in SHGs/MFIs than banks.

Table 21: Number of Accounts Opened/Created

(In percentage)

Entities	**Deposits A/c**
Bank	54.0
SHGs	56.0
MFIs	4.0
Post office	32.0
Total Numbers	**50**

Note: Multiple responses, therefore, total may exceed 100 percent.

2. Extent of usage of Accounts

In the formal banking institutions, numbers of loan accounts are highest in case of SHGs as compared with banks while money lenders continue to be most popular (Table 22). The non-farmers availing loan from banks, also extensively borrow from SHGs and money lenders (Table 23).

Table 22: Non-Farmers Availing Loans from Different Financial Institutions

(In percentage)

Credit	**Credit / Loan**
Formal sector	
Bank	10.0
SHGs	52.0
MFI	4.0
Total Numbers	**50**
Informal sector	
Money lenders	84.0
Mandi merchants	0.0
Total Numbers	**50**

Note: Multiple responses, therefore, total may exceed 100 percent.

Table 23: Non-farmers Availing Loans from Banks and still resorting to other Financial Institutions

(In percentage)

Resorting to taking credit/loans from other institutions only	Bank Credit/Loan already Availed		
	Yes	No	Total
SHGs	80.0	48.9	52.0
MFI	0.0	4.4	4.0
Post office	0.0	0.0	0.0
NBFC	0.0	0.0	0.0
Money lenders	60.0	86.7	84.0
Dealers	0.0	0.0	0.0
Mandi merchants	0.0	0.0	0.0
Any Other	0.0	0.0	0.0
Total Numbers	**5**	**45**	**50**

Note: Multiple responses, therefore, total may exceed 100 percent.

In terms of amount of loans, in 2013, range is widest for the money lenders with minimum loan extended at Rs. 2,000 and the maximum amount at Rs. 60,000. In the study, contribution of money lenders is largest in loans provided to non-farmers, more than all others put together (Table 24).

Table 24: Amount of Loans Availed from Banks and other Institutions

(Amount in Rs. '000)

Years		Bank	SHGs	Money Lenders
2011	Mean	40.0	13.0	-
	Minimum	40.0	5.0	-
	Maximum	40.0	25.0	-
	Sum	40.0	65.0	-
	N	**1**	**5**	-
2012	Mean	-	10.7	16.8
	Minimum	-	5.0	1.0
	Maximum	-	20.0	60.0
	Sum	-	75.0	570.8
	N	-	**7**	**34**
2013	Mean	38.2	25.3	17.5
	Minimum	14.5	10.0	2.0
	Maximum	70.0	65.0	60.0
	Sum	114.5	606.0	734.0
	N	**3**	**24**	**42**

Note: Some non-farmers did not respond.

3. Extent of Ease of Transaction

The banks are located far away from non-farmers and therefore 77.8 percent of non-farmers have to avail personal conveyance or public transport to conduct banking transactions. In sharp contrast, money lenders, post offices and SHGs generally conduct business within walking distance (Table 25). For non-farmers, average distance of walking to bank is 2.5 kms, while that for approaching money lenders is 1.1 kms (Table 26).

Table 25: Mode of Transportation Used by Non-farmers to visit Financial Institutions

(In percentage)

Transport mode	Bank	Post Office	SHGs	Money Lenders
Walking	22.2	75.0	100.0	100.0
Personal conveyance	7.4	6.3	0.0	0.0
Public transport	70.4	18.8	0.0	0.0
Total Numbers	**27**	**16**	**28**	**42**

Note: (a) No response for Mandi merchants and MFIs.
(b) Some non-farmers did not respond.
(c) Multiple responses, therefore, total may exceed 100 percent.

Table 26: Time taken to reach Financial Institutions by Non-Farmers

Mean value		Bank		Post Office		SHGs		Money Lenders	
		Distance in Kms	Time Taken in minutes	Distance In Kms.	Time Taken in minutes	Distance in Kms	Time Taken in minutes	Distance in Kms	Time Taken in minutes
Walking	Mean	2.5	23.3	1.8	20.9	1.3	5.7	1.1	5.2
	Median	2.5	30.0	1.0	10.0	1.0	5.0	1.0	5.0
	Minimum	1.0	5.0	1.0	5.0	0.5	5.0	0.5	5.0
	Maximum	5.0	30.0	5.0	80.0	5.0	20.0	5.0	15.0
	N	**6**	**6**	**12**	**11**	**28**	**28**	**42**	**42**
Personal conveyance	Mean	5.5	20.0	2.0	5.0	-	-	-	-
	Median	5.5	20.0	2.0	5.0	-	-	-	-
	Minimum	2.0	10.0	2.0	5.0	-	-	-	-
	Maximum	9.0	30.0	2.0	5.0	-	-	-	-
	N	**2**	**2**	**1**	**1**	**-**	**-**	**-**	**-**
Public transport	Mean	7.0	20.5	2.7	10.0	-	-	-	-
	Median	4.0	15.0	2.0	10.0	-	-	-	-
	Minimum	0.5	5.0	1.0	5.0	-	-	-	-
	Maximum	15.0	45.0	5.0	15.0	-	-	-	-
	N	**19**	**19**	**3**	**3**	**-**	**-**	**-**	**-**
Grand Total Numbers		**27**	**27**	**16**	**15**	**28**	**28**	**42**	**42**

Note: Some non-farmers did not respond.

4. Extent of relationship with Financial Institutions

The role of informal sources of finance has been substantial in the area of our study. The formal sources seem to be making in-roads in recent years. In a significantly large number of cases, non-farmers have been relying on money lenders for more than 3 years (Table 27). The granular data shows that the relationship between non-farmers and money lenders extends for more than 5 years in 88.1 percent of cases.

Table 27: First Interaction with Institutions

(In percentage)

	Bank	Post Office	SHGs	Money Lenders
0-1 Year	33.3	6.3	35.7	-
1 -3 Years	18.5	25.0	32.1	7.1
3 & above Years	48.1	68.8	32.1	92.9
Total Numbers	**27**	**16**	**28**	**42**

A large number of non-farmers do not avail services from banks or post offices but generally do avail loan from money lenders (Table 28).

Table 28: Usage of different Financial Institutions by Non-Farmers'

(In percentage)

	Bank	Post Office	Money Lenders
1 to 5 times in a Month	34.8	0.0	13.5
1 to 5 times in 2 to 6 Months	4.3	37.5	5.4
1 to 5 times in a 7 to 12 Months	21.7	6.3	5.4
Very Rare (More than one year)	8.7	25.0	75.7
Never used/visited/not responded	30.4	31.3	0.0
Total Numbers	**23**	**16**	**37**

The number of accounts closed in the last two years is the highest for SHGs (Table 29). Similar to the argument for farmers, one of the reasons told by the interviewers was that it is because of girls moving to new locations after getting married and their accounts getting closed.

Table 29: Accounts Closed in Last Two Years

(In percentage)

Entities	Bank	Post Office	SHGs
Yes	11.1	0.0	17.9
No	88.9	100.0	82.1
Total Numbers	**27**	**16**	**28**

5. Extent to which Expenditure/Investments have been Facilitated

Loans could be availed for production[5] and consumption[6] purposes. In most cases, loans are undertaken for consumption purposes (Table 30).

Table 30: Purpose of Loan Taken From Institutions*

(In percentage)

Purpose	Years		
	2011	2012	2013
Bank			
Production	0.0	-	33.3
Consumption	100	-	66.7
Total Numbers	**1**	**-**	**3**
SHGs			
Production	0.0	14.3	45.8
Consumption	100	85.7	54.2
Total Numbers	**5**	**7**	**24**
Money Lenders			
Production	-	20.6	14.3
Consumption	-	79.4	85.7
Total Numbers	**-**	**34**	**42**

*Some non-farmers did not respond.

The rate of interest in case of non–farmers ranges between 10.65 to 13.65 in case of banks, and 0.0[7] to 120 per cent in case of money lenders (Table 31). As explained earlier, the zero rate of interest has to be carefully interpreted as money lenders, because of stiff competition from banks, BCs, MFIs and SHGs, were relatively flexible in their terms of loans with select creditworthy clients. In addition, when goods have already been hypothecated with the money lenders, then the money lenders may not charge any explicit rate of interest for very short-term loans. In such cases, in fact, interest amount is already factored in the price of hypothecated goods.

[5]Borewell, crop loan, livestock, land development, tractor, seeds, drip irrigation, subsidy loan, fertilizers, education, business, agricultural production, jewelry, purchase of land, motor repair, silt, brick factory, labor wages and pipeline.

[6]House loan, clear other loan, marriage, house construction, house expenditure, house renovation and personal expenditure.

[7] The zero rate is to be carefully interpreted because it refers to the rate for family, or when money lender has hypothecated the goods, and is a mediator between the market and non-farmer.

Table 31: Range of Interest rates, Tenure and Amounts of Loans

	Banks	SHGs	Money Lenders
Interest Rates (interest per annum)			
2010	-	-	-
2011	13.65 – 13.65	18.00 – 24.00	-
2012	-	12.00 – 24.00	*0 - 120
2013	10.65 – 13.65	12.00 – 36.00	*0 - 120
Tenure (in months)			
2010	-	-	-
2011	24 - 24	24 - 30	-
2012	-	12 - 24	**0- 0
2013	12 - 24	12 - 30	**0- 0
Amount (in Rs.'000)			
2010	-	-	-
2011	40 - 40	5 - 25	-
2012	-	5- 20	1 - 60
2013	14.5 - 70	10 - 65	2 - 60

* Zero interest means – Money lenders will provide loans on goodwill basis (only for friends & relatives) for short term period. Money lenders, in some instances of friends and relatives, are known to have charged zero rate of interest for short duration loans. In general, in the area of survey, 2 to 3 per cent per month was the prevalent rate of interest by the money lenders. In some cases, money lenders could be the mediator (interface between market and non-farmers/artisans) and therefore the interest rate to the non-farmers/artisans is indicated as zero but products have been hypothecated.
** These loans are open-ended and therefore maturity period was not specified.

The amount of surplus money is generally invested for house expenses. Further, expenditure on education plays a significant role (Table 32). The non-farmers also use surplus money for production purposes as well as on consumer durables. In case of surplus money, even if a non-farmer has a bank account, bank is not a preferred choice of savings or investment, probably because of distance and lack of banking penetration.

Table 32: Surplus Money used by Non-Farmers
(In percentage)

Purpose	Savings Pattern of Surplus
Save in Bank account	2.3
Invest in gold & jewelry	0.8
Education	12.2
House expenses	66.4
Spend on consumer durable	2.3
Travel/visit relative	0.8
Purchase of land/assets	0.0
Invest on production purpose	6.9
Any other*	8.4
Total Numbers	**131**

*Any other - education, agriculture, marriage, business, hospital expenses and others not mentioned elsewhere.
Note: Multiple responses, therefore, total may exceed 100 percent.

The choice of non-farmers to conduct business with banks and money lenders was mainly influenced by their own perception. The Government schemes played a significant role in decision to conduct business with a bank but in the case of SHGs, suggestions made by colleagues, friends and relatives played a significant role in decision to conduct business with SHGs (Table 33).

Table 33: Non-Farmers Decision to conduct Business with Financial Institutions

(In percentage)

Reasons	Bank	Post Office	SHGs	Money Lenders
Suggestions made by colleagues/ friends/ relatives	11.1	12.5	71.4	2.4
Self	29.6	25.0	14.3	85.7
Bank officials	3.7	37.5	7.1	0.0
Based on previous success stories	0.0	0.0	3.6	4.8
Because of government schemes	22.2	6.3	0.0	0.0
Any other*	25.9	25.0	0.0	7.1
No suggestion	11.1	0.0	3.6	0.0
Total Numbers	**27**	**16**	**28**	**42**

*Any other - Gram panchayat, post office members, rations card.
Note: Multiple responses, therefore, total may exceed 100 percent.

The awareness of schemes, amongst non-farmers, is lacking in the rural areas. In our survey area, non-farmers were aware of MGNREGA, Aadhaar Card, Pension scheme, Kisan cards and LPG subsidy scheme (Annex 5.2). The awareness of different financial products generally came from SHGs/MFIs, friends and relatives, gram panchayats, NGOs/CSOs, and banks officials (Annex 5.3). According to respondents to the Survey, 38.0 percent of non-farmers preferred to take loans from money lenders, 28.0 percent from MFIs/SHGs, and 10 percent from banks (Annex 5.4). A large number of respondents wanted to have more information on availability of loans and opening of bank account (Annex 5.5). To improve financial literacy, farmers suggested strengthening NGOs/CSOs, utilization of gram panchayats, and SHG-bank linkage programmes (Annex 5.6).

The type of services that are most preferred from banks are credit and loan accounts, savings account and remittances (Table 34). The major suggestion given by non-farmers was mainly increasing the timings of transaction, taking less time for approving loan applications, and increasing number of meetings with SHGs' members (Table 35).

Table 34: Financial Services Non-Farmers would like to avail from Financial Institutions

(In percentage)

Services	Bank	Post Office	SHGs / MFIs
Kisan credit card (KCC)	0.0	0.0	0.0
Agriculture credit card (ACC)	0.0	0.0	0.0
General credit card (GCC)	0.0	6.3	0.0
ATM cum debit card	0.0	0.0	0.0
Withdrawals	0.0	0.0	0.0
Tiny deposit	0.0	6.3	0.0
Business Correspondent / Business Facilitator (BC/BF)	0.0	6.3	0.0
Exchange of bank notes	0.0	6.3	3.4
Savings account	11.1	0.0	0.0
Credit/Loan account	37.0	0.0	48.3
Remittances	3.7	0.0	0.0
Insurance schemes	0.0	0.0	3.4
Any other*	14.8	12.5	34.5
No suggestions	33.3	62.5	34.5
Total Numbers	**27**	**16**	**29**

*Any other – livestock, hospital expenses, education and subsidy loan.

Note: Multiple responses, therefore, total may exceed 100 percent.

Table 35: Major Suggestions given by Non-Farmers

(In percentage)

Suggestions	Bank	Post Office	SHGs
Timings of operations to increase	0.0	0.0	3.6
High penetration of post office at village level	-	0.0	-
Branches to open on Sundays and holidays	0.0	0.0	-
Communication and documents made available in native language	0.0	-	-
Identification norms to be made easier	0.0	-	-
Bank /post office officials to be customer friendly	0.0	0.0	-
Need more officials in the field	0.0	0.0	-
Identification / status documents	0.0	-	-
Communication / language	0.0	-	-
Transportation / travelling	0.0	-	-
Less time for approving loan	-	-	3.6
Increase number of meetings	-	-	3.6
Awareness of women welfare scheme	-	-	0.0
Any other *	7.4	0.0	3.6
No suggestions	88.9	93.8	85.7
Total Numbers	**27**	**16**	**28**

*Any other - Gram panchayat, pension fund money, avail ration card and pension.

Note: Multiple responses, therefore, total may exceed 100 percent.

Section VI: Financial Inclusion Banker's View

To understand the challenges faced in extending financial inclusion, a number of bankers from six public sector banks, three from private sector banks, and serving officials from the RBI were interviewed. The bankers interviewed in 2013 and early 2014 observed that many individuals and households in the country still do not have bank accounts which are needed for mobilizing resources and extending credit – two important functions for banking.[8] Therefore, it was essential that significantly large population, if not everybody in the country has access to bank accounts. The bankers also mentioned that in banking business they need not extend credit universally until the project is commercially viable but they need to raise increasingly large volumes of deposits as demand for loans was very high in the country. Therefore, ensuring that everybody has a bank account where they can deposit money makes business sense. Thus, it is not only the people, especially, unbanked, but also commercial banks who need resources, and having bank accounts across a wider base helps in mobilizing resources from a larger segment of society.

The bankers also felt that some people, mainly because of poverty, did not feel the need for opening a bank account while for others it was lack of financial literacy. The public sector banks, traditionally involved in social banking, since nationalization, played an important role in extending banking to rural sector. Some bankers felt that earlier in 1970s and 1980s many banks had special small accounts for school children. The advantage of having a bank account at that young age helps in cultivating banking habits in the youth which then helps later in ensuring loyalty to the bank in working and retirement age. Therefore, even though small amounts are routed through school bank accounts, without regular banking activities it was useful to open savings accounts for children in banks – it was an investment which yielded results in long run. Some of the banks benefited from institutional memory as they had earlier introduced pigmy, honey deposit or Jeevan Nidhi schemes and now some of those accounts were migrating to the no-frill or basic savings accounts.

The banks incur a cost in extending banking facilities in rural areas. The major constraint that banks faced was low number of transactions and low volume of turnover. A key reason for low level of transactions in such accounts, amongst others, was that rural people perceived these accounts to be specifically designed for one-sided transfer of resources from the government and not for regular transactions. The rural and illiterate people also believed that in case of certain transfers, government rule required that if transfers in

[8] The bankers interviewed had affiliation from Syndicate Bank, Canara Bank, State Bank of Mysore, State Bank of India, Bank of Baroda, Vijaya Bank, ICICI, ING Vysya Bank, Karnataka Bank Ltd, and Reserve Bank of India.

these accounts are not immediately withdrawn, then after 90 days, in a routine pattern, such transfers will be remitted back to government as unused funds. So, on receipt from the Government, amount in the bank account was immediately withdrawn.

The low turnover reflects in high cost per transaction, and low remuneration to business correspondents (BCs) / agents (BCAs). The service providers incur a cost in imparting training to BCs ranging from a few weeks to a few months with a monthly remuneration ranging between Rs.1,000 to Rs.5,000. Some BCs are specifically recruited for the purpose while others are shopkeepers and housewives who do this as an additional job in addition to their regular vocation. The attrition rate is high for those BCs who are specially recruited for the purpose, because of low salary and low transactions on which BCs can get commission; therefore, human resources management assumes added significance. In case of other BCs, like shopkeepers and housewives, there is a perception of added respect and recognition with the job, and consequently the incidence of fraud has rarely been reported for this segment because of familiarity with local culture and people.

The key challenges that bankers face are retaining BCs, and lack of financial literacy, inadequate technology, and poor support from their parent bank in terms of prompt service in providing cheque books, ATM cards, and passbooks. BC model is no better than branch banking at rural level as customers face problems such as approaching a bank official due to lack of information with BCs, clarification of doubts which BCs cannot handle due to lack of training, and similarly related issues. However, given resource constraints, deploying BCs instead of a brick and mortar branch is a good strategy and cost effective too. BCs are trained at initial stages of recruitment, in a prescribed and standardized way based on literature, provided by Indian Institute of Banking and Finance. But bankers felt that BCs needed more training as well as updating of their skills, especially to operate hand-held devices but because of lack of time and due to high attrition rate, advanced training to BCs is not a priority. Some banks follow a practice of introducing BCs to village members through general assembly functions like gram sabhas, and gram panchayats, in order to maintain transparency and avoid misuse of rights by BCs.

The economic slowdown, in some years since 2008, and its implications for India are apparent in cautious approach to lending activities. The amount of credit expansion under financial inclusion was low as some bankers feared about the level of NPAs, and performed under looming shadow of loan melas/waivers culture, especially during election times. In any case, money lenders were securely ensconced as credit disbursal was generally not taking place through the BCs/BCAs. Also, there was no evidence that the banking route had been popular for remittance purposes. However, perceptibly, banking culture was beginning to develop in rural areas and some bankers perceived BC model as a litmus test to eventually establish a physical branch. This development augured well for financial inclusion.

To spread financial inclusion, and being aware of limitations of extending brick and mortar branches, the Government and the RBI were tapping technology to extend banking facilities in rural areas. The banks were using 3 different technologies with respect to financial inclusion namely, handheld devices, Kiosk banking and mobile-held technology. Institute for Development and Research in Banking Technology (IDRBT) sets the benchmark for these technologies. Amongst these, technology provider, *Integra Micro System*, was best for handheld instruments and *A Little World* (ALW) was the only available mobile technology that was being used by few banks. However, inadequate technology was playing havoc with the efforts to achieve financial inclusion. There were numerous technology related problems, particularly with hand-held (HH) devices due to constraint of terrain and connectivity. There were cases where due to connectivity problems there were data transfer failures. The handheld machines (HHMs) faced band-width issues, especially that were old/outdated, which led to delay in transactions. The point-of-service machine (POS) did not operate easily and did not have sufficient number of options available for BCs to explore. The connectivity with service providers like Airtel and Vodafone was repeatedly creating problems for BCs. The servers used in commercial banks were generally weak and many times created problems for HHMs as well as POS. Many times, BCs had to move away from the customer to get signal on the HHM and at other times, even climb a nearby hillock or a tree to operate the machine. Such situations scared the customers, especially if the HHM failed to immediately give a printed copy of the transaction.

Technology needed to be enhanced and more technology service providers were required to extend financial inclusion in the country. Similarly, mobile banking was more useful than brick and mortar branch but required cost effective technology. There was also need to set benchmarks of technology being used for financial inclusion, illustratively, HHMs. There was also need to provide incentives to technology providers to improve quality of instruments used for financial inclusion. The private sector banks were also contributing to the efforts but there were instances where they were charged different rates by service providers adding to their cost of operations.

Finally, the products offered by banks were not designed to cater to rural customers specially those dependent for their total income on agriculture sector. Also inter-operatability of accounts had not yet been offered. In addition, other products offered by banks were not linked with the POS and HHMs. Therefore, rural customers had limited choice of banking products. Intra-operatability however, was not recommended without good technology. The bankers also suggested that all saving bank accounts should be linked with KCC, ACC, and GCC.

There was also lack of cogent policy formulation at the level of Government, RBI and NABARD. The bankers also felt that they were getting different instructions from different regulators. A number of instructions from different sources, sometimes from the government and at other times from the RBI/NABARD confused bankers. Also, frequent changes in implementation strategy hampered focused work in specific areas, and existing infrastructure was overstretched. For example, initially, the plan to reach the villages with population of more than 2,000 was progressing well until 2013. Then, suddenly, banks were given targets to extend services to villages with less than 2,000 population. The implementation of electronic benefit scheme further stressed the existing infrastructure. In some cases, there was a shift in the area of operations between different banks which implied that the cost incurred and investment made in that geographical area by a specific bank was wasted.

In some branches and banks, technical analysis of policies announced by the RBI/NABARD/GOI were undertaken under the guidance of General Manager at the Head Office. The dissemination of such policy interpretation was delayed in reaching staff working at the grass root level.

Financial literacy was a constant challenge and therefore, bankers adopted different strategies to reach larger segments of the society, mainly in villages. They generally held meetings with office bearers as well as organized choupal meetings and sometimes, conducted counseling sessions with rural people to explain to them benefits of banking. The commercial bankers felt that building relationship was very important for customers, especially villagers, before they could part with their money.

To extend financial literacy some banks created a dedicated trust for financial literacy like the Gnana Jyothi Financial Literacy Counseling Trust by Syndicate Bank. This dedicated Trust was created by retired senior officials of Syndicate Bank to share their experience for increasing awareness through innovative methods. Some banks have taken several initiatives such as conducting quiz at college level, preparing comic books, organizing magic shows etc. to enhance financial literacy. Some bankers felt that it would be useful if women were the target of financial literacy campaign because women generally are more responsible with finances. On the other hand, it was noticed that women are also more vulnerable and easily exploited. Therefore, to make financial inclusion successful it would be necessary that women are made familiar with the working of different instruments and technology that offers financial inclusion. Illustratively, if women were not comfortable in operating an ATM machine, she might request someone else, including her husband, to operate and so share the password with him. This would defeat the purpose of training and empowering women in financial inclusion.

Section VII: Conclusion and Policy Recommendation

The Government, RBI and NABARD have been making efforts to enhance financial inclusion in the country. However, in 2013 a large number of Indians did not have a bank account. The concept of financial inclusion can become a success when concerted efforts are made by banks by creating awareness about financial products, and enhancing literacy about money management, savings and affordable credit. In this context, there was a need for redesigning business strategies of financial institutions by making effective use of available technologies and expertise to provide adequate financial services to low-income groups.

The survey conducted in 2013 and early 2014 revealed interesting results. In case of farmers, 96 percent had a bank account in our study while 55 percent of the farmers availed loans from the banking system. The loan amount from banks had increased over the years. Despite the fact that farmers had bank loan, three-fourth of them preferred to take loans from money lenders, and three-fifth from SHGs. The percentage of farmers availing loans from money lenders did not vary much even when the individual had taken a loan from a bank. This reflects the fact that it was easier for farmers to avail a loan from money lenders than from a bank, despite significantly large proportion of farmers preferring to have a bank account.

The survey results also revealed that the total sum of loans availed from money lenders had increased over time. In 2010, total amount of loan availed from money lenders was less than that availed from banks. In contrast, in 2013, money lenders had lent a substantially larger amount of money as compared with banks.

To understand why it was more convenient for farmers to avail loans from money lenders, a question was asked regarding transport used to access different institutions. It was observed that for 94 percent of farmers, money lenders were located at a walking distance, but to avail services from a bank only 9 percent found walking to be an adequate means of transport. SHGs and MFIs, however were closer and served as better substitutes for money lenders.

The time of interaction between farmers and money lenders was significantly larger than that between farmers and other financial institutions. More than 90 percent of farmers had been interacting with money lenders for more than 3 years, while less than 50 percent of farmers had interaction with formal institutions for more than 3 years.

The majority of loans taken by farmers were for production purposes, and more than 50 percent of surplus money with farmers was invested for productive purposes. However, only 6.3 percent of farmers, having a bank account, deposited surplus money in a bank. In contrast, 75.8 percent of farmers sought a credit/loan account from a bank.

The results of survey from non-farmers conveyed a similar story. In this case, 54 percent of non-farmers in the sample had a bank account and only 10 percent had availed loans from the banks. However, the amount of loans availed from the banking system increased over the years. The non-farmers had to walk large distances to reach the bank and therefore money lenders and SHGs who were within the walking distance continued to play a significant role in amount of loans availed. Money lenders were located closer, have had a longer interaction span and had grown in prominence over time. The majority of loans taken by non-farmers, was for consumption purposes. Also more of surplus money was spent on consumption. The survey results suggested that lower percentage of non-farmers sought a credit/loan account from formal institutions.

The bankers were aware that financial literacy was lacking and were attempting to address the issue but the gap was wide. The BC model was useful but not very successful as attrition rate was very high. The technological issues with hand-held devices were substantial and were impeding extension of financial inclusion.

In view of the extensive survey, some policy recommendations are provided in order to improve the extent of financial inclusion. The recommendations are –

1. Success of financial inclusion depends upon sustainability and commercial viability of transactions and not on subsidies and incentives. Therefore, there is a requirement for need based innovative products for the rural sector and poor people. Banks could consider creating demand-oriented savings, credit and remittance products that were customized to the lifestyle pattern and income streams in the rural sector. Also, content design, and appropriate delivery mechanisms were needed which could be tailored to meet requirements of a particular vulnerable group that was being targeted by banks.

2. In initial stages there was low level of turnover in bank accounts. In many cases there were no transactions in many accounts. Therefore, the banking operations were expensive for the commercial banks, and in some cases, not able to recover the cost of banking in certain rural areas.

Therefore, to attain commercial viability, there should be disbursement of bank loans in collaboration with other agencies and products available in the region. Some of these financial products could be life insurance, and other social security products like pensions and provident funds.

3. Financial literacy continues to be a concern for the rural and poor people. There is an urgent need for expansion of counseling and advisory services in order to reach vulnerable sections in rural areas. There is a requirement to tailor-make different literacy and counseling mechanisms depending upon the need in different regions of the country. The banks could consider extensive use of electronic and print media, including radio and TV, for spreading financial literacy, especially in vernacular press. In our survey, because of regular change of officials in the rural areas, where rural posting is considered as 'punishment' posting, there was also a felt need to ensure financial literacy to bank officials.

4. To enhance the reach of banking services in rural areas, one strategy could be to have collaborative arrangement with post offices. India Post had been granted the license of opening a payments bank in September 2015 by the RBI. Consequently, Indian Post Payments Bank (IPPB) was launched on January 30, 2017 in Ranchi and Raipur. IPPB is the payment bank promoted by the Government of India with a paid-up equity of Rs 800 crore. IPPB is offering savings account up to a balance of Rs 1 lakh, along with services like domestic remittances, direct benefit transfers, and doorstep banking. IPPB is currently offering facilities for cash deposits and withdrawal, and Aadhaar to Aadhaar fund transfer. In due course, IPPB will also provide current accounts and access to third party financial services like insurance, mutual funds, pension, credit products, and forex facilities. To take advantage of the synergy, post offices could probably have ATMs of commercial banks installed in their premises. There are nearly 1,38,000 post offices in rural areas and if each of them has an ATM facility then rural people can conveniently access their funds any time. This will help in reducing dependence on money lenders.

5. It emerged in the discussion that BCs are facing challenges because of technology related problems in the handsets. In some cases, BCs mentioned that handsets given to them were outdated or not working properly and hang-up regularly. A non-functional handset disrupts banking activity and discourages people in conducting banking business with BCs. In response, banking authorities mentioned that level of literacy of BCs is not very high and therefore BCs may not able to operate latest and modern handsets. The BCs complained that the training given to them was inadequate,

sometimes only for half a day because of which they are not able to understand the complex technology and operate the handsets efficiently. Therefore, it is recommended that there should be uniform and standardized handsets, distributed across the country, and related training of respective BCs should also be standardized and extensive.

6. It was consistently observed from interviews that connectivity was a major issue for the BCs. In almost all interactions with BCs and respective bankers, difficulties faced in extending financial inclusion because of poor connectivity were highlighted. Therefore, it is recommended that robust telecommunication network is ensured in rural areas so that connectivity of handsets is continuous and not disrupted. This will help in more banking transactions through the BC which will have two-fold benefits – increase volumes leading to higher incentives/commission for BCs and enhance credibility of the BC model in extending banking penetration.

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Annex 1

Annex 1: Measure taken by NABARD

Year	NABARD	Purpose	Outcome
1987	SHG-Bank Linkage Programme	NABARD initiative in 1987. Pilot project started in 1992. Focus on institutional credit disbursement to Self-Help Groups in rural areas.	As on March 31, 2016 the programme covered 79.03 lakh linkages, the outstanding savings of SHGs with banks has reached Rs. 13,691 crore, and SHGs recorded loans outstanding of Rs. 57,119 crore.
1988	Kisan Credit Card (KCC)	It was introduced as a credit delivery mechanism to enable farmers to meet their production requirements.	Cumulative number of KCCs issued since 1988-89 until March 31, 2015 had reached 14.64 crore and operative or live KCCs as on March 31, 2015 were 7.41 crore. NABARD support for KCC was an outstanding amount of Rs. 1,96,781 crore as on March 31, 2016.
2000	Micro Finance Development Fund (MFDF) Or Micro Finance Development Equity Fund (MFDEF)	Special focus on capacity building under the SHG-bank linkage programme.	MFDEF was closed on March 31, 2013 and the activities being financed thereunder are now being covered under Financial Inclusion Fund (FIF). MFDEF programme loan amount (net of provision) was Rs. 12.8 crore as on March 31, 2015.
2003	Swarojgar Credit Card Scheme	Focus on providing timely credit to micro-entrepreneurs and small enterprises.	During 2014–15, around 1,09,260 new SCCs, with an aggregate credit limit of Rs. 573.39 crore were issued. As on March 31, 2015, the cumulative number of SCCs issued by banks was 16.16 lakh, involving a credit limit of Rs. 6,848.6 crore.

Year	NABARD	Purpose	Outcome
2006	SHG-Post Office Linkage Programme	Focus on utilising network of post offices in rural areas in order to provide credit to rural poor on agency basis and also test effectiveness of Department of Posts in providing micro finance services to rural people.	A total of 2,189 SHGs have opened saving accounts, of which 1,259 SHGs have been credit linked by various Post Offices, with cumulative loans disbursed amounting to Rs. 3.65 crore as on March 31, 2012. The project was closed on March 31, 2012. The project was also being implemented in Meghalaya with Rs. 5 lakh sanctioned to India Post for on-lending to SHGs in East Khasi Hills district.
2007	Redesigning Farmers' Club Program	Focus on organizing farmers by enabling them to gain access to credit, technology and extension services. Farmers' Clubs act as Business Facilitators of RRBs in villages having 2000+ population in their common areas.	Around 4,165 new farmers' clubs were sanctioned during 2014–15, taking the total number of farmers' clubs to 1.47 lakh. In 2015-16 5,016 new farmer clubs were sanctioned.
	Financing Joint Liability Groups	Focus on enhancing credit flow to farmers in agriculture and allied activities.	NABARD supported the awareness and capacity building of Joint Liability Groups (JLGs) by contributing Rs. 11 lakhs on March 31, 2015. As on March 31, 2016, 17.2 lakh JLGs were financed by banks.
	Financial Literacy and Credit Counselling Centres	Focus on credit and technological counselling by creating awareness among the farmers of their rights and responsibilities.	Under the scheme of support for establishment of Financial Literacy and Credit Counselling Centres (FLCCs) / Financial Literacy Centre (FLCs) by Lead Banks in 256 excluded districts and 10 disturbed districts, an assistance of Rs. 15.04 crore was sanctioned to Lead Banks to set up FLCCs in 198 districts in 16 States as on November 30, 2012. The scheme was discontinued thereafter. In its meeting on September 14, 2015, the FIF advisory board decided to release the sanctioned yet undisbursed amount to the commercial banks for increased expenditure on FLCCs. Such disbursal was also closed on January 31, 2016.

Year	NABARD	Purpose	Outcome
2008	Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF)	Focus on supporting developmental and promotional activities including creation of financial inclusion infrastructure across the country. The FITF was aimed at meeting the costs of technologies adopted for financial inclusion, which was later merged in July 2015 with the FIF.	As on March 31, 2016, the total balance in the fund was Rs. 2,452.74 crore.
2010	NABARD-UNDP Collaboration	To address the challenge of financial inclusion in the UNDP focus States viz. Bihar, Chhattisgarh, Jharkhand, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh through a new paradigm which goes beyond mere access to affordable delivery of a range of financial products and services and reduce the vulnerability of the poor and provide new opportunities to diversify their livelihoods.	In 2012-13, a total of Rs. 2.71 crore was utilised under the collaboration for various interventions carried out by NABARD.
2013	Special Project Unit – Kisan Credit Card	Focus on facilitating issuance of RuPay KCC Debit Cards to develop a cash-less ecosystem and access to banking facilities for the farming community.	By March 2014, a total of 52 lakh cards were issued by the Unit, along with the installation of 10,000 micro ATMs. During the year 2014–15, NABKISAN set up its corporate office in Mumbai and expanded its operation to five states viz., Tamil Nadu, Maharashtra, Madhya Pradesh, Rajasthan, Himachal Pradesh and Uttarakhand, with a special focus on financing Producers' Organisations (POs).

Source: NABARD Annual Reports, Various Issues.

Annex 2

Annex 2: Measure taken by the RBI and the Government

Year	RBI	Purpose	Outcome
2006	No-frill Account initiative taken. (Basic Saving Bank Deposit Account (BSBDA))	All banks were advised in November 2005 to make available a basic banking no-frill account either with nil or very low minimum balances as well as charges that would make such accounts accessible to vast sections of population.	The number of no-frill account users increased from 0.5 million to 139 million during March 2006 to March 2012. Nearly 117 million BSBDAs were opened through BCs until March 31, 2014.
	General Credit Card (GCC) issued to rural and semi-urban areas	Focus on providing credit to banks' customers depending upon the assessment of cash flow without any insistence on security, purpose or end-use of the credit.	As on March 31, 2016, the amount outstanding for GCC under the Financial Inclusion Fund was Rs. 1,493 billion.
2008	Project Financial Literacy	Focus on educating the common people on financial matters.	As on March 31, 2016, 1,384 FLCs were operational in the country and a total of 87,710 financial literacy activities were conducted by FLCs.
	Financial Inclusion Technology Fund (FITF)	Focus on meeting the cost of technology adoption.	In July 2015, GOI merged FITF into FIF. The total balance in the fund was Rs. 2,452.74 crore, as on March 31, 2016.
	Relaxation of Know Your Customer Norms	Preventing banks from being used by criminal elements for laundering of money or terrorist financing activities. Further, it also enables bank to understand the customers and their financial dealings in a better way to help them manage their risks prudently.	KYC guidelines were revised in April 2014, and physical presence of a customer categorized as Low Risk was not mandatory at the time of KYC updation. Banks were advised on November 26, 2015 to be in readiness to share the KYC data with the Central KYC Records Registry once it is notified by the Government. KYC Direction 2016 were issued on February 24, 2016, thus consolidating all relevant instructions issued by different departments of the RBI.
2012	Swabhimaan Scheme	Swabhimaan would be extended to habitations with population more than 1,000 in the north-eastern and hilly states and population more than 1,600 in the plain areas as per Census 2001.	As on March 31, 2016, 4,50,686 villages (91.9 per cent of the target) had been covered by 14,901 branches, 4,15,207 villages through BCs and 20,578 villages through other modes such as ATMs and mobile vans, as reported by the State Level Bankers' Committees (SLBCs).

Year	RBI	Purpose	Outcome
2014	The National Pension System (NPS)	Pension plans aimed at providing financial security and stability during old age.	Assets under management which includes returns on the corpus under NPS was Rs. 1,07,802 crore as on December 31, 2015.
	The Swavalamban Scheme	Co-contributory pension scheme launched in 2010 for persons in the unorganized sector, was opened to those citizens of India who are not part of any pension / provident fund scheme.	A total of 6.29 lakh subscribers had already been enrolled under the scheme as on December 31, 2014. With the introduction of Atal Pension Yojana (APY), the enrolment under Swavalamban has been closed and eligible subscribers under this scheme are being automatically migrated to APY unless they opt out. APY was formally launched by the Prime Minister on May 9, 2015.
	Pradhan Mantri Jan-Dhan Yojana (PMJDY)	The Yojana envisages universal access to banking facilities with at least one basic banking account for every household, financial literacy and access to credit and insurance.	PMJDY was launched on August 28, 2014. There are 27.55 crore Jan Dhan accounts opened and of these 24.40 percent were zero balance accounts as on February 8, 2017. There are 28.52 crore Jan Dhan accounts as on May 3, 2017.
2015	Pradhan Mantri Suraksha Bima Yojana	Focus on accidental death and permanent total disability coverage.	As on January 1, 2016, cumulative gross enrolment by banks under the PMSBY was over 9.28 crore.
	Pradhan Mantri Jeevan Jyoti Bima Yojana	Focus on one year life coverage of subscribers.	As on January 1, 2016, cumulative gross enrolment by banks under the PMJJBY was over 2.93 crore.

Year	RBI	Purpose	Outcome
2015	Atal Pension Yojana	A defined pension scheme in which the central government is a co-contributor.	Till December 31, 2015 a total of 112.82 lakh members / subscribers, inclusive of the APY, had been enrolled under the NPS. Assets under management (AUM), which includes returns on the corpus under the NPS, have witnessed an increase of 33 per cent from Rs.80,855 crore on March 31, 2015 to Rs. 1,07,802 crore on December 31, 2015. The APY had a total of about 18 lakh subscribers and a corpus of Rs. 262 crore as on December 31, 2015. As December 31, 2015, 351 banks were registered as APY service providers which include PSBs, PVBs, FBs, and RRBs, district commercial banks, SCBs, urban commercial banks and the Department of Post.
	Sovereign Gold Bonds	Focus of both schemes to reduce the demand for physical gold and shift a part of the gold imported every year for investment purposes into financial savings.	During 2015-16, in the first two tranches of SGB, total subscription of 3,788 kilograms of gold amounting to Rs. 993 crore were received from about 3.90 lakh applications.
	Gold Monetisation Scheme		As of February 2, 2016, a total of 1,030.2 kilograms of gold have been mobilized through the scheme.
	Pradhan Mantri Mudra Yojana	Focus on providing formal bank credit and refinance last-mile financers and to support micro finance institutions. MUDRA seeks to offer refinance products having a loan requirement up to Rs. 10 lakh and support to MFIs by way of refinance. The products designed under the PMMY are categorized into three buckets of finance named Shishu (loan up to Rs. 50,000), Kishor (Rs.50,000 to Rs. 5 lakh) and Tarun (Rs.5 lakh to Rs. 10 lakh) based on the stage of growth / development of the micro business units.	The total amount disbursed under the PMMY up to mid-January 2016 stood at Rs. 84,672.36 crore, of which Rs. 38,057.33 has been disbursed under Shishu, Rs. 28,359.87 under Kishor and Rs. 18,255.16 under Tarun. In all, 2.19 crore borrowers have benefited so far, of which 1.62 crore are women, 77.12 lakh are new entrepreneurs and 1.10 crore belong to the scheduled caste/scheduled tribe/other backward classes category.

Source: RBI Annual Report, NABARD Annual Report, Economic Survey, Government of India, Dept. Financial Services, Ministry of Finance, PMJDY Report, Review of Performance of PMMY 2015-16, Various Issues.

Annex 3: Socio-Economic Status of Farmers and Non-Farmers

Annex 3.1: Gender of Respondents

(In percentage)

Gender	Farmers	Non-Farmers
Male	87.8	62.0
Female	12.2	38.0
Total Numbers	**148**	**50**

Annex 3.2: Caste of Respondents

(In percentage)

Caste	Farmers	Non-Farmers
General	56.6	0.0
SC	14.7	45.5
ST	9.3	0.0
OBC	19.4	54.5
Total Numbers	**129**	**11**

Annex 3.3: Age of Respondents

(In percentage)

Age	Farmers	Non-Farmers
Up to 35 Years	10.2	26.2
36 - 55 Years	55.5	42.9
56 Years & above	34.4	31.0
Total Numbers	**128**	**42**

Annex 3.4: Household Size of Respondents

(In percentage)

HH Size	Farmers	Non-Farmers
Up to 2 Members	4.7	50.0
3 to 5 Members	65.1	38.1
6 Members & Above	30.2	11.9
Total Numbers	**129**	**42**

Annex 3.5: Educational level of Respondents

(In percentage)

Education	Farmers	Non-Farmers
No formal education	25.0	57.1
Education below matriculation	38.3	23.8
Matriculation / Higher secondary	31.3	19.0
Other Technical course	2.3	0.0
Graduate and above	3.1	0.0
Total Numbers	**128**	**42**

Annex 3.6: Occupation of Respondents

(In percentage)

Occupation	Primary occupation		Secondary occupation	
	Farmers	Non-Farmers	Farmers	Non-Farmers
Farmers/ Agriculture	100	-	-	-
Self-employed but not a farmer - agri. and Allied activities	-	2.4	80.0	-
Self-employed but not a farmer - Services	-	4.8	4.4	-
Farmer - small	-	2.4	2.2	25.0
Salaried	-	2.4		
Self-employed (technical, business...)	-	-	8.9	-
Pensioner	-	21.4	-	-
Landless laborer	-	28.6	-	-
Daily wage earner	-	23.8	-	50.0
House wife	-	-	4.4	-
Any Other*	-	14.3	-	25.0
Total Numbers	**148**	**42**	**45**	**04**

*Any Other - cooli, construction work, driver, small tea and food preparing shop, etc.

Annex 3.7: Land holding of the Farmer's House hold in Acres

(In percentage)

Types of Farmers*	Land
Marginal	23.3
Small	35.7
Semi-medium	29.5
Medium & Large	11.6
Total Numbers	**129**

*Less than 2.49 acres = marginal; 2.50 to 5.00 acres = small; 5.01 to 10.00 acres = semi-medium; 10.01 acres and more = medium & large farmers.

Annex 3.8: Number of Farmers using Different Types of Ration Card

(In percentage) (Column wise percent)

Farmers	Marginal	Small	Semi-Medium	Medium & Large	Total
BPL Card	86.7	87.0	78.9	53.3	**104**
AAY Card	0.0	2.2	0.0	0.0	**01**
APL Card	3.3	2.2	10.5	20.0	**09**
No Card	10.0	8.7	10.5	26.7	**15**
Total Numbers	**30**	**46**	**38**	**15**	**129**

Note: BPL – Below poverty line; AAY – Antyodaya anna yojana; APL – Above poverty line.

Annex 3.9: Ownership of Assets by the Farmers in 2013

(In percentage)

Farmers	Marginal	Small	Semi-Medium	Medium & Large	Total
Land	93.3	97.8	100.0	100.0	**97.7**
House	100.0	97.8	100.0	100.0	**99.2**
Other building	3.3	6.5	5.3	0.0	**4.7**
Livestock	70.0	89.1	76.3	93.3	**81.4**
Refrigerator	0.0	6.5	0.0	6.7	**3.1**
TV	76.7	80.4	89.5	86.7	**82.9**
Cycle	76.7	84.8	71.1	80.0	**78.3**
Bullock-cart	3.3	10.9	13.2	20.0	**10.9**
Motor bike	43.3	60.9	63.2	93.3	**61.2**
Any other vehicle	3.3	4.3	10.5	33.3	**9.3**
Any Other	0.0	0.0	0.0	6.7	**0.8**
Total Numbers	**30**	**46**	**38**	**15**	**129**

Note: Multiple responses, therefore, total may exceed 100 percent.

Annex 3.10: Number of Non-Farmers using Different Types of Ration Card

(In percentage)

Different Types of Ration Card	Non-farmers
BPL Card	42.0
AAY Card	38.0
No Card	20.0
Total Numbers	**50**

Note: BPL – Below poverty line; AAY – Antyodaya anna yojana.

Annex 3.11: Ownership of assets by the Non-Farmers in 2013

In percentage)

Assets	Non-farmers
Land	20.0
House	90.0
Other building	2.0
Livestock	24.0
Refrigerator	0.0
TV	22.0
Cycle	36.0
Bullock-cart	0.0
Motor bike	4.0
Any other vehicle	0.0
Any Other	0.0
Total Numbers	**50**

Note: Multiple responses, therefore, total may exceed 100 percent.

Annex 4: Farmers

Annex 4.1: Accounts by Categories of Farmers Opened/Created One Account or More than One Account

(In percentage) (Column-wise percent)

Types of Farmers	Bank Account		SHGs / MFIs A/c	
	One Bank	2 or more Banks	One SHGs /MFIs	2 or more SHGs / MFIs
Marginal Farmer	27.3	14.9	27.3	28.6
Small Farmer	33.8	36.2	29.1	40.0
Semi-Medium Farmer	24.7	40.4	32.7	31.4
Medium & Large Farmer	14.3	8.5	10.9	0.0
Total Numbers	**77**	**47**	**55**	**35**

Annex 4.2: Average Distance between Institutions and Farmers' Home at Time taken to Reach

(Please turn to the last page of this document)

Annex 4.3: Farmers' First Interaction of Availing of Service from Institutions

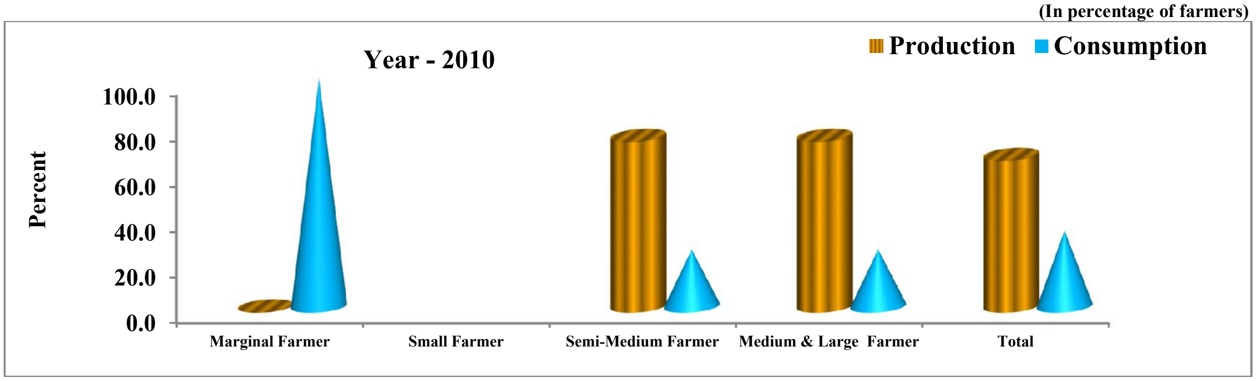
(In percentage)

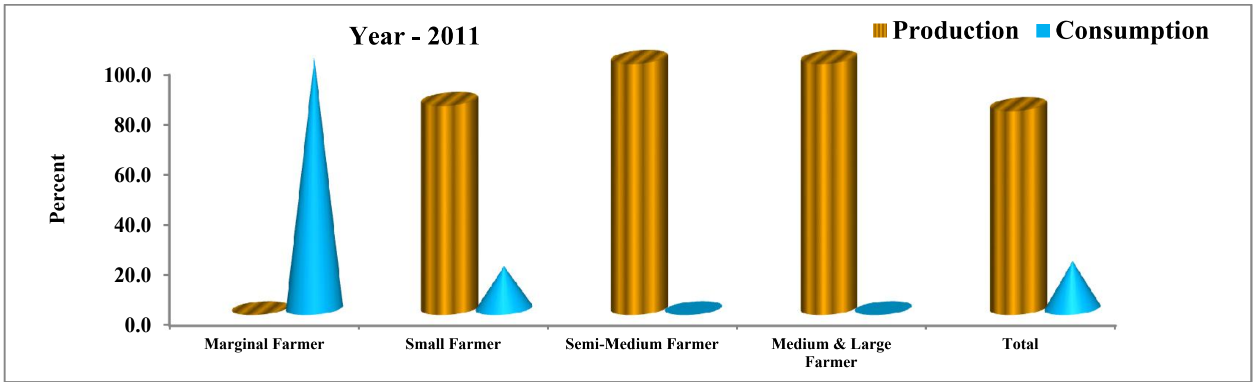
Institutions	Marginal	Small	Semi-Medium	Medium & Large	Total
Bank-1					
Less than 3 months	3.6	0.0	13.2	13.3	**6.5**
3-6 months	3.6	4.7	5.3	20.0	**6.5**
6 months - 1 year	25.0	11.6	10.5	6.7	**13.7**
1 year - 3 years	32.1	32.6	42.1	26.7	**34.7**
3 years - 5 years	35.7	51.2	28.9	33.3	**38.7**
Total Numbers	**28**	**43**	**38**	**15**	**124**
Bank-2					
Less than 3 months	14.3	11.8	10.5	0.0	**10.6**
3-6 months	0.0	5.9	5.3	0.0	**4.3**
6 months - 1 year	14.3	17.6	10.5	25.0	**14.9**
1 year - 3 years	14.3	35.3	31.6	25.0	**29.8**
3 years - 5 years	57.1	29.4	42.1	50.0	**40.4**
Total Numbers	**7**	**17**	**19**	**4**	**47**
Post Office					
6 months to 1 year	16.7	16.7	0.0	25.0	**12.5**
1 year to 3 years	50.0	50.0	50.0	25.0	**45.8**
3 years to 5 years	0.0	0.0	25.0	25.0	**12.5**
More than 5 years	33.3	33.3	25.0	25.0	**29.2**
Total Numbers	**6**	**6**	**8**	**4**	**24**
SHGs					
Less than 3 months	0.0	7.1	0.0	0.0	**2.3**
3-6 months	4.0	7.1	3.7	0.0	**4.7**
6 months to 1 year	0.0	10.7	11.1	16.7	**8.1**
1 year to 3 years	64.0	21.4	37.0	50.0	**40.7**
3 years to 5 years	32.0	53.6	48.1	33.3	**44.2**
Total Numbers	**25**	**28**	**27**	**6**	**86**
MFIs					
Less than 3 months	0.0	12.5	0.0	-	**7.1**
3-6 months	0.0	25.0	40.0	-	**28.6**
6 months to 1 year	0.0	0.0	20.0	-	**7.1**
1 year to 3 years	0.0	50.0	20.0	-	**35.7**
3 years to 5 years	100.0	12.5	20.0	-	**21.4**
Total Numbers	**1**	**8**	**5**	**-**	**14**
Money Lenders					
6 Months to 1 Year	0.0	3.2	0.0	0.0	**1.2**
1 Year to 3 Years	6.3	9.7	8.7	8.3	**8.5**
3 Years to 5 Years	0.0	6.5	4.3	16.7	**6.1**
More Than 5 Years	93.8	80.6	87.0	75.0	**84.1**
Total Numbers	**16**	**31**	**23**	**12**	**82**
Mandi Merchants					
6 Months to 1 Year	0.0	7.1	0.0	0.0	**2.4**
1 Year to 3 Years	0.0	7.1	6.3	14.3	**7.1**
3 Years to 5 Years	0.0	7.1	6.3	0.0	**4.8**
More Than 5 Years	100.0	78.6	87.5	85.7	**85.7**
Total Numbers	**5**	**14**	**16**	**7**	**42**

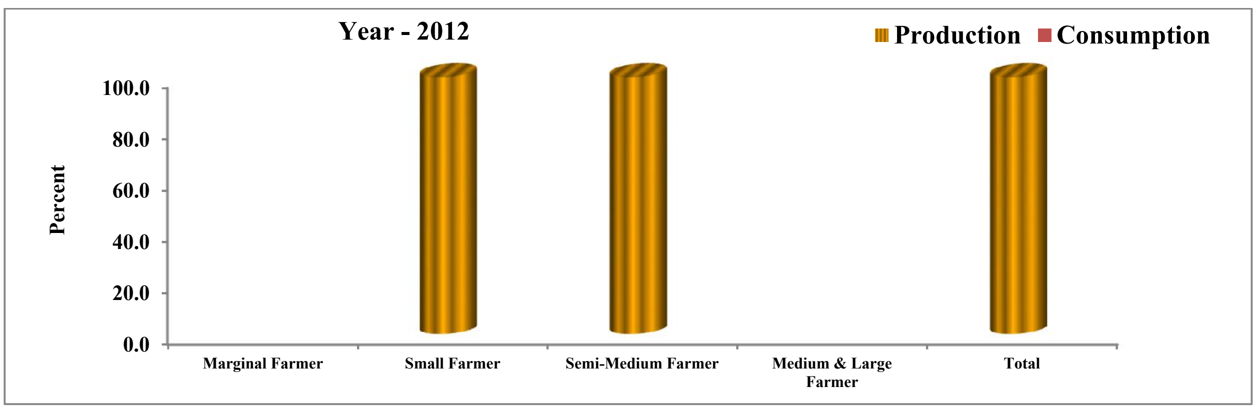
Note: Some farmers did not respond.

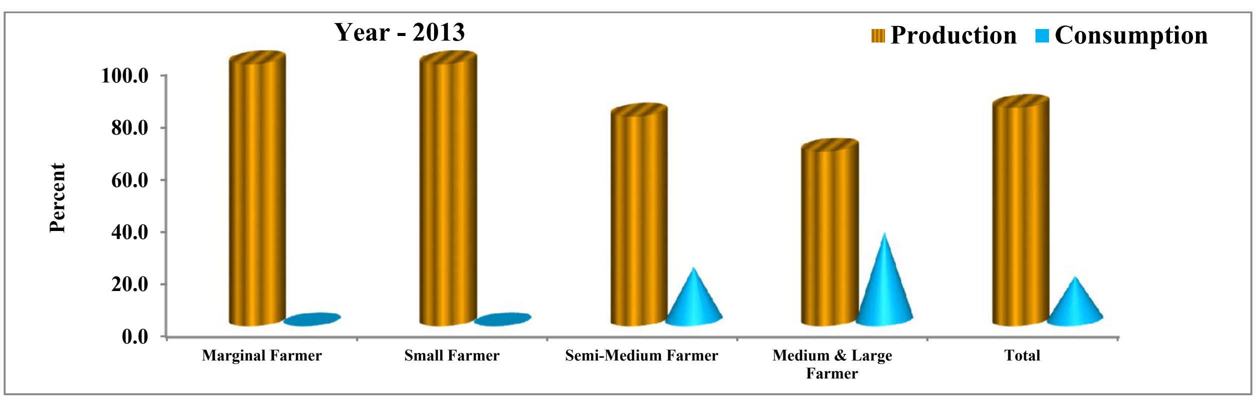
Annex 4.4: Purpose of taking Loan from *<u>Banks</u>* - 2010 to 2013

(In percentage of farmers)



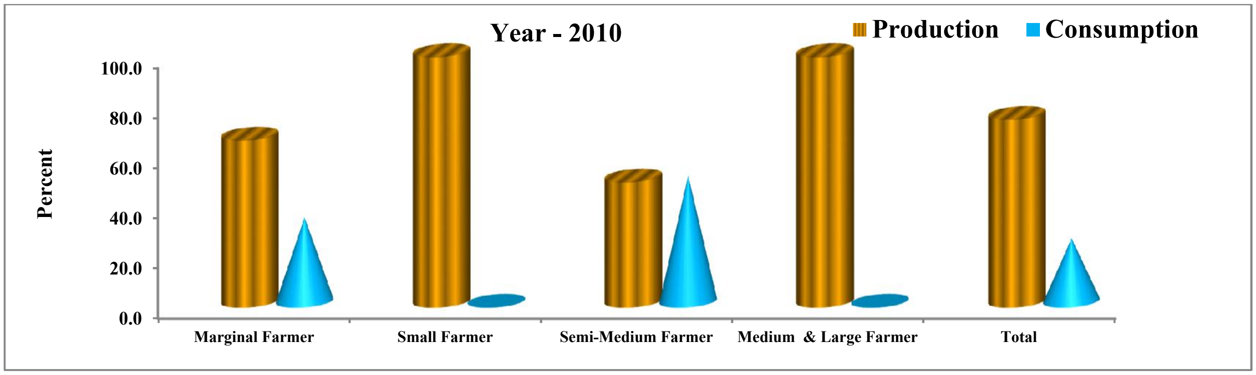


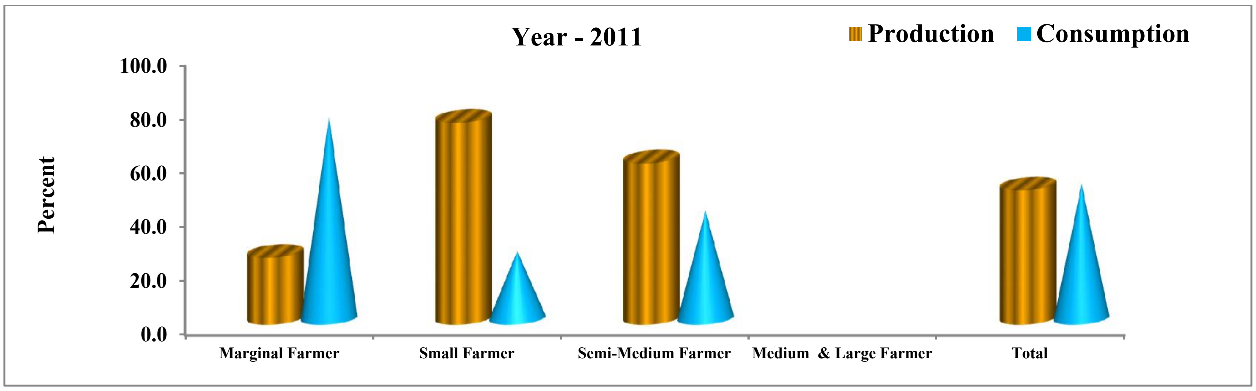


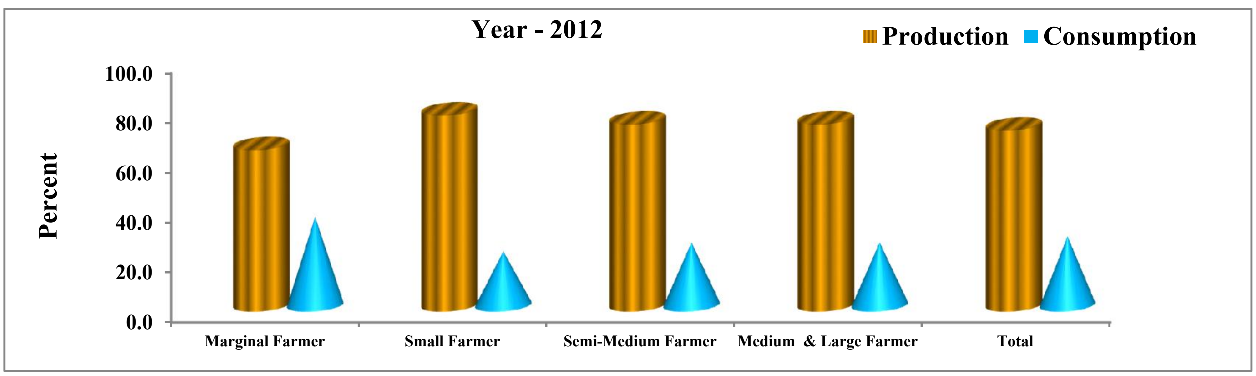


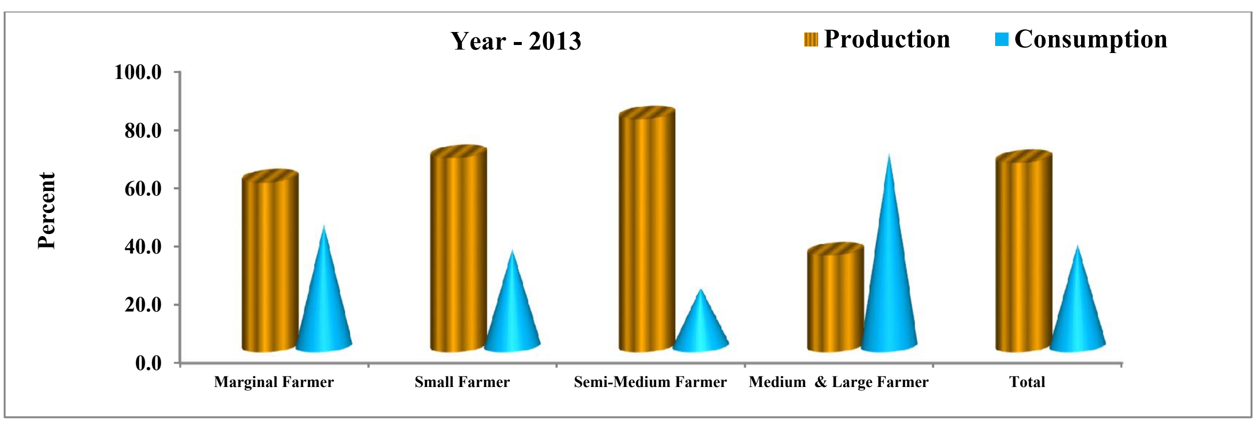
Annex 4.5: Purpose of taking Loan from *SHGs* - 2010 to 2013

(In percentage of farmers)



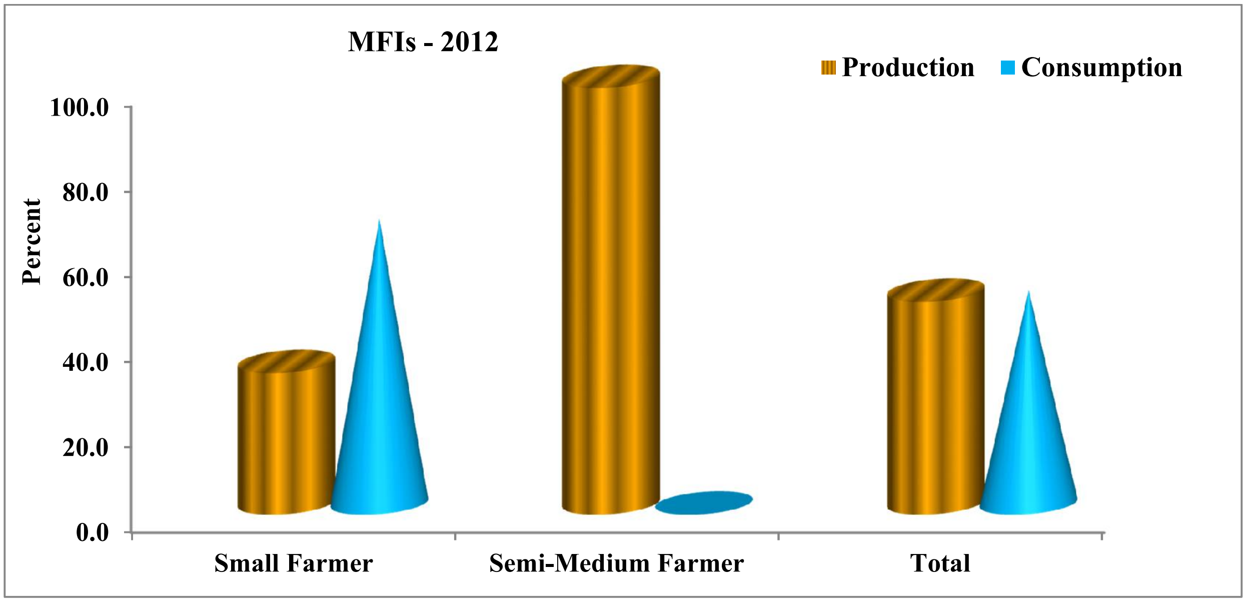


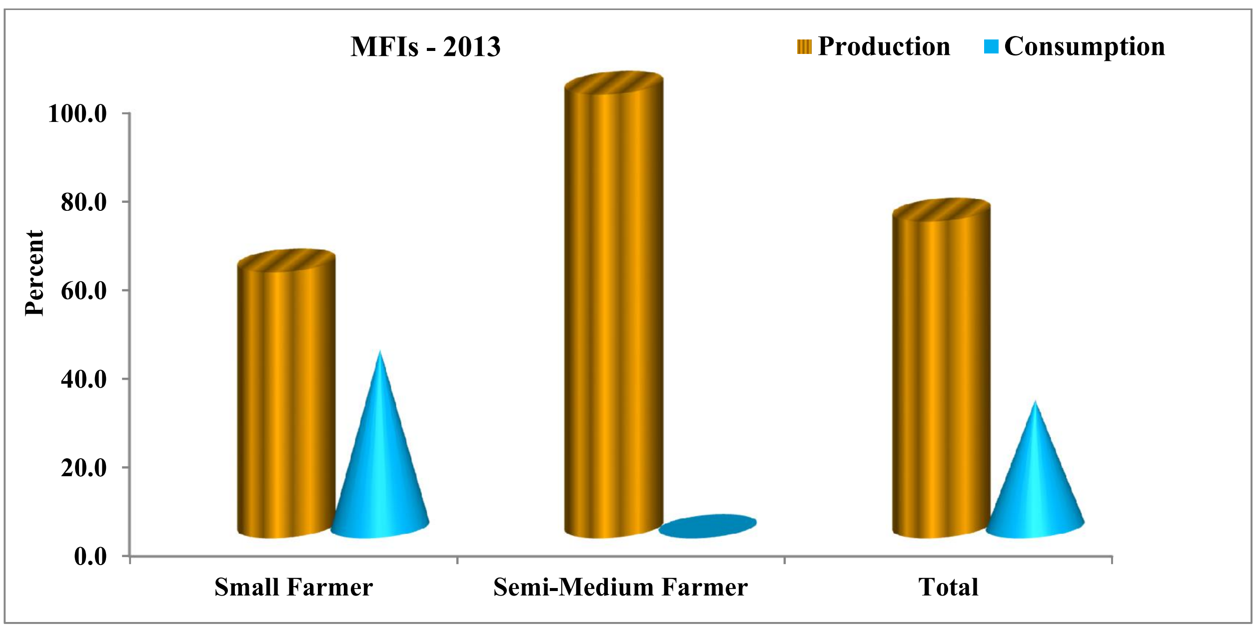




Annex 4.6: Purpose of taking Loan from *MFIs* - 2012 to 2013

(In percentage of farmers)

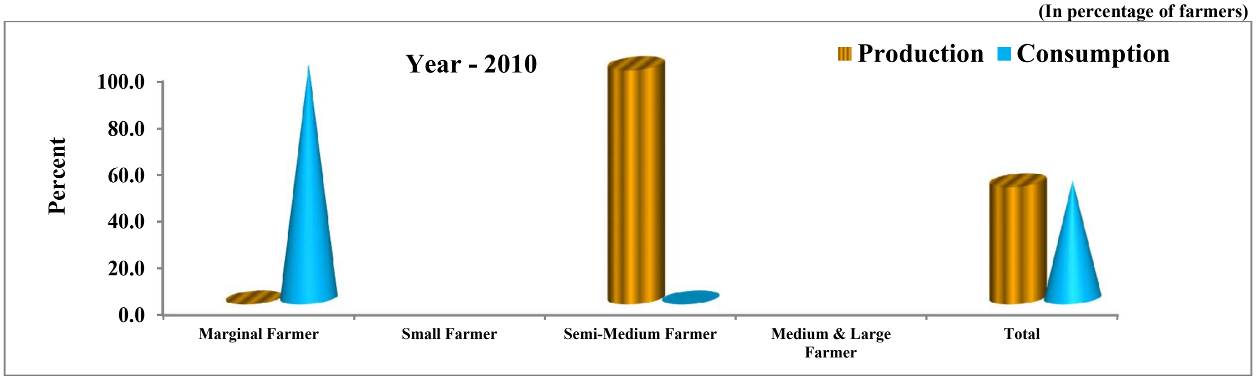


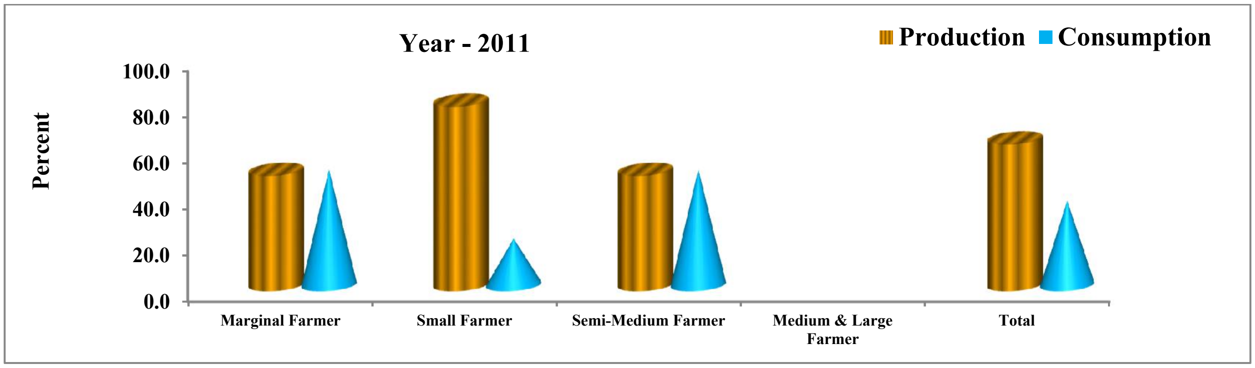


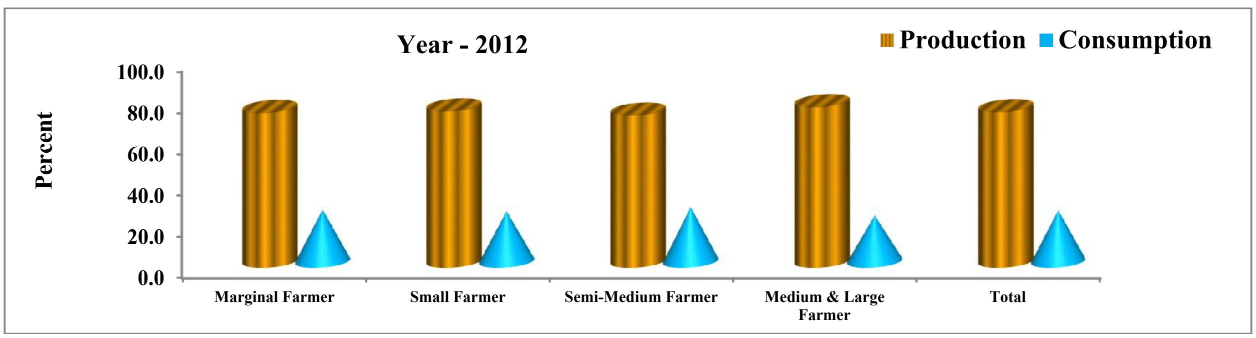
Note: In our sample no loan was availed in 2010 and 2011.

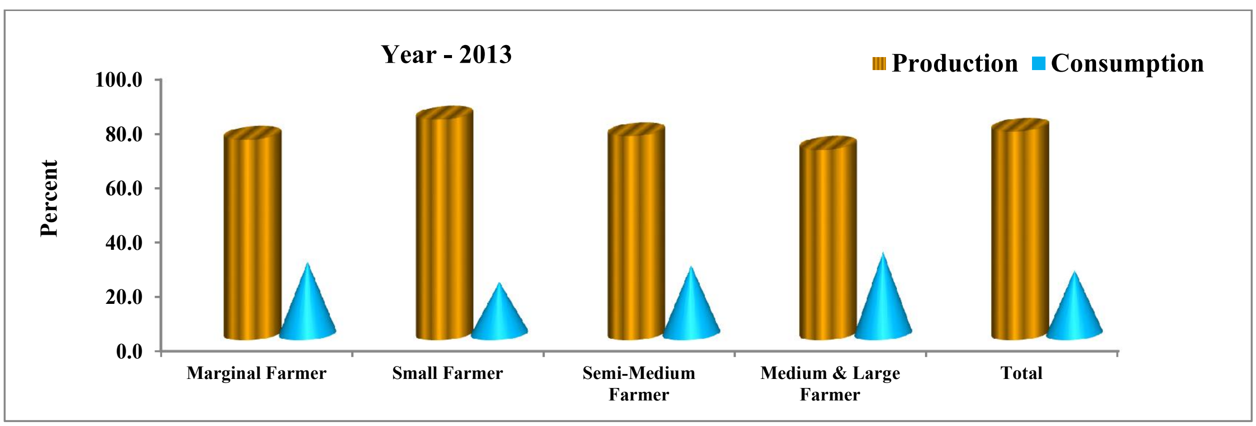
Annex 4.7: Purpose of taking Loan from *Money Lenders* - 2010 to 2013

(In percentage of farmers)



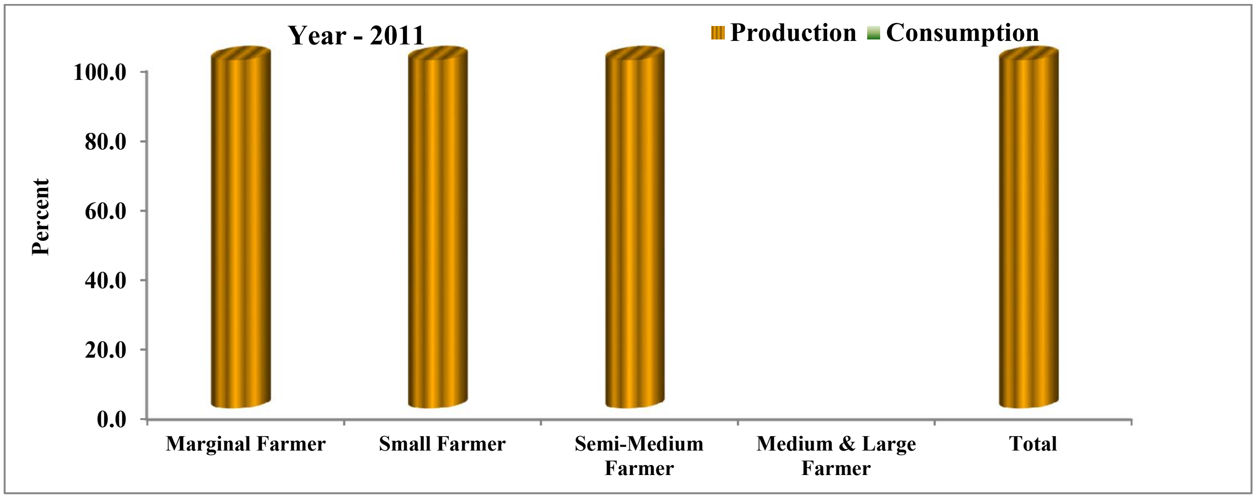


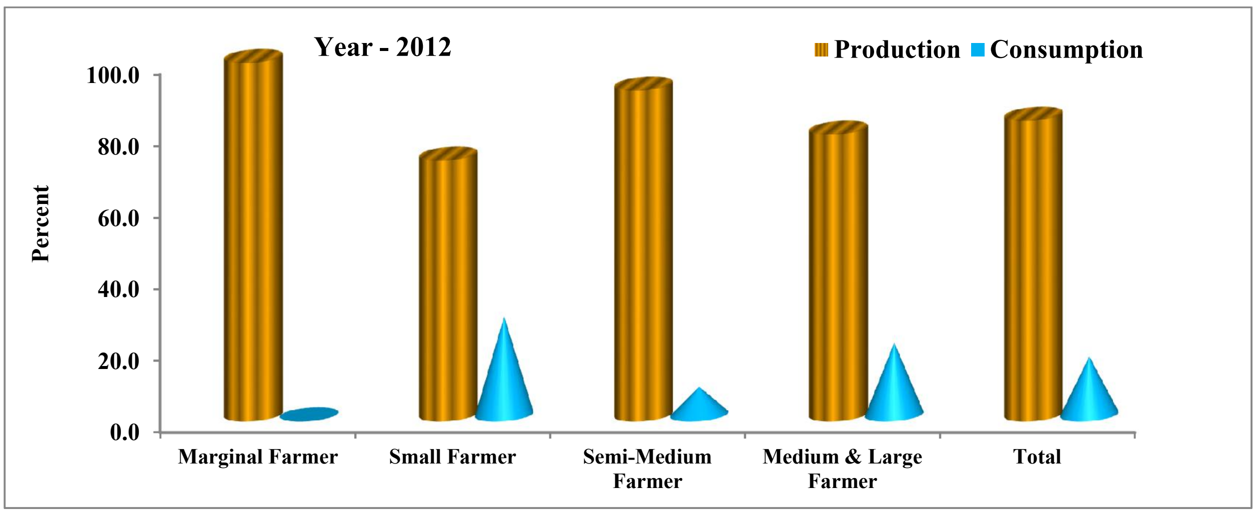


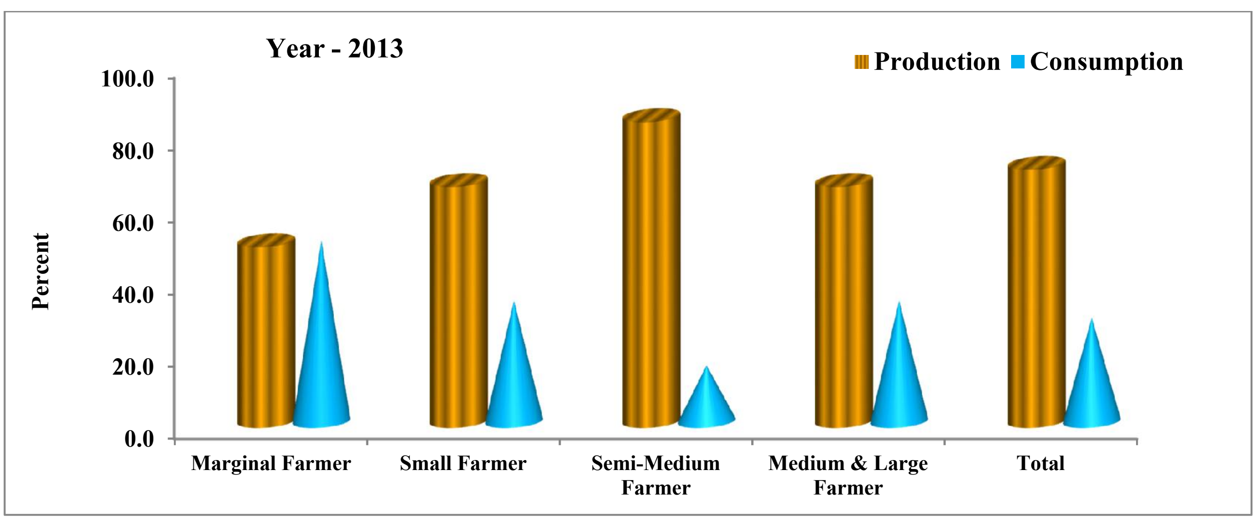


Annex 4.8: Purpose of taking Loan from *Mandi Merchants* - 2011 to 2013

(In percentage of farmers)







Note: In our sample no loan was availed in 2010.

Annex 4.9: Factors Influencing Farmers' Decision to conduct Business with Financial Institutions

(In percentage)

	Marginal	**Small**	**Semi-Medium**	**Medium & Large**	**Total**
Bank-1					
Suggestions made by colleagues/ friends/ relatives	7.1	11.6	13.2	6.7	**10.5**
Self-motivation	64.3	55.8	50.0	60.0	**56.5**
Talking to bank people	7.1	14.0	13.2	20.0	**12.9**
Based on previous success stories	0.0	0.0	2.6	6.7	**1.6**
Because of government schemes	17.9	14.0	7.9	6.7	**12.1**
Any other*	7.1	2.3	2.6	0.0	**3.2**
No suggestion	0.0	2.3	7.9	0.0	**3.2**
Total Numbers	**28**	**43**	**38**	**15**	**124**
Bank-2					
Suggestions made by colleagues/ friends/ relatives	28.6	5.9	10.5	0.0	**10.6**
Self-motivation	28.6	64.7	26.3	75.0	**44.7**
Talking to bank people	28.6	11.8	10.5	0.0	**12.8**
Based on previous success stories	0.0	0.0	5.3	0.0	**2.1**
Because of government schemes	0.0	5.9	15.8	0.0	**8.5**
Any other*	0.0	0.0	5.3	0.0	**2.1**
No suggestion	14.3	11.8	21.1	25.0	**17.0**
Total Numbers	**7**	**17**	**19**	**4**	**47**
Post office					
Suggestions made by colleagues/ friends/ relatives	16.7	0.0	0.0	0.0	**4.2**
Self-motivation	16.7	66.7	62.5	25.0	**45.8**
Talking to bank people	50.0	16.7	25.0	50.0	**33.3**
Based on previous success stories	0.0	0.0	0.0	0.0	**0.0**
Because of government schemes	16.7	0.0	0.0	0.0	**4.2**
Any other**	0.0	16.7	12.5	25.0	**12.5**
No suggestion	0.0	0.0	0.0	0.0	**0.0**
Total Numbers	**6**	**6**	**8**	**4**	**24**

* Any other - Gold loan, LPG, panchayat office.
** Any other - Ration card, pension scheme.
Note: Multiple responses, therefore, total may exceed 100 percent.

Continued…

Annex 4.9: Factors Influencing Farmers' Decision to conduct Business with Financial Institutions

(In percentage)

	Marginal	Small	Semi-Medium	Medium & Large	Total
Self Help Groups (SHGs)					
Suggestions made by colleagues/friends/relatives	28.0	42.9	63.0	50.0	**45.3**
Self-motivation	64.0	42.9	29.6	33.3	**44.2**
Talking to bank people	8.0	3.6	7.4	0.0	**5.8**
Based on previous success stories	0.0	0.0	0.0	0.0	**0.0**
Because of Government schemes	0.0	0.0	0.0	0.0	**0.0**
Any other	4.0	0.0	0.0	0.0	**1.2**
No suggestions	0.0	7.1	0.0	16.7	**3.5**
Total Numbers	**25**	**28**	**27**	**6**	**86**
Micro-Finance Institutions (MFIs)					
Suggestions made by colleagues/friends/relatives	0.0	37.5	60.0	-	**42.9**
Self-motivation	100.0	37.5	40.0	-	**42.9**
Talking to bank people	0.0	12.5	0.0	-	**7.1**
Based on previous success stories	0.0	0.0	0.0	-	**0.0**
Because of Government schemes	0.0	0.0	0.0	-	**0.0**
Any other	0.0	0.0	0.0	-	**0.0**
No suggestions	0.0	12.5	0.0	-	**7.1**
Total Numbers	**1**	**8**	**5**	-	**14**
Money Lenders (ML)					
Suggestions made by colleagues / friends / relatives	5.3	5.3	0.0	0.0	**3.2**
Based on previous success stories	0.0	0.0	0.0	0.0	**0.0**
Self-motivation	89.5	92.1	100.0	100.0	**94.7**
Any other	5.3	2.6	0.0	0.0	**2.1**
Total Numbers	**19**	**38**	**26**	**12**	**95**
Mandy Merchants (MM)					
Suggestions made by colleagues / friends / relatives	0.0	0.0	0.0	0.0	**0.0**
Based on previous success stories	0.0	0.0	0.0	0.0	**0.0**
Self-motivation	80.0	93.3	100.0	100.0	**95.5**
Any other	20.0	6.7	0.0	0.0	**4.5**
Total Numbers	**5**	**15**	**17**	**7**	**44**

Note: Multiple responses, therefore, total may exceed 100 percent.

Annex 4.10: Percentage of Farmers availing Government Schemes

(In percentage availing)

Name of the Schemes	Marginal	Small	Semi-Medium	Medium & Large	Total
MGNREGA	56.7	63.0	60.5	60.0	**60.5**
Aadhaar Card	96.7	93.5	92.1	93.3	**93.8**
Govt. LPG subsidy scheme	10.0	8.7	21.1	20.0	**14.0**
Kisan credit card (KCC)	0.0	0.0	0.0	0.0	**0.0**
Agricultural credit card (ACC)	0.0	0.0	0.0	0.0	**0.0**
General credit card (GCC)	0.0	0.0	0.0	0.0	**0.0**
Govt. Insurance schemes	0.0	2.2	0.0	6.7	**1.6**
A debt waiver & debt relief scheme	0.0	0.0	0.0	0.0	**0.0**
Post harvest loan	0.0	0.0	0.0	0.0	**0.0**
Pension scheme	0.0	2.2	2.6	13.3	**3.1**
Financial literacy credit counselling centres (FLCC)	0.0	0.0	0.0	0.0	**0.0**
Any other*	3.3	10.9	2.6	0.0	**5.4**
Total Numbers	**30**	**46**	**38**	**15**	**129**

*Any other - govt. scholarship, land grants.

Note: (a) MGNREGA – Mahatma Gandhi National Rural Employment Guarantee Act.

(b) Multiple responses, therefore, total may exceed 100 percent.

(c) Non-respondents - 19 farmers.

Annex 4.11: Percentage of Farmers Aware of Government Schemes

(In percentage awareness)

Name of the Schemes	Marginal	Small	Semi-Medium	Medium & Large	Total
MGNREGA	53.3	54.3	60.5	60.0	**56.6**
Aadhaar Card	66.7	67.4	73.7	93.3	**72.1**
Govt. LPG subsidy scheme	10.0	8.7	18.4	20.0	**13.2**
Kisan credit card (KCC)	0.0	0.0	2.6	0.0	**0.8**
Agricultural credit card (ACC)	0.0	0.0	0.0	0.0	**0.0**
General credit card (GCC)	0.0	0.0	0.0	0.0	**0.0**
Govt. insurance schemes	0.0	0.0	0.0	6.7	**0.8**
A debt waiver & debt relief scheme	0.0	0.0	0.0	0.0	**0.0**
Post harvest loan	0.0	0.0	0.0	0.0	**0.0**
Pension scheme	0.0	2.2	0.0	13.3	**2.3**
Financial literacy credit counselling centres (FLCC)	0.0	0.0	0.0	0.0	**0.0**
Any other*	6.7	10.9	2.6	0.0	**6.2**
Total Numbers	**30**	**46**	**38**	**15**	**129**

*Any other - govt. scholarship, land grants.

Note: (a) MGNREGA – Mahatma Gandhi National Rural Employment Guarantee Act.

(b) Multiple responses, therefore, total may exceed 100 percent.

(c) Non-respondents - 19 farmers.

Annex 4.12: Source of Information about Different Banking Financial Products and Services

(Farmers in percentage)

Source of Information	Marginal	Small	Semi-Medium	Medium & Large	Total
Gram Panchayat	3.3	0.0	0.0	6.7	**1.6**
Govt. Schemes	0.0	0.0	0.0	0.0	**0.0**
SHGs/MFIs	0.0	4.3	0.0	0.0	**1.6**
Talking to bank manager/staff	10.0	21.7	26.3	33.3	**21.7**
News paper and magazine advertisements	3.3	4.3	5.3	0.0	**3.9**
TV programmes on financial literacy	3.3	2.2	2.6	0.0	**2.3**
NGOs/CSOs	10.0	13.0	13.2	0.0	**10.9**
Credit societies / co-operative banks	0.0	0.0	0.0	0.0	**0.0**
Money lenders / mandi merchants	0.0	0.0	0.0	0.0	**0.0**
School / college	0.0	4.3	0.0	0.0	**1.6**
Friends / relatives	43.3	34.8	47.4	53.3	**42.6**
Road shows	0.0	2.2	0.0	0.0	**0.8**
Mobile publicity van	0.0	0.0	0.0	0.0	**0.0**
Financial literacy and credit counselling centres (FLCC)	0.0	0.0	0.0	0.0	**0.0**
Any other*	30.0	17.4	21.1	6.7	**20.2**
Total Numbers	**30**	**46**	**38**	**15**	**129**

*Any other - Self, school teachers, gram panchayat, scholarship and dairy.

Note: (a) NGOs – Non-Governmental Organisations; CSOs – Civil Society Organisations.
(b) Non-respondents - 19 farmers.
(c) Multiple responses, therefore, total may exceed 100 percent.

Annex 4.13: Preference for Availing Loans

(Farmers in percentage)

Source of Information	Marginal	Small	Semi-Medium	Medium & Large	Total
Bank/ commercial bank/ co-operative bank/ BCs/ BFs	26.7	41.3	57.9	26.7	**41.1**
MFI/SHGs	56.7	23.9	15.8	13.3	**27.9**
Money lenders/mandi merchants	23.3	41.3	28.9	60.0	**35.7**
Friends/relatives	0.0	2.2	0.0	0.0	**0.8**
Any other*	3.3	0.0	2.6	0.0	**1.6**
Total Numbers	**30**	**46**	**38**	**15**	**129**

*Any other - Societies.

Note: (a) BCs – Bank Correspondents; BFs – Business Facilitators.
(b) Non-respondents - 19 farmers.
(c) Multiple responses, therefore, total may exceed 100 percent.

Annex 4.14: Services about which Farmers would need more Information

(In percentage)

Services	Marginal	Small	Semi-Medium	Medium & Large	Total
Bank account	3.3	2.2	0.0	0.0	**1.6**
Loans / Crop loans	70.0	82.6	68.4	80.0	**75.2**
Kisan credit card (KCC)	0.0	4.3	2.6	0.0	**2.3**
Agriculture credit card (ACC)	0.0	0.0	0.0	0.0	**0.0**
General credit card (GCC)	0.0	0.0	0.0	0.0	**0.0**
Know your customer (KYC) / Identification norms	0.0	0.0	0.0	0.0	**0.0**
Electronic benefit transfer (EBT)	0.0	0.0	0.0	0.0	**0.0**
Collateral / list of documents to avail loan	6.7	4.3	0.0	0.0	**3.1**
Agricultural insurance schemes	6.7	2.2	0.0	0.0	**2.3**
Any other*	16.7	10.9	18.4	40.0	**17.8**
Total Numbers	**30**	**46**	**38**	**15**	**129**

*Any other - livestock loan, fertilizer subsidy, dairy farming, personnel loan, land development, education and bore well agriculture.

Note: (a) Non-respondents -19 farmers. (b) Multiple responses, therefore, total may exceed 100 percent.

Annex 4.15: Suggestions to Improve Financial Literacy

(In percentage)

Suggestions	Marginal	Small	Semi-Medium	Medium & Large	Total
High penetration of bank branches	0.0	4.3	2.6	0.0	**2.3**
Financial literacy and credit counselling centre (FLCC)	0.0	0.0	0.0	0.0	**0.0**
Information broacher in native language	0.0	0.0	0.0	0.0	**0.0**
TV Advertisement on financial literacy	6.7	13.0	5.3	20.0	**10.1**
SHGs bank linkage programme	13.3	8.7	7.9	0.0	**8.5**
Availing information from Gram panchayat	10.0	8.7	7.9	13.3	**9.3**
Availing information from NGOs/CSOs	43.3	26.1	34.2	26.7	**32.6**
Availing information from Schools / Colleges	3.3	4.3	0.0	0.0	**2.3**
BC/BF	0.0	0.0	0.0	0.0	**0.0**
Government schemes	0.0	0.0	0.0	0.0	**0.0**
Any other*	30.0	47.8	42.1	46.7	**41.9**
Total Numbers	**30**	**46**	**38**	**15**	**129**

*Any other - bank, post office, SHGs and govt. officials, school teachers, newspaper, notice board of concerned department, SMS, talking to bank officials, etc.

Note: (a) BCs – Bank Correspondents; BFs – Business Facilitators.
(b) Non-respondents -19 farmers.

(c) Multiple responses, therefore, total may exceed 100 percent.

Annex 5: Non-Farmers

Annex 5.1: Accounts by Non-Farmers

(In percentage)

Account	Bank	SHGs/MFIs
One Bank / SHGs / MFIs	96.3	75.9
2 or more Banks / SHGs / MFIs	3.7	24.1
Total Numbers	**27**	**29**

Note: MFI – Micro-Finance Institutions; SHGs – Self Help Groups.

Annex 5.2: Awareness of Government Schemes and those Availed by Non-Farmers

(In percentage)

Govt. Schemes	Awareness	Availed
MGNREGA	44.0	44.0
Aadhaar Card	96.0	96.0
Govt. LPG subsidy scheme	2.0	2.0
Kisan credit card (KCC)	2.0	2.0
Agricultural credit card (ACC)	0.0	0.0
General credit card (GCC)	0.0	0.0
Government insurance schemes	0.0	0.0
A debt waiver and debt relief scheme	0.0	0.0
Post harvest loan	0.0	0.0
Pension scheme	16.0	16.0
Financial literacy credit counseling centres (FLCC)	0.0	0.0
Any other	0.0	0.0
Total Numbers	**50**	**50**

Note: (a) MGNREGA – Mahatma Gandhi National Rural Employment Guarantee Act.

(b) Multiple responses, therefore, total may exceed 100 percent.

Annex 5.3: Source of Information about Different Banking Financial Products

(Number of respondents in percentage)

Source of Information	Non-farmers
Gram panchayat	8.0
Government schemes	0.0
SHGs/MFIs	10.0
Bank manager / staff	4.0
Newspaper and magazine advertisements	0.0
TV programmes on financial literacy	0.0
NGOs/CSOs	6.0
Credit societies / co-operative banks	0.0
Money lenders	0.0
School / college	0.0
Friends/relatives	8.0
Road shows	0.0
Mobile publicity van	0.0
Financial literacy and credit counseling centres (FLCC)	2.0
Any other*	34.0
Total Numbers	**50**

*Any other - Government schemes, grameena koota, self, to avail ration card and PF fund.

Note: (a) NGOs – Non-Governmental Organisations; CSOs – Civil Society Organisations; MFI – Micro-Finance Institutions; SHGs – Self Help Groups.

(b) Multiple responses, therefore, total may exceed 100 percent.

Annex 5.4: Preference for Taking Loans from Different Sources

(In percentage)

Preference	Non-farmers
Bank/commercial bank/co-operative bank/BCs/BFs	10.0
MFI/SHGs	28.0
Money lenders	38.0
Friends/relatives	4.0
Any other	26.0
Total Numbers	**50**

Note: (a) MFI – Micro-Finance Institutions; SHGs – Self Help Groups; BCs – Bank Correspondents; BFs – Business Facilitators.

(b) Multiple responses, therefore, total may exceed 100 percent.

Annex 5.5: Seeking Additional Information or Services

(In percentage)

Information on Services	Non-farmers
Bank account	2.0
Loans	36.0
Kisan credit card (KCC)	0.0
Agriculture credit card (ACC)	0.0
General credit card (GCC)	0.0
Know your customer (KYC) / Identification norms	2.0
Electronic benefit transfer (EBT)	0.0
Collateral / list of documents to avail loan	0.0
Agricultural insurance schemes	0.0
Any other*	58.0
Total Numbers	**50**

*Any other - bore well, cattle loan, education loan, livestock loan and subsidy loan.
Note: (a) Multiple responses, therefore, total may exceed 100 percent.
.

Annex 5.6: Suggestions to Improve Financial Literacy

(In percentage)

Suggestions	Non-farmers
High penetration of bank branches	2.0
Financial literacy and credit counseling centre (FLCC)	0.0
Information broacher in native language	0.0
TV Advertisement on financial literacy	0.0
SHG-bank linkage programme	10.0
Availing information from Gram panchayat	10.0
Availing information from NGOs/CSOs	28.0
Availing information from Schools / Colleges	0.0
Business Correspondents /Business Facilitators (BC/BF)	0.0
Government schemes	0.0
Any other*	46.0
Total Numbers	**50**

*Any other - Mobile phone, talking to post office and bank officials, friends and relatives.
Note: (a) NGOs – Non-Governmental Organisations; CSOs – Civil Society Organisations.
(b) Multiple responses, therefore, total may exceed 100 percent.

Annex 4.2: Average Distance between Institutions and Farmers' Home and Time taken to Reach

Average / Mean Values		Bank - 1		Bank – 2		Post office		SHGs		MFIs		Money Lenders		Mandi Merchants	
		Distance in Kms	Time Taken In Minutes	Distance in Kms	Time Taken In Minutes	Distance in Kms	Time Taken In Minutes	Distance in Kms	Time Taken In Minutes	Distance in Kms	Time Taken In Minutes	Distance in Kms	Time Taken In Minutes	Distance in Kms	Time Taken In Minutes
Walking	Mean	3.0	28.8	6.5	41.7	1.4	14.6	1.0	5.3	1.2	5.8	1.0	5.3	1.0	5.0
	Median	1.5	20.0	7.0	20.0	1.0	10.0	1.0	5.0	1.0	5.0	1.0	5.0	1.0	5.0
	Minimum	0.5	5.0	2.5	15.0	0.5	5.0	0.3	2.0	1.0	5.0	1.0	2.0	1.0	5.0
	Maximum	12.0	90.0	10.0	90.0	3.0	60.0	3.0	15.0	3.0	15.0	3.0	30.0	1.0	5.0
	N	**12**	**12**	**3**	**3**	**14**	**14**	**85**	**85**	**13**	**13**	**89**	**89**	**9**	**9**
Personal conveyance	Mean	5.8	17.7	8.4	20.7	2.3	9.4	10.0	15.0	-	-	4.3	36.3	6.9	20.0
	Median	5.0	10.0	8.0	15.1	2.0	10.0	10.0	15.0	-	-	3.0	22.5	6.5	17.5
	Minimum	0.5	2.0	2.0	2.0	1.0	5.0	10.0	15.0	-	-	1.0	10.0	2.0	10.0
	Maximum	20.0	90.0	15.0	90.0	5.0	15.0	10.0	15.0	-	-	10.0	90.0	15.0	40.0
	N	**45**	**45**	**12**	**12**	**9**	**9**	**1**	**1**	**-**	**-**	**4**	**4**	**10**	**10**
Public transport	Mean	9.1	27.5	8.1	24.3	30.0	60.0	-	-	4.0	15.0	30.3	80.0	30.0	64.6
	Median	7.0	30.0	6.0	20.0	30.0	60.0	-	-	4.0	15.0	25.0	60.0	30.0	60.0
	Minimum	1.0	3.0	3.0	7.0	30.0	60.0	-	-	4.0	15.0	1.0	30.0	2.0	15.0
	Maximum	60.0	120.0	25.0	90.0	30.0	60.0	-	-	4.0	15.0	65.0	150.0	60.0	240.0
	N	**67**	**67**	**25**	**25**	**1**	**1**	**-**	**-**	**1**	**1**	**3**	**3**	**23**	**23**
Grand Total Numbers		**124**	**124**	**40**	**40**	**24**	**24**	**86**	**86**	**14**	**14**	**96**	**96**	**42**	**42**