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METRO MONEYLENDERS:
MICROCREDIT PROVIDERS FOR DELHI'S POOR

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1. INTRODUCTION[1]

> *"Everyone's in business. We all work for selfish ends and the poor do suffer…. Finance is like an arrack: people get addicted".*
> Branch Manager for a Kalibasti moneylender (ML1)

The point of departure for this paper is a handful of puzzles arising from fieldwork with residents of a squatter settlement in West Delhi. We went there to learn about how residents managed their money. Residents told us they rely a great deal on informal sources of financial support, such as relatives, employers and other personal contacts. But there was little sign of institutional service providers in the colony. There was one NGO organising women in to savings groups alongside other interventions, but its depth of reach was limited and for political reasons, its operations folded a few months in to our research year. A minority of residents surveyed used banks for current and savings, rather than loan accounts. Agents of insurance, deposit-collecting or chit fund companies we'd heard about elsewhere in the city, did not appear to work in the colony. The only *financial service professionals* operating in the settlement, it seemed, were moneylenders.

Yet our settlement lies in the midst of a fast-growing metropolitan suburb with reasonable infrastructure and a lively labour market. Residents demonstrate there is high demand and ability to pay for such services. Why are there no other financial service providers working there? How important are moneylenders to residents anyway? Are they really the only providers and do they reach everyone and anyone? Why is it that moneylenders have such a bad name when they are sometimes the only ones who are even trying to provide a service? With these questions in mind we conducted three rounds of interviews with three moneylenders operating in the settlement.

India boasts a rich heritage of moneylenders and a lively debate on their contribution to development. In the 1970s Bhaduri posited that the relation between lender and borrower is exploitative because the lender controls other markets on which the borrower also depends; through imposing a range of charges over and above interest rates the lender is able to maintain the borrower in a position of indebted dependence. Others have suggested that moneylenders reflect the local context of relations of production. Where low productivity and inefficiency are inherent in the local economy, finance takes the shape of moneylenders who keep petty production alive where institutional finance

[1] This paper is an output of the "Finance for the Poor & the Poorest" research project, a component of the Finance and Development research programme funded by DFID and directed by Institute of Development Policy & Management (IDPM), University of Manchester. Further details about the programme and the approach used for this component are available from IDPM's website at www.man.ac.uk/idpm. The authors would like to thank Radhika Aghase for invaluable help in fieldwork and David Hulme, Stuart Rutherford, Sanjay Sinha, Prabhu Ghate and Annie Harper for comments on earlier drafts.

would never reach (Ghose 1980, Bottomley, 1963). A third argument focuses on the risk and transaction costs which moneylenders bear and explains their high rates as a rational response to these costs. By breaking down the components of interest rates, studies have shown that there is little evidence of monopolistic or exploitative profits (Ghate 1992, Morduch 1999).

At the heart of all these debates is morality: an anxiety that moneylenders should be judged as "good" or "bad". To quote Bouman, "should they be considered agents of change and development or of stagnation and underdevelopment?… Yes they are rascals, but no, the country can't do without them" (1989, p76). As we'll see, when we turn for a closer look at the local moneylender, he (or she) appears as neither villain nor hero, just another small businessman trying to make a living by servicing the needs and demands of slum-dwellers and others in Delhi's burgeoning suburbs. In an era where the small entrepreneur is hailed as a key protagonist in economic development, such small-scale financial service providers are – by contrast - frequently ignored (if not despised) by development policy makers and practitioners. Such a position, after all, provides a convenient justification for the mobilisation of donor funds for micofinance.

2. MANAGING MONEY IN A DELHI SQUATTER SETTLEMENT

One of over a thousand squatter settlements in Delhi, Kalibasti (KB) lies in the extreme west of the city near the fast-growing middle class residential neighbourhoods of Vikaspuri and Janakpuri. It consists of about 500 hutments niched between a drain and a permanent Transit Camp[2]. Kalibasti is an illegal settlement and liable to be reclaimed by land owning agencies with a month's notice to settlers[3].

Residents are of two types. Most are north Indian, the majority from Western Utter Pradesh (UP). A minority (about 25%) are Nathpanthis from the Marathwada region of southern Maharashtra. Those from north India are generally low caste[4] Hindus and Muslims. Other than this their stories are remarkably diverse. Nathpanthis – also known as Gosais – constitute a cohesive and distinct group of residents who share a common culture, caste and history. Nathpanthis are wandering followers of Siva, specialists in palmistry and ritual performance, surviving traditionally on alms.

[2] Home to erstwhile squatters from South India resettled by the government 20 years ago
[3] Since July 2000 the research team has interviewed 51 families in KB. Eight of these were interviewed over a whole year between July 1999 and July 2000 and the others over 2-3 meetings between October 2000 and January 2001. The findings of this residents' survey are published in a separate IDPM Working Paper, Ruthven 2001.
[4] Scheduled Caste (SC), Scheduled Tribe (ST) and Other Backward Castes (OBCs) in Indian Government parlance

Among the north Indians, 20% of sample households depend for their livelihoood on the employment of women household members as domestic workers. Another 20% live from self-employment ranging from rickshaw pulling to trading and brokering deals. Many young men have secured casual or contracted jobs as servers, cleaners, peons, security guards, masons and painters (27%). The livelihood profile of Nathpanthis is different, with most engaged in daily casual labour (either *kabari*[5] or loading and construction work) and a minority depending on alms.

The employment background of residents is important because it helps to explain their financial management strategies. Those in domestic work or hired by companies can sometimes raise advances from employers decreasing their reliance on other devices. Borrowing from a professional moneylender is only one among several ways to raise a lump sum for investments or – more often - for life cycle expenses (marriages, funerals) or a health crises. Other strategies include procuring finance through friends, neighbours and relatives; joining a RoSCAs if one can sustain relatively high and regular contributions, or calling on "intermittent lenders" - those contacts or relatives who are in a better economic position, trusting enough to lend when money is available.

3. THREE MONEYLENDERS OF KALIBASTI

Fig 1: Moneylender 1 (ML1)
ML1[6] follows a tradition of moneylenders from Pallayampatti, Tamil Nadu. Originally mobile traders during the mid 20th Century, the community evolved as cash lenders with organised pricing and repayment systems. ML1 – now based in Chennai – comes from a family of such lenders who fell on hard times during his father's era. Determined to revive the family business ML1 started lending with family money 25 years ago. Along with his elder brother, he sought out a niche market in the underdeveloped state of Madhya Pradesh. Dividing responsibilities by finance/systems manager (brother) and fieldwork manager (self) their business operation now covers four states - Assam, West Bengal, Madhya Pradesh and Maharashtra – as well as Delhi, starting in Delhi 10 years ago. Now 60+ years of age, ML1 owns a 300 acre tea estate in Assam , a three star hotel and a private hospital in Chennai.

Fig 2: Moneylenders 2 & 2a (ML2) – Selling goods on installments
ML2 came to Delhi as a lad of 22 from rural Punjab 12 years ago and after trying jobs, he started a watch repair business in Uttam Nagar with two friends. Each pooled Rs 2,000 and three years later he found himself running the business alone after his friends pulled out. It was only when he met his business partner (ML2a) that he extended his business to selling goods on instalments. ML2a comes from a middle-class Bengali family. Married young she now has four children at the age of 32. Out of boredom and the problems of marital life, she says, she took up something different which would bring her into contact with a wide range of different people. ML2 and ML2a have been in business for three years and focus on the Vikaspuri region of West Delhi.

[5] Dry waste collection & sorting
[6] The information on ML1 is collected through his Delhi area manager who is also his nephew

Fig 3: Moneylender 3
From a Rajasthani farming family Moneylender (ML) 3 came to Delhi with his wife following a family feud in his early 20s. Unschooled and unable to find work the couple squatted in slums doing what they could to make ends meet. Things changed when he acquired a passport and passage to work in the Middle East. After taking a loan he left for Iraq, then Saudi Arabia. After ten years he returned to Delhi in a position to purchase a small apartment in Uttam Nagar. It is now 15 years since he returned and ML3 has tried his hand at a colourful array of businesses including painting assignments, running a meat shop and a flour mill (both now closed) in Kalibasti colony. He has recently purchased a second shop in the colony, another business in the offing. ML3 is one of KB's pioneer lenders, lending money continuously from soon after his return. He focuses his operations on Uttam Nagar and is very well known to the older residents.

As Figures 1-3 show, the three moneylenders covered in our survey (known as ML1, ML2 and ML3) share remarkably little in terms of their origins, motives and working styles. In spite of these differences, it is interesting that all three classify their clients in an identical way. Figure 4 outlines the perceived client categories and the products on offer to each.

Fig 4: Categorisation of Clients & Products offered by Moneylenders

Client profile	**ML1 (Delhi Region)**	**ML2**	**ML3**
Category 1 • Readymade garments • Factories • Hotel • Autorickshaw owners	• Rs 4,000-15,000 • Few cases of two parallel loans	• Generators • Furniture • Business equipment	• Manages two RoSCAs, each of 20 members with bidding capacity <Rs 30,000
Category 2 • Small businesses • Provision stores • Permanent service	• <Rs 5,000 • Goods on installment	Furniture • Refrigerators • Colour TV • Working capital	
Category 3 • Daily labourers • Vendors • Rickshaw pullers • Housemaids • Ragpickers	• <Rs2,000	• Cycles • Utensils • Tape recorder • Black & white TV • Fans	• around Rs 1,000 • Repeat clients <Rs 5,000

None of the moneylenders impose restrictions on the purpose for which a loan can be taken. While all three show a preference towards lending to businesses rather than casual labourers, loans for a range of costs (rent, groceries, festivals) are sanctioned once the repayment capacity of the client has been assessed.

The charges and repayment structure for the three moneylenders is as follows. ML1 charges an up-front fee of Rs.50 with every Rs.1000 lent. He then structures payment in equal installments of 50 days, regardless of which category of client he is lending to. For a loan of Rs 1000, the client will pay Rs 25 for 50 days. ML 2 includes the interest in the stated value of the good. An item purchased from ML2 for Rs.700 could have been bought for Rs.500 in cash. An item purchased for Rs.12500 could have been bought for Rs.10000 etc. On receipt of goods a small advance is taken and the client and lender then agree a repayment schedule between them. This appears to be flexible and could be daily, weekly or monthly; the effective rate charged will thus vary substantially with the schedule agreed. ML3 asks for loans to be repaid in ten equalised monthly installments (which include interest charged) at a monthly rate of 3% flat with no other fees charged.

From these products, we can ascertain the following annualised effective interest rates. ML1 comes out at just over 400%, ML2 an average of 700% (for Category 3 clients) and ML3 a more reasonable 61%. Whereas in all cases clients pay between Rs.250-400 on each Rs.1000 borrowed, the huge divergence between the rates relates to the different stated periods for which loans are given. Before we judge our moneylenders too harshly for their apparently exorbitant rates, there are two things we should consider:

(i) The low transaction cost to the client in acquiring the loan. No collateral or documentary evidence is requested by any of our three moneylenders (although in the case of ML2 the collateral is "built in" to the loan product). For ML1 and ML2 collections take place on the doorstep. ML2 even visits the client in their house to appraise the loan. While ML3 requires clients to visit him for appraisal and repayment, the latter is only monthly and his location amidst his clients makes this easy for them. ML3 asks for a guarantor, a role which can be played by a friend or relative.

(ii) The stated effective interest rate to be charged is often much higher than the actual yield the moneylender gets from the loan. A small survey of loan deals among users of moneylenders showed that the effective interest paid by the client was closer to 70% annualised. ML2 stated plainly that the lower the value of a good sold the higher the premium needs to be because of the character of the clientele. This is not about the risk of default per se but relates to the uncertainty of income of Category 3 clients. Whereas other categories of clients can be expected to manage the daily payments, Category 3 clients are far more likely to drag the repayment over a longer period.

4. OPERATIONS

Functioning more as a network with low visibility but tight cohesion and control, ML1 has established a substantial, national-level institution over the last 25 years. Having developed a standard product i.e. unsecured loans repaid through equal daily installments, there has been little innovation for 10-15 years. With his head office in Chennai, ML1 has five state offices (of which Delhi is one) and several branches in each state.

Delhi has five branches of which Uttam Nagar (covering KB) is one. Most branches have one Branch Manager and two collection officers. Uttam Nagar however has only one collection officer due to its recent poor performance. This is partly due to recent management problems but also the high proportion of squatter residents in the client mix. The current portfolio – at 125 clients or Rs.60,000 outstanding - is only a third of other branches in Delhi and ML1 is on the brink of decision on whether to stick out the lean period or withdraw from the locality.

The Branch Manager operates with close supervision and support from the State Manager (a post usually held by a relative) as well as Headquarters. Reports get sent to Chennai on a weekly basis and come back with comments such as, "*you're spending too much, control the expenses*!" and *"Lend to women clients, their repayment performance is better*!". There is news that the Head Office is proposing the use of computers which will facilitate this information flow.

The role of the State Manager is particularly in client appraisal. For each branch a regular day for appraisal and disbursement is fixed. We observed the appraisal process during our visit to Uttam Nagar Branch. The interrogation in Hindi lasted for 2-3 minutes and took place in roughly the following manner:

> *"Your name is Kamala? Hahn. For what purpose do you need the loan? Are you already doing business? How much do you earn daily? What is the loan amount that you have asked for? Rs 1,000. You will get only Rs 800. Do you agree to this? Ok, then you pay Rs 45 now and every day you will pay Rs 20 for 50 days. Are you clear about the repayments?"*

… at which point Kamala nodded and the Branch Manager handed her a repayment schedule card, informing her that this will be updated daily by the Collection Officer.

In contrast to ML1, ML2 and ML2a are new to the business and this is reflected in their strategy. They have evolved the current systems through a period of experimentation which is still going on. ML2 and ML2a have two sales boys who visit potential clients every morning to deliver goods and collect new orders. Later in the day they make collections along with ML2 himself. New orders for goods are followed up with client visits for appraisal. The family's sources of income are discussed at length and the repayment schedule and even the up-front advance is negotiated and framed to fit with this. Of our three case studies, ML2 exhibits the most flexibility, taking the client into confidence while doing so. The client then receives a payment schedule card held by the client and updated regularly by officers and receipt for goods sold. At present ML2 has a total of 125 clients (with outstanding loans of Rs.130,000), 35 of whom are paying on a daily basis, another 35 weekly and the remaining 55 on a monthly basis.

ML3 is the most informal or casual of the three in his management style. Indeed he projects himself as one among Kalibasti's business community, playing cards with others, cultivating good relations and being generally helpful and available. His records consist of a single notebook. Operating from his shop in Kalibasti he keeps a regular date for loan disbursement (25th of the month) while it appears that clients do collect loans in between. His two "committees" (RoSCAs) are also held regularly on the 5th and 6th of the month. ML3 runs largely a one-man show while his son helps when required. From ML3 we were not able to acquire any portfolio figures.

5. RISK, SCALE & SUSTAINABILITY[7]

The central challenge for all three moneylenders is how to keep costs to a minimum in spite of high risk and the difficulties in getting money back from squatter residents in Kalibasti. 60% of clients for ML1's Uttam Nagar branch are in Category 3. "*Half of the poor clients drag the repayments up to 90-100 days. Most delinquencies occur when the client visits the village*," the branch manager commented. In each 100 clients, five are likely to default. "*We follow-up at the most for three months beyond the scheduled loan period.. we try to renegotiate the installment size [making it smaller].. but at the end of the day the whole business runs on trust and there's no other means to recover our money*".

For ML2, only Rs.30,000 (or 23%) of outstanding portfolio is with Kalibasti residents. While it was not possible to obtain current delinquency figures, cumulative loan losses are estimated at Rs.80,000-90,000. But ML2 and ML2a have their means of recovering money. On several occasions ML2 has succeeded in tracing delinquent clients who have left Kalibasti through maintaining good rapport with clients' neighbours; when a client changes residence the lenders try to take the neighbours into confidence and the new address is obtained. ML2 has been known to recover the item sold to the client – by consent or even force -if payments are not made or become delayed. They also maintain

[7] Acquiring information on portfolio size and delinquency was the greatest challenge of fieldwork. While it was not possible to get figures for ML3, figures are presented for ML1 and ML2. Since we believed ML1 to be under-reporting the size of his portfolio, we have based assumptions on a portfolio 30% higher than stated.

close relations with the police, they explained, protecting themselves should the client return with his thugs to recapture the goods. But they insist it is not the norm for them to take a tough stand. "*While on routine collection work, I went to visit a client. She said she would be unable to pay installments for sometime since she does not even have food to eat. So that day instead of collecting installments I advanced her some cash*", recalls ML2.

ML3 handles delinquency in the most systematic way. Payments up to five days late are acceptable. After this the client is fined Rs 7 a day on each Rs.1,000 lent for each day's delay (including the first five days). In case the client fails to repay the loan, the guarantor is approached and she/ he "must" repay the balance. All three lenders blacklist serious defaulters but their definitions are quite relaxed and even clients who are regularly in arrears may be given another loan.

Based on the current portfolio and delinquency figures available and a rough estimation of cost, Figure 5 projects possible income, expenditure and returns for ML1 and ML2. These figures do not take in to account the possibility of other investments.

Fig 5: Estimates of net profit for Moneylenders 1 & 2[8]

MONEYLENDER 1: INCOME		**MONEYLENDER 2: INCOME**	
O/s loan portfolio	100,000	O/s loan portfolio	130,000
Average interest yield	250%/ yr	Average interest yield	148%/ yr
Average capital turnover on 50 day product	3 times/ yr	Average capital turnover on 33 day product	4 times/ yr
Annual Income (Rs.)	**750,000**	**Annual Income (Rs.)**	**769,000**
MONEYLENDER 1: EXPENSE		**MONEYLENDER 2: EXPENSE**	
Salaries (Branch manager, 1 collection officer)	120,000	Salaries (2 collection officers)	150,000
Overheads (rent, comm's, travel)	180,000	Overheads (rent, comm's, travel)	150,000
Loan losses @ 5%	15000	Loan losses @ 50% of cumulative	45,000
Annual expense (Rs.)	**315,000**	**Annual expense (Rs.)**	**345,000**
NET PROFIT (Rs.)	**435,000**	**NET PROFIT (Rs.)**	**423,000**

[8] Due to the difficulties in acquiring financial information from our case studies, these figures should be viewed with caution. They are rough estimates only based on several assumptions which were not always confirmed by moneylenders. Average interest yield has been calculated by using a small sample of real loan deals for Category 3 clients and estimating deals (giving a higher average return) for clients from Categories 1 & 2. The weighted average across client categories was then calculated from this.

The figures show that at least a modest profit is quite probable in both cases. Each could be earning between Rs.30,000-Rs.40,000 per month from the branch operations, enough perhaps to maintain a comfortable middle-class lifestyle and to reinvest in the business. It is interesting to note that the moneylenders appear to be turning a profit in spite of their small scale, their high arrears rates and their willingness to lend intermittently to clients. This is in contrast to microfinance wisdom that three of the standard routes to sustainability are scale-up, on-time repayment and high credit off-take.

How do they manage it? Principally through pricing and cost control. At first glance, the effective interest rates charged by moneylenders appear extremely high. But our study shows that much of the yield is eaten up by late repayments. Secondly we learn that the client – far from being forced into high rates through a monopoly or exploitative market – is paying in full awareness for the unbeatable convenience that moneylenders provide.

Clients interviewed were clear that the flexibility, instant access and doorstep service of the moneylender is of particular value in circumstances where money is immediately required to take an opportunity or avert disaster, where time is scarce, where incomes are unreliable and where utmost discretion is desired. Clients acknowledge that all this comes at a premium because it entails high costs.

The most significant cost for the moneylender is the cost of late repayment (i.e. the opportunity cost of funds) and default. Recovering money from mobile clients with erratic cashflow is expensive and fraught with risk. At the same time it is only by offering such a service that moneylenders are able to disburse and recover money from such clients at all. It is the service requirements of the poor and not only the risk borne by the moneylenders which explain the prices.

Another explanation is the scarcity of funds. All three of our cases have largely used their own funds to invest. But it would seem that both ML1 and ML2 could afford to borrow funds to grow if they wished. Having invested Rs.300,000 from her husband's business and Rs.140,000 from a RoSCA on two occasions, the partners are now keen to move away from private sources. But they're not sure where to go. They would like to scale up and have the potential to do so. But the prospect of institutional borrowing comes with fear and trepidation. By exposing their business to the formal sector, they fear they will be inviting trouble and interference. Instinctively they are skeptical about borrowing money which then needs to be paid back, feeling that at the end of the day it is their hard earned money which they have put into the business.

For ML1, the constraint is a slightly different one: how to reach scale in a business which runs basically on trust and is associated with so many risks. What exactly are the risks inherent in increasing scale? Firstly, managing a business on the basis of information about the client, close contact and an unenforceable contract of trust becomes increasingly challenging as it grows. The "net worth" of such a business lies largely in the quality of its relations with its clients, its "sunk costs" the investment made in building a track record. The process of transition from such a structure to one relying more on systems and less on personalities, more on assets and less on persuasion… is a tricky one.[9] Secondly there is the risk of becoming too visible. Whereas ML1 operates partly within a legal framework[10], he can not afford to increase his visibility since his lending rates are far higher than permitted. ML2 and ML3 are operating unlicensed. None of our moneylender respondents felt they could expect any form of legal redress.

Thirdly, the particular nature of the clientele presents risks. As illegal squatters and casual labourers, Kalibasti residents face continuing threats to their future in the colony. Several respondents recently lost jobs when industries in "non-conforming areas" were closed down. There are constant rumours that the colony itself will be pulled down. Such instability can affect repayments on a large scale at any time.

ML3 is the least ambitious of the three cases and perceives few constraints since his aspirations are limited. With a good proportion of his clients in the authorised Transit Camp, he stands to lose less than his competitors if and when Kalibasti residents are evicted. With a sufficient return to live and keep his affairs afloat, ML3 is content as a small, local player and feels no need to ponder the wider questions.

5. CONCLUSIONS

Our three case studies illustrate different types of professional moneylender at different stages in their growth and experience. For ML1 lending is a family and caste profession. He is the most experienced and the most conservative of the three. While he is the only one who has reached scale through a networking model, he has chosen not to regularise his business and continues to operate in legally ambiguous space within the informal economy. ML2 and 3 are self-starters, enterprising individuals who spotted a business opportunity. While ML2 is hungry for growth and feels constrained by the legal (or illegal) operating environment, ML3 is comfortable in the small, neighbourhood niche he has developed and, like many small businessmen, is not interested in growth.

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[9] Pankaj Jain has highlighted the trade-off between increased scale and increased visibility and formalisation, leading often to increased costs, rather than "economies of scale" (Jain, 2000).

[10] ML1 operates under the Moneylending Act of the Punjab Region, 1938. The cost of the license is Rs.2,000 payable every three years.

While we have inferred that our moneylenders are profitable, in many respects, their businesses don't appear to be in great shape. Their portfolio at risk is high; their efficiency in handling business volumes is low; their scale of operation is dwarfed by urban microfinance institutions in India and Bangladesh. What are the explanations for this?

One reason is, since they require no collateral, the number of clients moneylenders can serve is limited to those about whom they have adequate information. Secondly, like other unregulated small businesses moneylenders keep their visibility low, they struggle to professionalise their staff, they are always short of funds to invest and have no incentive or framework with which to associate with each other.

But we suggest that this small size and informal style are also crucial factors which enable them to do business in Kalibasti – necessary adaptations to the clients they serve and the localities in which they operate. Be it on tough terms, moneylenders lend to high risk, low credibility clients even in the knowledge that returns may be negative or less than stated. In contrast to what has been asserted in a rural context, moneylenders are far from "socially conservative" in their lending decisions; in the dynamic environment of a slum, the mobility of residents necessitates the constant making and breaking of new links and relationships. Dealing with such clients compels a flexibility in products and schedules which would be difficult for a more formal financial institution to handle. It also requires that moneylenders themselves bear the bulk of transaction costs, rather than passing these to the client, a common strategy of MFIs.

It is these kinds of features which present problems for NGO providers on the one hand and banks on the other. NGOs tend to shy away from squatter settlements where there is no tenure security and communities are particularly mobile. Such people, they assert, are less amenable to neighbourhood and participative approaches to development which are pursued by the majority of NGOs in the city. For their part, banks require proof of tenure (usually in the form of a Ration Card) even to open a current account and security through a guarantor (who must frequently be an existing client) for a loan account.

The second "secret" to their ability to operate in such contexts is their mixed portfolio. The long-term relations and trust they have with wealthier and more stable clients position them to handle clients with whom they have no such trust, about whom they have only superficial information and whose ability to repay is questionable. In this way they reach lower down the poverty and vulnerability scale than any other financial service professional.

Microfinance institutions (whether intentionally or not) often exclude the poorest in a variety of ways: through imposing strict loan repayment schedules, encouraging clients to borrow continuously, setting up a dynamic whereby clients exclude each other and passing transaction costs to clients which the very poor are unable to bear. At the same time, those people "included" in the programme juggle the institution's products with others to meet their capital needs, to get money when they need it most and counter the inconvenience of schedules, rules, bureaucracy and loan ceilings.

Moneylenders appear perfectly adapted to serve both these client types: the very poor who might be considered unbankable by a microfinance institution, and the more stable poor for whom convenience and flexibility is worth a premium.

While adapting to their clients, moneylenders also appear to adapt to the wider localities in which they operate. Delhi's squatter settlements are politically charged environments. They are the battlegrounds of politicians vying for vote banks, the sites of fallout from crude government regulation and policy change. In a city where governance gets no more local than the municipal corporation, such settlements are controlled by slumlords who intermediate government services, tax business people and facilitate illegal transactions. Moneylenders adapt to this by spreading their risks across neighbourhoods, maintaining low visibility and conducting business with discretion and stealth.

Other Indian cities have witnessed the rise of development organisations who – less hindered by politics and governance – provide microfinance and other services to similar squatter residents on a large scale in an open and public manner. But it is perhaps no coincidence that several of the most renowned among them (for example, SEWA Bank, SPARC, the National Slum Dwellers' Federation and Working Women's Forum) all began with a strategy of unionisation and collective action, providing themselves the political space in which to operate undisturbed. It is also no coincidence that Delhi – as the National Capital Territory crippled by poor governance and centralised control – has failed to produce any such organisations.

Until concerted efforts are made to improve governance, it is likely that moneylenders will continue to be the only financial service professionals operating in Delhi's squatter settlements. And until that time, rather than perpetuating myths or averting their gaze, policy makers and practitioners must open their minds to the small scale lenders which Delhi's slum dwellers find so useful. The question should no longer be how to replace moneylenders with a cheaper and more equitable alternative but how to help them provide an even better service to the poor.

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