# Urban Microfinance in Orissa:
# Key Challenges, Opportunities and Insights

## A Case Study of the City of Bhubaneswar, Orissa, India

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***CHAPTER-1***

## Urban Poverty and Microfinance in India

With its recent emergence as a global economic power, India has witnessed astronomical growth rates of more than 8% in the last five years, owing much to its burgeoning high tech, automotive and telecommunications industries (*The Economist*, 15 April 2010). India's dramatic tale of economic success in fact extends beyond the last five years and dates to 1991, when it initiated market reforms and embraced liberalized trade policies; as a result, "from 1992 to 2002, India's gross domestic product grew at the impressive annual rate of 6.1 percent" (Panagariya 2005). However, because much of this growth has accrued to prominent industries engaged in the formal economy, the benefits of globalization for the vast numbers of Indians engaged in informal economies remain less clear.

Ferreira and Ravallion (2008) observe that extreme poverty rates have fallen significantly in the past several decades, as the percentage of Indians living on less than $1 per day decreased from 52 percent in 1981 to 34 percent in 2004. However, in spite of this laudable decline, the figures for those living under $2 per day – the "less poor" – are less encouraging. Although the percentage of Indians who fall into this "less poor" category has also decreased, the decline has been less precipitous, moving from 88 percent of the population in 1981 to 80 percent in 2004 (ibid.). Indeed, despite India's status as an emerging economic juggernaut, more than 867 million Indians – the vast majority of the population – still live on less than $2 per day as of 2004 (ibid.). And while economic controls in place prior to India's liberalization have kept economic inequality relatively low for its income group,[1] other forms of inequality persist. Indeed, as Bardhan writes, "when one combines social and economic factors, India's inequality is at the higher end of the world scale" (The Financial Times, 7 August 2006). Finally, Deaton and Dreze (2002) find that economic inequality increased in the 1980s and 1990s, particularly in urban areas.

Although rural poverty is widely seen as greater in scale and severity than urban poverty in India, the urbanization trends of late indicate that urban poverty is growing and will become a more salient issue in the years to come. In the developing world, urban dwellers will outnumber their rural counterparts by the year 2030; by 2050, two-thirds of individuals in developing countries will live in urban areas (Montgomery 2008). In India, this trend is equally apparent, with the rate of population growth in urban areas more than double that in rural areas, mostly driven by rural-urban migration (Ghate, et al. 2007). Further, while the percentage of urban dwellers living in poverty is decreasing in India, urban poverty is increasing in absolute terms, growing from 52 to 67 million individuals since 1970 (ibid.). Other estimates are even higher, as Krishan (2007) cites 2001 census data to claim that the urban poor comprise 35 to 40 percent of India's population.

The argument over whether urban or rural poverty is the more worthy recipient of academic or developmental attention is ultimately fruitless, as both pose enormous challenges in their own right. Nonetheless, we can draw important distinctions between these two types of poverty. When poverty is defined in narrowly monetized terms, such as the number or rate of individuals

[1] When measured using the Gini coefficient, income inequality in India is far lower than in other large, developing countries, such as Brazil (Ferreira and Ravallion 2008).

living below X amount of dollars or rupees per day, rural inhabitants are typically seen as "poorer" than their urban counterparts; this is borne out in the study by Deaton and Dreze (2002), in which the all-India income poverty headcount for rural-dwellers is five percentage points higher than for urbanites. Amartya Sen, however, famously argues that strict income-poverty measurements fail to capture the myriad nuances of poverty, which are experienced differently by different groups. Depending on an individual's age, gender, social role, location, epidemiological atmosphere, or on "other variations over which a person may have no – or only limited – control," income has varying effects in terms of enhancing an individual's capabilities and freedoms (Sen 2000: 88). Thus, although the urban poor might be better off than the rural poor in strictly monetary terms, their *capability* to use their income to enhance their well-being may be limited in different ways by their urban surroundings.

Indeed, poor urban households face a variety of challenges not typically borne by rural households. Amis (1995) observes that while access to land is the main determinant of rural poverty, one's position within and access to wage labor markets typically determine urban poverty. Because these labor markets are fairly rigid, insofar as one's ability to gain better pay without requisite education and background, access to education becomes all the more salient among the urban poor (ibid.). Moreover, due to this reliance on wage labor, the urban economy is highly monetized, and often requires that urban households use money to purchase basic items such as water, food and rent, "which might be free (or at least cheaper) in rural areas, and to pay for goods and services which might not be available in rural areas but are normally consumed in the city (such as electricity and hospital fees)" (Wratten 1995: 22). Conversely, the rural poor with land at their disposal often have the option of "retreating into subsistence" (Amis 1995: 151) and relying on their own crops in lean times; quite obviously, urban dwellers have no such immediate option.

In comparison to the rural poor, the urban poor – especially those living in slum areas – face unique health challenges due largely to their cramped, urban surroundings. The health risks are manifold: increased risk of disease from contaminated water and food; increased exposure to disease vectors associated with overcrowding such as lice, fleas scabies, and rats; rapid spread of contagious diseases such as tuberculosis, influenza and meningitis; heightened exposure to environmental contaminants; and increased risk of vehicle-related injuries are a few among many daily risks faced by the urban poor (Wratten 1995).

Because urban areas often attract rural migrants seeking better opportunities and incomes, slums and other areas inhabited by the urban poor often assume heterogeneous "melting pot" characteristics (Wratten 1995). Whereas families in rural villages have lived together for centuries, urban areas composed of recent (or relatively recent) migrants can house a wide variety of ethnicities, castes and/or linguistic groups; this point is particularly relevant in a country as famously diverse as India. Due to this ethnic, social and linguistic fragmentation in urban areas, relationships among urban neighbors may be less intimate than those in rural areas, which may result in a smaller or non-existent safety net when hard economic times hit. Finally, as the urban poor blend into this melting pot, they eventually come into contact with their richer counterparts, whether geographically (slums often abut nicer housing developments), through employment (many slum-dwellers work as domestic servants in the houses of richer residents), or in every day contact at the marketplace. This type of interaction between rich and poor could

lead to a heightened awareness of income disparities; comparisons of the incomes and assets of the rich with their own meager means could lead to an aggravated sense of deprivation and psychological despair among the urban poor (Ravallion 2009).

Both insecure housing tenure and physical insecurity constitute further vulnerabilities that dot the landscape of the urban poor. Not only do the urban poor often live in unstable shelters unable to withstand natural disasters, or in precarious areas such as embankments or in seasonally dry river beds, but they often face a constant threat of eviction as well. Bhan (2009: 128) describes the tenuous lot of urban slum-dwellers in Delhi, relating that between 1990 and 2003, 51,461 houses were destroyed under "slum clearance" programs; even more alarming are the roughly 45,000 settlements demolished between 2004 and 2007. Further, Wratten (1995: 24) argues that urban dwellers often experience a "fear of personal safety – real or imagined – [which] restricts mobility after nightfall in low-income areas." Weak or non-existent relationships with neighbors in urban "melting pot" scenarios only adds to this sense of distrust and insecurity.

| BOX 1: KEY CHARACTERISTICS OF URBAN POVERTY AND VULNERABILITY | |
|---|---|
| ▪ Reliance on monetized economy | ▪ Heightened vulnerability to disease |
| ▪ Reliance on informal economy | ▪ Environmental hazards |
| ▪ Inadequate housing | ▪ Social fragmentation |
| ▪ Insecure housing tenure | ▪ Exposure to violence and crime |
| ▪ Lack of access to basic services | |

In addition, urban and rural poverty are linked through the channel of remittances. As the rural poor migrate to cities, they continue to send money to their friends and relatives left behind in their villages. As poor, rural households come to depend on remittances from their urban family members as a survival strategy *per se*, a shift in urban incomes necessarily leads to a shift in rural incomes: "declining urban incomes and increases in [urban] poverty will have a significant impact on such [remittance] flows and on rural change" (Amis 1995: 155).

While discouraging, the persistence of poverty and inequality in India presents abundant opportunities to address these twin issues through an array of social policies. Microfinance is one such strategy which has gained momentum since Nobel laureate Mohammed Yunus famously founded Bangladesh's Grameen Bank Project in 1976. In Yunus's initial iterations, small groups of poor rural individuals, previously considered "unbankable" by the mainstream banking establishment, are provided access to credit to spur self-employment and boost the incomes of poor households. More recently, because urban poverty is defined by access to and type of labor, the provision of working capital and capacity building among the urban poor through the vehicle of microfinance has been advanced as an ideal tool for urban poverty reduction.

The roots of microfinance in India are found in the very structural adjustment policies and trade liberalization adopted in the early 1990s that arguably account for India's unprecedented economic growth over the last two decades. Prior to these reforms, the provision of credit to the rural poor was undertaken through government efforts[2] such as the Integrated Rural

[2] At least in the formal sense. Informal moneylenders have been and continue to be a ubiquitous feature in the provision of credit in both rural and urban areas.

Development Program (IRDP). Widely regarded as a rushed and ill-conceived failure, the IRDP spurred government planners toward the financial sector reforms undertaken in 1991, which sought a diminished role of the state in the financial system through liberalization and promotion of competition among private banks (Shah, et al. 2007). Microfinance models in operation today filled this vacuum in rural credit provision created during the reforms of the 1990s.

Four approaches currently characterize the provision of microfinance in India: 1) the Self-Help Group (SHG) – bank Linkage (SBL) model, 2) Grameen replicators, or Joint-Liability Groups (JLGs) 3) the Microfinance Institution (MFI) / Non-Bank Finance Company (NBFC) model, and 4) the Cooperative model. Under the SBL model, NGOs typically organize groups of ten to twenty rural women into SHGs, which are formed with the intent of accumulating group savings (deposited in a bank) to form a common fund which can then be loaned out to individual members. Typically, after a period of demonstrated financial discipline in the savings, lending and repayment processes, the SHG becomes eligible for a loan from the bank where its savings are kept, which can then be distributed among its members. With the right guidance and careful formation protocols employed by NGOs, SHGs can become tools of "not merely finance but empowerment," as women increasingly gain confidence and leadership skills (Shah, et al. 2007). JLGs are typically groups of five women who are trained in financial literacy and provided access to credit through MFIs, although they typically bypass the savings requirement common among SHGs. Loans usually increase in size as members prove their creditworthiness by repaying smaller, initial loans; like SHGs, peer pressure replaces collateral in JLGs as the primary motivation for loan repayment. Increasingly in urban areas, JLGs are formed with five members with similar trades, such as five shopkeepers or five hawkers; these JLGs have a group leader, and loans can be collected from the group leader by MFI loan officers (Sa-Dhan 2009). The MFI/NBFC model is an attempt to serve the credit needs of the poor while aiming for financial sustainability and profit on the part of the lending MFI or NBFC. By lending to either SHGs or JLGs and charging between one and two percent interest per month, many MFIs have been able to recover their costs in the provision of credit and some have reached a point of financial sustainability and profit. Finally, in the cooperative model NGOs help women organize themselves into groups based on their trade, helping women save money and access credit by pooling their resources; in most cooperatives, such as SEWA Bank and the Working Women's Forum in Chennai, each woman is an equal shareholder, sharing in both the risks and benefits of association (Krishnan 2007).

Although primarily a rural endeavor in early iterations in Bangladesh, microfinance services are increasingly operating in urban areas throughout India. Krishnan (2007), using 2001 census data, observes that although the urban poor constitute between 35 and 40 percent of the population, only 0.01 percent have access to banking relationships. Because of this apparent credit vacuum, the potential for MFIs to service the credit needs of the urban poor – and turn a profit – is enormous. Because urban poverty is both more complex and less understood than its rural counterpart, cities were, until quite recently, a "white space on the map" for microfinance. For many microfinance providers, the structure of slum life itself seemed to pose unique barriers to the implementation of traditional models of microfinance. But more and more, this perception is being challenged in India, particularly by microfinance organizations such as BASIX, SHARE, SWADHAR, Ujjivan, Aajeevika, and SONATA, all of which have an increasingly strong presence in urban slum areas. Others still have begun operating in some of India's megacities:

SWADHAR FINACCESS has coined the term "metro microfinance" to distinguish its work from that in smaller urban areas. Although these relatively recent entries into the urban microfinance market could potentially herald benefits for poor entrepreneurs, various challenges peculiar to the urban microfinance market persist nonetheless, and they stem directly from the unique characteristics of urban poverty, outlined above.

The current literature on urban microfinance provision presents broad generalizations as to the challenges facing urban MFIs and their clients. Krishnan (2007) outlines these challenges in the following list : the wide variety of occupations and social groups among the urban poor, resulting in a large array of products demanded by these individuals; multiple MFIs operating in the same area, resulting in stiff competition and borrowing from multiple MFIs; constraints on available spaces in which to conduct meetings; time constraints of clients to attend meetings; and implementing time-consuming "credit-plus" activities such as capacity-building and financial literacy trainings while trying to turn a profit. Ghate, et al. (2007) expand on this list and adds: the transience of urban dwellers and resulting flight risk; lack of social cohesion among heterogeneous group members, resulting in diminished effectiveness of peer pressure as a substitute for collateral; disproportionately higher health costs among the urban poor; substantial pre-existing debt owed to moneylenders at usurious interest rates; and a general lack of formal identification among urban microfinance clients.

| **BOX 2: GENERAL CHALLENGES TO URBAN MICROFINANCE PROVISION** | |
|---|---|
| ▪ Occupational variety among clients | ▪ Time constraints (clients are busy) |
| ▪ Diversity of client needs | ▪ Heterogeneity of clients |
| ▪ Increased competition among MFIs | ▪ Lack of formal identification |
| ▪ Clients borrow from multiple MFIs | ▪ Credit-plus activities |
| ▪ Pre-existing debt to moneylenders | ▪ Transience of urban dwellers |
| ▪ Space constraints for meetings places | ▪ Higher health costs/risks among clients |

While these observations are useful in formulating a general idea about the challenges of urban microfinance provision in India, studies assessing these challenges in specific urban areas are few. Maringanti (2009) provides a detailed analysis of urban microfinance in Hyderabad, while Ghate, et al. (2007) discuss case studies from Delhi and Mumbai. However, strikingly absent from the literature is an analysis of urban microfinance provision in Orissa, India's poorest state.

*CHAPTER 2*

## Poverty in Orissa and Potential of Urban Microfinance

Poverty and inequality continue to nag at the heels of India's remarkable growth story, and nowhere is this more evident than in Orissa, India's poorest state, located on the central eastern seaboard. Placing the Orissa state consumption poverty line at Rs. 375 per capita per month, Jha, et al. (2006) estimate that 42 percent of Orissans live below this line. Although Orissa contains vast natural resources, the percentage of individuals living below the poverty line in that state is higher than in any other state or Union Territory. Poverty in Orissa is generally more widespread in rural areas than urban ones. In Southern Orissa, largely rural and inhabited by tribal peoples engaged in subsistence agriculture, a staggering 87 percent of individuals live below the state-level poverty line, making it the poorest region in all of India (Panda 2004). Further, the "feminization of poverty" is also characteristic among the poor in Orissa, as the number of women living below the poverty line has "increased disproportionately over the past decade compared with the number of men" (Government of Orissa 2005: 60). Also noteworthy is the high incidence of poverty among the scheduled tribe (ST) and scheduled caste (ST) social groups, at 73 percent and 52 percent, respectively (Panda 2004). The arrival of a super-cyclone on the shores of Orissa in October 1999, in which at least 10,000 people perished and 1.5 million were left homeless (BBC 2010), combined with frequent other natural disasters, no doubt made matters worse for an already-downtrodden populace. Moreover, in terms of economic inequality, as measured by the Gini coefficient,[3] Orissa ranks in the top quartile of all states and Union Territories (Jha, et al. 2006).

If poverty is to be measured strictly in terms of per capita consumption below a given poverty line, then rural Orissa, and particularly Southern Orissa, tend to overshadow urban areas in terms of the severity of poverty there. However, the links between urban and rural poverty are unmistakable. As natural disasters, such as the 1999 super-cyclone, and persistent floods and droughts continue to plague rural areas throughout India and in Orissa particularly, rural people whose homes and livelihoods were destroyed often move to urban areas seeking to rebuild their lives. Using 2000 census data, Singh (2007: 12) finds that Orissa contains the highest percentage of urban poor in all of India, at 42.83 percent of the state population. Doubtless, the urban poor in Bhubaneswar, Orissa's capital and largest city, face similar issues that the urban poor face everywhere (as outlined above) in addition to other challenges endogenous to the region.

By 2001 National Census estimates, Bhubaneswar contains a total population of roughly 647,000 individuals (Census of India 2001); however, more recent projections put this number in the range of 2 million inhabitants (IIT Kharagpur 2009). Casual interviews with long-time residents of Bhubaneswar all point to a population boom in the last ten years; without a doubt, the next official census, to be taken in 2011, will count a total urban population reaching into the millions. These same long-time residents recall that multiple slums have quickly sprung up in recent years, as multitudes of previously rural inhabitants have arrived seeking a new life after natural disasters, or better income opportunities absent in their native places. The presence of MFIs in Bhubaneswar has grown alongside the recent population boom. Currently, there are

[3] Defined here as the mean of the difference in consumption levels between every possible pair of households divided by the mean population size (Jha, et al. 2006).

twelve principal MFIs operating within city limits,[4] catering to the financial needs of tens of thousands of urban clients.

The potential for microfinance as a tool for poverty alleviation is widely acknowledged, and successes have been reported in India and around the world, from Bangladesh to Bolivia. However, only by evaluating both the successes and shortcomings of current microfinance schemes through a locally contextualized lens can we realize the full potential of this instrument of economic empowerment in specific urban environments. By thoroughly examining the current state of urban microfinance in Bhubaneswar, this study aims to maximize the benefits accruing to both MFIs and their clients among the urban poor. This study thus poses the following questions:

- What are the socio-economic characteristics of urban microfinance clients in Bhubaneswar?
- Do the existing microfinance products offered by MFIs in Bhubaneswar match the specific needs of the urban poor?
- What are the specific challenges associated with microfinance service delivery in the urban slums of Bhubaneswar?
- How can these challenges be surmounted in the coming years?
- How can urban microfinance in Bhubaneswar be scaled up?

[4]The major microfinance players in Bhubaneswar currently are: Asmita, Spandana, SKS, Ujjivan, BASIX, JFSL, Awareness, Bhoomika, Adhikar, DSS, People's Forum, and SMCS.

***CHAPTER 3***

## Study Design and Methodology

This study commenced with a thorough review of the available literature on microfinance worldwide and in India to gain a sense of the challenges currently facing the industry. Based on this review, interview questions were formulated and a series of semi-structured interviews were conducted with key informants (either CEOs or management-level personnel) from seven MFIs operating in Bhubaneswar. The MFIs included in this study are Adhikar, Bhoomika, Swayamshree Micro Credit Services (SMCS), Jagannatha Financial Services Limited (JFSL), Darabar Sahitya Sansad (DSS), SKS Microfinance, and Bharat Integrated Social Welfare Agency (BISWA). A brief profile of each MFI and the products they offer is presented below in Table 1.

The Key Informant Interviews provided a qualitative overview of some of the challenges and successes experienced by MFIs in the provision of urban microfinance in Bhubaneswar. Seven Self-Help Groups (one from each MFI included in the study) were then selected for participation in Focus Group Discussions (FGDs). In these FGDs, urban microfinance clients were asked semi-structured questions regarding their particular preferences in microfinance delivery, their feelings toward MFIs, their satisfaction with services rendered, and aspects of microfinance delivery that they wish to change. A detailed discussion of data obtained in FGDs is provided below. Finally, based on the key informant interviews and FGDs, a structured survey questionnaire consisting of 25 questions (please see Appendix A) was formulated, tested on 18 clients, reshaped, and then administered to 117 members of the target group (here understood as MFI clients in Bhubaneswar). Survey data were gathered in the following urban pockets and slums in Bhubaneswar: Bharatpur, Chakisiarni, Salia Sahi, Unit 1 Market, Ganganagar, and Dumduma; within each slum, several sub-areas, or hamlets, were included in the surveys.

Between one and four SHG groups were selected from each MFI, and within these groups, between 15 and 20 respondents were selected using spot-randomization, since a list of all clients was impossible to obtain prior to data collection. The survey was conducted from 18 June 2010 to 15 July 2010. Respondents were interviewed personally by the author, with the help of translators, and were assured full confidentiality of their answers. The following chapter presents the survey data.

## Limitations of the study

Because a simple random sample of the tens of thousands of MFI clients in Bhubaneswar would require a sample size far exceeding the time- and financial constraints of this study, random purposive sampling methods were used to minimize the cost and time of data collection. Moreover, seven of the twelve major MFIs currently operating in Bhubaneswar were selected for their breadth of clients, as well as for the access allowed by connections between the Madhyam Foundation and key personnel in participating MFIs. However, while minimizing costs and time requirements, these methods severely hamper the generalizability of this study, as a truly

generalizable study of this nature would randomly select several thousand urban MFI clients from all MFIs operating in Bhubaneswar. Although the survey results cannot be applied to the entire population of urban MFI clients in Bhubaneswar, they do provide an overview and case study of general concerns, challenges, opportunities and successes in the provision of urban microfinance in Bhubaneswar. It is from these observations that this study draws its merit.

**Table 1: MFI Profile and Loan Product Features**

| MFI / Loan Products | Loan Sizes Offered | Interest Rate | Other charges | Repayment Period | Security Fee |
|---|---|---|---|---|---|
| **Adhikar** | | | | | |
| Microenterprise Loan (JLG) | Rs. 10,000 to Rs. 14,000 | 18% Reducing | 2.5% Loan Processing Fee | 1 Year | None |
| Housing Loan | Rs. 25,000 | 18% Reducing | 2.5% Loan Processing Fee | 1 Year | None |
| **Bhoomika** | | | | | |
| Microenterprise Loan (Individual) | Rs. 5,000 to Rs. 100,000 | 11% Flat Rate | 3% Loan Processing Fee | 1 Year | 3% of loan amount |
| **SMCS** | | | | | |
| Microenterprise Loan (SHG) | Rs. 5,000 to Rs. 50,000 | 18% Flat | 1% Loan Processing Fee | 1 Year or 18 Months | 10% of loan amount |
| Education Loan | Rs. 5,000 to Rs. 50,000 | 18% Flat | 1% Loan Processing Fee | 1 Year or 18 Months | 10% of loan amount |
| Housing Loan | Rs. 5,000 to Rs. 50,000 | 18% Flat | 1% Loan Processing Fee | 1 Year or 18 Months | 10% of loan amount |
| **JFSL** | | | | | |
| Microenterprise Loan (JLG) | Rs. 5,000 to Rs. 50,000 | 24% Reducing Rate | 1% Loan Processing Fee | Available in 30, 50 and 75 week periods | None |
| **DSS** | | | | | |
| Microenterprise Loan (JLG) | Rs. 6,000 to Rs. 12,000 | 12% Flat | 1% Loan Processing Fee | 1 Year | None |
| **SKS** | | | | | |
| Microenterprise Loan ("Income Generation Loans" to SHGs) | Rs. 5,000 to Rs. 50,000 | 12.5% Flat | 1% Loan Processing Fee | 1 Year | None |
| **BISWA** | | | | | |
| Microenterprise Loan (SHG) | Rs. 10,000 to Rs. 150,000 | 20% Reducing Rate | None | 1 Year | None |
| Sanitation Loan | Rs. 10,000 to Rs. 150,000 | 20% Reducing Rate | None | 1 Year | None |
| Education Loan | Rs. 10,000 to Rs. 150,000 | 20% Reducing Rate | None | 1 Year | None |
| Housing Loan | Rs. 10,000 to Rs. 150,000 | 20% Reducing Rate | None | 1 Year | None |
| *Sources: Key Informant Interviews and MFI websites.* | | | | | |

***CHAPTER- 4***

## Study Findings

Urban Microfinance: Abundant Opportunity, Unrealized Potential

Key Informant Interviews (KIIs) with CEOs and other high-level MFI staff yielded valuable information regarding the current climate of urban microfinance in Bhubaneswar. When asked about their rationale for entering the urban microfinance market, answers given by our Key Informants shed light on some of the perceived opportunities present in urban microfinance provision from the MFI perspective. Rapid urban growth in Bhubaneswar over the past several decades, whether due to natural disasters such as flooding or cyclones, or migration of the rural poor seeking better job opportunities in the city, has resulted in a large market of potential borrowers with entrepreneurial instincts, hungry to start or expand their businesses through the vehicle of microfinance. The occupational variety among urban clients, viewed as a challenge in much of the literature cited above, was seen by several CEOs as an opportunity. Because the underclass in Bhubaneswar is composed of a multitude of individuals with different financing needs, meeting these needs by customizing one's loan products represents an opportunity for growth, in the opinions of some CEOs. The numerous festivals that take place throughout the year in Bhubaneswar represent further opportunities for the entrepreneurial poor to sell their wares or their labor, which in turn presents even more demand for loans from MFIs. Aside from providing more aggregate demand for loans, the high population density in Bhubaneswar also reduces transaction costs for many MFIs, as less staff are required to service more clients; further, urban MFIs avoid the cost of travelling incurred while visiting rural clients, as urban clients often live in relatively close proximity to their MFI.

Because Bhubaneswar contains all of the top-quality facilities found in other major cities, including high-end housing, education, restaurants, parks, among many other modern amenities, some CEOs argued that this provided them access to a relatively large pool of qualified staff; indeed these employees might be reluctant to leave their families behind to work in rural areas, or to bring their families to live in rural areas without such facilities. One of the most important facilities available in urban areas and not (as yet) in rural areas is access to the internet. Internet access dramatically eases implementation of Management Information Systems (MIS), through which MFIs can track client data on a daily basis. Without this crucial access, loan officers would be forced to track client data by hand and then physically carry that data to MFI headquarters, resulting in inefficiencies and possibly even increased inaccuracy due to human error. Finally, the banking network available in Bhubaneswar provides for greater security of MFI and client funds: because banks are ubiquitous and conveniently accessed in the city, the risk of robbery is greatly reduced when dealing with urban clients. Several CEOs pointed out that loan officers in rural areas must physically carry weekly or monthly client payments over long distances, increasing the chances that the money will be lost or robbed.

| BOX 3: OPPORTUNITIES UNIQUE TO URBAN MICROFINANCE IN BHUBANESWAR | |
|---|---|
| ▪ Large market of potential borrowers | ▪ Variety of financing needs in urban areas means demand for variety of products |
| ▪ Entrepreneurial instincts of urban poor | ▪ Multiple festivals and other seasonal vending opportunities |
| ▪ High population density lowers transactions costs for MFIs | ▪ Bhubaneswar facilities attract top-quality staff |
| ▪ Access to internet | ▪ Abundance of banks means greater security for loan officers |

Just as the unique characteristics of the urban space and its inhabitants provide opportunities specific to urban microfinance provision, these same characteristics contribute to a host of challenges faced by MFIs in Bhubaneswar. The challenges outlined by Key Informants largely resemble those described in Box 2, above, although several new insights were offered as well. The biggest challenge, according to most of the key personnel interviewed, lies in the transience (perceived or real) of urban dwellers. Because most are migrants from rural areas, MFI personnel are concerned that some clients, after experiencing financial or medical shocks, will surrender their efforts at a new life in the city and leave suddenly without repaying their loans. Indeed, one CEO mentioned that "all of our bad loans – 1 or 2% of all loans – happen due to sudden migration back to rural areas." Adding to this perceived transience is the lack of adequate or secure housing on the part of many clients. Because many clients in urban slum areas live on government encroachments with no lease to secure their tenancy, the threat of eviction is a constant and looming threat. CEOs and key personnel fear that if clients are suddenly evicted from their houses, they will have no choice but to return to their rural family homes, defaulting on their outstanding loans in the process. Finally, many informants expressed concern over the lack of formal identification among many clients, which is seen as another indication that clients could disappear at any moment and default on their loans.

The issue of client time constraints surfaced time and again in the Key Informant Interviews. Urban female clients often work long hours, sometimes at multiple jobs, in addition to the "double burden" of household duties, severely hampering their ability to attend weekly or even monthly meetings required by MFIs. Further, due to both time constraints and the fact that many clients already have steady income, the willingness of clients to attend additional capacity building sessions or trainings is diminished in urban areas, according to some Key Informants. Finally, several interviewees noted that urban clients, due to their difficult time schedules, are more suited to individual loans. However, currently there is no viable substitute for the clients' lack of collateral, other than the peer pressure inherent in the SHG/JLG model.[5]

Another common thread in nearly all KIIs was the competition among MFIs in the same geographic areas seeking the same clients. While an economists' first inclination is to encourage competition in nearly all cases, as it leads to lower prices for consumers and forces innovation and efficiency on the part of businesses, most Key Informants surveyed expressed concern over

[5] Of the seven MFIs included in the survey, only Bhoomika issues individual loans due to their unique agreement with the Unit 1 Market Association. Under this Memorandum of Understanding, Bhoomika has exclusive rights to provide microfinance services to vendors in Bhubaneswar's largest outdoor market compound. However, in order to receive funds, clients must use their market stalls as collateral. This extraordinary situation, in which stalls can be auctioned off in the event of default, allows Bhoomika to provide individual loans to clients.

growing competition among MFIs in Bhubaneswar. Key Informants speculated that some clients engage in multiple borrowing, i.e. taking on simultaneous loans from multiple MFIs, in order to meet their financial needs; because there are often caps on the amounts that MFIs can lend, one loan simply will not suffice for some clients.[6] Undoubtedly, this benefits some clients who genuinely need more capital for their businesses than MFIs are willing or able to lend. However, most Key Informants ventured that the practice of multiple borrowing is detrimental both to clients and MFIs, and undermines the very ideals behind microfinance as a development tool. First, several interviewees speculated that the lack of financial literacy or sophistication among most clients engaged in multiple borrowing results in clients borrowing beyond their means; this, in turn, means that some clients must further engage in cross-borrowing simply to pay back debt owed to another MFI. This is not only injurious to the financial well-being of poor clients, but also severely undermines the goal of financial empowerment of the poor, defeating the very purpose of microfinance.

Second, the lack of information sharing among MFIs means that MFIs cannot verify a client's current outstanding loans with other MFIs, hampering any efforts to obtain a valid credit check before lending. Third, it has been alleged that some less-scrupulous MFIs will enter into a community already serviced by an MFI and attempt to "poach" clients with offers of slightly lower interest rates. On the surface, this resembles standard practice in a normal business environment, and would appear to benefit clients in the long run. However, in the world of urban microfinance, months and sometimes years are invested in trainings and capacity building exercises which steadily strengthen financial literacy among the target group. These "poaching" newcomers thus avoid incurring any of the initial training costs – which are often substantial in terms of time and money – and reap the benefits of financial literacy that they had no part in promoting. Doubtless, this has led to multiple claims of unfair business practices among Key Informants. Finally, multiple borrowing means that clients often must attend multiple meetings in a given week or month, further adding to their preexisting productive and domestic burdens.

Other important challenges enumerated by Key Informants are lack of sufficient funds to meet client demands, frequent natural disasters, heterogeneity of urban poor, illiteracy, and finding a balance between social work and financial sustainability. In addition to the general difficulties faced by MFIs in securing donor or investor funding, many MFIs in Bhubaneswar currently face a shortfall of loanable funds; some Key Informants blame this shortfall on ICICI, India's largest private sector bank, in terms of market capitalization. Up until 2006, ICICI was a major funder of MFIs, "pumping money" into the sector, as one interviewee reminisced. However, after 2006, ICICI dramatically decreased its investment in MFIs: in the wake of an aggressive drive by ICICI to reach out to MFIs, the bank compromised on quality appraisal which subsequently led to unacceptably high amounts of non-performing assets (NPAs) in their loan portfolios. Because of this, ICIC decided to stop providing new loans to MFIs in Orissa. The resulting shortage of funds has led many interviewees to feel that their MFIs cannot keep up with client demands for loans, leading to some resentment among their client base.

At first glance, natural disasters in Orissa disproportionately affect rural inhabitants; however, because so many urban poor have rural ties, natural disasters invariably mean that urban

[6] The Reserve Bank of India has imposed a Rs. 50,000 limit on all *microfinance* loans. For some urban entrepreneurs, this is simply not enough to satisfy capital needs.

breadwinners must send even more money home to their rural friends and family in times of crisis. This, according to several interviewees, greatly increases the likelihood of default among urban clients. Because microfinance is built on the idea that trust among peers can substitute for collateral, the heterogeneity of the urban poor poses another significant problem in the eyes of our Key Informants. When all types of newcomers from different castes, ethnicities, religions and backgrounds are mixed together in a given slum, the formation of SHGs or JLGs becomes problematic, as the trust found among clients in rural areas (gained through years of living side by side) is assumed to be scarce in urban areas.

Moreover, because microfinance is, according to one CEO, an "information-intensive business", illiteracy among urban clients in Bhubaneswar poses a significant challenge for MFIs. Several Key Informants cited difficulties in convincing clients of the merits of SHG or JLG group formation, and of the benefits of taking loans for productive purposes. Although this could stem from a healthy skepticism on the part of clients, most CEOs seemed to feel that illiteracy poses a significant barrier to client participation. Finally, some MFIs feel that the goal held by most MFIs of having a "social development heart and business mind" is being subsumed by the quest for financial sustainability. Many worry that MFIs in Bhubaneswar are losing their initial focus on capacity building and empowerment in favor of the pursuit of profits.

| **BOX 4: CHALLENGES TO URBAN MICROFINANCE PROVISION IN BHUBANESWAR** | |
|---|---|
| ▪ Transience of urban clients | ▪ Time constraints (clients are busy); double burden of productive and domestic work |
| ▪ Insecure housing/land tenure among clients | ▪ Heterogeneity of clients |
| ▪ Increased competition among MFIs | ▪ Lack of formal identification |
| ▪ Clients borrow from multiple MFIs | ▪ MFIs lack adequate funds to meet client needs |
| ▪ Natural disasters in rural areas force urban poor to send more money home | ▪ Client "poaching" by unscrupulous MFIs |
| ▪ Balancing social work with financial sustainability | ▪ Lack of information sharing among MFIs |

Urban Microfinance: A Clients' Perspective

Semi-structured Focus Group Discussions with seven groups of urban microfinance clients revealed key insights into urban microfinance as experienced by poor clients themselves. On the whole, the clients interviewed in FGDs gave a largely positive assessment of the changes that microfinance has brought to their lives. When asked how they obtained credit before association with MFIs, most related that they borrowed from moneylenders, sometimes at exploitative interest rates of around 10 percent per day; but now, in Salia Sahi, one of Bhubaneswar's largest slum areas, moneylenders have since been driven out by stiff competition from MFIs. In addition to better interest rates, clients mentioned that MFIs offer larger loans and longer repayment periods than moneylenders. Moreover, these loans have added to clients' working capital, allowing them to expand their businesses and generate more income; this increased income has provided many with the capital to build better homes, eat better food, purchase assets such as bicycles and motorcycles, and send their children to school. Another recurrent theme was

empowerment: prior to taking out loans for productive activities, many female clients had no option but to stay at home and tend to domestic responsibilities. Microfinance, in the eyes of many, has provided them with a "productive way" to use their time, and generate extra income for their families. Other clients from upper-caste, or less-poor families, seemed to use the loans as working capital for their husband's business; although this lacks an immediate empowering component, it nonetheless contributes to household wellbeing by increasing total household income.

| BOX 5: BENEFITS OF MFI ASSOCIATION, ACCORDING TO FGD RESPONDENTS | |
|---|---|
| ▪ Freedom from moneylenders and exploitative interest rates | ▪ Increased working capital for client microenterprises |
| ▪ Ability to purchase better food for family | ▪ Better education for their children |
| ▪ Enables women to "feel productive" | ▪ Supplements husband's working capital, increasing total family income |
| ▪ Longer loan periods with MFIs, as compared to moneylenders | ▪ Ability to purchase assets such as bicycles and motorcycles |

Although microfinance has generally bettered the lives of the clients interviewed, it is not without room for improvement, at least in the eyes of some FGD respondents. Reacting to some of the concerns elaborated in the Key Informant Interviews, several questions were posed in the FGDs to provide a client's perspective on some of the challenges of urban microfinance provision. Many clients echoed the concerns of Key Informants regarding the heterogeneity of SHGs and JLGs; a chief complaint among respondents is a lack of cohesiveness within groups due to differing backgrounds or social status, sometimes leading to hostilities within these groups or even dissolution of some groups. There was no consensus over preference of weekly or monthly meetings, as some groups preferred weekly meetings to keep abreast of their payments and maintain group cohesiveness, while others prefer monthly meetings due to the many time constraints in their busy lives. Nearly all respondents complained that the loan sizes were insufficient for their needs, and some mentioned that loan cycles generally do not correspond with client demand, but rather with an MFI's supply of funds. As a result, several group members mentioned that they have sought funds from other MFIs to satisfy the capital requirements of their micro-businesses.

In spite of the time constraints mentioned in many FGDs, nearly all clients expressed interest in more capacity building exercises, whether in specific skills such as phenyl production or candle-making, or in general business skills such as accounting and management. When asked if they would pay for such training, respondents indicated an unwillingness to pay in cash, but volunteered their homes and food for any future training exercises. FGD respondents overwhelmingly indicated their preference for lower interest rates (this information was unsolicited by the interviewer). However, when asked why they don't simply switch to another MFI known for its lower interest rates, FGD respondents from two separate MFIs said that they were loyal to their MFI and did not mind paying a small premium to support their organization. One respondent commented that "[MFI] is our organization, by us and for us. We made it, it is ours. This is why we stay with [MFI]". The MFI in question is very much involved in capacity building, SHG group formation, and empowerment of its clients; thus it appears that investments

of time, training and patience has paid dividends in customer loyalty for at least one MFI in the sample.

Foremost among MFI concerns was the perceived transience of the urban poor; however, when asked how long they planned to stay in Bhubaneswar, many respondents simply smiled and replied, “This is our home – why would we ever leave?” Indeed, the vast majority of respondents claim to have lived in Bhubaneswar for at least the past eight years. When asked about their insecure land tenure, and what they would do in the event of an eviction, respondents resoundingly claimed that they would remain with their MFI even if they had to relocate. Although the question is hypothetical and naturally speculative, clients’ unmistakable sense of permanence in Bhubaneswar, as well as strong feelings of obligation and loyalty felt by clients toward their MFI surfaced in most FGD sessions.

In half of the FGD sessions, the issue of “security” was raised as a chief source of client dissatisfaction. “Security” here is taken to mean a percentage of the total loan amount that clients must pay up front as a kind of security deposit. According to clients and Key Informants, this is usually around 10 percent of the total loan amount – no small fee for many poor clients. Although MFIs eventually return this deposit to the client, FGD respondents complained that they are not paid interest on the money by their MFI. What is perhaps even more distressing for FGD respondents is the perceived lack of trust that a security deposit implies: clients seemed to understand that a security deposit might be required for a first or second loan. However, many FGD respondents related that they still pay the “security” even after taking four or five loans from the same MFI without defaulting once on a payment. Many clients felt that, since their credibility had already been established through prior repayments, MFIs should drop the “security” requirement after credit history has been established.

| **BOX 6: CLIENTS’ KEY CONCERNS** | |
|---|---|
| ▪ Lack of group cohesiveness | ▪ Insufficient loan size |
| ▪ Loan cycles do not correspond with client demand, but with MFI supply | ▪ MFIs should provide more capacity-building and training |
| ▪ Interest rates are too high | ▪ “Security” in current practice undermines trust between client and MFI |

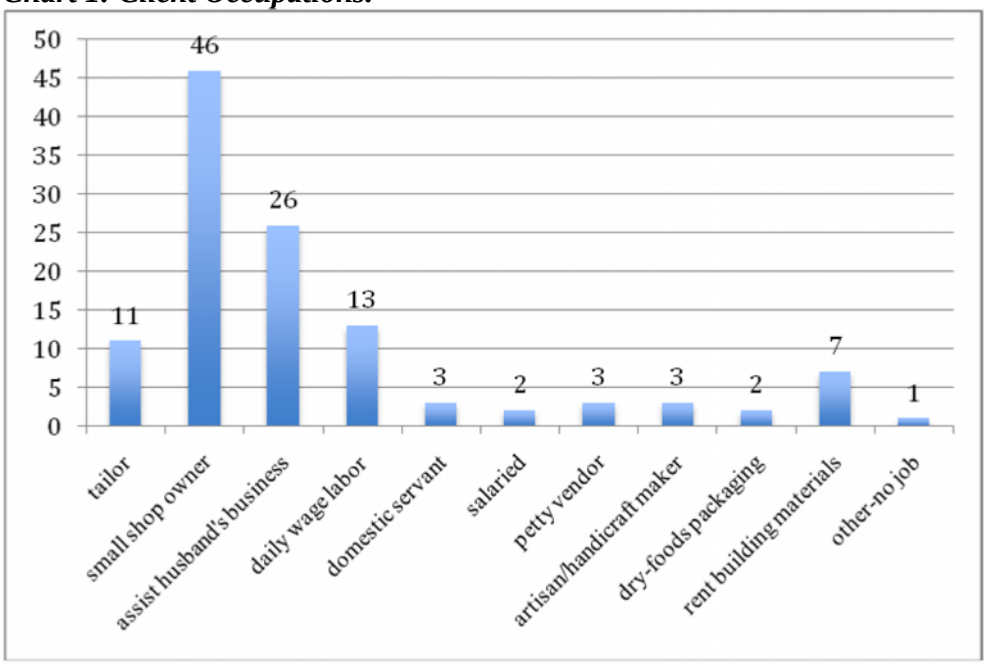
Socio-Economic Profile of Urban Microfinance Clients in Bhubaneswar

One the primary motivations for conducting this study was to provide a socio-economic profile of urban microfinance clients in Bhubaneswar. The following discussion presents socio-economic data obtained from structured questionnaires administered to 117 respondents:

| TABLE 2: Socio-Economic Data for 117 Clients Surveyed | | | |
|---|---|---|---|
| **Sex** | | **Marital Status** | |
| Male | 11.97% | Single | 1.71% |
| Female | 88.03% | Married | 95.73% |
| **Age** | | Widow | 2.56% |
| 18-25 yrs. | 13.68 % | Divorced | 0.00% |
| 26-35 yrs. | 37.61 % | **Number of Persons in Household** | |
| 35-45 yrs. | 34.19 % | Average: | 4.97 |
| 45-55 yrs. | 14.53 % | | |
| 55+ yrs. | 0.00 % | | |
| **Caste/Religion** | | **Level of Education** | |
| ST | 4.27% | Illiterate | 20.51% |
| SC | 17.09% | Up to primary | 18.80% |
| OBC | 52.14% | Up to middle school | 22.22% |
| Upper Caste | 19.66% | Up to high school | 23.93% |
| Muslim | 6.84% | Above high school | 14.53% |

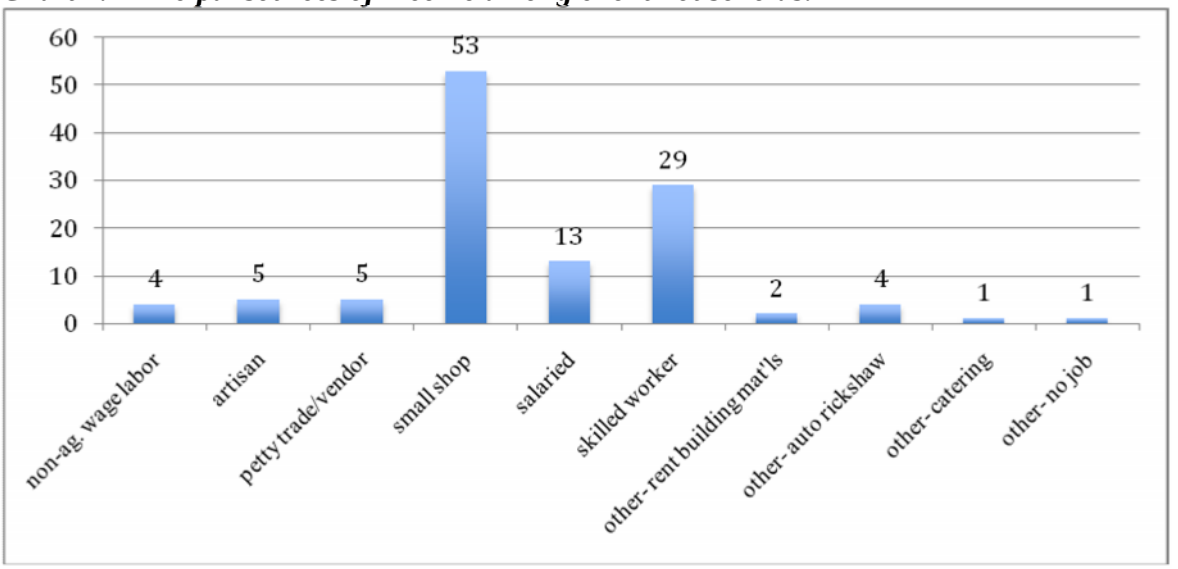
The sex ratio among respondents is somewhat misleading in Table 1: excluding data from Bhoomika, the clients surveyed were 100% female. Bhoomika's unique lending practices – a result of their exclusive access to Unit 1 Market vendors, most of whom are men – means that males are disproportionately represented in the Bhoomika sample. Most clients fell within the 26-35 and 35-45 year age brackets. Although nearly half of respondents hail from Other Backward Caste (OBC) designation, there was some representation of Scheduled Caste (SC), Scheduled Tribe (ST), Upper Caste, and Muslim backgrounds. The wide variety of caste and/or religious affiliation indicated here was not surprising given the literature on the heterogeneity of urban slum-dwellers, cited above. Further adding an element of heterogeneity is the disparity in education levels among survey respondents. Education level is fairly evenly distributed across the spectrum, potentially contributing to group disunity if some members are perceived as intellectually inferior. Alternatively, the roughly 80 percent literacy rate among respondents could mean that groups function better as a whole, as general literacy paves an easier path to financial literacy. The marital status statistics are equally expected, as unmarried women are quite uncommon in Bhubaneswar. The average household among survey respondents was found to contain roughly 5 persons who have shared the same roof and kitchen for the past six months.

***Chart 1: Client Occupations.***



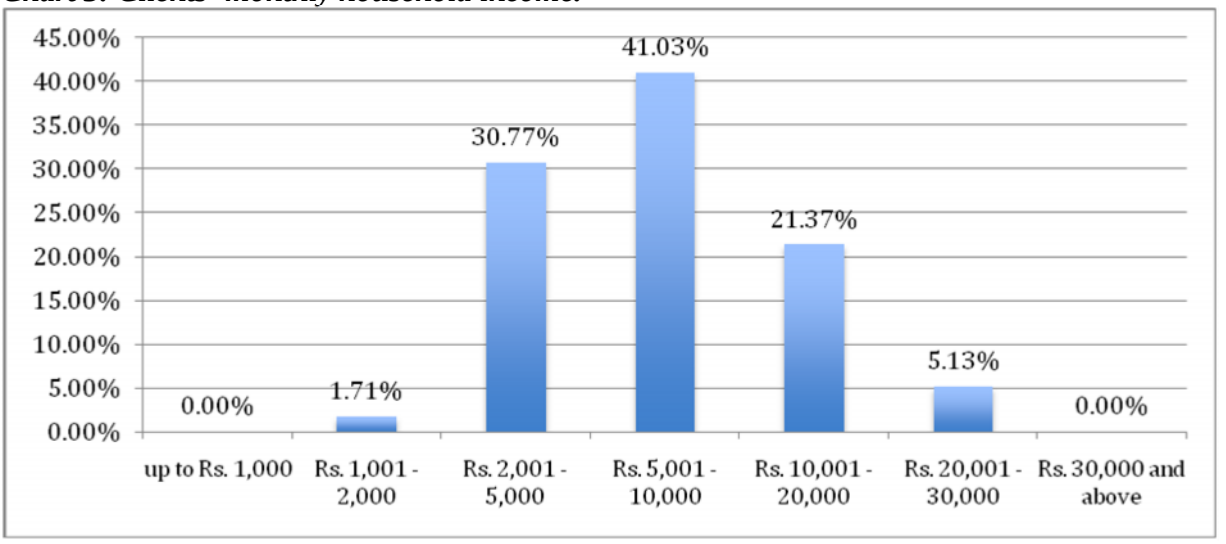

The survey sample is largely composed of small shop owners (46 of 117 respondents, or 39 percent) who deal in groceries, fruits, vegetables, stationary, paan (betel leaf), etc. Somewhat surprising is that 26 of the 117 respondents (roughly 22 percent) listed their current occupation as "assist husband's business". Loans to these respondents are used to finance the business of the male head of the household. While this is likely beneficial in the overall scheme of family well-being (as opposed to taking no loans at all), taking out loans to finance the husband's business might dampen the empowering effects of microfinance on female clients. If the husband controls the income from his business, then he most likely control intra-household financial decisions as well. Sen (2000: 192) describes the inherent asymmetries of power in intra-household dynamics, stating that men and women "have both congruent and conflicting interests that affect family living"; when combined with intrinsic gender-bias in a tradition or culture that limits women's agency, the existence of "conflicting interests" within a household often exacerbates the lack of control that women have over their own lives, as the concerns of men tend to prevail over those of women. Conversely, when women exercise control over their own finances, benefits accrue not only to women themselves but their families as well, as "women carry a disproportionate share of the responsibility for childcare, family welfare, household food production [and] supporting the extended family" (Koczberksi 2007: 1177). Regrettably, no questions were posed to respondents regarding household spending decisions or control over income; however, if microfinance is defined as a tool for female empowerment, then more resources should be mobilized toward capacity-building to train women in microenterprise, where they will control a larger share of family income and hold greater weight in household spending decisions.

***Chart 2: Principal sources of income among client households.***




Most respondents earned their livings primarily through their small shops, either with the husband running the shop and the wife borrowing for working capital, or with the wife running the shop as primary income earner. Many respondents also had husbands who worked as masons, electricians, or other skilled workers, which served as the primary source of income; in these cases, the microenterprises of female clients supplemented household income.

***Chart 3: Clients' monthly household income.***




Although 41 percent of clients earned between Rs. 5,000 and 10,000 per month, higher income clients were found in groups from nearly every MFI: six of the seven MFIs included in the study were represented among clients who earned over Rs. 10,000 per month. Lower income clients were also evenly represented among MFIs, but those earning fewer than Rs. 2,000 were uncommon in among the sample population. Chart 3 indicates that clients in the sample

population are not the "poorest of the poor" but rather the "economically active poor". To provide context for the figures in Chart 3, we can compare these incomes with rural incomes in Orissa. A study by Babu, et al. (2005) provides a range of annual rural farm incomes for marginal, small, medium, and large farmers in several districts in Orissa. These incomes ranged from around Rs. 8,000 per year for marginal farmers to Rs. 25,000 per year for large farmers; because farm income is naturally seasonal, annual incomes provide a better economic picture in rural areas. However, even if these numbers are spread evenly across twelve months, the monthly income range for many farmers in Orissa is about Rs. 700 per month for marginal farmers to around Rs. 2,000 per month for large farmers. Clearly, the clients in the sample survey are quite economically active as compared to their rural counterparts.

***Chart 4: Clients' years of residence in Bhubaneswar.***

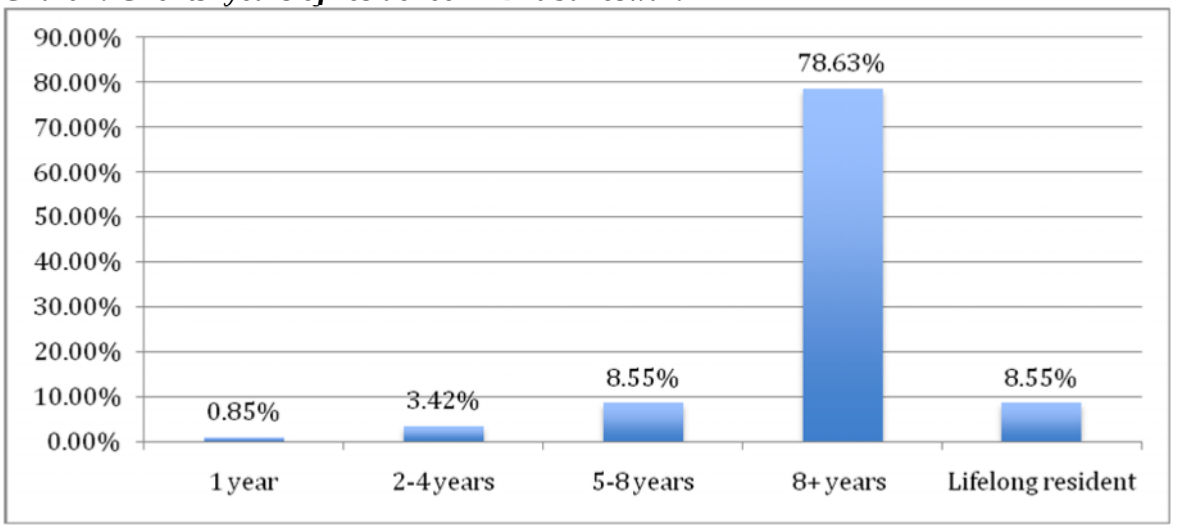
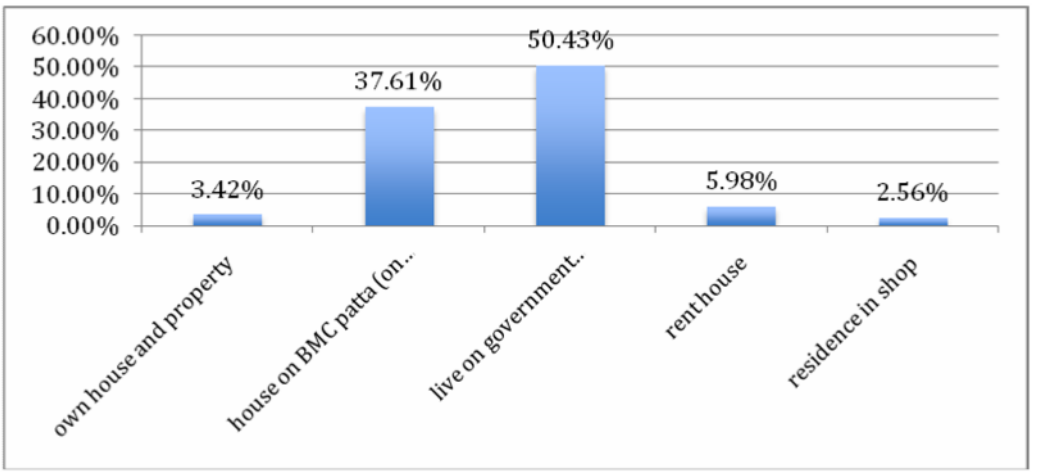


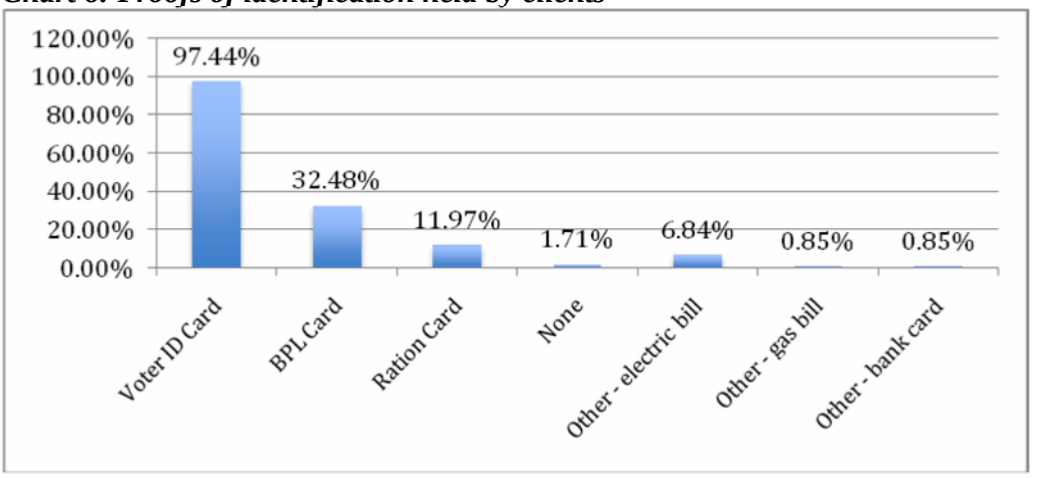

Chart 4 demonstrates that fully 87 percent of respondents have lived in Bhubaneswar for eight years or more. Although not a representative sample, the clients surveyed nonetheless overwhelmingly contradict the view held by many of the Key Informants that the urban poor are largely transient, or recent migrants from rural areas.

***Chart 5: Clients' current residence.***




Although all respondents live in what could be described as slums, the security of their housing situations differs dramatically among them. Rough 38 percent of respondents had negotiated a lease with the municipality guaranteeing them the right to occupy their land, although previously belonging to the government. However, around 50 percent of respondents indicated that they lived illegally on government land without a lease, leaving them highly vulnerable to forced evictions at any time. This has serious implications for MFIs, as a large scale eviction could translate into a sudden migration of many clients back to their family homes in rural areas.

***Chart 6: Proofs of identification held by clients***




Contrary to concerns expressed in Key Informant Inverviews, lack of formal identification is not an issue among the survey population, as many contained several types of identification. Less than 2 percent did not possess any identification.

<u>Client Preferences and Experiences with Microfinance</u>

The following findings detail the preferences and experiences with microfinance among the 117 clients surveyed:

***Chart 7: Clients' meeting preferences.***

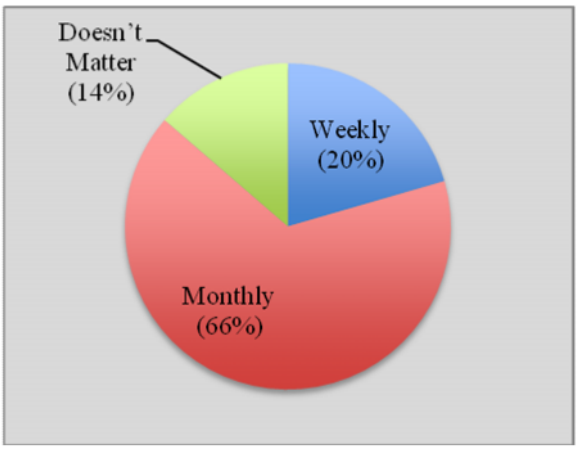



**Table 3: Meeting frequency by MFI.**

| MFI | Frequency of group meetings/repayment |
|---|---|
| Adhikar | Weekly (although moving to bi-weekly soon) |
| Bhoomika | Daily Repayment (no group meetings – individual loans only) |
| SMCS | Monthly |
| JFSL | Monthly |
| DSS | Weekly |
| SKS Microfinance | Weekly |
| BISWA | Monthly |

Although a majority of the survey sample (66 percent) prefers monthly meetings, a significant portion preferred weekly meetings, while others expressed no preference at all. The popularity of monthly meetings likely corresponds to time constraints faced by many respondents, as well as the decreased financial strain of paying monthly installments as opposed to weekly installments. However, those who preferred weekly meetings often indicated that they liked the financial discipline of paying weekly, as well as the camaraderie of weekly meetings. Table 2 indicates that three MFIs promote monthly group meetings, three promote weekly group meetings, and one does not promote group meetings at all but collects loan repayments daily. As the majority of clients preferred monthly meetings for repayments and group activities, it appears as though MFI meeting frequencies are not precisely in line with client demands, as only three of seven MFIs have monthly meeting policies.

***Chart 8: Number of loans taken by clients.***

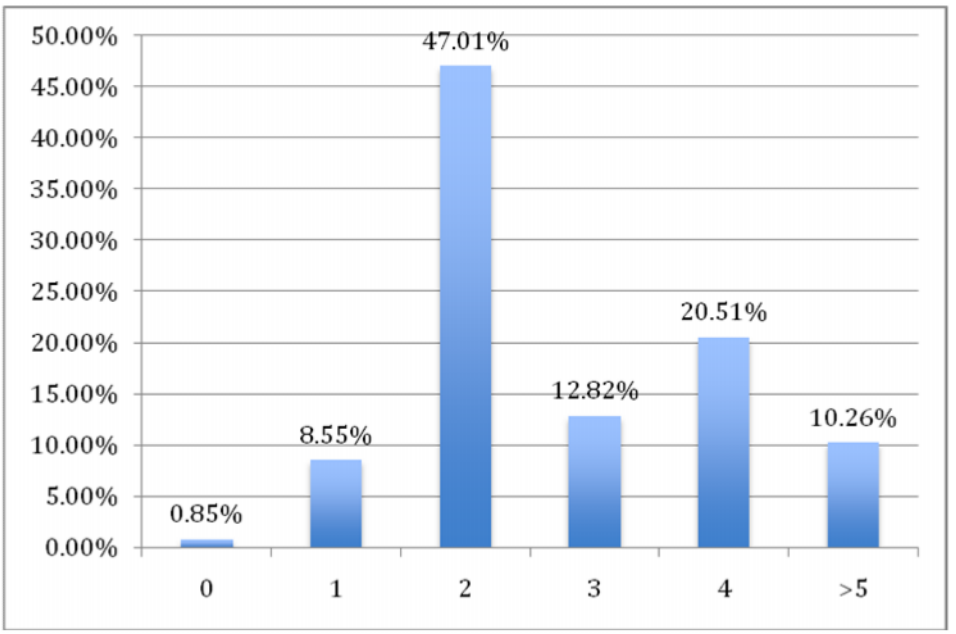



***Chart 9: Clients' loan sizes over time.***

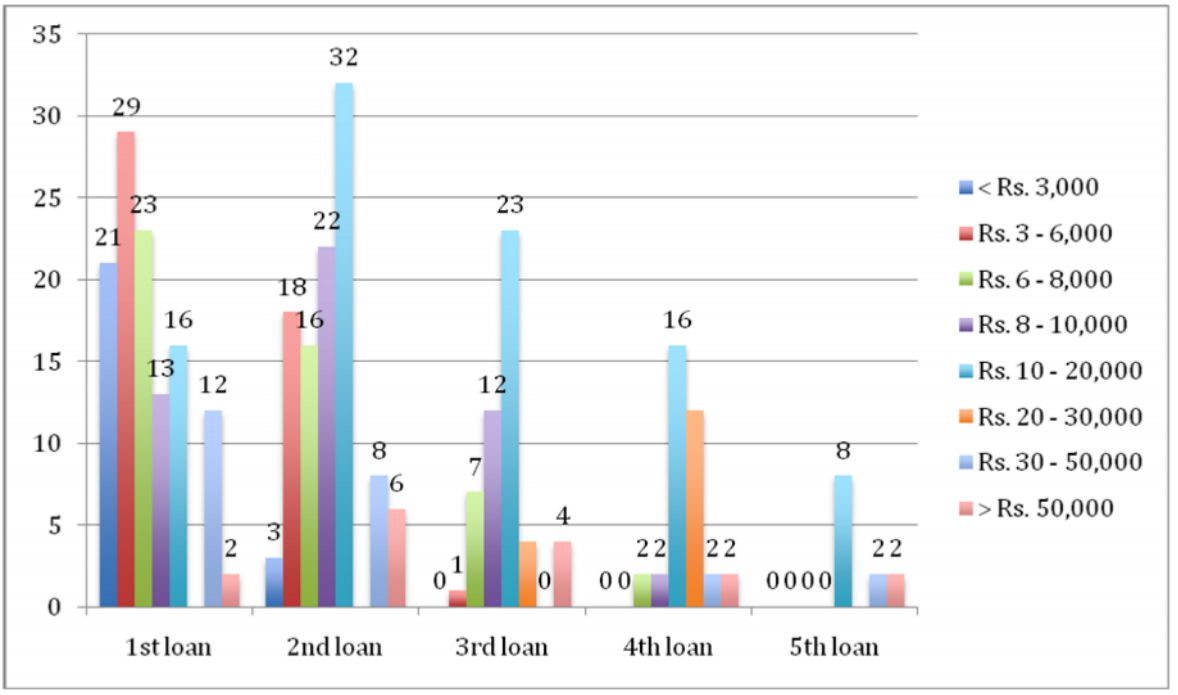
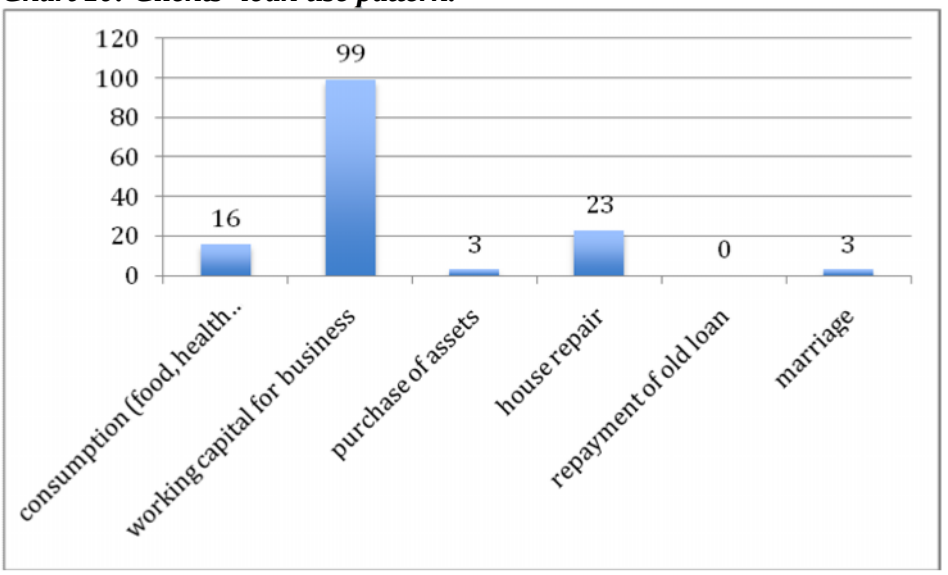



Chart 8 demonstrates that most respondents (over 90 percent) have taken more than one loan; because engagement in multiple loan cycles requires credit-worthiness and financial discipline on the part of clients, the presence of multiple loans among the survey sample signals both client commitment to repayment and constant interaction between clients and MFIs to ensure discipline and avoid default. Chart 9 points to a large variation among loan amounts taken in each loan cycle among the clients in the survey sample. This likely has to do with the composition of the survey sample, with a mixture of SHGs and JLGs. SHGs typically receive loans as a percentage

of their collective savings deposited, via MFIs, in mainstream banks; as a result, the loans received by SHG are often limited in size and not allotted according to individual demand. In contrast, JLGs do not face the same limitations as SHGs and instead draw loans based on credit assessments carried out by MFIs. Thus, the variation in loan amounts taken is likely drawn along the lines of JLG or SHG affiliation. Further, this variation could be connected to the fact that the seven MFIs surveyed represent a broad spectrum of clients and thus varied financial needs and loan absorption capacity.

***Chart 10: Clients' loan use pattern.***




As evident in Chart 10, the vast majority of loans taken among the survey population are for working capital for their micro enterprises. Akin to Charts 1 and 3, Chart 10 also signals a high level of economic activity among survey respondents and thus demand for microcredit to expand and maintain their businesses.

***Chart 11: Consumption vs. production loans***

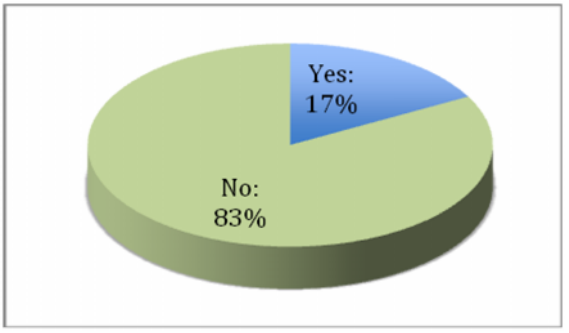
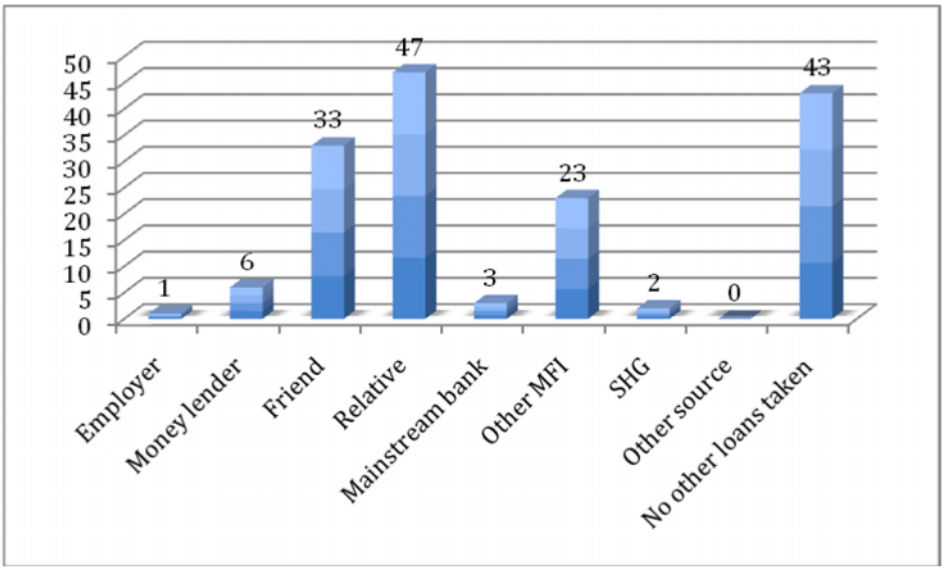



Chart 10 confirms that the majority of loans among the sample population are used for productive purposes such as wholesale purchases for their small shops and other capital expenses. When asked directly whether or not they have ever taken loans for the purpose of consumption, such as food, medical or education expenses, 83 percent of clients surveyed

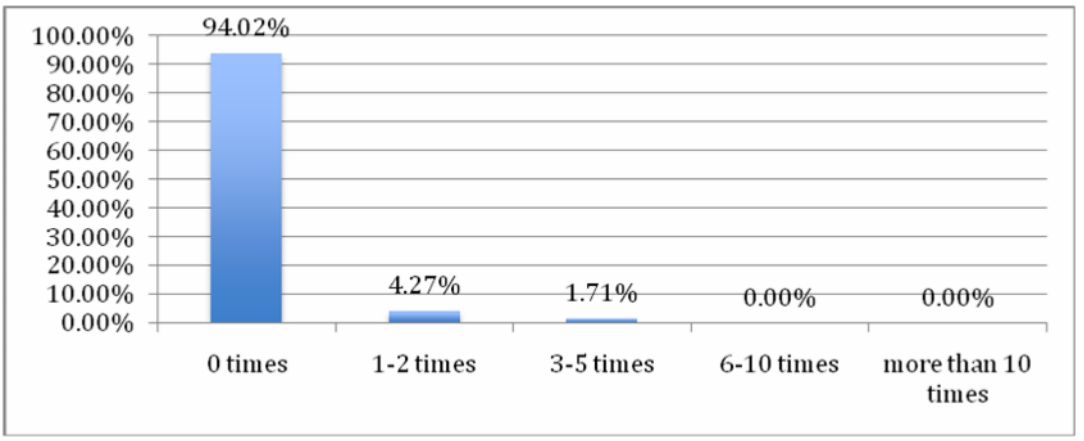
responded negatively, as shown in Chart 11. However, as several Key Informants pointed out, production loans are essentially consumption loans in the sense that by increasing production and expanding their businesses, clients earn more income for consumption purposes. Conversely, consumption loans become production loans, particularly in the case of the urban poor, whose primary asset is their labor: if a laborer falls ill, consumption loans might be taken for medical expenses to quickly nurse that laborer back to health in order to continue earning. Thus, the line between production and consumption is blurry at best.

***Chart 12: Clients' alternative loan sources.***



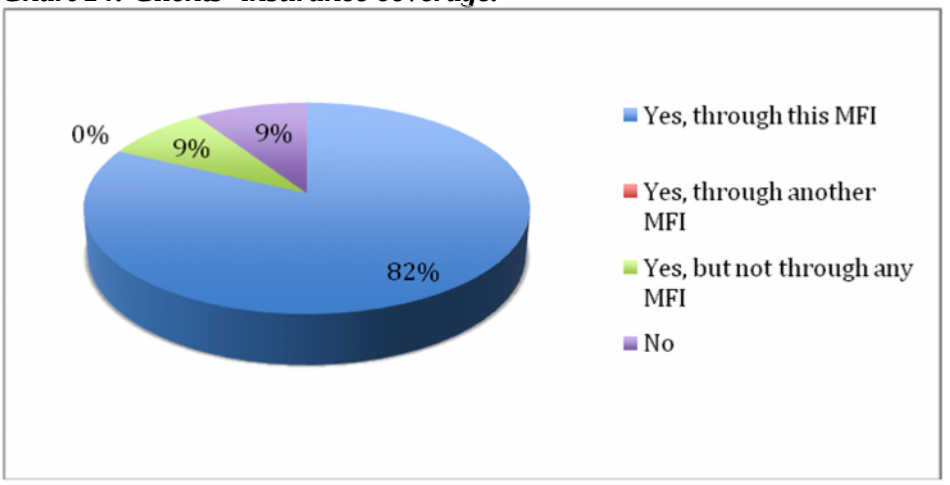

Friends and relatives were selected by 33 clients (28 percent) and 47 clients (40 percent), respectively, as the most popular alternate sources for funds outside of clients' association with their MFI. However, 23 respondents (20 percent) indicated that they have taken loans from other MFIs. This number, while significant because it demonstrates that multiple borrowing does occur among a sizeable minority of borrowers surveyed, is also less than expected given the concerns of key personnel at the MFIs included in the survey. However, because borrowing from multiple MFIs carries with it a certain stigma, insofar as MFIs do not look favorably upon it, it is possible that some of the 43 respondents who indicated that they had not taken any other loans did indeed borrow from another MFI but did not feel comfortable disclosing this information. Of the 23 clients who did admit to multiple borrowing, 18 listed only one other MFI, 4 listed two other MFIs, and 1 respondent listed three alternate MFIs. The alternate MFIs listed were Adhikar (5 respondents), Asmita (3 respondents), SMCS (1 respondent), SKS (8 respondents), and Ujjivan (11 respondents).

***Chart 13: Clients' history of default on loan payments.***




This data roughly mirror the default rates listed by most major MFIs. Most Key Informants indicated that high repayment rates result from the peer pressure mechanism inherent in SHG and JLG groups: if one member cannot pay, other members must repay in his or her place, resulting in significant pressure on individuals to repay their loans. Several Key Informants stated that their MFIs use post-dated checks to guard against default. Under this system, the borrower issues a post-dated check to the MFI covering the loan amount in case of default; this method of course assumes that borrowers maintain savings accounts, which is not always the case, as indicated below in Chart 18. Finally, one MFI uses collateral consisting of a client's market stall, which is auctioned off in case of loan default.

***Chart 14: Clients' insurance coverage.***




Most respondents (82%) were covered under either medical or life insurance schemes managed by their MFIs. In many cases, clients mentioned that participation in the insurance scheme was mandatory, and that a nominal insurance premium was included in their loan repayments. However, clients often had little or no idea what type of insurance they carried, suggesting that clients are ill-informed and/or unconcerned about their insurance policies.

***Chart 15: Percentage of clients sending remittances.***

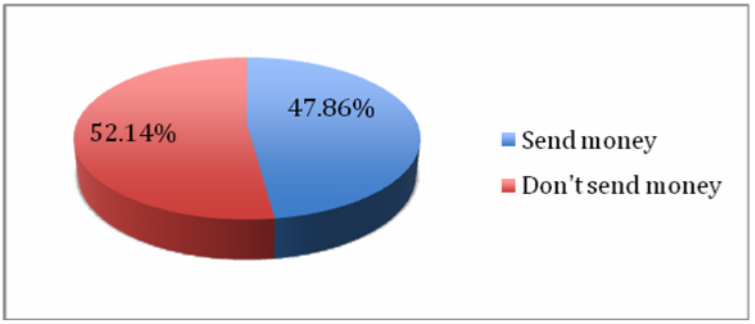



***Chart 16: Frequency of remittances***

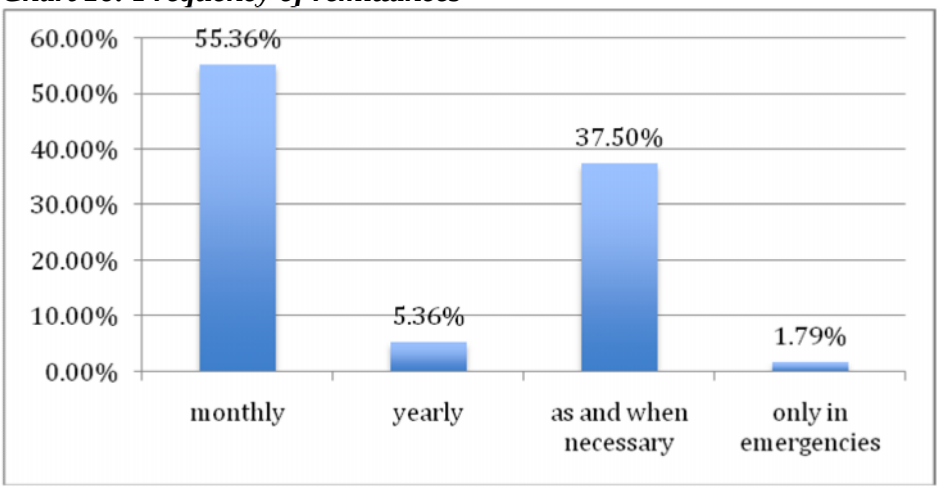
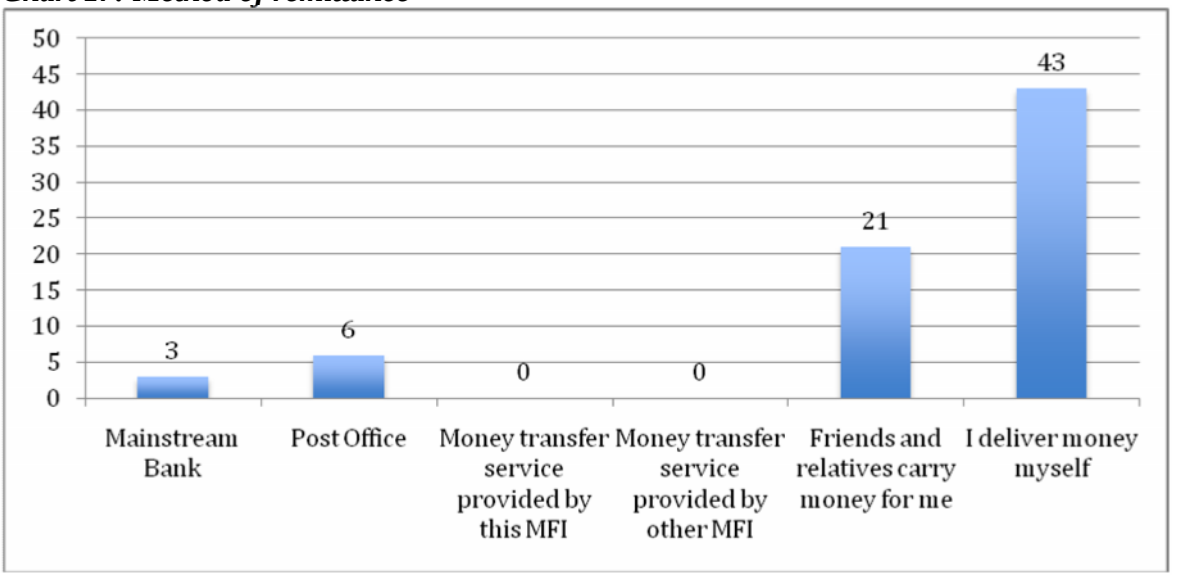


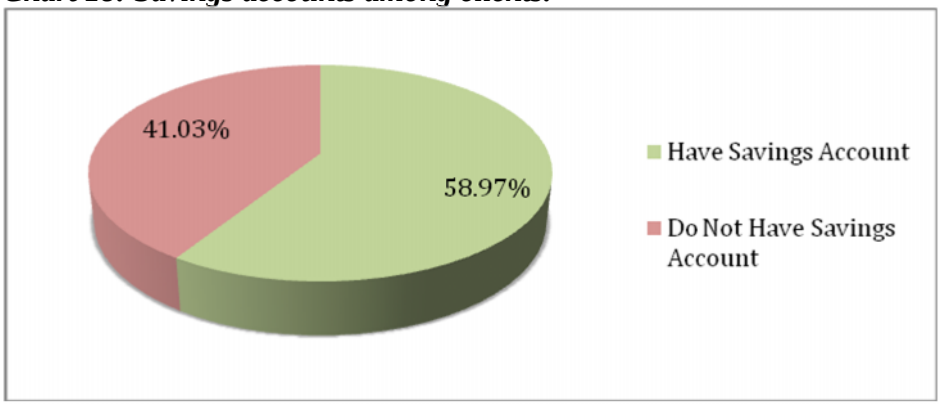

***Chart 17: Method of remittance***




Roughly half of the survey sample regularly send money home to their relatives in their native places. Most of those who do send remittances send money either on a monthly basis or as needed by their relatives. According to many clients who send remittances, the amounts they

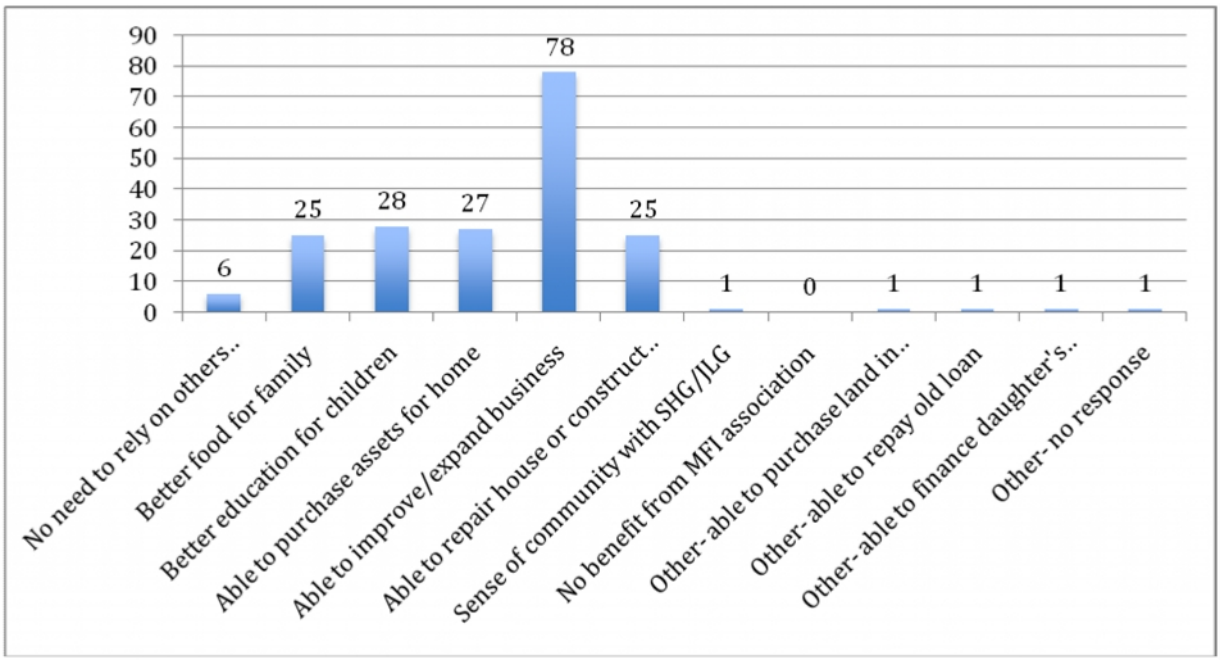
send, while small, serve to smoothen the consumption patterns of their friends and relatives in rural places, who are often marginal farmers facing lean times several months out of the year. While most respondents deliver the money themselves on monthly visits to their rural homes, friends and relatives are also used as conduits for remittances. Few respondents indicated their use of formal remittance channels to send money home: only three respondents acknowledged used mainstream banks, and six respondents used the Post Office. This suggests that most respondents either prefer informal remittance channels, cannot pay the fees associated with formal channels, or are unaware of formal remittance channels.

***Chart 18: Savings accounts among clients.***



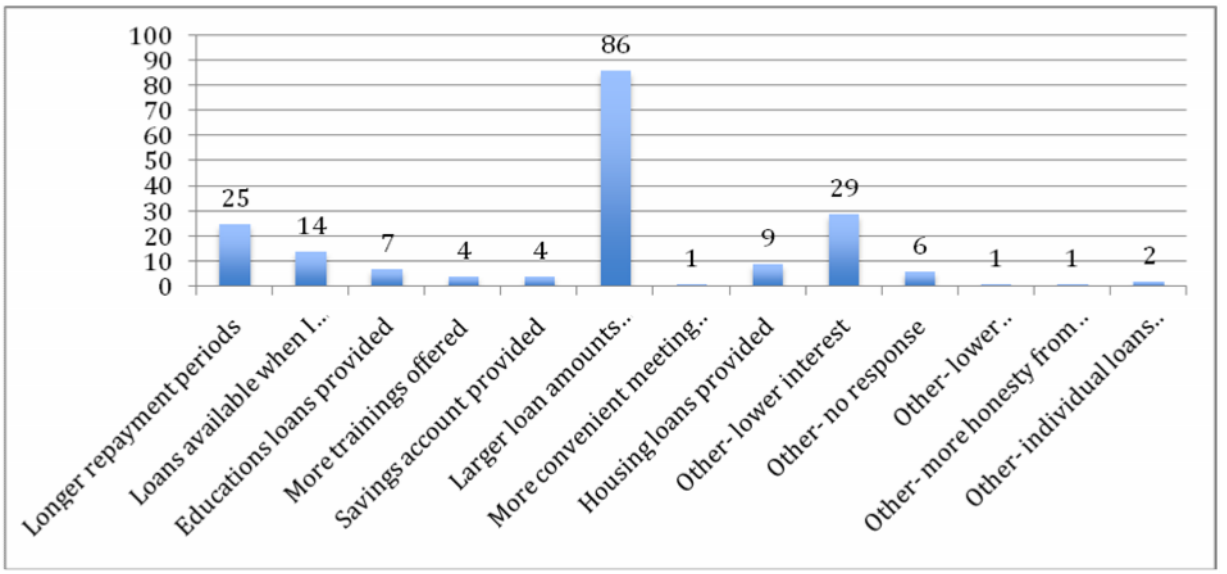

While the majority of the survey sample had some form of savings account, a large portion (41%) lacked access to a savings account. MFIs are currently barred under Indian law from holding deposits and thus cannot offer their clients the option of savings accounts. And although savings accounts are offered by mainstream banks, many clients do not have the required capital deposit to open savings accounts. Further, most clients had negative feelings toward mainstream banks, at least when considering loans from these banks (see Chart 22); about half of clients surveyed indicated a personal ignorance of the banking system, or were intimidated by perceived formalities or harassment at banks. These perceptions doubtless contribute to a lack of savings accounts among many clients in the survey sample. Finally, the current Know Your Customer rules put forth by the Reserve Bank of India require banks to gather formal documentation and credit history that many of the urban poor engaged in informal economies often lack. However, an ambitious pilot program entitled the "One Rupee Bank" (discussed below in Chapter 4) currently operates in Hyderabad and holds some promise of boosting financial inclusion among the urban poor without savings accounts.

***Chart 19: Important benefits from MFIs, as perceived by clients.***



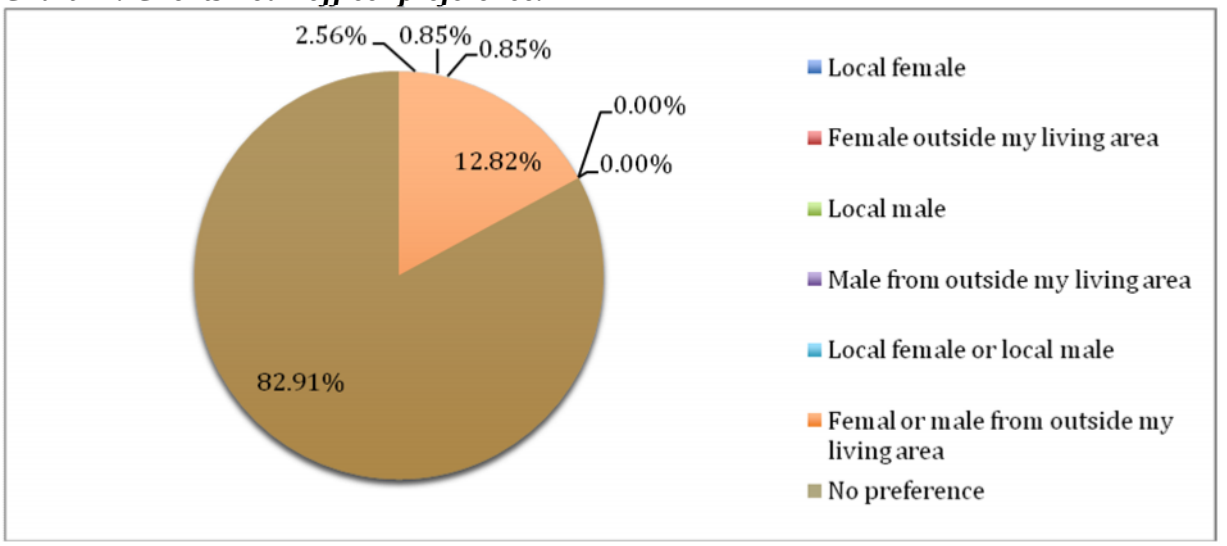

When asked about the benefits of their association with their MFI, clients overwhelmingly correlated their ability to improve and expand their micro enterprises with MFI association. Indirect benefits are recognized as well, as respondents saw improvements in their food consumption and an increased ability to provide better education for their children. Others have been able to purchase assets for their homes, or make improvements to their homes. Some respondents related how they were able to finance a daughter's wedding, repay an old loan, and even purchase land in their home village. The perceived benefits of MFI association are widespread, as reflected in Chart 19.

***Chart 20: Clients' suggested changes in loan product design.***




When asked about changes they would like to see implemented by their MFI, 86 clients (roughly 74 percent) indicated that larger loans were necessary to continue expanding their businesses. 29 clients (25 percent) suggested MFIs provide lower interest rates, even though this response was not listed as part of the structured questionnaire. Other popular responses were requests for longer repayment periods and loans made available according to customer demand. Under 10 responses were fielded by respondents requesting the following: education loans; more trainings; savings accounts; more convenient meeting time and place; housing loans; lower weekly/monthly payments; more honesty from MFIs;[7] and individual loans.

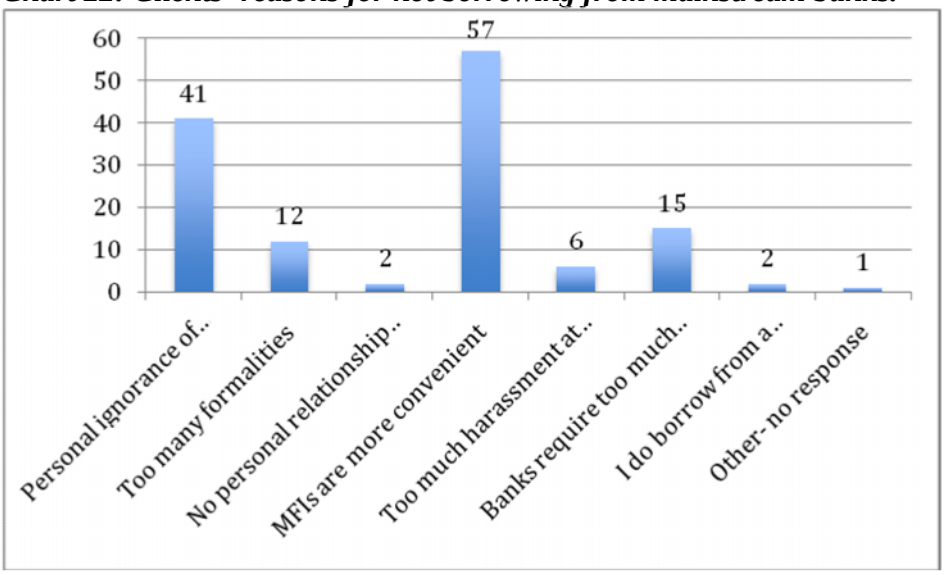
***Chart 21: Clients' loan officer preference.***




[7] Some clients had heard rumours that one MFI would soon cease to operate, but claimed the MFI refused to disclose this information.

While some respondents indicated a preference for a non-local male loan officer, these responses were gathered from clients whose loan officer *is* a non-local male; thus, these responses could either indicate satisfaction with their current officer, or a real preference for non-local male loan officers. However, the overwhelming response to this survey question was of "no preference" for either male or female, local or non-local. Many times over, respondents commented while answering that gender or residence has little to do with their preference for loan officers; rather, this has everything to do with the perceived trustworthiness and efficiency of the loan officer.

***Chart 22: Clients' reasons for not borrowing from mainstream banks.***




Most poor urban entrepreneurs surveyed in this study avoid mainstream banks for a variety of reasons, but mostly because MFIs are more convenient (49 percent of respondents). Clients spoke highly of the relative ease of dealing with MFIs as opposed to waiting in long lines at banks; through MFIs, clients can receive a loan and make repayments without leaving their communities. Other clients confessed personal ignorance of the mainstream banking system, and other still were intimidated by the formalities (real or imagined) present in the mainstream banking system. Others avoid banks because they lack the required collateral for mainstream bank loans.

*CHAPTER 5*

## Recommendations

Based on data and observations collected in Key Informant Interviews, Focus Group Discussions and Household Surveys, the following recommendations are proposed:

- **Conduct Trust-Building Activities During Group Meetings**:
  To reduce the adverse affects of heterogeneity among urban microfinance clients, trust-building activities could be incorporated into weekly or monthly meetings. These could take the form of simple games and other activities to build camaraderie and encourage group solidarity in the face of socio-economic diversity.

- **Offer More Capacity Building/Training to Truly Empower Female Clients**:
  As both Sen (2000) and Koczberski (2007) argue, women are more likely to influence household spending patterns – and spend money on their children's health and education in more equitable ways than men – if they have control over some of the family income. Because 22 percent of clients in the survey borrowed money primarily to assist their husband's business, a significant portion of clients in Bhubaneswar likely are left out of household spending decisions. By incorporating more trainings and capacity building in microenterprise for their female clients, MFIs could make great strides toward intra-household gender equality among those women currently lacking their own means of income generation.

- **Act as Housing Advocates on Behalf of Clients**:
  Clearly, secure housing poses a major problem for many MFI clients. MFIs should thus serve as advocates on behalf of their clients and negotiate with local authorities to produce an equitable solution allowing for greater housing security. This is not only the just course of action, but also lessens flight risk facing many MFIs if their clients are suddenly evicted from their homes.

- **Allow SHGs/JLGs to Determine Frequency of Meetings:**
  The data reveal no clear consensus among clients regarding preferences for weekly or monthly meetings; in the interest of promoting an atmosphere as client-friendly as possible, MFIs should consider allowing individual SHG/JLG groups to decide democratically which time schedule best suits their needs.

- **Mitigate Client Dissatisfaction with "Security" Fee:**
  Survey results indicate that nearly half of the sample has taken three or more loans. FGD respondents expressed bewilderment and even resentment that MFIs continued to charge security fees even after clients had established their credit-worthiness by successfully completing several loan cycles without incident. However, Key Informants pointed out that elimination of the security fee is not possible; after several loan cycles, clients graduate to larger loans, which carry greater risk. Removal of the security after two or three loan cycles could tempt clients to "default and disappear" after accepting a larger loan with no security, said one Key Informant. However, based on widespread client

dissatisfaction with this practice, as related in numerous FGDs, this study recommends a conciliatory gesture in the form of interest payments on security fees held by MFIs. This way, clients would receive some compensation for their deposit, and MFIs could mollify some of the resentment surrounding the security fee.

- **Take Steps to Reduce Multiple Borrowing**:
  Survey data show that clients borrow from multiple MFIs as well as from friends and relatives. Based on these findings, this study proposes two courses of action. First, MFIs should work together through umbrella groups such as Sa-Dhan or on their own to promote information sharing on credit-worthiness of clients and simultaneous loans. Because multiple borrowing often exacerbates pre-existing strains on financially unsophisticated clients, this both undermines the original intent of microfinance (poverty alleviation and economic empowerment) and puts MFIs at greater risk of defaulting clients and non-performing assets in their portfolios. Second, many clients in the FGDs noted that they would prefer to take out larger loans with one MFI rather than small loans from multiple MFIs; borrowing from multiple MFIs complicates the already-busy lives of the urban poor with multiple meetings to attend and double or triple the loan paperwork, not to mention the risk of borrowing beyond their means. MFIs should thus strive to increase their access to capital and provide clients with the loan size they require. However, to do so requires a strict assessment of a client's credit-worthiness both to minimize risk to MFIs and to ensure that clients borrow within their means. The client assessment tool currently being developed by Sa-Dhan could contribute immensely to resolving the critical, interrelated goals of increasing client loan size and minimizing multiple borrowing.

- **Adopt Insurance Schemes with Great Caution**:
  Clients in the sample population demonstrated some difficulty recalling whether or not they were covered under insurance schemes. Many of the MFIs included in the survey have a mandatory insurance requirement, meaning that a portion of clients' loan automatically serves as payment toward an insurance scheme. On the whole, clients did not appear interested or well-acquainted with the insurance schemes in which they were enrolled. Nearly all clients who had insurance claimed that they had life insurance, from one of the following four companies: L.I.C., Tata AIG, Birla SunLife, or Bajaj Alliance. In these schemes, the MFI acts as an agent on behalf of the insurance companies. In the event of a clients' death, benefits are paid out to the MFI, and are then distributed to the client's family. A few clients thought that they had medical insurance, but could not recall the name of their provider or the potential benefits to which they were entitled. For many clients, the mechanics of taking loans for working capital or consumption are fairly straightforward; however, insurance is a far more complicated concept, often poorly understood by clients and MFIs alike. In some cases, Key Informants reported that insurance companies equivocated when claims were made on behalf of clients, resulting in lack of proper claim settlement. However, due to limited understanding of the technical aspects of insurance provision, clients in these cases blamed the MFI instead of the insurance companies, destroying the goodwill between the MFI and some clients. Thus, MFIs should take great caution when offering insurance services to their clients, and should only engage in such an undertaking if they possess the proper expertise and

experience specific to insurance provision; too much is at stake in the event of unsettled claims to enter into insurance provision haphazardly.

- **Conduct More Research into MFIs as Remittance Channels**:
  Further research is required on urban-rural remittance channels. The survey data indicate that many clients send money back to relatives living in their native places. Formal remittance channels such as the Post Office or mainstream banks are typically avoided in favor of personal delivery or using friends and relatives as informal remittance channels. It is unclear whether the provision of remittance services by some MFIs would be well-received: clients might enjoy their monthly visit to their family homes, and enjoy the prestige that personally handing money to loved-ones naturally brings. Thus, it appears as though informal – and free – methods of remittance delivery currently dominate, at least among the survey sample. Because of this ambiguity, more research into the amounts sent by clients and the destinations of their remittances is required to correctly assess the feasibility of MFIs as fee-based remittance channels.

- **Promote "One Rupee Bank" Savings Account Scheme in Bhubaneswar**:
  Survey data indicate that just over 41 percent of respondents do not have savings accounts, indicating that financial exclusion among some poor urban clients in Bhubaneswar persists. As noted above, MFIs are currently prohibited from accepting savings deposits from their clients. However, a recent development in Hyderabad, called the "One Rupee Bank" holds promise in this regard. *The Hindu* (22 Jul 2010) reports that the State Bank of India (SBI) has initiated a pilot program in Hyderabad allowing poor urban women to open a savings account with a deposit of just one rupee. SBI has opened "no-frills kiosks" in urban low income areas with simplified banking procedures to appeal to both time constraints faced by poor urban women and a distaste for bank formalities found among the urban poor (ibid). Such program, if introduced in Bhubaneswar, would doubtless result in greater financial inclusion for the urban poor there.

- **Staffing Practices: Trustworthy, Efficient Loan Officers Mean More To Clients Than Gender or Residence Area:**
  Contrary to Krishnan's (2007: 9) assertion that female field staff should be hired to provide "an even further supportive environment for women", the gender of the loan officer does not figure strongly in the preferences of clients in this survey sample (Chart 21). Further, whether or not the loan officer hails from the same area as clients is equally unimportant. The more salient issue for most clients in the sample is the cultivation of efficiency and trust between client and loan officer, regardless of gender or residence.

- **Decrease Interest Rates or Offer Relief Once Profitability/Sustainability Established**:
  MFIs charge higher interest than mainstream banks for a variety of reasons, ranging from the door-step service they provide, high transaction costs associated with providing small loans, high client mobilizations costs and financial literacy training costs, among other reasons (Sa-Dhan 2009). While this study acknowledges these extra costs, it nonetheless recommends that, once profitability and sustainability are established, MFIs should lower

interest rates for clients where possible. Lessening the burden on poor people by lowering interest rates serves the primary goal of microfinance as a poverty alleviation tool. Further, it would be seen as a gesture of goodwill among clients and a reward for their loyalty. This will both maintain current client base and possibly attract newer clients for economic reasons (lower interest rates) and emotional reasons (an MFI that lowers its interest rates at least appears to care about its customers more than profit).

For MFIs operating on thin margins, lowering interest rates might not be an option; in this case, smaller rewards could be furnished to customers for financial discipline. For example, a small cash rebate could be provided to clients who repay their loans on time for the entire loan period. In any case, MFIs should explore ways of passing on the benefits of their profitability and/or sustainability to their clients.

- **Provide Individual Loans, with Caution**:
  The practice of lending to individuals in a microfinance setting has been introduced in Eastern Europe, China and Latin America. Armendariz de Aghion and Morduch (2000) report success with individual loans in transition economies such as China, Russia and Albania due to one or a combination of three key factors: 1) the use of collateral such livestock, land and housing 2) the threat of non-refinancing (if clients default, they will not have access to further loans) and 3) the use of guarantors. The authors observe that "the salvage value of collateral is far less important than the judgment of . . . personal value for borrowers" (ibid.: 405); thus, simple household items with little salvage value could theoretically be used as collateral if the loss of these items outweighs the incentive to default on payments. This study recommends further research into development of a tool to assess potential items as collateral for a given household; in this manner, MFIs could cater to demand for individual loans and minimize the added time burden of group meetings faced by many poor urban clients. Indeed, one MFI in Bhubaneswar currently offers individual loans as their primary lending model. Because Bhoomika has a unique agreement with the Unit 1 Market Association, this MFI furnishes individual loans to vendors using their market stalls as collateral. In the case of default, the market stalls can be auctioned, typically for a larger amount than the original loan.

  In Bhubaneswar, with fierce competition among MFIs and the prevalence of multiple borrowing among many clients, the threat of non-refinancing appears rather empty; if clients default on payments to one MFI, and that MFI refuses to offer subsequent loans, clients know that several other MFIs operating in the same area are competing for their business and will loan them funds without asking too many questions. Finally, the use of guarantors or co-signers could be explored, although if one's relatives or neighbors do not have sufficient collateral to guarantee a loan, then the practice of using co-signers in place of collateral might not make sense.

  The case of competition between Caja Los Andes and BancoSol, two prominent MFIs operating in Bolivia, illustrates a different approach to individual lending that could find a place among urban borrowers in Bhubaneswar. Caja Los Andes succeeded in poaching a number of clients from the larger BancoSol by attracting BancoSol's relatively richer, more established clients – frustrated with small loans and the burden of group lending – with larger, individual loans. This required Caja Los Andes to develop a costly, complex screening tool, and to devote significant human resources to verify

clients' credit-worthiness, but ultimately paid off financially as Caja Los Andes gained wealthier, credit-worthy clients capable of taking large loans (Navajas, et al. 2003). The Focus Group Discussions conducted in this study indicate that clients would prefer individual loans if offered the choice; data also show that over 25 percent of clients in the survey had a monthly income of between Rs. 10,000 and 30,000, indicating that some high-productivity borrowers probably could afford larger loans and pass complex credit-screening tests. Thus, there could be potential in Bhubaneswar for certain MFIs to cater to relatively wealthier clientele by offering larger, individual loans. However, this study recommends that MFIs pursuing such a strategy proceed with caution, as lending larger amounts to individuals appears to undermine the concept of microfinance as a collateral-free poverty alleviation tool and source of group- and community solidarity and empowerment.

- **Monitor Mobile Technology**:
  Due to time constraints faced by many poor urban borrowers, mobile technology allowing clients to make payments via mobile transactions could save clients time and effort required to attend repayment meetings. Mobile companies such as mCheck[8] promise to make inroads into mobile banking in rural India; similar technologies could easily apply to the urban poor, as mobile phone use is nearly ubiquitous among the urban poor in Bhubaneswar. Through tie-ups with mainstream banks, mCheck will offer consumers a special SIM card containing bank data and a PIN number. This SIM card theoretically allows borrowers from MFIs to make payments using their mobile phones, obviating the need to attend group repayment meetings. However, group meetings could still be held to promote group solidarity, capacity building and financial literacy, but meetings simply for the purpose of loan repayment could be avoided through mobile technology. Further, MFIs could cut transaction costs by reducing client visits (although this could undermine trust between client and MFI) if mobile technology partially or fully replaces group repayment meetings and loan officer visits. This study therefore recommends keeping a close eye on emerging technologies such as mChek and other mobile banking services; when these products become available, they could improve the microfinance experience for both clients and MFIs.

- **Diversify Products to Suit Client Needs**:
  In Key Informant Interviews, ideas for scaling up the business of microfinance were proposed by experienced CEOs and other key personnel. Most of these ideas centered around further product diversification; several of these ideas are proposed below. One CEO mentioned that his MFI would begin providing loans for the purchase of gold, mobile phones, children's education and festival loans, in which clients borrow money over short periods to finance vendor activities during specific festival periods. Loans catering specifically to housing and sanitation needs of clients were also proposed as products either currently available or planned for the future. Finally, short term loans at slightly higher interest rates were also proposed, allowing clients to use their entrepreneurial skills and capitalize on sudden income-generating opportunities. Although data indicate that 85 percent of clients surveyed use loans primarily to purchase

[8]For more information, see http://main.mchek.com/partners/banks

working capital for their businesses, it is possible that clients would use other loans if these loans were made available. This study therefore recommends that MFIs provide as many different loan products as possible to allow clients the opportunity to choose which products best suit their needs.

- **Scaling Up**:
  Key Informant Interviews yielded a variety of plans for scaling up in the coming decade. Some CEOs stated their intention to become NBFCs in the coming years, increasing their loan portfolios and catering to an ever expanding list of clients. Others intend to focus vertically as opposed to horizontally, meaning they intend to deepen the services they offer and relationships they have with existing clients as opposed to expanding to reach more clients. Whatever the case, this study recommends that MFIs keep one thing in mind at all times: in the wise words of one CEO interviewed, microfinance providers must maintain a "social development heart and a business mind." As MFIs continue to expand and grow their businesses, it is imperative that they not lose sight of the original intent of microfinance as a poverty alleviation tool and vehicle promoting solidarity and empowerment among the poor.

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## APPENDIX A: URBAN MICRO FINANCE IN BHUBANESWAR – SURVEY QUESTIONNAIRE

**Name of the respondent:** **Area:**
**(optional and confidential)**
**Name of associated MFI:**

1) What is your current occupation/business?
   1. Tailor 2. Small shop owner 3. Assist husband's business
   4. Daily wage labor 5. Domestic servant 6. Salaried
   7. Petty vendor 8. Artisan/handicraft maker 9. Dry-foods packaging
   10. Rent Building Materials 11. Other _____

2) Please list the number of persons in your household, including yourself
(who have lived under the same roof and shared the same kitchen for the past 6 months):
_____

3) What is your age?
   1. 18-25 2. 26-35 3. 35-45 4. 45- 55 5. 55 and above

4) Level of education:
   1. Illiterate 2. Up to primary 3. Up to middle school
   4. Up to high school 5. Above high school

5) Caste:
   1. ST 2. SC 3. OBC 4. Upper caste 5. Muslim
   6. Other _____

6) Please indicate your marital status :
   1. Single 2. Married 3. Widow 4. Divorced

7) What is the **principal** source of income for your household?
   1. non-ag. wage labour
   2. artisan
   3. petty trade (vendors)
   4. small shop
   5. salaried
   6. skilled worker (plumber, mason, electrician, driver etc.)
   7. other _____

8) **Total** monthly household income
   1. Up to Rs. 1000
   2. Rs. 1001 – Rs. 2000
   3. Rs. 2001 – Rs. 5000
   4. Rs. 5001 – Rs. 10000
   5. Rs. 10001 – Rs. 20,000
   6. Rs. 20,001 – Rs. 30,000
   7. Rs. 30,000 and above

9) How many years ago did your family come to Bhubaneswar?

1. 1year 2. 2-4 year 3. 5-8 year 4. 8 years & above
5. I have lived in Bhubaneswar my entire life.

10) Please describe your current residence:

1. Own house and property
2. House on BMC Patta (90-year lease from government)
3. Live on government encroachment/land with **no lease**
4. Rent house
5. Residence in shop
6. Other _____

11) Do you possess any of the following forms of identification?

1. Voter ID card 2. BPL card 3. Ration card 4. None
5. Other _____

12) For how long have you been associated with the MFI?

1. Less than a year
2. One to two years
3. Three to four years
4. Five years & above

13) Would you prefer weekly or monthly meetings with your SHG/JLG?

1. Weekly 2. Monthly 3. Doesn't matter 4. Other _____

14) How many loans have you taken so far? For how much?

| 1. One | 2. Two | 3. Three | 4. Four | 5. Five & above |
|---|---|---|---|---|
| < Rs. 3,000 | < Rs. 3,000 | < Rs. 3,000 | < Rs. 3,000 | < Rs. 3,000 |
| 3-6,000 | 3-6,000 | 3-6,000 | 3-6,000 | 3-6,000 |
| 6-8,000 | 6-8,000 | 6-8,000 | 6-8,000 | 6-8,000 |
| 8-10,000 | 8-10,000 | 8-10,000 | 8-10,000 | 8-10,000 |
| 10 – 20,000 | 10 – 20,000 | 10 – 20,000 | 10 – 20,000 | 10 – 20,000 |
| 20 – 30,000 | 20 – 30,000 | 20 – 30,000 | 20 – 30,000 | 20 – 30,000 |
| 30 – 50,000 | 30 – 50,000 | 30 – 50,000 | 30 – 50,000 | 30 – 50,000 |
| > Rs.50,000 | > Rs.50,000 | > Rs.50,000 | > Rs.50,000 | > Rs.50,000 |

15) For what purpose are **the majority** of your loans taken? (list up to 2).

1. Consumption (food, health & children education)
2. Working capital for business
3. Purchase of assets
4. House repair
5. Repayment of old loan
6. Marriage
7. Other (Pl. specify) _____

16) Have you ever taken a loan for consumption purposes? (food, medical, or children education)

1. Yes
2. No

17) From which of the following sources have you borrowed funds (apart from this MFI) in the **past 2 years**? Please select all that apply.

1. Employer
2. Money Lender
3. Friend
4. Relative
5. Mainstream Bank
6. Other MFIs (Pl. specify) _____
7. SHG
8. Other source
9. No other loans taken

18) How many times have you defaulted in repaying your loan on time?

1. 0 times
2. 1-2 times
3. 3-5 times
4. 6-10 times
5. more than 10 times

19) Are you covered under any insurance schemes?

1. Yes, through **this** MFI (type: _____)
2. Yes, through **another** MFI (type: _____)
3. Yes, but not through an MFI (type: _____)
4. No

20) a. Do you have relatives/dependents staying in your native place? (*if no, skip to next question)*

1. Yes
2. No

b. Do you send them money? (*if no, skip to next question*)

1. Yes
2. No

c. How often?

1. Monthly 2. Yearly 3. As and when needed
4. Only in emergencies

d. What is your method of sending money?

1. Mainstream Bank
2. Post Office
3. Money transfer service provided by **this** MFI
4. Money transfer service provided by **other** MFI
5. Friends and relatives carry money to native place
6. I deliver the money myself
7. Other _____

21) Do you have a savings bank account?

1. Yes
2. No

22) In your opinion, what are **one or two of the most important benefits** of your association with MFI:

1. No need to rely on others (moneylenders, friends, etc.) for money anymore
2. Better food for family
3. Better education for children
4. Able to purchase assets for home
5. Able to improve/expand business
6. Able to repair house or construct new house
7. Sense of community with SHG
8. No benefit from MFI association
9. Other _____

23) Please list **two changes** you would like to see implemented by your MFI:

1. longer repayment periods
2. loans available when I need them
3. Education loans made available
4. More trainings offered
5. Savings account made available
6. larger loan amounts available
7. More convenient meeting time and place
8. Housing loans made available
9. Other _____

24) Who would you prefer as your loan officer?

1. Female from your living area
2. Female from outside your living area
3. Male from your living area
4. Male from outside your living area
5. Female or Male from my living area
6. Female or Male from outside my living area
7. No preference

25) Why don't you borrow from a mainstream Bank?

1. Personal ignorance of banking system
2. Too many formalities
3. No personal relationship with bank staff
4. MFIs are more convenient
5. Too much harassment at banks
6. Banks require too much collateral
7. I do borrow from a mainstream bank
8. Other _____