

What is income ? Money earned from various sources like salary, wages, earnings from farming or business etc. is our income. What is expenditure ? Money spent by us on various items is our expenditure. It includes spending money on essential as well as non essential items. Let us understand our expenses.

What is investment? Deployment of money, say out of savings, with the expectation of earning higher returns overtime is investment. e.g. purchase of land, fixed deposit in banks etc. What is saving? When income is more than expenses, then we have surplus money known as savings. What is debt ? When expenses are more than the income and we have no savings with us, then there is shortage of money which is covered through borrowing, creating debt.

How to manage the debt? If we have expenses more than income in a particular month, the savings of previous months can be used for meeting this shortfall. If we do not have savings, we have to borrow and incur a debt at high cost

This is similar to how we manage the use of water in our daily life. Sometime the municipal water may come for the whole day and sometime it may not come at all. Do we stop using water? No! We do not stop using water, we store water when it is in plenty and use when it is scarce. This act is called saving. Our finance is like a pitcher with a tap for outflow at the bottom of it. The water flowing into the pitcher is our income and the water flowing out of the pitcher are our expenses. Plug non essential expenses and increase your savings. What is the difference between essential and non essential items of expenditure? Essential items of expenditure is money spent on basic needs. Hence expenses on these items cannot be avoided e.g. food, shelter, clothes, education of children, health, etc. Non essential items of expenditure are our wants. We want these things because we like or enjoy them but these are not necessary for our survival. How can we manage our money? We can manage our money efficiently by doing financial planning. As a first step of financial planning, we should maintain a Financial Diary to keep accounts of our income and expenses for a given period, say a week or a month. What is financial planning? It is an exercise of estimating our financial needs as also ways to meet them during the entire life cycle, e.g., birth of child, education, purchasing house, marriage, purchasing seeds, etc., or to meet emergency situations like illness, accident, death, natural calamities like flood, drought, etc.

Financial planning enables us to plan in advance our likely expenses keeping in mind our level of income. Thus it helps in two ways, one- we can save regularly a portion of our income for meeting future needs and two- we can cut down expenses on non essential items with a view to save for future needs. So we should start financial planning today so that we are in a better position to pay off our debt and build savings to buy a house or finance higher education with our own money. Attain your goals with financial planning. How to do financial planning? τ Assess current financial position (Where are we today). τ Identify our financial needs - [(What do we want to achieve in short term (1 Year), medium term (1-5 years) and long term (more than 5 years)] τ Estimate the cost of each item and the date we want to achieve it. Calculate how much we need to save each week/month. τ Maintain a financial diary - Write down weekly/monthly income and expenses. τ Curb expenses- spend sensibly. τ Review savings regularly-Whether it is as per plan? If not, look at

expenses for opportunity areas to cut back spending and increase savings. τ Determine the amount saved at the end of each week/month. τ Deposit savings in a bank account. Why to maintain a Financial Diary? A Financial diary helps us to do financial planning. We would know how much money is being spent on essential and non essential items during a given month. This helps us to identify the items on which the expenses can be avoided or reduced. Once we know it, we can regulate these expenses. We can save this money and break the cycle of poverty. Always think twice

before spending. For example our monthly income is ₹ 5000. By maintaining a Financial Diary we have come to know our expenses i.e. food, shelter and clothes (₹ 2000), education of children (₹ 1000), Rent (₹ 700) and sickness (₹ 300) and expenses on WANTS like festivals, pilgrimage (₹ 500) and expenses on drinks, gambling, etc, (₹ 500). We can reduce expenses on festivals, pilgrimage from ₹ 500 to ₹ 200 and avoid the expenses of ₹ 500 on drinks, gambling. The excess of ₹ 800 can now be saved. Thus by maintaining a financial diary, we have saved money. Without the diary, we will just spend all the money in our hand

How can we reduce expenses? We can reduce expenses on some of the extra items by spending judiciously. This saved money becomes our additional income for spending on essential items without earning more. It is very easy to understand. For example, if we are taking 4 cups of tea every day, then in the past 30 days (1 month) we have taken 120 cups of tea. Say each cup of tea costs us ₹ 5 then the total cost is ₹ 600. Just pause and think whether we need to drink 4 cups of tea in a day. Had we taken 2 cups of tea every day then the expense would have been ₹ 300 and we would have saved an equal amount of ₹ 300. Here, 4 cups of tea is what we wanted but basically our need may be fulfilled with 2 cups of tea. In a way, our earning has increased by ₹ 300 in a month and in a year we have saved ₹ 3600. Money saved is money earned Why should we save? We should save regularly so that it can be used in times when our expenditure is more than our income and we need more money. τ To meet higher expenses on birth, education, marriage, purchasing farm seeds, purchasing own house, etc. τ To meet expenses on account of unexpected events like illness, accident, death, natural calamity. During the emergencies, savings can come to rescue. τ Money is needed for lean periods i.e. when we are not able to earn. τ Money is needed for our old age. τ Money is needed to buy something which we cannot afford from regular income. In short, when we have to spend more money than we earn, we can meet these expenses from our own money if we have enough savings. How to save? We can save either by cutting expenses or by increasing our income. Presuming income is same, we spend money for purchasing either essential or non essential items. Essential items are those things we really cannot do without, such as food, clothing, house repair, seeds and SAVINGS 7 farming tools, children's education and healthcare. We need these things every day for survival, whereas, non essential items are 'extras' in life which we need because we enjoy them. Expenses on such items can be either avoided or reduced or postponed, e.g, spending money on drinks, drugs, gutka, gambling can be avoided whereas excessive expenses on marriage, festivals, pilgrimage can be reduced and expenses on TV, scooter, car, jewellery, etc, can possibly be postponed. The less we spend on non essential items, the more we will be able to save for essential things. How can we save when we do not have enough money even to meet our regular expenses ? The common refrain is that we do not earn enough so we cannot save. The truth is that everyone needs saving and can save. We should keep aside a portion of our earnings as saving from day one of our earning life. The important thing is that we should start saving early and regularly in our life, even if it is a small amount. And if we get some unexpected profit/earning, we should save all or most of it. This will reduce our worries of future financial needs and help us in dealing with unexpected expenses. If we earn ₹ 100, we can save ₹ 20 and if we earn ₹ 10, we can save ₹ 2. If we keep aside ₹ 20 out of ₹ 100 we earn, then in 5 earning days, we would have saved one day's earning. In 100 earning days this would mean savings equivalent to 20 earning days plus interest. Is it not amazing !!!!

For how long should we save? The longer we save, the more our savings will grow. The more we save, the more we will be prepared for emergencies and non working old age and not dependent on others for meeting our needs. As our savings grow, we will not have to borrow to meet our needs. When we save for longer periods, our savings will multiply many times as it earns interest.

Where to Save? We might be keeping our savings under the pillow or in the Gullak. But what happens? We would always be worried about its safety. Sometimes rats or pest may eat our hard earned money. Someone may steal it or we may be tempted to use the money or others may be tempted to borrow. Also money saved at home does not grow. The best way to save is to deposit the money in a bank account. While small amounts can be kept in a Gullak, it is wiser to keep our savings in a bank. Do not lose your hard earned money, always save in a bank account. Why save in a bank? Money kept in a bank is safe as banks are regulated and pool the savings for nation-building. Apart from safety, banks do not charge fee for depositing the money. On the other hand, they pay us interest on our deposits, so our money grows in bank. Putting our money in a bank means we can also use it whenever we need it. The transactions with the banks are transparent. Banks offer lots of other useful services. When we have a deposit account with banks, we can easily get many facilities like loans and remittance facilities at reasonable cost. We can even nominate a person who can claim the money after our death. What is nomination? Nomination is a facility that enables a deposit holder to designate an individual, who can claim the amount lying in the bank account in case of death of the account holder. It is always advisable to make nomination in a bank account so that the nominated person can get the amount easily.

What are the advantages of having a bank account? τ A Bank account gives us an identity which is recognised by other government agencies. τ Transactions are transparent in a bank account i.e. we know all the details of deposits, withdrawals, interest etc. τ Banks are non discriminatory i.e. rules are same in the bank for similar type of customers. τ Our money in a bank account is safe. τ Banks open savings, recurring and fixed deposit accounts according to our needs and pay interest on deposits. τ We can get our wages/salary directly credited to the bank account. τ We can get all social benefits like MGNREGA wages, pensions etc. directly credited to bank account through EBT. τ We can deposit or withdraw our money from the bank whenever we need. τ We can take loan from the bank in case of necessity. Banks give loans for productive purposes at reasonable interest rates. If we have a bank account, sanctioning of loans becomes easier. τ We can send remittance through the bank. Savings account in a bank is the key to all other services.

What is EBT ? EBT means Electronic Benefit Transfer for credit of social security benefits like MGNREGA wages, old age pension, widow pension, cash transfers in lieu of LPG subsidy, etc. The amount due to us gets credited to our bank account timely and efficiently without involvement of intermediaries. Thus it avoids the delays and leakages involved in the existing manual system. We can withdraw the money from our bank account as and when we want. We can also avail of other facilities from the bank. What is remittance? We can send money to other people staying at distant places throughout the country through the bank. Banks transfer our money from one place to another and from person to person safely, speedily and efficiently. So, if we have a bank account, we can easily transfer money to our child's account if he is studying in another city. We can also receive money in our bank account from our relatives working at distant places. What is interest? Interest is the amount our money earns when we save our money or it is the amount we have to pay when we borrow money in addition to the borrowed amount. The money which we keep with banks is not kept idle. The banks lend this money to other people. Those who borrow money from banks pay some interest. Say, we deposit ` 1000 with a bank. The bank lends that amount to another person. He pays, say ` 100 as a charge to the bank at the end of 1 year. The bank gives us a share of it, say ` 40. This extra income which we get from keeping ` 1000 for 1 year with the bank is known as interest. 12 The interest charged by money lender is also stated to be 3-5 %, then how is it that we have to pay more interest to them as compared to banks? The rate of interest notified by banks is on a yearly basis whereas the money lenders describe the interest rates on per month basis. So, if a money

lender mentions 3% interest rate, it means 36% per year. (3×12) whereas if a bank mentions 12% interest rate, it means 12% per year. Thus the interest charged by banks is lesser as compared to money lenders and hence we end up paying higher interest to the money lenders. What are different types of deposit accounts? Banks offer three types of deposit accounts- Savings deposit, Term deposit & Recurring deposit as explained below: τ Savings deposit account is for depositing our day to day surplus. We can withdraw our money whenever we need it. We can also get an overdraft (Loan for emergency needs) in our saving account. τ Term deposit account is for depositing our money for a fixed period suitable to our needs. This may earn interest at higher rate than saving account, as we deposit money for a pre decided fixed period. We can also withdraw before the due date but in that case we will get less interest. τ Recurring deposit account is for depositing an amount periodically say every day or every week or every month for a certain period. This can be used for depositing regular savings. How can we open a saving bank account? We can open an account by filling up the account opening form with a latest photograph and submitting documents to comply the "Know Your Customer" (KYC) norms, i.e., proof of our identity and residence. 13 How do we open account when we have no money in hand? Now we do not require money to open an account. Reserve Bank has advised all banks to open saving accounts with NIL balance. It is called a Basic Savings Bank Deposit Account which can be opened by any person without the requirement of maintaining a minimum balance. What are the features of a Basic Savings Bank Deposit Account? Basic Savings Bank Deposit Account is a saving bank account with NIL balance. Banks will not charge fee for deposit of money any number of times. In addition, banks will not charge for 4 withdrawals during a month. We will also get a Passbook and an ATM/Smart card without any fee. We can use this account for our day to day needs like deposit, any fee. We can use this account for our day to day needs like deposit, withdrawal, remittances, direct credit of social benefits, etc. What is Know Your Customer (KYC)? Banks are required to know our particulars before opening of the accounts as per KYC regulations. Hence we need to submit necessary KYC documents, i.e., a photograph, proof of identity and proof of residence to the bank along with account opening form. The account can also be opened on the basis of the Aadhar Card. Persons not having above documents may open the account under relaxed KYC procedure based on MGNREGA job card or self certification. The accounts opened under relaxed procedure will be treated as small accounts and will be subject to certain limitations. There is no bank branch in the village, how do we open a bank account? Now we do not need to have a bank branch in our area to avail of banking facilities, banks are appointing Business Correspondents (BC) 14 who work as agents of the banks. They are local persons who have roots and economic interest in the area. They will provide us all the banking services in our village/ nearby villages. At the time of appointment of BC, the bank officials would introduce the BC to the villagers. We can also get the information about BC from Gram Panchayat. What is BC? How does a BC function? Banks have been allowed to appoint local individual persons and others as BC to work as agents of the banks. The BC uses Information and Communication Technology (ICT) based devices such as handheld machines, smartcard based devices, mobile phones, etc. to carry out the banking transactions. Bank is now available at your door step. Whether our money is safe if we deposit with BC? BC is a mode of providing banking service at our doorstep as bank branch is far off from our area. Depositing our money with BC is as good as depositing with a bank branch. The transactions are done through the ICT based devices and accounted in the books of the banks. The customers get immediate verification of their transactions as cash deposited/withdrawn by customers through the BC is acknowledged by issue of a receipt on behalf of the bank. Additionally, transactions through BCs are done on the basis of our biometrics or a PIN number and thus no one else can do the transactions in our account. 15 What are the services provided through BCs? BCs will provide the facility of saving deposit accounts with inbuilt overdraft, fixed deposit and recurring deposits. They will also allow remittance of funds from our accounts and receipt of funds into our account. Besides,

they will provide credit for income generating activities through Kisan Credit Cards for farming activities and General Credit Card for non farm based activities. What is OVERDRAFT, how is it different from other loans? Small Overdraft is inbuilt in the saving bank account to take care of the our emergent miscellaneous needs. We can withdraw the amount upto the limit of overdraft without going through separate documentation for availing small amount. Thus, it facilitates timely availability of money in cases of emergencies. We are required to pay the interest on the amount of overdraft as it is a loan given by the bank. Other loans like KCC and GCC are provided by the banks for a specific purpose of income generating activities.

What is the difference between income and credit? Every credit or a loan needs to be paid back. It is not to be treated as money earned or income. When we earn the money from salary or wages, etc. it is our income whereas credit or loan is not our income. On the other hand, repayment of the installments of credit is the expense. When do we borrow? We borrow money when our expenditure is more than our income or when there are emergencies. We also borrow when we need money for undertaking some business activities. Should we always borrow whenever short of money? Do not borrow for meeting consumption expenses like celebrating festivals, lavish wedding, buying jewellery or costly consumer durables. If we have to spend money on these items, spend it from our income or accumulated savings. Use our current income or savings for consumption expenses. If we are forced by circumstances to borrow for consumption, first assess how much we can repay out of our current income. Consumption expenses do not give any income, then how will we repay the loan? On the other hand, we would be borrowing again and again from different sources for repaying earlier loans and would fall into the debt trap. Learn to manage your debt, otherwise debt will damage you.

BORROWINGS 17 Why it is advisable to borrow only for income generating activities? It has to be kept in mind that when we take a loan, it has to be repaid back with the interest. So while borrowing, we should always assess our repaying capacity. When we borrow for undertaking some business activities it will enhance our income, then we can repay the loan out of income generated, e.g., when we borrow ` 1000 from a bank to buy seeds, which will give us crop that can be sold for, ` 10000, we can repay ` 1000+ ` 100 as interest, i.e., ` 1100 to the bank and the remaining amount of ` 8900 is our additional income. We should borrow for an activity which gives earnings more than the amount of interest payable, otherwise we may have to borrow again to repay earlier loans. Borrow for undertaking an activity which enhances your income. Why borrow within limits? Any loan taken by us has to be repaid back with the interest. Make sure we are earning enough to pay back the loan. A simple way to check is look at our income, expenses and saving every month. The saving should be more than our monthly installment of repayment of loan.

18 Why take a loan from a bank when informal sources like money lenders are readily available in the village? Bank is a better source of finance than money lenders and other informal sources even if, at times, it may take little longer to borrow from them. It is a safe, reliable, transparent institution which can help us by lending money on suitable terms. Banks are regulated by Reserve Bank of India. Best thing is that banks charge lesser interest than informal sources, viz., relatives, friends, moneylenders, vishi, mukhiya etc.

Besides, banks create full documentation of the loan before disbursing loan amount. In case of dispute, Grievance Redressal Mechanism is also available. Banks are transparent and charge less interest. What is the Grievance Redressal Mechanism of banks? Banks are regulated entities. Every bank has a Grievance Redressal Officer, the details of which is published in all branches and also on their website. In case of any dispute, we can file our complaint with the **BORROWING FROM BANKS 19** Grievance Redressal Officer of that bank. In case we are not satisfied with the resolution of the dispute by them, we can file our complaint with the Banking Ombudsman of the Reserve Bank of India. Is similar Grievance Redressal Mechanism available in case of informal sources? There is no grievance redressal mechanism in case of informal sources as they are not regulated entities. That is

why there is lack of transparency in the terms and conditions and also in the record of transactions in case of informal sources. Why banks may at times take little longer time in giving loans as compared to Money Lenders? The banks collect deposits from public and lend this depositors' money as loans to the people who need it. In order to protect the depositors' money, they are expected to ensure the proper utilization of the money by the borrower. Hence banks undertake detailed scrutiny of the loan proposals before sanctioning the loans. Though it may take a longer time, the benefit to the borrowers is that they cannot be cheated since everything is documented. It is actually in the interest of the depositors as well as the borrowers. What are the types of loans offered by the banks? Banks give loans for various purposes like housing, education, agriculture and related activities, starting a business enterprises, consumption loans, etc. Thus banks meet all types of loan requirements. A bank meets all your loan requirements. 20 How can I get a loan from a bank? We have to submit a loan application to the bank indicating the purpose. The bank will verify the details, evaluate our repaying capacity and then sanction us the loan which we will have to repay along with the interest in installments as indicated by the bank. What is the cost of borrowing from banks? The interest charged on the money borrowed is the cost of borrowing. Understand the interest cost we are paying on our loan. Banks normally notify the interest rate per year, e.g., annual interest of 12% means 1% interest per month. Frequency of compounding is also important in the price of a loan. Unlike other informal sources who do not tell us the real cost of borrowing, the interest rates and other charges levied by banks for various purposes are displayed to the public and it is uniform for all customers/purposes. Banks publicly declare how much they charge and they charge uniformly to similar customers for similar purposes again unlike other sources. Do we have to offer some guarantee for the loan? This depends upon the type and purpose of loan we take. Generally for small loans no guarantee will be necessary. But for higher amounts we will have to offer some guarantee. This can be in the form of the asset which we will be creating with our bank loan or in the form of other collateral securities like land, house etc., depending upon the type of loan. Why should we repay the loan? The banks use depositors' money for lending. If we do not repay, the financial condition of the banks would become weak. It will affect the 21 bank's capacity to repay the depositors' money in time. If all the bank borrowers do this, in such an eventuality, money deposited by us and our relatives in the bank might be at risk. Further, the bank needs the money to be paid back by us to lend it to yet another person. Additionally, only if we repay, loans will be sanctioned to us in future. What if we do not repay the loan taken from the bank? In case we do not repay the loan, the bank will have the right to take possession of the security we have offered as guarantee for the loan and can initiate legal proceedings against us for recovering the loan amount along with the interest.