The Financial Life of a Delhi Squatter Settlement

In spite of being gainfully employed, most residents of Kalibasti, a West Delhi squatter settlement have almost no access to financial institutions to help them protect their money, earn interest on savings or borrow to invest in their small business. How does this effect their economic well-being and the opportunities they can access? Our research concludes that about half of the 50 households surveyed pieced together a good money management strategy even without the help of institutions, through employers, intermittent lenders and "committees". These people were generally well-connected, had higher job security and were much less likely to be in the poorest group. Those who were least able to manage their money lacked trusted contacts, borrowed only from commercial moneylenders and were less aware of the range and terms of services available. While the informal sector works well for some, it works least of all for the poorest.

How do poor people save and invest in assets

Storing surplus or savings in cash is only one of several options open to poorer people in cities and villages. Other options include investing in working stock for a small business, purchasing livestock or jewellery and lending out money to trusted friends and relatives. Tracing the "deposits" and "withdrawals" which respondents made in kind was one of the greatest challenges of the research.

Our research shows that it is the "poorest" and the "better-off" groups who have most need of cash-based savings services. The poorest need desperately to build their asset base but with income derived from meagre and irregular wages, are unable to pay in bulk for assets (such as livestock and jewelry) which could store their wealth. More than 50% of "poorest" respondents saved an average of Rs.1800 in their home over the year but few were able to accumulate for more than 2-3 months.

On the other hand, the "better-off" group (11% of our sample) showed growing interest in cash-based savings products offered by banks, LIC, Post Office and private companies. Having invested successfully in-kind (farms, business, education and marriage of children…), they considered cash savings and insurance products a safe and innovative way to use their surplus.

For the large number of respondents who were neither well-off nor especially poor, intermittent surplus (from the harvest, business or a well-paid casual job) was invested in kind or lent out to trusted friends and neighbours and then "drawn down" in the form of repayment when required. 45% of respondents lent an average of Rs.5800 (mostly interest-free) over the research year. Those respondents running micro enterprises (13%) invested their surplus back in the business and consequently had little interest in cash savings products.

The Moneylender Revisited

Moneylenders are much maligned but little understood. When we heard from Delhi respondents how useful the moneylenders were to them, we decided to meet them to find out for ourselves. Our three case-studies, all working in Kalibasti, turned out to be neither heroes nor villains but small businessmen and women making a living like many others in the capital's burgeoning suburbs. While he turns a reasonable profit, the moneylender's life is a humble one, operating with low costs and tight margins. His rates may appear exorbitant but are rarely borne by clients for more than a few weeks. Many borrowers reduce the rate paid by dragging payments over schedules longer than originally agreed. Our research shows that moneylenders reach those with no alternatives. But those who depend on them for daily needs play a dangerous game. Says one lender, "everyone's in business… and the poor do suffer".

A Snapshot of a Rural Financial Market

One of the more surprising findings of our research was that financial institutions play a much more significant role in the lives of our rural respondents than our urban ones. In Delhi, other than bank savings, there were no formal service providers on the financial horizon of our slums. By contrast, two thirds of respondents in Koraon used at least one formal financial service and 43% of respondents used two or more. Savings services included the LIC, Bank term deposits, the Post Office, Rashtriya Sahara and a private firm selling debentures. Credit services included various bank loans and the local PACS. The research suggests that physical access to services is not in itself a constraint – even the poorest can easily reach branches located on the roadside or local market town.

What can financial service providers learn from the informal sector?

Our research demonstrates the extraordinary level of financial activity among poorer people, most of which is unrecorded and invisible. Demand for financial services is high and much of it remains unfulfilled.

Risk management & loan security

What we've learned

In limiting security to land (which in any case is almost never realised) banks miss many lending opportunities to those with secure incomes and liquid assets (such as traders, tenant farmers and other small business people) who are borrowing and repaying successfully in the informal sector.

While microfinance institutions reach some of these people, their high-cost and labour-intensive "joint-liability" approach excludes the poorest who can not take the risk of debt or of entering into strict repayment schedules. It also imposes a cost on reliable clients who could be more cheaply and conveniently served on an individual basis.

How financial institutions can respond

Moneylenders demonstrate that repayment can be effectively secured using neither group pressure nor hypothecated assets but through sound appraisal of income flows and regular collection visits. Both bankers and microfinance institutions could learn from such techniques. Where the risk of unsecured lending is too high, lending against assets deposited (such as gold) already widespread among banks in South India, provides an effective alternative.

Reaching the poorest

What we've learned

The research shows that institutional services, including those offered by microfinance institutions, remain beyond the reach of the poorest groups, namely Delhi-based squatters and landless labourers in Koraon, both of whom suffer from erratic incomes and intermittent deficits. While the poorest show will and capacity to save, money put aside is too often snapped up to meet everyday costs and claimed by friends, relatives and household members. While sums are too small to warrant a trip to the bank, it is often unsafe to keep money in the home.

Yet without first building a savings base, the poorest will remain uncreditworthy and vulnerable to shocks and downturns which will limit their capacity to handle repayments.

How financial institutions can respond

Banks and microfinance institutions must recognise that assetlessness precludes borrowing. If they wish genuinely to bring the poorest groups into the market, it must be first through a savings (or insurance-linked savings) strategy through which people develop an asset base positioning them to bear risk and shocks in future. Savings services must go beyond the limitations of existing group approaches. In order to leverage maximum savings capacity, services must be designed with the right combination of flexibility and discipline. They must be more than a qualifying procedure for loan finance.

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MONEY MATTERS

Uncovering the financial life of the poor in north India

A research project of the Institute for Development Policy and Management, University of Manchester, UK

IDPM

In collaboration with EDA Rural Systems Pvt Ltd, Gurgaon, India

Supported by the Department for International Development, UK

DFID

Why Research

Financial services play an important role in assisting poor people to manage their income and improve economic well-being. With these ends in mind, the government and NGOs alike have sought to improve the reach of such services to poorer groups. While the government's efforts have resulted in a financial services outlet per 14,000 people even in the remotest regions, there are perhaps a thousand non-government providers of microfinance (including Co-operatives, Societies and NBFCs) in India today.

Yet for all the resources and commitment, the outreach and relevance of such institutions to the poor is limited. Poor people today manage most of their money informally, through networks of relatives, friends, colleagues, moneylenders… If the bank doesn't bother with them, they get by without bothering the bank.

To understand more about the financial lives of the poor, IDPM and EDA Rural Systems embarked on a research project. How do the poor manage their money day-to-day, month-to-month? To what extent are their needs fulfilled through institutional sources and what do they do when the bankers and NGOs fail to reach? What is the unmet demand in the services required by the poor and what might be learned from the informal sector?

Where

We took two research sites – one urban (Delhi's slums) and the other rural (Koraon Block, Allahabad District, Utter Pradesh). In Delhi we worked in three of the city's 1000 squatter settlements. In Koraon, one of the least developed blocks of the state, we worked in two villages which contrasted in their proximity to Koraon town, their caste and livelihood composition.

How

Over the course of a year's fieldwork we used three different techniques:-

- We compiled "financial diaries" of 48 households. Through fortnightly interviews over 12 months we developed a comprehensive record of financial transactions (money deposited, withdrawn, collected, lent, borrowed, repaid…) undertaken through the year. Rather than using a questionnaire, our approach was open and unstructured, guided by a checklist of financial arrangements to look out for.
- With a further 92 households we undertook two rounds of interviews, acquiring a "snapshot" of financial needs and preferences to provide a context for the more detailed "diaries".
- We interviewed those financial service providers which our respondents said were especially important to them. In Delhi we focused on moneylenders. In Koraon we met a range of institutional lenders, savings and insurance providers.

With Whom

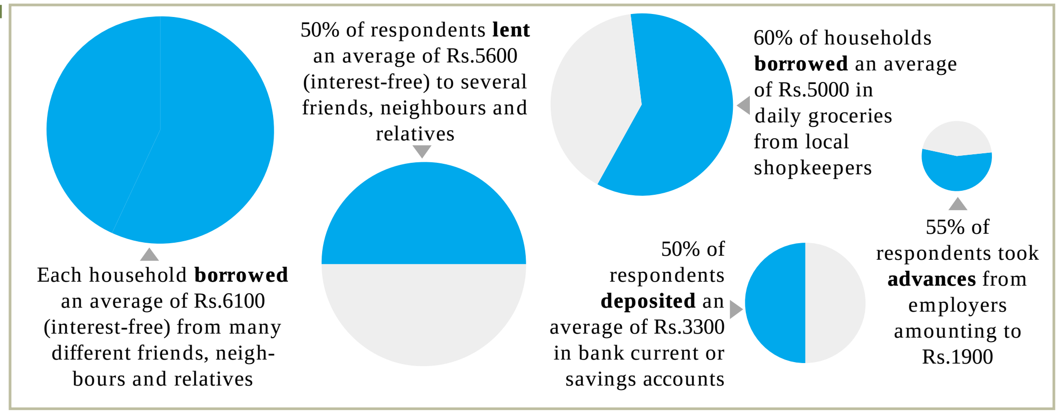
Our respondents (the users of financial services) came from a wide range of wealth, caste and livelihood backgrounds. As slum dwellers and residents of remote and undeveloped villages, the majority were poor in relative terms. We undertook participative wealth ranking to distinguish the different social-economic levels of residents and identified respondents in three broad categories of "poorest", "medium" and "better-off".

- **"Poorest" category:** The "poorest" in Koraon depended on casual, on and off-farm labour or small-scale mobile trading. They were mostly landless or owned small plots of low quality. Their average per capita monthly income was Rs.137. In Delhi, "the poorest" faced underemployment, lived in rented hutments and relied on casual daily work. Their average monthly income per capita was around Rs. 600.
- **"Medium" category:** In Koraon "medium" households were casual labourers but able to secure (better-paid) off-farm labour more often than the "poorest". Most owned small plots (average 4 acres) and typically had fewer dependents. Their average per capita monthly income was Rs.329. In Delhi, they were "owners" of their hutments and several were involved in petty trading or self-employment with some capacity to invest and bear risk. Several were in casual regular jobs (such as peons or security guards). Their average income was Rs. 720 per capita per month.
- **"Better-off" category:** "Better-off" households in Koraon had land holdings of 15 acres and above or permanent government jobs. Their average monthly income (per capita) was Rs.640. "Better-off" households in Delhi had secure and high-return jobs supplemented by village assets. A few were self-employed but able to secure high-value and continuous contracts. Their average monthly income (per capita) was Rs.1482.

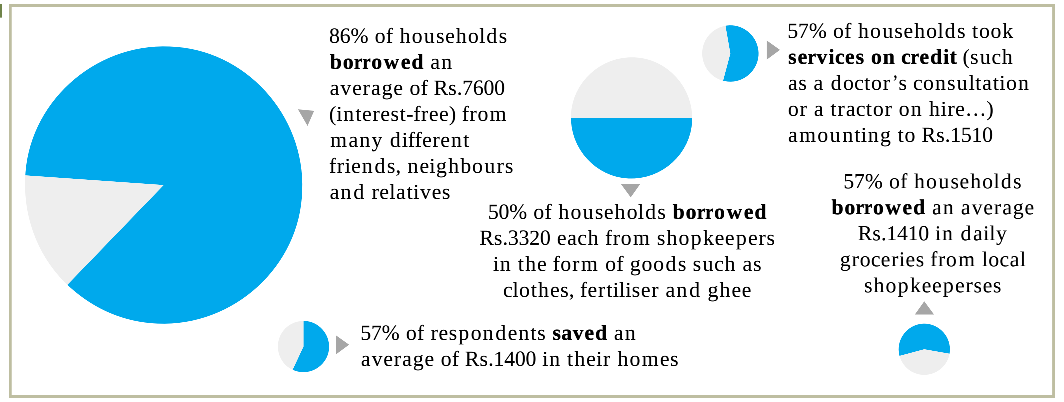
Overview of Findings

While compiling financial diaries, we encountered 48 types of financial service or device used by our respondents over the year. These ranged from informal (like taking an interest-free loan or saving with a money guard) to semi-formal (like borrowing from a microfinance institution or saving with a self-help group) to formal (like a loan from a bank or a deposit in the Post Office). For all this diversity, only eight devices were used by more than 50% of respondents:-

During the year in Delhi

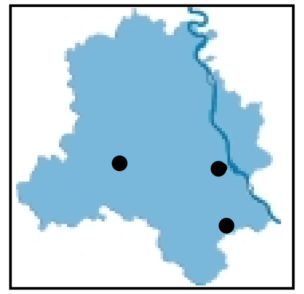


During the year in Koraon

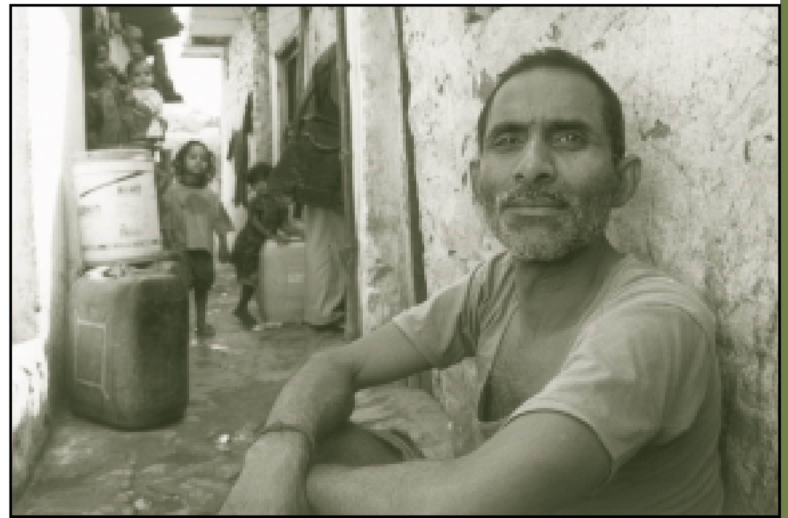


The most used devices in Delhi and Koraon are thus largely informal and interest-free, between friends, relatives, neighbours and colleagues. Rather than being specialised or professional, they are arrangements based on existing association through residence, family and employment. And these devices were used as much by better off people as by the poorest.

Each household used an average of eight types of service or device to engage with 22 "deals" (for example, one loan taken and repaid, or one fixed deposit). On average, each household thus made a "deal" every two and a half weeks. If we count up all money brought in to the household (through borrowing) and taken out (through savings deposits and lending), our respondents borrowed, saved and lent an average of Rs.48,000 or close to 130% of annual income. While the size of "deals" is bigger among the better-off, the number of deals is similar for all groups. "Poorest" and "better-off" people are equally busy in their financial lives.



Greater Delhi showing three research sites



***Gali* life in Delhi**

Coming home from the fields in Koraon

Uttar Pradesh state showing Koraon Block

How do poor people borrow and repay

In addition to the frequent use of informal borrowings, about half of respondents depended on one or more interest-bearing sources (whether bank, microfinance institution or money-lender) for investment and sometimes for essential needs. A meagre 10% of our respondents borrowed from banks all of whom had assets against which loans were secured. While the outreach of banks to the poor remains dismal, the quality of service to larger farmers and those with salaried jobs appears to be improving. The average sum raised over the year from banks was Rs.29,000.

For those with no collateral, there is always the moneylender. Moneylenders were active in both sites, lending an average of Rs.1750 to 20% of respondents who fall broadly into two groups. Those who had urgent needs (and who required discretion) went to the moneylender because he provided the money quickly and at maximum convenience. Secondly, the poorest people went to the moneylender because they had no alternatives. Some were new to the neighbourhood and had not yet built the trust required to raise money elsewhere; others had "used up" all the goodwill they could raise from personal networks. This group suffered most from the high interest payments because they were unable to "restructure" their debt by replacing the moneylender with other, cheaper sources.

Microfinance institutions are thin on the ground in India but Koraon is an exception with one of the sector's leading institutions lending to groups of women through an approach pioneered by the Grameen Bank in Bangladesh. Compared to banks, the cost structure of microfinance institutions is high because of their labour-intensive approach and poverty-targeting. As such, there is a continual pressure to improve the yield on loans advanced to cover costs. The research shows that, among the poor, such microfinance institutions best serve those with high and regular requirements for capital. While this is true of traders and small business people, it is less true of labourers and marginal farmers. Users of microfinance institutions in Koraon borrowed 1.5 times the average for their wealth group over the year.

The Double Life of Delhi Slum Dwellers

Few slum dwellers have significant assets in Delhi. If they "own" their hutment it is without legal tenure; other assets generally don't extend beyond a bicycle, a small television, a table fan…. But many Delhi households retain close links with families in the village. Driven to the city by rural impoverishment, squatter residents are busy remitting income to the village, supporting family members and investing in land, housing and enterprise. 60% of Delhi respondents sent home an average of Rs.10,800 (in person or by Money Order) to their families during the year. This demonstrates the role of urban slum dwellers in bankrolling rural livelihoods.

Reciprocity for Lifecycle Costs

For most poor people, lifecycle events (marriages and funerals) are the greatest expense they ever bear. In Koraon, a third of expenditure among the "poorest" was on ceremonies, a much higher proportion than other groups. Due to the high sums involved, such families can not afford to borrow on interest or repay over tight schedules. The most popular way to finance such events is through reciprocal gifts. Households accumulate "savings" in the form of gifts to family members over several years. When their turn comes (to bury a parent or marry a daughter) they "draw down" these gifts receiving back what they gave plus an increment. Half of our rural respondents gave and received an average of Rs.4450 in this way during the research year.