Our research shows that it is the “poorest” and the “better-off” groups who have most need of 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.

Moneylenders are much maligned but little understood. When we heard from Delhi respondents that moneylenders were among the households they would least like to borrow from, we decided to meet them to find out for ourselves. Our finance-one-case approach, looking into Koraon, India, a slum settlement that houses 10,000 people, is a humble one, operating with low costs and tight margins. His may appear unorthodox but he is surely home by day and 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 face much with no alternatives. But those who have none are often the most vulnerable. Our research suggests that physical access to financial services is not in itself a constraint – even the poorest can easily reach branches located in the slums’ commercial centres. The Financial Life of a Delhi Squatter Settlement

The poorest groups are, however, unusual. Many borrowers reduce the rate paid by dragging payments over schedules longer than originally agreed. Our research shows that moneylenders face much with no alternatives. But those who have none are often the most vulnerable. Our research suggests that physical access to financial services is not in itself a constraint – even the poorest can easily reach branches located in the slums’ commercial centres.

The research shows that institutional savings, including those offered by microlending institutions, remain beyond the reach of the poorest groups, namely Delhi-based squatter and landlord labourers and their families. Our research suggests that physical access to financial services is not in itself a constraint – even the poorest can easily reach branches located in the slums’ commercial centres.

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Our research demonstrates the extraordinary level of financial activity among poor people, most of it well-documented and indeed incredible. Demand for financial services is high and much of it remains unfulfilled.

Reaching the poorest

What we’ve learned

What can financial service providers learn from the informal sector?

F1nal借款人 will probably be at least as much as borrowers. How does this effect their economic well-being and the opportunities that they have to improve their lives?

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What can financial service providers learn from the informal sector?
Why Research

Where

How

With Whom

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 have sought to improve the reach of credit to poorer segments of the population. While the government’s efforts have resulted in a financial services sector that offers credit to the respondents over the year. These respondents reported a wide range of outcomes, including improvements in their economic well-being and increases in their financial literacy. In addition to the frequent use of informal borrowings, about half of respondents depended on one or more formal institutions (though bank, microfinance institution or money lender) for credit, with a high proportion of them being members of microfinance institutions.

Overview of Findings

During the year in Delhi

During the year in Koraon

How do poor people borrow and repay?

The most used devices in Delhi and Koraon are largely informal and interest-free, between friends, relatives, neighbours and colleagues. Rather than being specialised or professional, they are widespread networks of people through which informal credit is sourced and repaid. The exceptions are usurious usurers who charge interest. In Delhi, for example, many money lenders have also set up small shops to sell goods and services to the poor, e.g. mobile phones. In Koraon, most moneylenders operate on a personal basis, but some have turned to a more formal arrangement with a money guard. Microfinance institutions are related to such informal arrangements. They are a relatively new phenomenon in India, as are the large scale of operations in Koraon. We find that, among the poor, the most formal institutions best serve those with high and regular requirements. Microfinance institutions are particularly useful for those with no collateral, as they provide a way to access credit quickly and at maximum convenience. Secondly, the poorest people went to the moneylender and borrowed money quickly and at maximum convenience. For those with no collateral, there is always the moneylender. Money lenders were active in both sites, lending an average of Rs.27,000 to 23% of respondents who fell broadly into two groups. Those who had urgent needs (who required no collateral) went to the money lender because they provided the money quickly and at minimum inconvenience. Secondly, the poorest people went to the moneylender because they saw no alternative. Some new micro-lenders had not yet developed their networks of clients. Microfinance institutions are related to Bretton Woods institutions. The group mostly received the high interest payments because they were able to repay on time. We find that, among the poor, the most formal institutions best serve those with high and regular requirements. Microfinance institutions are particularly useful for those with no collateral, as they provide a way to access credit quickly and at maximum convenience.