भारतीय प्रबंध संस्थान बेंगलूर

INDIAN INSTITUTE OF MANAGEMENT BANGALORE

WORKING PAPER NO: 332

MFIs and Informal Businesses of Women[1]

BY

Rajalaxmi Kamath

Assistant Professor,
Centre for Public Policy
Indian Institute of Management Bangalore
Bannerghatta Road, Bangalore – 5600 76
Ph: 080-26993748
rajalaxmik@iimb.ernet.in

&

Smita Ramanathan

Research Associate
Indian Institute of Management Bangalore
Bannerghatta Road, Bangalore – 5600 76
smita.ramanathan@iimb.ernet.in

Year of Publication 2011

MFIs and Informal Businesses of Women[1]

Abstract

Most Grameen type Micro Finance Institutes (MFIs) vouch to providing for the credit needs of informal businesses being run by poor women. There is ample evidence[2] cited in the form of case-stories of women who have reared successful informal businesses, using micro-credit. However there is scant evidence on what are the kinds of informal businesses traditionally being run by poor women, how do they initiate it and whom do they turn to for finance and other were withal. In a year-long study being carried out through a detailed methodology of asking MFI borrowers to keep daily financial diaries, in the town of Ramanagaram, Karnataka, we were able to track the daily cash inflows and outflows of a few women who did informal businesses such as selling bronze vessels, bed sheets, bangles, etc. In doing so, we were able to trace how MFI loans and repayment schedules impact their cash transactions. The evidence we gathered about micro-credit was mixed. Women running these businesses stated that with an MFI that they cannot afford to miss even one weekly instalment; as a result they end up borrowing – at very high costs - from neighbours or others to make the weekly repayment to the MFI. The long repayment duration (one year) of the loan in the MFI also makes them feel that they are indebted for a longer period; whereas they seem to prefer completing the loan cycle in a period of 3-4 months as can be done with finance companies. This goes a lot to say about the need for introducing flexibility in loan products of most Grameen type MFIs.

1. Introduction and Methodology

The Financial Diaries of the Poor – was a year long study carried out in Ramanagaram in town in Karnataka. 95 poor families belonging to Ramanagaram diaries kept diaries between September 2008 and August 2009, with details of their daily financial inflows and outflows. The diaries were maintained by the women of the households, often their children writing the diary if the women were illiterate or unable to write.

The methodology of keeping a track of the financial inflows and outflows of people through financial diaries was used by Stuart Rutherford in Bangladesh (2003), and by the DFID (Department for International Development) group led by Orlanda Ruthven in Delhi and Allahabad (2002). A major study of this kind was implemented in South Africa (2009). However, unlike the previous studies quoted, we had our participants log-in the diary entries themselves; instead of having field workers write the diaries for them. To our knowledge, this was something that was being tried out for the first time, especially among the urban poor. Any study conducted using the methodology of financial diaries requires a fairly intensive contact with the field assistants. It is essential that the participants are able to

[1] Funds for this research were granted by the MF Group, IIMB. Project Code – 40608.
[2] The websites of most Indian MFIs. Please check http://www.sksindia.com/.

freely access the field assistants; therefore this was the reason for choosing Ramanagaram to be our study area. A Primer on this Financial Diaries methodology as carried out by us in Ramanagaram is given in Kamath et. al. (2009)[3].

Data collection was not the only aim of such a methodology. While we did get large amounts of quantitative data regarding daily outflows and inflows, the basic advantage of this methodology, according to us, was that it became an excellent tool for qualitative analysis through interactions with our participants. Every occasion of recording the diary entries of the participants, was for us, an occasion of understanding how the participants live and deal with their specific situations. Many of the key results mentioned in Kamath, et. al (2010) especially regarding the multiple membership in MFIs was possible only because of the trust that we were able to establish with the study participants through intensive weekly contacts. Our field investigators were also asked to make detailed field notes during the process of data-collection. An example of some such field entries:

"Respondent is very weak, however she goes out to work, else cannot manage to survive, is eager to participate in study. Respondent was very weak after childbirth and continues to be weak and has started taking treatment only of late. Newborn child died as family could not afford treatment costs."

Thus, this study also became an ethnographical account of the 90 odd families living in the Hajinagar and Ambedkarnagar of Ramanagaram whose financial diaries we were recording. We as researchers were able to identify the households whose data we were analysing. This also helped in verification and triangulation of the data from various other sources. Before the diaries were written, all households participated in a baseline survey giving details of their occupation, education status, housing status, assets, income and borrowings, savings in the previous one year. (i.e. in the year prior to the period in which they write the diaries)

Of the 95 households who are participating in the Financial Diaries Study in Ramanagaram, 11 households are engaged in selling bronze vessels, bed sheets, bangles, etc. All these households have migrated to Ramanagaram from Davangere and Tumkur districts and are related to each other. They belong to the Korama Caste, which is classified as a Scheduled Caste.

The traditional occupation of people of their community is to weave cane baskets. They went from village to village selling the baskets. A few of them also had some land and were engaged in agriculture, whereas a few others were selling items such as clothes. While some of them continue in their traditional occupation, a few like these households have moved out of their villages. We spoke to four women and one man from among the study respondents on why they moved to Ramanagaram, how they went about setting up their new venture here, etc.

---

[3] Also found on http://www.cab.org.in/CAB%20Calling%20Content/Payment%20Systems%20-%20Risk%20And%20Risk%20Mitigation%20Measures/Microfinance%20in%20India%20-%20A%20Primer%20on%20the%20Financial%20Diaries%20Methodologies.pdf

This paper is based on the notes of that discussion, spending patterns of 7 households - households – 11, 41, 47, 74, 73, 77 and 78 – as reported in their diaries and the baseline information and case studies of the individuals.

All households live in the poor localities of Ramanagaram. They live in rented houses and own few assets. Most of them have bought their meagre assets on credit and not from own savings.

Table 1: Housing and Asset Status of Households

Household Code →	**11**	**41**	**47**	**73**	**74**	**77**	**78**
No. of members in family	3	8	7	5	3	8	5
No. Of family members in business	2	3	2	2	2	4	4
Housing condition	rented asbestos house, somewhat dilapidated	hut on lease; reasonable condition	Rented tiled roof house, somewhat dilapidated	rented asbestos house, reasonable condition	rented asbestos house, reasonable condition	Rented RCC house, reasonable condition	rented asbestos house, reasonable condition
Assets	Only assets are mixer grinder bought on credit and 6gm gold bought with savings	Owns TV, DVD player, phone and 8gm gold all bought on credit	TV, fan, cell phone bought on savings as well as credit	Radio, mixer-grinder, fan, almirah, cot, phone. Except radio and phone all other bought on credit.	Mixer-grinder, phone, clock, bought on savings as well as credit	3gm gold bought on credit	Tv, cd/dvd player, mixer-grinder, clock, cot, 3gm gold all bought on credit

Reason for moving: One woman mentioned that she wanted to do something other than weaving, and hence decided to take up a different occupation when she moved to Ramanagaram. A drought some 10 years ago also affected their business as most of their customers were farmers whose incomes the drought affected. Hence some of them decided to move to cities so that they would have a regular source of income. Most of them migrated here 10-15 years ago. The first among them to move to Ramanagaram was a woman who moved here 20 years ago. She first started making broomsticks and selling them. Though this doesn't require capital (since she collected the grass locally and made the brooms herself), it was nevertheless labour intensive and there wasn't much profit. She then started selling brass vessels as there is more profit in this. Following this, her relatives also moved to Ramanagaram and were helped by her in following her trade. She also helped them by lending money to buy stock.

Others of their community have moved to places such as Bangalore, Mandya. Some continue to be engaged in their traditional occupation. They visit their native towns once or twice a year. The women visit their hometown more frequently than the men – often visiting whenever there is a ceremony or some event in their village.

Initial Constraints: Initially they didn't know where to buy stocks, where the markets would be, etc. However they learned all of this from the first migrant and then also passed on the information to others as they moved to Ramanagaram.

All of them buy stocks from the same source (in Bangalore) – this source was introduced by the first migrant and they continue to use the same source as they have developed a relationship with this source.

2. **Nature of Informal Businesses:**

Between these households, they sell items such as vessels, bed sheets, foot mats, bangles, etc. They travel to villages in Ramanagaram and Mandya districts and also sell in towns. Having been in the business for so long, they know which locality to visit on which days. For instance in locations where there are factories, etc. they visit at the end of the month when employees draw their monthly salary. Most often, customers are the source of information as they tell them when it is that they will have the money to buy. They also talk to each other about potential markets. During agricultural seasons, when farmers are busy, they prefer to travel to towns where they can be assured of some customers near the bus stand and on the roadsides. The decision on which place to visit is often taken the previous evening. Sometimes they travel together and sometimes alone. If they get bored of going to the same place, there have been times when they have spent extra money on bus fare just to go to a different place. On a typical day, they leave for a particular destination by bus, go from house to house selling their wares, stop at some hotel for food, rest for a while and then return. One woman mentioned that on some days if they get tired or bored, they return home in the afternoon itself even if they haven't sold much of their wares. Generally if they leave early in the morning, they have a good business day as there is more time to make sales. They usually travel to their markets by bus. However when they visit villages they have to walk considerable distances from the bus stops.

How do they define a good business day? A good business day is defined by them as one in which they sell items worth at least Rs.1500. It is only if they make sales of Rs.1000 in a day that they can earn a profit of at least Rs.100. They define profit as the stock that they have left with them after they have recovered their costs (capital + other expenses). They usually buy stocks worth Rs.3-5000 and it lasts them about 2-3 days. They buy stocks as and when required. There have been times when stock worth Rs.5000 has been sold in a single day; in such cases it is possible to earn a profit of Rs.1000 in a day.

Festivals such as Ugadi, Sankranti, Deepavali, Dasara and village fairs are good times as there is more demand for their wares. The marriage season also sees a rise in demand. In the month of Aashadha (August-September) sales dip as this is not considered an auspicious month.

They decide on how to mark up prices for items depending on cost price. They cannot afford to buy items that are too costly since most of their customers will not be able to afford it. Some items are more popular than others and customers also tell them what particular items they would like and they try to cater to these demands. Some of them have regular customers as they are by now familiar with their (customers') needs and get things accordingly. The bangle-seller for instance, is very popular with her customers and in many villages her customers buy only from her. Her customers even provide her lunch and snacks when she visits them as she spends a lot of time talking to them and has built a relationship with them. She buys stock from Ramanagaram and Bangalore and also gets special orders during marriages.

Finance: When they first moved to Ramanagaram, they borrowed money to buy stocks from their relatives. Later they started borrowing from private finance companies. There are people who make daily, weekly and monthly repayments to these companies. Many of them have now also joined the MFIs and are members in 4-5 MFIs.

They find the finance companies more convenient as they can repay a loan of Rs.10,000 in a period of just 3-4 months. These companies are also flexible - so if they do not have the money to pay an instalment they are allowed to pay the next day. However in an MFI they cannot afford to miss even one weekly instalment; as a result they end up borrowing – at very high costs - from neighbours or others to make the weekly repayment to the MFI. The long repayment duration (one year) of the loan in the MFI also makes them feel that they are indebted for a longer period; whereas they seem to prefer completing the loan cycle in a period of 3-4 months as can be done with finance companies. There was a difference of opinion during the discussion on the nature of functioning of the MFIs. One woman mentioned that she has been borrowing from one particular MFI for 8 years and has taken several loans and never missed an instalment. In another MFI however, the staff came and locked her house for missing just one weekly instalment. This led to a discussion on how stringent MFI rules are, how it is unfair to expect them to repay on behalf of other members (if someone defaults) when they are hard pressed to repay their own loans, how they are forever indebted because the loan size is not big enough to meet their demand (forcing them to borrow from other sources). However one woman felt that all these conditions were clearly spelt out before they joined the MFI and since they agreed to it at the time of joining, they should not be complaining now. She also mentioned that a lot depended on how the staff of each MFI handled the customers. However, everyone did feel that the MFIs didn't really cater to their need as the loan sizes were too small.

3. Financial Diaries Data

Based on the Financial Diaries data (which they kept for a year from August 2008 to September 2009), we tried to make a sense of the flow of moneys related to businesses of these households. As seen in the table below, typically, these businesses have an average daily business turnover (gross sales revenue) ranging from Rs. 200 to Rs. 2000. There is not much difference between the average and the median earnings. The least turnover was in selling cloth (carrying bedsheets, bedcovers and such from house to house), shown by H 73. Otherwise, the gross sales turnover of each household selling bronze vessels typically exceeds Rs. 500 per day. There is a bangle seller (H74) who is able to make sales of Rs. 10,000 during a good marriage season. However, they are also replenishing their stock at the same rate. This is given in the column titled Business Investments (since the major business investment for such businesses is purchasing stock, apart from daily food and travel, which is nominal). Typically, the average business expense is higher than the median, because there being fewer "very good" days of business; where stock replenishment happens at a high rate. Therefore, the median is the more correct measure of recurring business investments.

Table 2: Snapshot of the Businesses in the year 2008-09

Household Code	2008-09	Business Investment (Rs.)	Gross Sales Revenue (Rs.)
11	Mean	1,297.90	1,248.74
	Maximum	9,925.00	5,000.00
	Median	108.00	1,250.00
41	Mean	29.34	650.66
	Maximum	190.00	6,000.00
	Median	30.00	600.00
47	Mean	73.52	533.60
	Maximum	1,025.00	3,000.00
	Median	70.00	500.00
73	Mean	436.52	220.43
	Maximum	13,300.00	800.00
	Median	25.00	250.00
74	Mean	205.68	969.94
	Maximum	5,060.00	10,000.00
	Median	80.00	900.00
77	Mean	628.23	2,239.43
	Maximum	10,200.00	10,000.00
	Median	100.00	2,000.00

78	Mean	100.12	1,587.99
	Maximum	240.00	7,300.00
	Median	100.00	1,800.00

We find that this business investment entailing purchase of raw materials is a small proportion of their gross sales revenues because they have to earmark their gross earnings to another lumpy expenditure item – namely, loan repayments. Below we give a table that will help eye-ball the extent of leveraging that these businesses are undertaking.

Table 3: Extent of Leveraging in the businesses

Household Code	Business Investment (median Rs.)	Loan Repayments (mean Rs.)	Business Investment as a % of sales revenue	Loan repayments as a % of sales revenue
11	108	235	8.65	18.82
41	30	31	4.61	4.76
47	70	-	13.13	
73	25	119	11.36	54.09
74	80	466	8.25	48.04
77	100	455	4.47	20.32
78	100	289	6.30	18.20

We compare the median purchase of raw materials that goes into their businesses with loan repayments (principal + interest). Excepting two households, H41 and H 47, (which has not recorded any borrowings) – the outflow on loan repayments is between 2 and 6 times the investments done towards business. These businesses are no doubt highly leveraged; but the cost of the loans is eating up into their normal business investments. This is another reason why these businesses will remain petty and cannot expand.

4. Borrowings and Repayments

The table below gives the extent of repayment burden they had for the year 2008-09. Most households apart from taking loans from 5 of the 6 MFIs operating in that region also took informal loans from Finance Companies and money lenders. Their grouse about MFI loans being unsuited to their requirements needs to be understood from this perspective. Not only would be they benefit from a larger loan size, but a greater flexibility in the repayment conditions. Multiple membership of MFIs also means that attendance of meetings (in this case 4 times a week) would hit businesses. It should be re-iterated that their businesses entails travel to the near-by villages, and therefore the cost of attending MFI meetings will be high.

Table 4: Total Loan Repayments during the year 2008-09

	Total Loan Repayments during the year 2008-09 (Rs.)						
Household Code	**11**	**41**	**47**	**73**	**74**	**77**	**78**
MFI 1	10,920	1,905	-	2,775	12,817	16,300	11,213
MFI 2	12,348	2,035	-	1,965	12,473	14,981	11,726
MFI 3	8,278	710	-	9,252	17,795	62,600	15,490
MFI 4	7,300	1,880	-	3,720	9,944	18,020	2,150
MFI 5	7,300	1,880	-	3,720	9,944	18,020	-
MFI Repayments	**46,146**	**8,410**	**-**	**21,432**	**62,973**	**129,921**	**40,579**
Other finance	17,990	1,440	200	-	4,500	6,000	60,240
Fund	17,990	600	-	20,200	95,100	22,620	-
Bank	-	-	-	-	-	-	-
SHG	-	250	-	-	-	415	-
Pawn	-	-	-	-	-	-	-
Cheeti	-	-	-	-	-	-	-
Other informal Repayments	**35,980**	**2,290**	**200**	**20,200**	**99,600**	**29,035**	**60,240**

Most of the MFI borrowings were made prior to August 2008. During the year that they maintained Financial Diaries most of the households had to take recourse to informal borrowings as well. The table below gives the loans that they took in the year 2008-09.

Table 5: Loans during the period 2008-09.

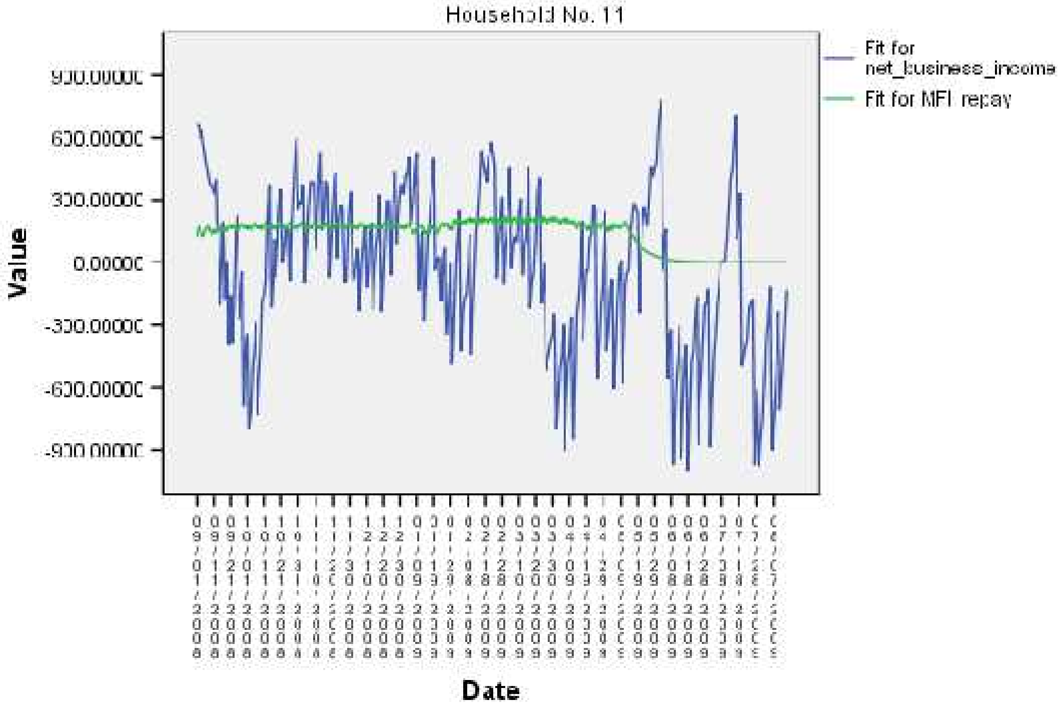
	Loans during the period 2008-09 (Rs.)						
Household Code	**11**	**41**	**47**	**73**	**74**	**77**	**78**
MFI 1	-	-	-	-	-	-	-

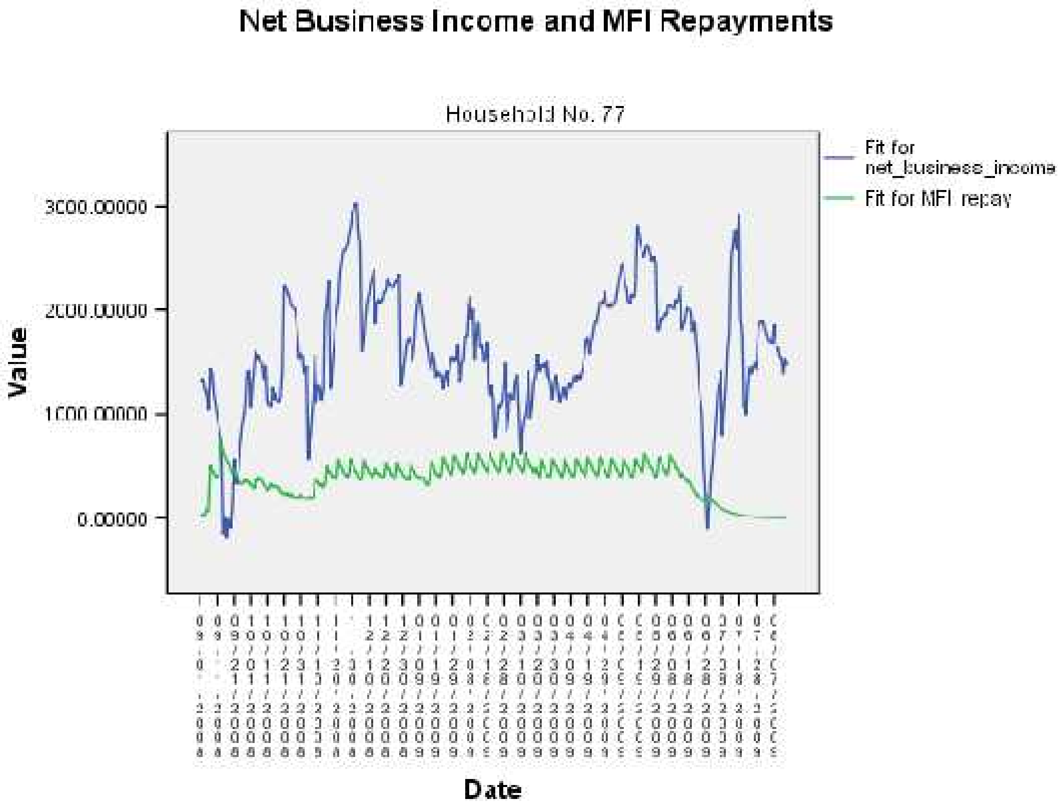
MFI 2	-	12,000	-	-	12,000	-	-
MFI 3	-	-	-	-	3,000	4,500	-
MFI 4	8,000	-	-	-	-	-	15,700
MFI 5	-	-	-	-	-	-	-
Total MFI Borr	**8,000**	**12,000**	**-**	**-**	**15,000**	**4,500**	**15,700**
SHG	-	-	-	-	-	-	35,000
Inf_fund	2,000	-	-	24,000	19,500	51,500	-
Relatives	2,596	-	-	-	-	-	-
Bank	-	-	-	-	-	-	-
Advances	-	-	-	-	-	-	255,510
Total Informal Borr	4,596	-	-	24,000	19,500	51,500	290,510

Not only are these loan sizes insufficient (evidence of borrowing from multiple MFIs and other informal sources) but the MFI loans, because of their rigid payment cycles are not dovetailed to the revenue cycles of these businesses. The correlation between Business Incomes and MFI Repayments is 0.035.

We take here two households H11 and H77 to illustrate how the rigid MFI repayment cycle is completely unsuited to the business needs. Both these household sell bronze vessels. We have carried out an exponential smoothening of their net business earnings (viz. Gross sales revenue minus business investments). H11 is not doing good business, given by the larger deficits it is incurring in the business; as compared to H77 which does not have any deficit. H77 also has 4 members of the household engaged in business. H11, on the other hand, effectively has only one member earning, and not very regular at that. The two are treated similarly by MFIs. Also, as seen clearly in the case of H77– the net earnings follow a cyclical pattern – high during a few months and low during some months. Any loan repayment module would benefit from understanding these business highs and lows. More important, in the case of H77 – a year long repayment schedule is unnecessary. This household has the ability to go in for shorter loans periods.

Net Business Income and MFI Repayments





The table below gives the daily burden of these MFI loans – though these repayments are made once a week.

Table 6: MFI Repayments – Average per day for the year 2008-09 (in Rs.)

Household Code	**11**	**41**	**47**	**73**	**74**	**77**	**78**
MFI 1	31	5	-	8	37	47	32
MFI 2	35	6	-	6	36	43	34
MFI 3	24	2	-	27	51	179	44
MFI 4	21	5	-	11	28	52	6
MFI 5	21	5	-	11	28	52	-
Total MFI Repayments	132	24	-	61	180	372	116

This should be compared with their average spending on food, health and education per day, given in the table below. We had to give the maximum amount spent because the average spending on health and Education during the year was miniscule.

Table 7: Average and Maximum per day expenditure on food, health and Education and daily consumption

Household Code		**Food**	**health**	**Education**	**Daily Consumption Expenses**
11	Mean	108	1	0	183
	Max	3,040	120	1	3,047
41	Mean	171	0	0	214
	Max	540	40	10	910
47	Mean	140	-	1	167
	Max	957	-	200	1,542
73	Mean	106	10	2	159
	Max	8,921	2,200	300	8,946
74	Mean	65	7	-	131
	Max	282	1,200	-	1,476
77	Mean	93	6	0	166
	Max	1,266	1,000	10	1,396
78	Mean	94	105	1	273
	Max	546	35,000	303	35,090

Another issue of concern is the fact that during these households are better aware of the terms of the loans borrowed from informal sources rather than the MFIs.

Table 8: Borrowings reported during baseline (for the period 2007-2008)

Household Code →	**11**	**41**	**47**	**73**	**74**	**77**	**78**
Borrowing amount (Rs.)	62000	26000	No loans reported	62000	136000	173000 +	Rs.90500
Sources	5 MFIs, finance company, Pawn-broker	2 MFIs, finance company, Pawn-broker	-	3 MFIs, moneylender, landlord, finance company	5 MFIs, moneylender, pawn-broker, finance company	5 MFIs, Moneylender, bank, SHG, finance company	4 MFIs, Relatives, pawn-broker, finance company

Most borrowings, including that from MFIs have been stated to be for the purpose of business. However the awareness of the cost of borrowings from various sources differs.

Table 9: Awareness of the cost of borrowings

Household code	**Awareness on interest rates**
11	Doesn't know the MFI interest rate, but is aware of rates for other informal sources
41	Doesn't know the MFI interest rate, but is aware of rates for other informal sources
47	(No borrowings reported)
73	Is aware of the interest rates of all creditors
74	Is not aware of int. Rates of 4 out of 5 MFIs; Is aware of rates of other creditors
77	Doesn't know the MFI interest rate, but is aware of rates for other informal sources
78	Doesn't know the MFI interest rate, but is aware of rates for other informal sources

6 out of seven households had reported borrowing from MFIs as well as informal creditor. Except for household 73, other households were unaware of the interest rates at which they had borrowed from MFIs but were aware of the rates and terms of the informal creditors.

5. Savings

The savings made by these households is marginal. Since they are indebted to so many sources, when they earn a good profit on any particular day, they repay one or the other source and this they consider to be money saved.

Given the fact that a few households have reported 'very good days', there is a potential for the households to save money if they are provided a reliable and accessible source.

Table 10: Savings made by the households

Savings	Hh 11	Hh 41	Hh 47	Hh 73	Hh 74	Hh 77	Hh 78
Bank	0	0	0	0	0	0	0
SHG	0	0	0	0	0	20	0
MFI	0	0	0	0	0	0	0
Cheeti	0	0	0	0	3000	0	0
Golaka	2596	0	0	370	0	0	0
other	0	0	0	0	0	0	10000

The lack of savings puts a heavy burden on the households especially at time when they are not able to earn. The respondent in household 11 for instance reported that there are days when her husband comes home with his pockets full of money. And yet, in the previous year, he did not go out to work for three months as he was away on a pilgrimage and kept visiting his home town. She could also not go to work at this time as she was unwell. She had a hard time warding off creditors and they ultimately sold every thing in their house – from her husband's two-wheeler to the mats on which they slept – to pay off the debts.

6. Conclusions

As the analysis above shows, business households such as these, doing door-to-door petty trading need access to low cost credit. Terms and conditions need to be fully explained. These borrowers are aware of the loan conditions from the informal sources, in contrast to the loans from the MFIs. The Loan terms based on the nature of the business. Any creditor who wishes to provide services to such clients would do well to understand the nature of their business, the highs and lows, devise products such that the schedules and rates are suited to the business that the borrower is doing.

The nature of the business is such that they need revolving credit on a frequent basis. The lines of credit would be small at low rate of interest, basically to purchase stock and raw materials for their business. The nature of the product is akin to that of a Kisan Credit Card. Savings are low, because they have not been tapped. There are days when there is huge surplus cash at hand. Therefore, the savings facility should be easily accessible and reliable, keeping in mind their business routine.

References:

Collins Daryl, Jonathan Murdoch, Stuart Rutherford and Orlanda Ruthven (2010): *Portfolios of the Poor. How the World's Poor Live on $ 2 a Day.* Permanent Black. Ranikhet.

Kamath, Rajalaxmi, Arnab Mukherji and Smita Ramanathan (2010): "Ramanagaram Financial Diaries: Cash Patterns and Repayments of Microfinance borrowers" *Enterprise Development and Microfinance.* Vol. 21. No. 2. June 2010

Kamath, Rajalaxmi, Smita Ramanathan and S. Rathna (2009): "Microfinance in India – A Primer on the Financial Diaries Methodology" *CAB Calling.* Jan-Mar 2009.

Ruthven, Orlanda (2002) 'Money Mosaics: Financial Choice and Strategy in a West Delhi Squatter Settlement' *Journal of International Development* 14, 2002, pp 249-271,

Rutherford, Stuart (2003) 'Money Talks: Conversations with Poor Households in Bangladesh about Managing Money' *Journal of Microfinance,* Vol. 5. No. 2; Winter 2003.