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MONEY MOSAICS:
FINANCIAL CHOICE AND STRATEGY IN A WEST DELHI SQUATTER SETTLEMENT

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Money Mosaics

Financial Choice & Strategy in a West Delhi Squatter Settlement[1]

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ABSTRACT

This paper examines the financial services and devices used by dwellers of kalibasti, a squatter settlement in West Delhi. It discusses to what extent people are able to put together effective money management strategies through available devices and to what extent we might perceive “service” or “product gaps” which point to where new or existing providers could step in. It highlights the embeddedness of financial devices used by residents in wider kinds of relationships with relatives, co-residents, employers, “patrons” and others. The paper concludes that access to adequate services does not necessarily correspond with access to formal or semi-formal services as is often presented by microfinance advocates. Rather it reflects people’s awareness, job and income security, and capacity to leverage personal networks, all of which contribute to the capability of squatter residents to make financial relations and services work for them. The paper ends by making some tentative suggestions as to how our findings might be of interest to prospective providers in squatter settlements such as Kalibasti.

1. INTRODUCTION

Advocates of microfinance generally consider the range and standard of financial services and devices which the informal sector[2] provides to be inadequate. As Hari Srinivas puts it, "informal lenders typically do not provide a sufficiently wide collection of the services for which a demand exists.... Moreover, informal financial services are…part of a larger network of relationships (friends and relatives) which carry (difficult to measure) costs. It is not surprising therefore to observe a demand for those semiformal and formal financial services that are cheaper and at the same time permanent and reliable".[3]

This argument is the starting point of our research[4]. It was in order to understand the limits of informal mechanisms (and how far more formal solutions were overcoming these) that we conducted research among 51 squatter residents in West Delhi. Specifically, we inquired what services and devices different people are currently using and have used recently? What are their preferences and what perception of choice do different people have? What market gaps or opportunities might there be for new providers or existing providers to improve products and services?

At first glance, Kalibasti – an unauthorised squatter settlement and the site for our research - is what might be termed a "new market… characterised by few or limited available financial services with little effective demand… where the focus for the [microfinance] institution is on developing appropriate products and creating a market for microfinance products in general"(Grant 1999:x). To a prospective microfinance institution (MFI), Kalibasti is indeed an expanse of opportunity where needs are fulfilled overwhelmingly within the "informal sector". According to our starting assumption, such services are themselves likely to leave much space for improvement, a niche for more organised, professional services.

By surveying users and service-providers in Kalibasti, we discuss which services appear well supplied by informal sector channels and which – due to high risk, low access and high prices – appear undeveloped and inadequate for the needs of residents. We highlight the different types of residents and how wealth status, community and livelihood influences financial behaviour. We seek a more nuanced framework to understand the link between financial services and other relations than is usually recognised by microfinance promoters and providers. In our conclusion, we discuss the key factors which appear to influence whether or not people access an adequate choice or "portfolio" of services. Tentative learning points for prospective providers of financial services in urban squatter settlements are identified.

2. CONTEXT

2.1 Origins & community

One of over a thousand squatter settlements in Delhi[5], Kalibasti 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 divided by a tarmac road. On one side, 320 *kacha* (temporary) hutments have been constructed alongside a major drain on land owned by the state government's Flood Control Department. On the other, 200 or so semi-*pucca* (semi-permanent) hutments have been constructed adjacent to a Transit Camp[6] on land donated by Delhi's Municipal Corporation over 20 years ago.

Both settlements are technically illegal and liable to be reclaimed by land owning agencies with a month's notice to settlers. The semi-authorised character of the settlement bordering the Transit Camp may, however, have assisted the residents on both sides to access water, sanitation and electricity services from the government. All hutments have a basic electrical connection, access to water pumps within one or two minutes walk of their homes and the use of a municipal sanitation block (for which Rs1[7] per visit is charged to men only). Since July 2000 the research team has interviewed 51 families in the two different parts of Kalibasti. On the drain side we had eight long-term respondents with whom we met every fortnight to record a regular diary of financial transactions. This process ran for a full year terminating in August 2001. On the Transit Camp side we undertook a less detailed survey of 43 contiguous households over four months between October 2000 and January 2001, interviewing each family two or three times.

Table 1 details the criteria used to rank respondents. These were identified from those suggested by long-term respondents during a participative ranking exercise and those we thought were key factors in the course of research. Respondents have been disaggregated by community. We encountered five broad caste or community groupings in the settlement as follows:-

Scheduled Castes (SC): Low caste or *Dalit* groups classified as SC by the Indian Government. They are an extremely mixed group from different origins in Western Uttar Pradesh (UP) and Bihar. A minority of them call themselves *Valmikis*. SCs are present on both sides of the colony – those by the drain are "owner occupiers" and those bordering the Transit Camp are tenants to Nathpanthis (see below).

Other Backward Castes (OBC): A variety of backward castes (BC) or OBCs as classified by the Indian Government. About half are a relatively cohesive group from Badaun District, the others from various districts in western UP. All OBCs are tenants of Nath-owned hutments.

Nathpanthis (Naths): Also known as *Gosais* from Sholapur, southern Maharashtra, Naths constitute a cohesive and distinct group of residents who share a common culture, caste and history. By tradition they are wandering followers of Siva, specialists in palmistry & ritual performance, surviving on alms. Migrating to Delhi *en masse* after severe drought in Sholapur, they were eventually allotted land by the Congress government in 1989 and have thus become the *de facto* landlords of north Indians living on the Transit Camp side. With a single hutment generating an income of Rs.400-550 per month, their position as landlords leaves them free to pursue their wondering lifestyle, coming back infrequently to collect rent payments.

*Muslims:*A mixed group from a variety of districts in Western UP and Bihar. Like the SCs, Muslims reside on both sides of Kalibasti, some "owner occupiers" and others tenants to *Naths*.

General and high castes (Other): A mix of high-caste households (*Banias*, *Rajputs*, *Brahmins*) from several states including West Bengal and Rajasthan as well as UP and Bihar, also residing on both sides of the colony.

Table 1: Wealth ranking & community of Kalibasti household sample (%)

Rank	Criteria	Scheduled Castes	Other backward Castes	Nathpanti	Muslims	Other	Total
Better off	"Service job", whole family works, contractor or broker, owns property given on rent, has special contacts, in Delhi for many years	2	9	6	2	10	**29**
Med-ium	Small contractor, tailor, usually has work, runs own small business, trader with a local market, owner-occupier of hutment, were better off before but got cheated	8	9	10	10	0	**37**
Poor	Widow/ female-headed household, rickshaw puller, no work security, daily wages, drinker/ gambler, bad money manager, rag picker, many small children, chronic health problems, poor dependents in the village, under-employed	12	10	8	2	2	**34**
TOTAL		**22**	**28**	**24**	**14**	**12**	**100**

If we take the World Bank's global poverty line of US$1(equivalent in Rupee purchasing power parity) of income per day per family member, just under a third of our sample emerge as below the poverty line. There is only a partial correspondence, however, between this group, ranked by current income, and the "poor" group ranked by our wider range of criteria during wealth ranking exercises. Current income after all is not able to reflect the changing dynamic of livelihoods over time and the wider context of assets and security which people experience (or not) independently of immediate income sources.

A large proportion of Kalibasti residents are on the move. Sixteen % of our sample had been in Kalibasti for less than a year, 35% for two years or less. Clearly this challenges assumptions of slums as inhabited by permanent squatters since a good proportion of those who come are moving on within one or two years. Almost half of residents were experiencing a "dynamic trajectory" - improving their circumstances quite rapidly, or conversely in the midst of hard times or a crisis which sees them impoverished. Most of the others were facing some turbulence and hotly engaged in avoiding economic decline, making themselves less vulnerable to shocks, paying off past debts and securing higher and more regular income. A minority of respondents (20%) could be seen as "cruising", not moving in any direction having secured a comfortable niche in Delhi and without much ambition. Half of these "cruisers" were *Naths*.

Leaving the *Naths* aside, we can divide respondents into five broad categories in respect of their history and the circumstances which led to their arrival in Kalibasti. This is important because – even after several years in the colony – it informs their money management strategy. Table 2 describes these five categories.

Table 2: Reasons for respondents moving to Delhi[1] (n=27)

Reason	Percentage
Gradual rural impoverishment: shrinking, unviable landholdings are not compensated by availability of alternative employment, over generations	29
City hoppers hunt for opportunity: Business/ self-employed families from regional cities try their luck in the capital	29
Young members of secure rural families hunt for opportunity: unmarried male members of families with land (especially from Western UP) take time out before settling down to marriage and village responsibilities	21
Refugees from a crisis in the village: the death of the main breadwinner, a severe health problem or an accident forces people to the city where they seek work to repay debts, rebuild assets or start a new life	13
Long-term Delhi residents in financial crisis: Lower middle-class families downshift their lifestyle after being cheated, robbed or imprisoned	8
TOTAL	**100**

[1] This table excludes Nathpanthis

The table highlights the misconception that slum dwellers are necessarily impoverished economic refugees from the countryside permanently flowing to the city. Nearly half (44%) of our respondents are from relatively secure backgrounds, already urbanised or with a strong asset base in the village. Even among the balance, while most have come to Delhi in response to economic hardship of some kind, it can not be assumed that most will stay. Many are using city earning power to build a more viable life in the countryside.

2.2 Work & livelihoods

Moreso than in a rural context, "urban vulnerability is a function of the [livelihood] compartment in which a household's main income earner is situated" (Barrett & Beardmore, 2000). The degree of casualisation in employment, the demand for skilled and semi-skilled work and the transaction cost of finding and staying in work, are perhaps the most important factors affecting the welfare of squatter households.

However low grade the employment opportunities available, it is clear that more and more people are successfully being absorbed in to casual jobs in Kalibasti as in Delhi as a whole[8]. Low wages, relatively high costs and low margins of employers means that the jobs of squatter residents depend on the slums to provide cheap housing close to labour markets. For these workers, the possibility of squatting makes metro life in the informal economy a viable option.

The livelihoods of residents can be divided into six groups (Box 1). While most households pursue several livelihoods, the percentage figures refer to the livelihood of the chief breadwinner and do not represent the total proportion of people engaged in that activity. We will show that livelihoods are not only indicative of the wealth status, aspirations and ambition of household members but also influence financial management.

Box 1: Types & features of principle livelihood in Kalibasti

Domestic work (20%) – cleaning, clothes washing & dish washing for neighbouring housing colonies. Mainly north Indian women from lower caste groups (SC & OBC) as well as Muslims. Demand is high**.** Rs.200-350 per mth per household. Most women take on 3-5 households earning Rs.1000+ per mth.

Self employment (20%) – Ranges from rickshaw pulling to trading, manufacture & repair and dealing/ brokering. All communities represented. Rickshaw pulling (less rent): Rs.30-40 per day; Auto rickshaw driving (less rent): Rs.60-200 per day

Direct Casual (15%) – a range of unskilled & semi-skilled jobs in small service-sector firms or institutions (computer hardware stores, restaurants, nursing homes). Mostly are young men from OBC group. Access depends on contacts and to some extent community. Jobs are regular (Rs.2000-2500 per mth)

Kabari (11%) – collection & sorting of dry waste & its sale to shops who supply industry. Only Nath women & men. Currently in recession with decrease in demand for plastic waste. Work is available when desired and – though it is unpleasant – it suits Naths since they can work intermittently for daily wages when they require (Rs.60-80 per day).

Contract services ("non-branded" & "branded") - (12%) "Non-branded" includes traditional skilled occupations such as painting, masonry & carpentry. Mostly Muslims & other urbanised low caste groups. High growth in construction industry means high availability in season (Rs.100-150 per day). Cashflow problems are common. "Branded" includes those employed by contract service agencies on behalf of large, formal firms. This is an emerging approach to employment and an opportunity for newcomers in the city (Rs.2200-3000 per mth)

Other (22%) - those in casual labour mediated through labour markets **(**mostly construction sites), for whom securing work entails a high transaction costs (Rs.60-100 per day); elderly Naths bless Hindus at temples in return for alms (known as **"***bhiksha"*) (Rs.20-200 per day); those in semi-permanent employment in factories (Rs.1500-3500 per mth) and those with a private income from pension and/or property on rent.

3. THE FINANCIAL NEEDS OF RESIDENTS

What do Kalibasti residents need financial services for? The spending behaviour of residents (and the concomitant way in which they raise significant sums of money towards such expenses) can be divided into six "spending sets" summarised below:-

(i) Lifecycle costs: overwhelmingly towards the marriage of daughters;
(ii) Income shortfalls: chronic or intermittent;
(iii) Dependants outside Delhi: relatives in the village but also children in school
(iv) Health crisis, chronic health problems and the stresses associated with these
(v) Investment: in fixed assets or a job opportunity, in Delhi or the village
(vi) House construction in Delhi or the village

Table 3 illustrates the purposes for which significant sums of money ("lump sums") were raised (whether through savings, advances or loans) by residents in the months running up to our survey. It shows the proportion of residents who had recently raised a lump sum for each of the purposes described and – among these residents – how many were ranked as poor.

Table 3: Use of lump sums among Kalibasti residents (%)	**% of sample**	**Of which ranked as Poor (%)**
Lifecycle costs	39	25
Income shortfalls in Delhi	27	57
Dependents outside Delhi*	31	25
Health & mental stress	24	58
Investment	24	0
House construction	24	33

* This is not equivalent to all those remitting money to the village since it includes only those who raised a significant sum for a trip or to send resources to the village. Remittances have been examined separately

As we might expect, the poor face disproportionately high expenses for health as well as to cover periodic or regular income deficits. No respondents ranked as poor had recently raised lump sums for investment. On the other hand a proportionate number of this group were making investments in houses, mostly in their home towns or village. This highlights the role of urban livelihoods in making possible the acquisition of rural assets.

4. THE USE OF FINANCIAL SERVICES & DEVICES IN KALIBASTI

4.1 Summary of findings

Table 4 summarises the findings of what kinds of people are using which kinds of service and device and to what extent. It records the devices in use at the time of interview and devices generally used by respondents, whether or not at that time.

The users of borrowing devices are disproportionately poor and – at the time of interview – our poor respondents were borrowing more than they were saving. By averaging the figures in column 3, we can see that 46% of current and recent borrows were poor as opposed to only 29% of current and recent savers. Among savings devices used by the poor, **bank savings accounts** and **interest-free loans given** come out top, both used almost as much by poor people as by non-poor. This is perhaps surprising (on both counts). It demonstrates the relatively high penetration of banks. It also backs up what other research has shown (Lacoste 2001), that lending in a reciprocal capacity to one's friends, neighbours and relatives is not related to poverty.

The research also shows the role of community, livelihood and stage in the lifecycle in people's savings strategies. The high incidence of bank accounts in the sample doubtless reflects to some extent untypically high use of banks by *Naths* (see Box 5). By contrast, *Naths* tend not to use **moneyguards**[9]. OBCs from Western UP don't participate in **RoSCAs** but do use **moneyguards**, reflecting their employment profile and the kind of support network they mobilise from Kalibasti. While **saving in the home** would appear to be the most basic and accessible device, security is a problem for working parents who wish to leave their hutments open for small children in their absence.

Among borrowing devices, the research highlights the crucial role of **professional moneylenders** who serve the poor as much as they do the medium group (with 40% of current and recent users in the poor category). According to our sample, poor people are three times more likely to use moneylenders than better-off people in the colony. **Wage advances** are also used by poor people slightly more than by other groups. This reflects the high number of poor women employed as domestic servants where wage advances (be they small ones) are frequently available.

By contrast, more than twice the number of people categorised as medium are likely to use **private loans on interest** (from intermittent lenders) as are those categorised as poor. This reflects the relation between poverty and "social capital" through which people source cheap and larger loans through their support networks. As with bank accounts, this figure reflects the high use of such private loans by *Naths* who borrow almost exclusively from such intermittent lenders within their community.

Muslims take **goods on credit** more than other communities and are frequent users of **professional moneylenders**. While they tend not to raise private loans on interest (since they do not lend on interest to each other and tend not to foster networks of special contacts so much as other groups), they take **interest-free loans** and **groceries on credit**. In general, Muslims – more than any other community – are net borrowers for our sample.

Sections 4.2 to 4.7 look at these findings in more detail and provide case studies to illustrate our main conclusions. For the boxed illustrations, the letters & figures in brackets again refer to wealth ranked category[10] and age respectively.

Table 4: The Major Financial Devices used by Kalibasti Residents (n=51)

SAVINGS BEHAVIOUR						
Way of saving	**% resp-ondents**	**Average balance (Rs)[2]**	**% users who are Poor**	**Other characteristics of users**	**Who provides the service?**	**Other features of device**
Bank savings account	37	11,000	28	Extremely mixed. Naths (well represented) use fixed deposits (FDs), north Indians a mix if FDs & current accounts.	Government-owned commercial banks	Accounts are in home town in some cases (especially Naths). Bank is used more as intermittent savings mechanism than current account (Box 2, 4 & 5)
RoSCA	16	1400	25	No OBCs, otherwise mixed. Self-employed people with dynamic profiles (moving "up" or facing turbulence).	Private individuals based mostly outside Kalibasti	Only poor people with stability & support networks can manage high savings contributions. High transaction cost for Kalibasti residents due to required travel outside the colony
Lending on interest	8	19,000	0	Mostly Naths lending within community	-	Rates: 3.5% mth (Naths) & 10% mth (Other). Overall default is low but delayed payment common
Saving with Moneyguard	18	7000	22	SCs and OBCs with secure networks through employment or community in Kalibasti	50% with relatives/ contacts from village; 50% with domestic employees	Combines safety & convenience for everyday savings. [However, several people try to cultivate moneyguards who prove untrustworthy] (Box 3)
Saving at home	47	1500	25	Mixed.	Self provision	Working people with small children feel vulnerable since they leave their hutments open while they're out. Others feel safe locking cash in hutment. Nonetheless several instances of theft were reported.
Interest-free loan given	39	3800	29	Mixed. Slightly high number of OBCs.	-	OBCs (33%) lend significant amounts to trusted friends; Naths (19%) lend free to close relatives. Balance small loans to neighbours (Box 8)
Remitting to invest	31	1030	22	Mostly OBC, Naths and Muslims	Post Office or by hand	Post Office (money order) is considered extremely safe (moreso than train where one can be robbed)

[2] Where a figure for a current balance was not available or approximate (e.g. for remittances) the figure for recent transactions or regular monthly deposits has been noted.

BORROWING BEHAVIOUR						
Ways of borrowing	**% resp-ondents**	**Average. deals outstanding (Rs)[3]**	**% Poor users**	**Other characteristics of users**	**Who provides the service?**	**Other features**
Interest-free loan taken	53	4200	36	High use by Muslims (25%), low use by Naths. Otherwise mixed.	Friends, relatives, neighbours, colleagues, village contacts	Many households have several current deals since each contact will provide only what they have available.
Wage advance	43	1400	39	Mixed but by livelihood groups	Employers, contractors	Mostly domestic employers & those firms employing direct on a casual basis, recovered by cutting wages over several months
Groceries on credit	39	825	30	Especially Muslims & OBCs	Small shops inside colony. Gov't Ration Shop doesn't give credit.	Usually offered on monthly basis repaid after receipt of salary. Those with unreliable incomes can't take without special contact/ track record
Goods on credit	20	3900	20	50% of users are Muslims, balance Other and SC	Commercial firms selling goods on instalment; some private deals with friends/ employers	For TVs, fans, music deck, cooking ware, bed-sheets & clothes. Rates range from interest-free (for private deals) to 60%/ mth.
Private loan taken on interest	45	10,000	26	50% of users are Naths. Low use by high castes (Other) and Muslims	Better-off people from within one's community, ex-neighbours in Delhi or village, relatives	While transaction cost of finding money may be high, rates are lower than professional moneylenders (ranging between 3.5-10%/ mth) often with "grace" periods & flexible schedules (Box 7 & 8)
Loan from prof. Moneylender	18	4500	40	Mostly Muslims (40%) and OBCs (40%)	Tamil moneylenders collect daily; others collect weekly & monthly. Most based in colonies outside Kalibasti	May require reference or guarantor; lending decision based on household cashflow. Equalise instalments & may or may not charge if schedule slips. USP: speed, convenience & reliability. Rates range from 5%-70%/ mth (Box 9 & 10)

[3] This refers to the total value of all current deals (whether or not partially repaid) and not the size of a typical deal.

4.2 The trouble with banks

With 37% of sample holding bank accounts and a collective balance touching Rs.200,000, it could be argued that banks have commendably reached the poor in Kalibasti. But in all cases this is for savings accounts rather than loans. And in most cases respondents treated the bank as a place to make only infrequent transactions even when they held a current account (45% of accounts of respondents being held in their home village rather than Delhi). The chief advantage of banks cited by respondents was safety rather than convenience. Users even suggested they made a virtue of inconvenience since it helped to keep the money out of reach. As Boxes 2 & 4 illustrate, devices to smooth the consumption and income of a household on a daily basis are patched together through saving in the home, saving and withdrawing when required from neighbourly moneyguards, wage advances, taking groceries on credit and making and calling back loans to others. Bank accounts are themselves not generally used as an income-smoothening device.

Box 2: Bina at the bank
Bina (P, 28) is a domestic worker and at the encouragement of her employer she opened a bank account in Canara Bank with money received from a lottery RoSCA. She tries not to withdraw but does so a few times during the year for household expenses since – as the single breadwinner with two growing children – she's constantly spending more than she earns. She also withdraws once to contribute her RoSCA payment and deposits most of her prize in her account. Bina doesn't like going to the bank – she feels awkward, is not comfortable writing and finds the manners and procedures bewildering. She must also pay a rickshaw fare to get there and back. But she says all this isn't necessarily a bad thing since it discourages her from going there and withdrawing money. If someone came to collect money from her every day, she's sure it would help her to save systematically, provided she could trust them. But this would be a different kind of service. She doesn't have such "current account" expectations from the bank.

4.3 The hazards of short-term saving

Does it matter that banks are not providing a "current account" or "instant savings account" service? Without the help of a bank, are poor people able to store and amass income safely in the short term (a few days or a month) before they need to spend it or send it home, before they get the opportunity to deposit it in the bank or invest it wisely? The research reveals that deposit collectors – present in some other Indian cities (Rutherford 1997) – are not working in Kalibasti. This could relate to the colony's unusually volatile character, transient population or indeed that it is in Delhi at all.[11] There are however several respondents who have experience of such deposit collectors from times when they lived in more up-market neighbourhoods of the city. Nonetheless, Kalibasti residents demonstrate a colourful array of ways to save in the short-term. 47% of respondents sometimes save in the home although most say they fail to reach their own targets. Others seek low-cost and easy ways to save outside the home: a neighbourly moneyguard (18%), a work-based ASCA or RoSCA (16%), lending cash to others which can sometimes be called back when required (39%). But such means are fraught with risk. Homes are robbed, moneyguards disappear (Box 3), neighbours default, fund managers make off with funds… even the local NGO encouraging daily savings among women proved unreliable when it left the colony with the savings of several respondents and – apparently - without clear explanation.

While one might assume that agents collecting deposits for registered services (such as Rashtriya Sahara & the Life Insurance Corporation) could offer more assurance to residents, many of those who have used such branded (as well as unbranded) services in the past have memories of being cheated, confused by terms and procedures and of losing their savings when they defaulted on regular payments. In sum, everyday savings services which are safe and convenient remain beyond the reach of poorer residents.

Box 3: Mind your moneyguard
A few months before we met him, Mohan (35, P) was depositing Rs.50 every 1-2 days with a person in an adjacent neighbourhood whose children he delivered to school by rickshaw. Over two months he deposited Rs.3500. "He had a gas cylinder dealership and participated in several RoSCAs", said Mohan. "He was guarding money for many people". One day Mohan found his residence deserted and was told he'd sold up and left the area. It is estimated he'd amassed close on Rs.250,000. Now Mohan deposits with a relative, selected because he's close-by and trustworthy. "I'm beginning to see the point of banks now", Mohan says. "They're safer and they provide interest".

RoSCAs – simple, flexible and transparent – might appear the best way for poor people to save in the short-term with discipline. But of the five RoSCAs in which respondents currently participate, only one is managed from within the colony. In other cases, residents send contributions through someone or travel some distance to the manager's residence. Why is this so? It could be that there's not enough trust[12] and respondents have several tales of RoSCAs breaking down when members renege on payments having taken their prize. Another explanation could be that RoSCAs especially attract self-employed people with "dynamic" profiles: such people are often ambitious and have (or are seeking to acquire) networks outside the colony in more up-market neighbourhoods and localities. Residents deliberately build and maintain such links because they look towards a life outside the colony and seek access to services of higher quality and lower risk than would be available within the colony itself. A third explanation is that the members of those RoSCAs operating within the colony are among wealthier traders who are not captured in our sample.

Box 4: Mother as current account, goldsmith as savings account
Veer Singh (M, 38) is an autorickshaw driver with four young children. His wife Shakuntala has a bank account which she opened to deposit a prize from a RoSCA last year. At that time she didn't need to spend the money. When she won her next prize however, they didn't deposit it in the bank. Since their expenses were increasing they thought they might need to draw down the money and the bank is far away and inconvenient. So they gave it to Shakuntala's mother from whom they already had several small loans. Over the research year the couple used her mother increasingly as a "current account", sometimes going into debt, at other times making deposits which put them back in credit. Then – in an effort to save some of the RoSCA prize money from everyday expenses – Shakuntala took the remaining balance from her mother and deposited it with a goldsmith. When she's saved a bit more, she'll purchase some gold - her savings for the future.

4.4 Access through the workplace
Close on half of respondents have access to regular wage advances and a significant proportion of these (39%) are poor. In some cases (for example, domestic workers) advances are debited from monthly salary, in others (for example, among drivers) wages are paid irregularly as and when requested by the worker[13]. Advances among domestic workers are usually taken for daily household expenses and reflect a regular income deficit faced by poorer residents.

Whether advancing wages should be construed as a beneficial service or as akin to bonding labourers in to low-value employment is an on-going debate. In the context of Kalibasti, there is little evidence of "bonding". In most work sectors the turnover of employment and mobility of labourers is high. But the special importance of wage advances to poorer residents nonetheless reflects the fragility of survival in the low-cost, low-value economy of which squatter-settlements like Kalibasti are part.

The other kinds of support and exposure which employers provide can be more important than wage advances per se. Several households hiring domestic workers have assisted/ encouraged their domestic staff to open bank accounts; others provide a safe place to store money (acting as "moneyguards") and others forward large interest-free or low-interest loans (acting as "intermittent lenders") and gifts towards lifecycle costs such as marriage, the birth of a new baby or a death in the family, playing a kind of social security role. It is perhaps significant that the major users of professional moneylenders are those who lack regular employment and access to such benefits. The point demonstrates the link between financial services and wider support networks, specifically how the loss of regular work can be compounded by loss of access to a variety of financial devices and benefits which enable people to plan and build for the future.

4.5 The limits of cash

The research suggests that the value people attach to cash savings products offered by banks (as well as the Post Office and life insurance companies) may relate to their long-term strategies and lifestyle choices, as well as to their awareness and ability to access such services. By the *Naths*, cash savings are highly valued (Box 5), as they are by many north Indian respondents. But there are other respondents who apparently choose not to store their wealth in cash in spite of their considerable savings capacity. These people are accumulating income - in quite systematic ways – in order to invest in kind back in their village or home town (through the purchase of land, construction of house or start-up capital for a new business). Among the 12 respondents making such investments, only three (25%) have bank accounts in spite of their wealthier than average profiles. Others remit money regularly to the village (in person or through money order) where it gets absorbed in to the cost of on-going investment projects. The processes of remitting cash itself acts as a savings discipline – taking the money out of the house where it would come under pressure of competing demands (Box 6).

Box 5: *Nathpanti* savings

In spite of their long sojourn in the capital, the Delhi life of *Naths* is frugal to say the least. Subsisting day to day on wages from *kabari*, donations and meagre rent payments, they have few belongings and convey the impression of a hand-to-mouth lifestyle. But 42% of *Naths* interviewed said they had savings stashed in bank accounts in the village, double the proportion of low caste & Muslim communities from north India. In some cases *Naths* owned up to significant sums – usually in fixed deposits – to save towards marriage or retirement. How might we explain this? Firstly, *Naths* have effective political connections in the village which assist them to access bank services which might otherwise be difficult or expensive. Secondly, their mobility and itinerant lifestyle makes cash a more appropriate way of storing wealth than other kinds of assets which would need maintenance and would be vulnerable to market swings.

Box 6: Hotline to home: saving towards village needs & investments
There are 12 respondents (24%) who appear to be sending cash to the village towards uses other than household expenses. Most are OBCs from Western UP. Five are at various stages of house construction and plan ultimately to return to their native place to live in the constructed house. A further four are unmarried, from secure rural families and – while they send cash home regularly – this is towards investments, "savings" in kind or a higher standard of living for their parents who don't require the income for basic needs. A further two respondents left the village in debt and plan to stay in Delhi until the debts are repaid, then return to the village. In all cases, cash – accumulated in Delhi – is sent home periodically by Money Order or by hand and realised the other end for purchases (whether for consumption or investment). In spite of their secure status, none of the respondents had raised loans from banks recently and most saw little value in current accounts. While savings products such as fixed deposits were closest to their needs, most of them were too busy directing money towards on-going projects to keep cash back for such ends.

4.6 Peer pressure logic in informal finance

The use of social sanction or peer pressure in credit services has most often been associated with microfinance institutions (MFIs) using a group-guarantee approach. But the research has uncovered the extent to which social sanction is used similarly as a way for intermittent lenders to lend safely within the confines of their caste or community. The main illustration of this is among the *Naths* (Box 7) but the research also suggests that young men from similar backgrounds in Western UP may be engaged in selective lending along community lines (Box 8).

Among the *Naths*, credit needs are overwhelmingly fulfilled by intermittent lenders and such **private loans on interest** – along with bank accounts – are the most widely used financial devices of *Naths*. Through social leverage and the assurance of a convergent lifestyle (i.e the low chance that a borrower would somehow move on or disappear), lenders are able to maintain rates at unbeatably low rates enjoyed by no-one else in the colony. Such lending may have its roots in reciprocal exchange but, in the context of the slum where extended families live in close proximity, it has evolved in to a standardised system of transactions where the terms of return are clearly specified. In this way the *Naths* contrast notably with north Indian residents in their approach to their relatives. Whereas the relatives of north Indian respondents may provide reciprocal gifts for lifecycle costs and types of "social security" support, they do not provide general loans as they do for *Naths*. This reflects the distinct categories of relation in which types of financial access are embedded.

Box 7: Lending on interest as a savings strategy
Sita (28) & Maruti (30, M) are *Naths* who settled in Kalibasti 12 years ago. By collecting and sorting dry waste daily they're able to earn around Rs.2000 per month, supplemented by Rs.500 collected in rent from the neighbouring hutment which they own. In spite of high expenses (the couple have five small children), Sita managed to save Rs.5000 in cash in her hutment during the last two years. Thinking ahead to the marriage of her eldest daughter, she lent the money out a year ago to her neighbour – another *Nath* - who used it to improve her hutment. While there is no fixed term to the loan, Sita is confident that she'll receive interest annually at the standard rate of 40% until the loan is repaid. At the time of the interview she is due to receive her first Rs.2000. In this way she'll generate income to purchase jewelry and other gifts towards her daughter's marriage several years hence.

Box 8: Mutual help among the boys from Western UP
Bhodpal (25, B) and his brother Satpal (22, B) have regular jobs as cleaners in the same hardware store. Unmarried and from a secure rural family they're not under pressure to send money home. Instead they try to save one of their respective salaries each month towards consumer goods and presents for their family. With substantial cash frequently available in the hutment, Bhodpal likes to help friends with loans when he can. But he's been burned a few times and has become quite cautious about who he lends to. Then Rajpal (26, P) comes to him with a problem. Rajpal's brother had arrived in Delhi asking for help in repaying an expensive loan taken by his mother in the village. Rajpal – his wife sick and recently out of a job – was in no position to help without seeking some outside assistance. Bhodpal agrees to lend Rs.2600 to Rajpal Rs.1000 of which will be charged at 15% mth and the balance interest-free. "He'd only do this for a good friend" said Rajpal.

4.7 Professional moneylenders – heroes or villains?

While 18% of respondents used (or admitted to using) professional moneylenders, close to half of these (40%) were categorised as poor. The operations and role of moneylenders in Kalibasti has been documented elsewhere (see Patole & Ruthven 2001). It is our observation that moneylenders hold a special place in the financial portfolio of poorer residents for two main reasons. Firstly, their convenience and reliability is unbeatable, an attribute particularly valuable for poor people who are short of time and money to negotiate deals and whose needs are most urgent. Secondly they are unique within the informal sector in being commercial (or "professional") and incur no wider social obligations on the part of the borrower. In other words there is no dignity at stake in dealing with a professional moneylender – it is just a straight commercial deal. This makes them attractive to those who require discretion, who don't wish to strain social relations with financial concerns or who simply don't have such relations to lean on. As one respondent put it, "When I go to the moneylender, it's between him and me. I give my relatives no reason to talk".

While the users of professional moneylenders are a mixed group (mostly Muslims and OBCs), the circumstances in which people borrow fall broadly in to two types: (i) those facing income shortfalls for whom other borrowing options are limited or non-existent (Box 9), and (ii) those managing a mixed credit portfolio, within which moneylenders have a niche of convenience and instant access (Box 10). Both types frequently drag repayment but those of the first type – unless their income increases – find it increasingly difficult to raise money as they are refused in turn by each moneylender who recognises their cashflow inadequate to repay.

Box 9: The uses and abuse of moneylenders
Surender (27) and Anita (24, P) have been in Delhi most of their lives. Surender is a painter, taking contracts through a local hardware store and has an erratic income due to the seasonal nature of his work. Anita stopped working recently following pregnancy. This is the couple's seventh year in Kalibasti and over the years they've become acquainted with several of the local moneylenders. Usually they go to those who take daily instalments since this suits Surender's income pattern. A month ago they took one such loan of Rs.1500 from a Tamil moneylender and passed the money to a friend who had just given birth. Handing them Rs.1350, he informed them they'd need to pay Rs.35 for 50 days (a monthly rate of about 50%). They agreed as they had in the past. But when Surender's income dried up they started facing repayment problems. Anita informed us she was planning a visit to a Rajasthani lender well-known to her mother. Since he collects monthly rather than daily, his terms are more suited to the couple at this time of year. She'll try for Rs.2000 at 3% per month. She'll repay the Tamil moneylender with this loan and use the balance to pay the house rent which is already two months overdue.

Box 10: The USP of the professional moneylender
At first glance one would have thought Santosh (42) and Roshan Lal (45, B) would have no use for moneylenders and their high interest rates. They've both got permanent jobs from which they can take advances, only one son to look after, an array of friends to borrow from when the need arises, they have a bank savings account and Roshan sits in a RoSCA at the office. Nonetheless when they heard five years ago about a cheap deal going for a plot in Kalibasti they went straight to the moneylender and borrowed Rs.5000 to make the offer. Over the next 4 months they repaid the loan at 5% per month. It was – they say – the only way they could raise money quickly enough.

4.8 Assessing adequacy of access to financial services

In this section we (tentatively) attempt an overall assessment of which respondents have "adequate access" to financial services within the limits of existing mechanisms in the colony, and by contrast, which respondents lack "adequate access" in relation to one or more specific functions (for example, short-term savings or long-term debt). Such an assessment is tricky because many respondents are not aware of what might be possible or available and we can hardly predict how they would respond to a new financial device if it were suddenly to arrive on the market. To do the assessment we have relied a certain amount on our personal judgement as to whether greater choice and quality of financial services would make a significant difference to the life of a particular respondent family.

We have broadly used the following criteria to assess (in)adequacy of access by respondent families. Those considered to have adequate access demonstrated two or more of the following characteristics: (i) a diversity in their use of services, (ii) an ability to reach reasonable terms of service (flexibility, transparency, price) and (iii) they appeared to experience a degree of choice. Those considered to have inadequate access demonstrated two or more of the following characteristics: (i) they were paying higher rates than would seem appropriate for their level of credit risk; (ii) they were struggling to find ways to save safely and using saving mechanisms in spite of associated high risk; (iii) they were unable to find the discipline to save due to income deficit and demands on cash which led to regular debt at high rates for household expenditure; (iv) they lacked awareness or were suspicious of what was available and for this reason barely used financial devices and services at all.

From our rather "quick & dirty" assessment, we estimate that around 50% of our sample have access to an adequate portfolio, only 20% of which are in the poor category. The other 80% are equally balanced between the better-off and medium categories (Table 5). A better off person is 2.5 times more likely than a poor person to have "adequate access".

Table 5: Composition of those households with adequate portfolio of financial devices by wealth ranking

Proportion of sample who are:		Share of total*
Better Off	41	73
Medium	41	58
Poor	18	29
TOTAL	**100**	

*i.e. proportion of those of each wealth-ranked group who were considered to have adequate access.

Table 6: Composition of those households with adequate portfolio of financial devices by principal livelihood

Proportion of sample who are:		Share of total
Domestic workers	11	27
Self-employed	15	44
Direct Casual	15	50
Kabari	19	83
Contract services*	11	50
Other	29	73
TOTAL	**100**	

*All those working in contract services who were considered to have adequate portfolio were working in the "branded" variety (see earlier)

Table 7: Composition of those households with adequate portfolio of financial devices by group identity

Community		
Proportion of sample who are:		**Share of total**
OBCs	11	20
SCs	26	64
Naths	37	83
Muslims	7	29
Other	19	85
TOTAL	**100**	

Livelihood-wise, domestic workers – in spite of their relatively stable employment – appear particularly under-served (Table 6). *Nath kabari* workers are well served, a factor we relate to the mutual support they provide to each other as a community rather than to their livelihood. The two communities who appeared least well-served are the mixed OBC group from Western UP and Muslims (Table 7). This reflects the poor personal networks of OBCs (many of whom are new to Delhi) on which other groups can rely and the lack of trust and general suspicion of these communities within the slum environment. Among Muslims (many of whom are self-employed), money is rarely lent or saved outside the home and this is in spite of the risks in storing cash in hutments and the opportunity cost of not earning interest on savings. Respondents in both these groups also lacked awareness of the range and terms of services out there. This picture contrasts with that of the SCs who – better connected, more politicised and commercial – are relatively well-served.

While adequate access to financial management devices decreases with poverty, this doesn't necessarily correspond with an increase in the use of informal as opposed to formal mechanisms. Wealthy people who appear to enjoy adequate access frequently choose to manage their money largely within the informal sector and in this way can sometimes access more privileged terms than would be possible through formal channels. On the other hand, poor people make forays in to formal sector services (often at considerable cost or risk) and their experiences are mixed. There are as many tales of (registered) unreliable deposit collectors and troublesome banks as there are tales of fraudulent RoSCA managers and heavy-handed money lenders. Ultimately, inadequate access signals poor networks, low job and income security and low awareness, all of which contribute to the inability of people to make financial relationships and services work for them.

5. CONCLUSIONS

5.1 Managing money in the informal sector: improving our understanding
We began with the notion of a continuum of services and devices from formal to informal and a starting assumption that squatter residents would benefit from access to a greater variety of "formal" services which were more reliable, permanent, flexible and cheaper. This paper has reviewed in detail the variety of financial devices used and strategies pursued by squatter residents of a Delhi slum. While such services and strategies could be broadly identified as "informal", the research highlights the need for a more nuanced understanding of the different kinds of relations of which such informal services are composed and their respective attributes.

By inference, we can broadly distinguish different types of relations which slum dwellers create and the range of financial devices contextualised within these. Each type is associated with certain kinds of financial roles (bracketed in bold)[14]:

- *Social security relations* – those who provide limited but unconditional support depending on what they have available, which they do not necessarily expect to be reciprocated (for example, close family in Delhi and village, close friends. Providers of "free" services with no strings attached, such as **interest-free loans,** or acting as **money guards**)

- *Relationships of shared origin and circumstance* – those who provide limited support in recognition of shared needs and circumstances to those they trust and whom they expect to reciprocate in times of need (colleagues, neighbours, those from one's village. Such people could be providers of **interest-free loans, groceries on credit**, landlords allowing for **rent arrears** or act as **RoSCA managers**)

- *Patron-client (or "sponsor") relations between a wealthier provider and poorer beneficiary* – those who provide assured support (be it dependent on resources available) due to special ties, past associations, feelings of duty or link to other relations through employment. (Providers of **private loans on interest,** larger

interest-free loans or **wage advances** in the case of employers. Also those who could act as **money guards** or **RoSCA managers**).

- *Formal family relations* – those relatives who are duty-bound to provide substantial support for particular kinds of functions (related largely to life cycle). Such support may or may not ultimately be returned but imposes no short-term obligations on the takers (providers of larger **interest-free loans**)

- *Tied economic relations* – those who one is linked with through some other transaction or economic relation (employers, landlords, trade buyers or suppliers...) which provides the main basis and security for a financial relation (e.g.employers providing **wage advances** or acting as **RoSCA or ASCA managers**, traders providing **goods on credit**).

- *"Professional" relations based on commercial transactions* – customer to service-provider relations where the service provided is relatively freely available and the terms relatively transparent at a price. Where the relation is explicitly limited to a time-bound and clearly specified transaction with no wider obligations or ties on either side (professional **moneylenders**, sellers of **goods on credit**)

The framework demonstrates that financial relations are frequently embedded in other social relations which reflect the diversity of social, security and economic needs which people have. It highlights the relatively small role of commercial transactions in people's financial lives and the importance, extent and diversity of personal networks.

All this begs our final question: if our framework helps us to understand the character of financial relations as they currently exist (informal, largely invisible within an illegal squatter settlement), what does this mean for the formal sector and other prospective providers who consider doing business in such places?

5.2 The money mosaic and microfinance providers

The central theme of our paper is hardly new. Some of India's pioneers in urban microfinance recognise the link between financial relations and social relations, and the value of harnessing wider social ties in the financial service contract. Notions of membership and belonging in SEWA, for example, extend far beyond the transactional relation that may be felt with a moneylender or another microfinance institution. And by building on their understanding of clients, they've arrived at one of the most diversified product portfolios covering the range of client needs at different stages of their lifecycle (Chen & Snodgrass 1999).

It is perhaps because they recognise that "commercial transactions" play only a limited role in people's financial management that these organisations have built broader relations with their clients. As Appadurai has remarked in the case of the Alliance in Bombay (SPARC, NSDF and Mahila Mandal), "When Jockin and other members of the Alliance speak about daily savings, …they are describing something far deeper than a simple mechanism for meeting daily monetary needs… They are speaking about… a moral discipline which builds… political fortitude and commitment to the collective" (Appadurai 2000).

However, such approaches can carry risks. The mixed and complex agendas of urban development organisations can impose transaction costs on clients in their attempt to access financial services; it can even contribute to the unreliability of a service if more political agendas start to dominate. In an attempt to enhance the "social capital" of working class slum communities, NGOs in Indian cities have usually taken a neighbourhood approach, seeking to build relations of co-operation and collective action where they appear to be lacking". While the unenthusiastic response of residents to such schemes has often been interpreted as indicative of social breakdown, it is as much, or more-so, a reflection on the limited role of neighbourhoods in the overall networks of residents. For many residents, contacts and relations outside the colony, even outside the city are more highly valued and regularly "serviced" than those in the immediate locality. It is across such networks that people frequently undertake their most important financial transactions and this reflects the evolved mobility of metropolitan slum dwellers.

Given the mixed success rate of development organisations in setting up significant microfinance programmes in urban slums, we must seek out lessons with care. In our description of financial management and strategy in Kalibasti, we have sought to accommodate the complexity of social relations lived by residents and the range of support which they seek to harness. But this is not necessarily to argue for a more elaborate approach to service-provision. It is hoped that new kinds of service providers (whether banks, MFIs, NGOs, chit funds, NBFCs) will enter Kalibasti and other Delhi squatter settlements over the coming years and, for most of these providers, the imperatives of business rather than of building co-operative neighbourhoods will dominate. The following is a tentative attempt to highlight lessons from the research for prospective providers:

(a) The research shows a striking dearth of safe and reliable "current account" and "instant savings" services. Two possible strategies would be: (i) to build on the strong niche already held by banks and intermediate between banks and squatter residents to make bank services more convenient (building on the early experience of WWF Chennai); (ii) to introduce autonomous deposit collection/ savings services with ultra-low transaction costs (building on the experience of SafeSave Dhaka (www.safesave,org), although trust would be a challenge).

(b) The link between entitlement to work and entitlement to financial management devices – highlighted by the research – points towards an integrated or livelihood-linked approach to design. Products for particular livelihood groups (for example housemaids, truckers) which help them to accumulate and reduce dependency on wage advances could be promoted in collaboration with banks or even their employers.

(c) The key lesson from moneylenders is that if you want to reach the poorest clients, keep the transaction cost low even at the expense of higher interest rates. This lesson has been taken on board by urban microfinance programmes, for example, SEWA Bank's mobile collection units collecting all payments from the doorstep of clients (EDA Rural Systems 2000). Those services which provide convenience and flexibility (be it at a price) have been shown to be particularly suited to poorer people. Yet the regulatory framework pushes such providers in to the black market by too severely capping the legal rates at which moneylenders and other providers can lend. MFIs need encouragement to rate convenience and flexibility at least as highly as low price and to find creative ways to increase real interest-rates to cover the costs of providing such services.

(d) The research demonstrates that particular groups (illustrated by the *Naths*) have mastered effective access within informal circles. Rather than wasting time trying to compete, new entrants to the market could explore possibilities of building on such existing systems at a higher level (for example, linking them with sources of capital to on-lend, helping them to improve their systems etc). They could also try to accommodate such social ties more readily within their service approach. For example, microfinance providers operating in heterogeneous colonies like Kalibasti could cultivate different approaches and dedicated staff to handle different market segments.

(e) It is now well understood that livelihoods cross geographical boundaries, be they rural-urban or urban-urban. The mobility of slum dwellers presents opportunities – particularly for the commercial banking sector in India with its impressive branch networks – to design services more specifically for people who traffic constantly between homes and jobs in different locales. For example, double-branch current accounts, deposit schemes which assist families to save in Delhi and access the money in the village would be very attractive.

5.3 A final word

To conclude, it is no longer acceptable for prospective providers not to inform themselves of what their future clients are already doing and what services they appear to need. While more work is required to take this and other research to the next stage of strategy development for prospective providers, the research has highlighted the weak foundations of many assumptions that development organisations and financial institutions make about the urban poor: that the urban poor lack social capital; that you cannot do business with squatters unless they are given tenure security; that you cannot lend safely to the poor without proof of address or a ration card; that poor people prefer low interest-rates even at high transaction costs; that people are poor because their access is limited to those services available through the informal sector. Developing services that relate to the 'real markets' in which slum dwellers operate, rather than simplified models of such economic and social relationships, is the next step in financial service provision.

LIST OF ACRONYMS

ASCA	Accumulating savings & credit association
MFI	Microfinance institution
NBFC	Non-bank finance company
NGO	Non-government organisation
NSDF	National Slum Dwellers' Federation, Mumbai
OBCs	Other backward castes (as designated by the Government of India): lower castes which are included under reservation and positive discrimination schemes
RoSCA	Rotating savings & credit association
SCs	Scheduled castes (as designated by the Government of India), known also as *dalits* or untouchables
SEWA	Self-Employed Women's Association, Ahmedabad
SPARC	Society for the Promotion of Area Resource Centres, Mumbai
UP	Uttar Pradesh State
USP	Unique selling point
WWF	Working Women's Forum, Chennai

Notes

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[2] The informal sector is defined here as reciprocal and mutual users, small unlicensed (or “illegal”) providers and financial transactions linked to other markets (trade, labour, land).
[3] The Efficiency of Informal Finance, in Virtual Library on Microcredit (www.gdrc.org/icm/efficiency-icm.html)
[4] This paper is an output of the “Finance for the Poor & Poorest” research project, a component of the Finance and Development research programme funded by DFID and directed by the Institute for 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
[5] Over three million (about a quarter) of Delhi’s population are now said to be living in squatter settlements.
[6] The Transit Camp is a legalised resettlement colony for erstwhile squatters – mostly from South India – who were shifted by the government during the mid 1980s.
[7] In October 2001 US$=RS48
[8] One estimate puts the figure at 300,000 new squatter migrants entering the city each year, 3% of Delhi’s population.
[9] Moneyguards refer to individuals (a relative, neighbour, employer) who keeps savings or earned wages on behalf of another as a favour, free of charge. Moneyguards are used for reasons of safety and to keep cash in hand away from the home where it comes under pressure of everyday expenses.
[10] B for “Better-Off”, M for “Medium” & P for “Poor”
[11] Simultaneous research in two of Delhi’s other squatter settlements also shows deposit collectors reaching only traders and shopkeepers working in the slum but not squatter residents themselves.
[12] Clearly there is a high level of trust among Naths (and the single RoSCA we encountered among respondents inside the colony was of Nath participants). Nonetheless most Naths have other ways of saving and don’t appear interested in RoSCAs.
[13] In such cases outstanding advances are “inherited” by subsequent employers.
[14] Of course many financial relations might fall in to more than one type. A relative for example, might also be a patron; an employer might also share his place of origin with his employee.

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