

‘Understanding Cash Flows of Urban Poor’

Micro Finance India

Meeting the needs of Urban Poor

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- Cash flows of urban poor – to know about them and their mF needs
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Study Design

- Objective of the Study : To understand the cash flows of urban poor for designing appropriate interventions
- Covered 1037 HH in 10 slums across five cities (2 slums in each city)
- Prepared occupation profile of the residents
- Sampling to cover major occupations in the slum
- Household questionnaire, FGDs and Case studies

Major Observations

Who are the Urban Poor?

- Majority of them are Schedule Castes (38%) and OBCs (25%)
- Daily Wage Laborers constitute 30% of the population. Most of them work on construction sites, in mines or as plumbers, masons, rickshaw pullers and other casual labor
- Salaried workers comprise of 18% of the population and are employed as domestic helps, salesman, watch man, factory workers
- Around 12% of them are Self employed and work as vegetable vendors, rickshaw pullers, petty shop keepers, artisans, ironsmith and other street vendors.

Characterized by irregular cash flows and insecurity and low skill employment

What is their Quality of Life?

- **Low Income** : The average annual income of HH is Rs 49800
- 31% of HH are BPL and 8.5 % are women headed HH
- **High Illiteracy** (38.8%), **Sex Ratio**: 904 Female per 1000 Males
- There is **no security of land/house** ownership as most slums are not recognized
- 89% families own houses, but only 37 % have RCC roof
- Nearly 41% HH were **without electricity connection** and only 29% had a water connection at home
- About 5% of the adult population is unemployed. Most of whom fall in the 18-28 years age group

Income, Expenditure and Financial Needs

How much do they earn?

- The average annual income of a HH is Rs 49800
- There is little variance between income of APL and BPL HH
- HH were further divided into 3 categories on the basis of their annual income:

Low Income Group – Rs 24216 (Wage laborers, artisans, women headed HHs, beggars, senior citizen HHs)

Mid Income Group – Rs 43272 (Semi Skilled workers, salaried people like salesman, self employed women, Vegetable vendors)

High Income Group – Rs 85599 (Auto rickshaw Drivers, labor supervisors, contractors, teachers)

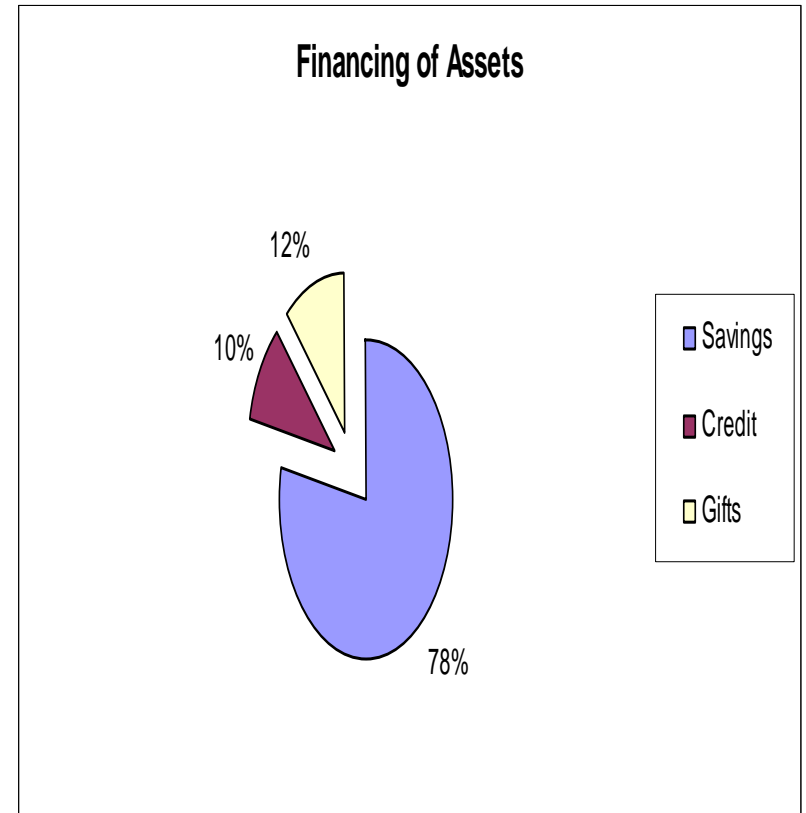
How do the urban poor spend their Income?

- Annual HH expenditure Rs 44172
- **Nearly 41% of the expenditure or 36% of the income is spent on food**
- 21% of the income of indebted families (78%) is spent on repayment of the debt
- 4% of the income is spent on health
- 5% of (54% HH) the income on education
- The average annual surplus after expenditure is 5628

Thus most of the income is spent on procuring basic necessities

Financing Assets

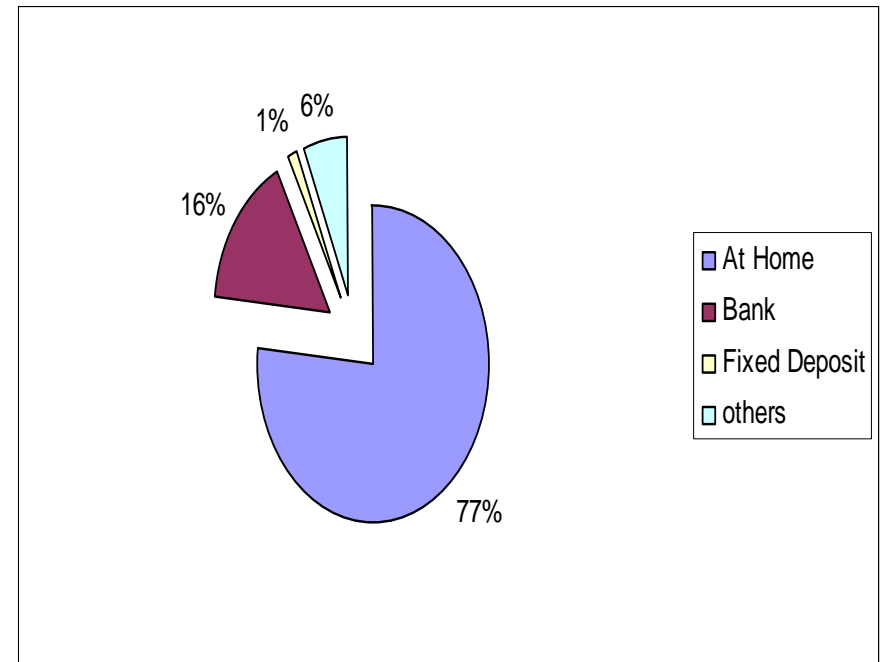
- The most common HH assets are bicycle, television and fan
- Saving is the main source of asset finance with 78% of all assets brought from savings
- Credit is the least common source of financing HH assets (about 10%)
- The share of formal institution in asset finance is negligible
- Thus, the household surplus is used for asset purchase



Therefore, the need is to provide credit to finance productive assets, so that savings can be built to fund social expenditure

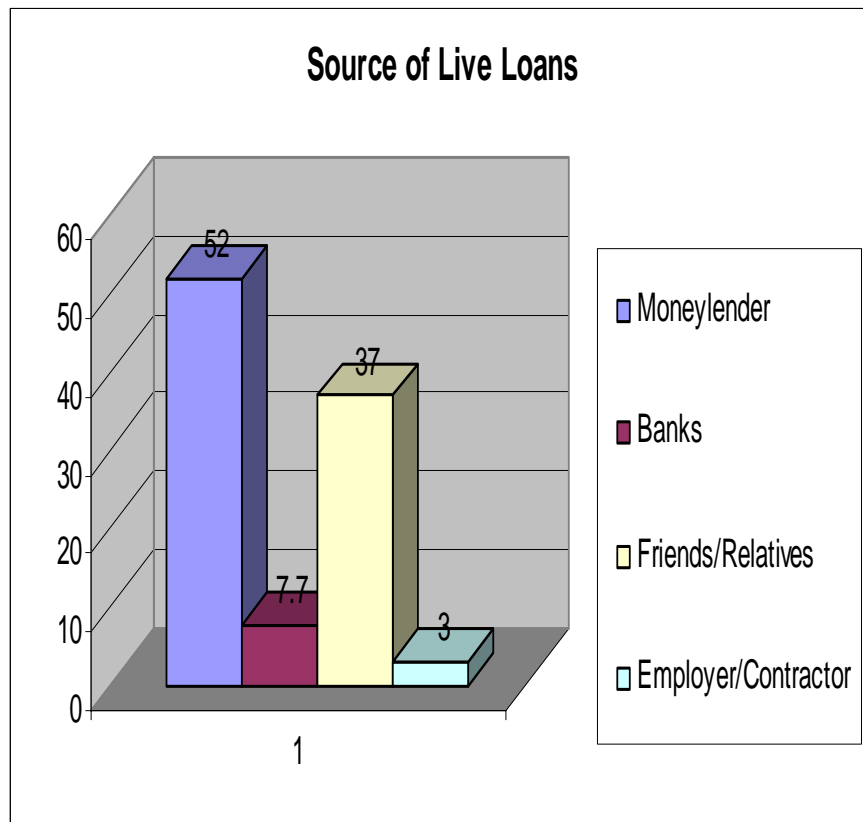
Where do people save?

- Most (93%) HHs save
- Average saving size - Rs1894
- Majority of the savings 39% (in terms of amount) is deposited in banks
- With regard to instances of savings, 76% is 'cash at home'
- Around 17% of the savings is as fixed deposits and long term in banks and post offices
- About 72% of the savings are done on a monthly basis
- Liquidity and accessibility most important criteria for selection of saving avenue



Savings products and services that encourage small deposits and provide periodic withdrawal facilities are required. Targeted savings for life cycle events need to be introduced

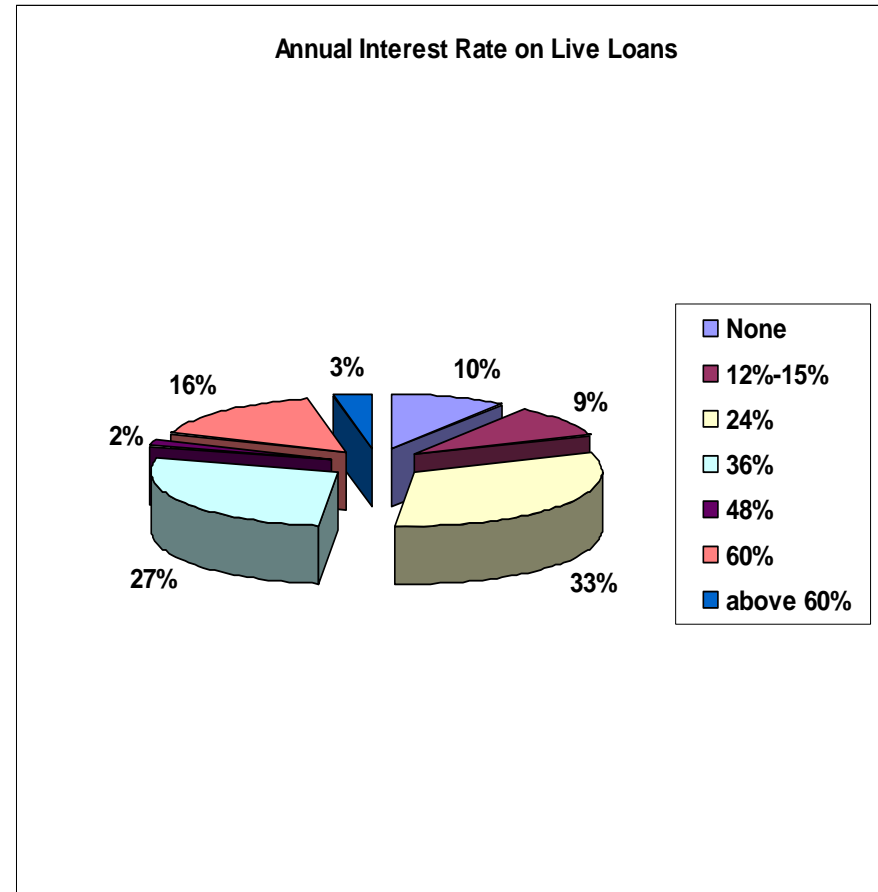
Who provides credit to the poor?



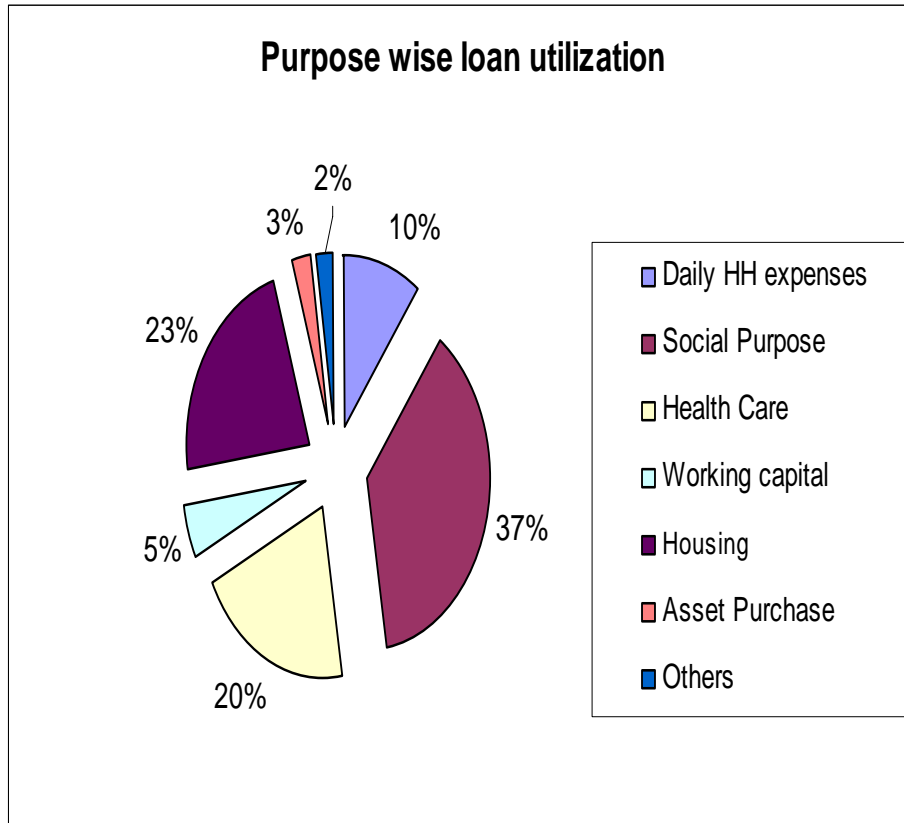
- About 77% HH have outstanding loan
- Average indebtedness is Rs 33365
- A quarter of loans are between RS 1000-10,000
- Moneylenders is the chief source of credit, 52% of all live loans from this source
- Only 8 % of the loans are taken from banks, mostly for housing & working capital

Interest rates and Repayments

- About 33 % of live loans have been taken at 24% annual interest rate and about 27% at 36% annual interest rate
- Nearly 16% of the live loans have been taken at 60% interest rates
- 44% loans have no fixed repayment schedule. The emphasis is only on timely payment of interests



Credit : Purpose and Preferences



- Purpose of credit: 37% of all live loans were taken for life cycle events and 23% for housing
- Most loans from banks are for housing (but as personal loans)
- Only 5% of credit taken for working capital
- Accessibility and adequacy of credit given are important factors in choice of a source
- Cost of credit is not an important consideration

Financing Life Cycle Events

Details of Lifecycle event (last 10 years)			
Event	Households covered	Average expenditure (in Rs)	Major source of Finance
Marriage		58325	Credit –money lenders (86% cases)
Housing	31%	63516	Credit -moneylender (78% cases)
Major Health Ailment	37%	21420	Credit friends /relatives and moneylenders (71% cases)
Funeral Expenses	19%	24226	Credit –friends /relatives and moneylenders (68%)
Childbirth		4685	Savings – 48% events

The need is to provide long term savings product to finance predictable life cycle events like marriages, housing. Provide insurance products for unpredictable life cycle events like health ailments, and death

Do the poor have risk coverage?

- Only 10% of the HH have an insurance policy (mainly life) and covers the head of the HH
- Life Insurance (money back policy) is perceived as a saving option
- Only 6.2% of the HH remit money. Money is remitted primarily through 'self' or relatives
- Formal sources like bank transfers, money orders are not used due to costs involved.

Need for a sustained Financial Literacy programme to promote savings and increase insurance coverage

What are the financial services that Urban Poor need?

- Savings- Products that allow frequent small deposits and withdrawal facilities. Long Term Targeted savings for social expenditure
- Credit- Short term credit to finance livelihood and skill enhancement . Long term credit for housing
- Remittance services- to send money back home
- Insurance – Health Insurance, accident Insurance, against demolitions, theft, fire and life insurance

The Approach...

Facilitating Institution Building

**Providing
Financial
Services**

**Livelihood support
services**

Capacity Building

Financial Orchestration
(availing existing entitlements,
govt subsidies etc)

