IIMB Management Review (2015) 27, 149–158

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Informal businesses and micro-credit – Evidence from financial diaries: A study in Ramanagaram, India

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Received 9 September 2013; revised 28 November 2013; accepted 29 May 2015; available online 14 June 2015

KEYWORDS
Informal businesses;
Financial diaries;
Microfinance loans

Abstract Combining quantitative with qualitative data, through a unique methodology of financial diaries, we generate thick descriptions of the informal business involving peddling of vessels and other products in Ramanagaram, Karnataka, India. By dovetailing the cash inflows from the businesses to loan repayments, we show that a standardized microfinance loan is unsuited to their business cash flows. Informal businesses are marked by seasonality and volatility springing from the contextual and socio-demographic circumstances of households running them. A keen understanding of such businesses is imperative for making the informal sector vibrant enough to support the economic lives of the poor.
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Introduction

A substantial portion of the economic activity in developing economies takes place in the informal sector. As an example, more than 90 percent of the total labour force in India works in the informal sector (GoI, 2004). Today, developed economies are also seeing an increase in informal sector activity and there is an urgent realization that very little is known about this sector and that this lapse is too glaring to be ignored (Godfrey, 2012). It is now recognized that this sector can no longer be labelled as "economic activity that [is] conducted by unregistered firms or by registered firms but hidden from taxation" (Porta & Shleifer, 2008) and it has a key role to play in tackling questions of growth, employment, and poverty alleviation (Kar & Marjit, 2009). To understand this sector we must come to grips with some basic questions: Who participates in the informal sector? What are the activities carried out in the sector? Why do people participate in it? Where are such activities predominant and how are they carried out? Answering these questions is not easy as there is no consistent data on these enterprises. Information on informal enterprises gets captured largely as part of household level surveys which are not designed with the specific goal of understanding these ventures as business enterprises. The lacunae in understanding informal enterprises as business enterprises hampers efforts to help these businesses. This is seen starkly in the big thrust given to

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Peer-review under responsibility of Indian Institute of Management Bangalore.

http://dx.doi.org/10.1016/j.iimb.2015.05.002
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providing micro-credit to such enterprises, to enable micro-entrepreneurs to boot-strap their way out of poverty. One of the premises of the microfinance movement was providing needed, timely, and hassle-free credit to the informal enterprises of the poor, to those excluded from the mainstream financial sector (Yunus, 1998). However, this has largely been done in a routine, "cookie-cutter" manner, without truly understanding the dynamics of the informal businesses or their cash flows (Woller, 2002). The disconnect between the financial services that the informal businesses require and what they receive implies that the microfinance sector today has still to move towards a more client-centred growth (Cohen, 2002). Against this background, this paper studies the weekly cash-flows of informal business units over a period of eleven months from September 2008 to August 2009, operating in the peri-urban area of Ramanagaram, in the southern state of Karnataka, India. These informal units would be a part of what the National Commission for Enterprises in the Unorganized Sector (NCEUS)[1] describes as consisting of "all unincorporated private enterprises owned by individuals or households engaged in the same and production of goods and services operated on a proprietary or partnership basis and with less than 10 workers". Information on the cash-flows of these enterprises was collected as a part of the larger project of collating household financial diaries of 90 poor, urban households, most of them clients of microfinance institutions (MFIs). In this process, a deliberate attempt was made to collect the cash flows of informal businesses among the sample of 90 households by having them separate out the household cash flows from the business cash flows in their diaries. We attempt to make an in-depth analysis of their cash flows which would illustrate the issues faced by the informal sector today pertaining to their modes of business, their credit-needs, the reasons they cannot expand, and how and why this sector persists. Through the analysis of these cash flows we endeavour to add to the bigger debate surrounding the informal sector today – on whether this sector could be the engine bearer of growth in developing economies, or it points to the growth story being exclusionary and divisive. The paper plans to do this in the following sections. In the next section, we lay down the context of the Ramanagaram Financial Diaries project of which this study was a part; we also clarify why we chose to concentrate on seven business families in our sample of 90 households. The third section details the businesses run by the households and the issues they face with financing their businesses. The fourth section contains the data that we culled from the financial diaries kept by the households. On analysing this data we find that a major reason the informal businesses remain small is that the financial services and products sold to them are unsuited to the cash-flows of their businesses. Microfinance institutions offer standardized loan products and would do better if they designed products taking into consideration the requirements of the businesses who are their clients. These aspects are discussed in the fifth section and in the sixth section, we conclude the paper.

[1] The National Commission for Enterprises in the Unorganized Sector (NCEUS) is a national body commissioned by the Indian government to address the issues faced by enterprises in relation to the unorganized sector. The Commission was established in 2004 to act as an advisory board for matters regarding informal employment sector.

Context: Ramanagaram Financial Diaries

The Ramanagaram Financial Diaries was a yearlong study carried out in Ramanagaram town in Karnataka, India. Ramanagaram is 60 kms away from the city of Bangalore, on the Bangalore–Mysore highway in Karnataka. As part of the project 90 poor families in two contiguous areas of Ramanagaram town maintained financial diaries between September 2008 and August 2009, with details of their daily financial inflows and outflows. This project was initiated to understand (a) the cash flows of the urban poor who had borrowed moneys from MFIs and (b) the actual use made of these loans, as opposed to the stated purpose. The methodology of keeping track of the financial inflows and outflows of people through financial diaries was initiated by Stuart Rutherford in Bangladesh (Rutherford, 2003); details of such financial diaries were tracked by Orlanda Ruthven in India (Ruthven, 2002) and by Daryl Collins in South Africa (Collins, Murdoch, Rutherford, & Ruthven, 2009). We departed from the original financial diary methodology by asking all our 90 respondents (all of them women) to log-in the diaries themselves. To the best of our knowledge, this method was being tried out for the first time, especially among the urban poor. A pilot study was conducted for three months from September 2007 to December 2007 in the same area to check the efficacy of this departure from the original financial diary methodology. Based on the findings (Kamath, Mukherji, & Ramanathan, 2010), this change was retained for the final yearlong study. The women of the households maintained the diaries, with their children writing the diary if the women were illiterate or unable to write. Any study conducted using the methodology of financial diaries requires fairly intensive contact of the field assistants with the households maintaining these diaries. Fine grained information on the cash flows of the poor such as the one obtained from financial diaries is therefore difficult to collect (Collins et al., 2009). This methodology enables one to go beyond quantitative data collection. While we did get large amounts of quantitative data regarding daily outflows and inflows, the basic advantage of this methodology 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 an occasion to understand how the participants lived and dealt with their specific situations. Our field investigators were also asked to make detailed field notes during the process of data-collection and we were also able to conduct in-depth interviews clarifying the nature of cash flows. Thus, this study also obtained rich, in-depth qualitative data on some of the 90 odd families living in the Hajinagar and Ambedkarnagar areas of Ramanagaram whose financial diaries we were recording. As researchers we were able to interact closely with 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 the diaries were written). Close

interaction with the diarists also enabled the study team to carry out in-depth focussed group discussions on several topics in the span of the study period. One such group discussion was carried out with four respondents (three women and one man) running informal businesses, which is the focus of this paper.

Who were the people running the informal businesses?

Almost all of the 90 households participating in the Financial Diaries Study in Ramanagaram got their incomes from the informal sector. We specifically concentrated on seven households engaged in the informal business of door-to-door sales, selling bronze vessels, bed linen, and bangles. The reason for concentrating on the seven households was as follows: Informal sector employment is characterized by a large heterogeneity –daily wages work, job-contracts done from home, petty trade carried out to augment household incomes, and so on. In contrast to the ad-hoc jobs taken as and when available, pervasive to the informal sector, these seven households were engaged in traditional businesses, in which they were involved for all the 11 months of our study period. These families belonged to the Korumara caste, which is classified as a Scheduled Caste[2] in Karnataka. The traditional occupation of the caste was to weave cane baskets and brooms and sell them, which they were practising before migrating to Ramanagaram. All these households had migrated to Ramanagaram from villages in the Davangere and Tumkur districts in Karnataka and they were related to each other. These families were of particular interest to us because they were traditionally running informal businesses, and were not doing it because they had no other options. These seven households were representative of a particular type of informal trade, traditionally called *peddling*. Traditionally, peddlers have supplied basic goods and have even been the means of communication in far flung places, but in modern times, with an increase in population, better transport and storage facilities, and better access through technology, their participation in the market has shrunk. A lot of the informal businesses of the poor are seen as a fall-out of their inability to find good sources of income – a "good job" (Banerjee & Duflo, 2011). In the focussed group discussion with the four individuals (three women and one man) from among the seven business family respondents, it was clear that "business" was the only thing they had ever done. The respondents did not talk about trying to find jobs for themselves or their children, but rather of the problems they faced in running their businesses. A lot of these problems had to do with getting loans and maintaining the cash flows in their businesses.

This paper is based on the notes of that discussion and spending patterns obtained through the financial diaries and baseline survey-responses of seven households – households 11, 41, 47, 74, 73, 77 and 78, chosen because all these seven were running informal businesses. The four individuals with whom the focussed group discussions were conducted belonged to four of these seven households. Since we base our analysis on in-depth qualitative discussions and hard-to-come-by financial diaries of these seven peddlers, despite the small sample size, we maintain that their experiences are representative of a wide section of door-to-door peddling found in urban and peri-urban India.

In our interactions with the households, we learnt that a drought in their native villages 10 years ago affected their traditional businesses, as most of their customers were farmers whose incomes were affected by the drought. Hence some of them decided to migrate to cities. The reason for migrating to Ramanagaram was that one of their relatives, a woman, had migrated here earlier. When she came to Ramanagaram, she had fallen back on her traditional business of making broomsticks and selling brooms. Though this did not require capital (since she collected the grass locally and made the brooms herself), it was nevertheless labour intensive and there was not much profit to be made. She then started selling brass vessels as she felt there was more profit in this. Following her example, her relatives also moved to Ramanagaram where she introduced them to her trade and helped them by lending money to buy stock. These families visit their native towns once or twice a year, with the women visiting their hometown more frequently than the men – often whenever there is a ceremony or an event in their village. Strong ties to the native villages are maintained, despite the migration. Thus, while the entry barriers to informal businesses are considered low (in the form of capital or skills needed), not all have the ingenuity and the innate knowledge to carry out such businesses. These seven families were involved in a similar business of door-to-door selling (albeit, a different product) in their native villages and were following the path taken by one of them in a new town.

In the group discussion, they mentioned that initially they did not know much about where to buy stocks or even about the markets. However they learned all of this from the first migrant and then passed on the information to others as they moved to Ramanagaram. All of them now buy stocks from the same source (in Bangalore). The first migrant introduced this source to them and they continue to use him as they have developed a relationship with him. Thus, as in most informal businesses – the role of networks is crucial, not just in initiating the business but also in getting information about potential suppliers and markets.

Nature of informal businesses

The seven households sell items such as vessels, bed linen, foot mats, and bangles. They travel to villages in Ramanagaram and Mandya districts and also sell in towns. Having been in the business for long, they know on which days to visit a particular locality. They also talk to each other about potential markets. They co-ordinate among themselves on the choice of areas they have to visit on a particular day. For instance, in locations where there are factories, they visit at the end of the month when employees draw their monthly salary. Most often, the customers are the source of information on when they will have the money to buy goods. During the agricultural season, when farmers are busy, they prefer to travel to towns where they can be assured of some customers near bus stands and on the roadsides. The decision about which place to visit is often taken as a group, the

[2] The Scheduled Castes and Scheduled Tribes (STs) are two groups of historically-disadvantaged people recognized in the Constitution of India.

previous evening. Sometimes they travel together and sometimes alone. Sometimes, to relieve the tedium of repeated visits to the same place, they spend extra money on bus fare 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 a hotel for food and rest, 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 have not 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 stop.

Defining a good business day

From the group discussion, the following thumb rule emerged: If the respondents sell brass utensils worth Rs.1000 in a day, they earn a profit of at least Rs.100. A good business day was defined by the respondents as one in which they sold items worth at least Rs.1500. They defined profit as the stock that they had left after they had recovered their initial costs (capital + other expenses). They bought stocks as and when required. There had been times when stock worth Rs.5000 was sold in a single day.

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

The group decided on how to mark up prices for items depending on cost price. Even with brass utensils, they did not buy items that were very costly since most of their customers would not be able to afford them. Some items were more popular than others and customers also told them what particular items they would like and they tried to cater to these demands. Some among the seven households had regular customers as they were by now familiar with their customers' needs and catered to them accordingly. The bangle-seller for instance, was very popular with her customers and in many villages her customers bought only from her. Her customers even provided her with lunch and snacks when she visited them as she spent a lot of time talking to them and had built a relationship with them. She bought stock from Ramanagaram and Bangalore and also got special orders during marriages.

Raising finance for the businesses

In the group discussions, the major point of discussion was the issue of raising finance for their businesses. When they first moved to Ramanagaram, the respondents borrowed money from their relatives to buy stocks. Later they started borrowing from private finance companies. All the seven households were heavily indebted to private finance companies and were making daily, weekly, and monthly repayments to these companies. After the advent of private MFIs in Ramanagaram, many of them joined the MFIs and were members in four or five MFIs.

When asked to compare between the MFIs and the finance companies and various chit funds (chitties) they were borrowing from, the respondents stated that they found the finance companies more convenient as they could repay a loan of Rs.10, 000 in a period of just 3–4 months. These companies were also flexible – if their borrowers did not have the money to pay an instalment they were allowed to pay the next day. While the interest rates quoted for these informal loans was very high on an annual basis, the advantage was that they were able to repay the loans in 3–4 months. For a typical MFI loan (most of them still following the Grameen – I Model of the Grameen Bank, Bangladesh), the loan repayment starts a month after the loan is given, and has to be done in equated weekly instalments that go on for a year. There are no deviations allowed. Typically, the group lending is expected to take care of both – vetting the initial group members and ensuring that group members stick to their loan repayment cycle. Therefore for an MFI loan, the group could not afford to miss even one weekly instalment. As a result they ended 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 made them feel that they were indebted for a longer period. They seemed to prefer completing the loan cycle in a period of 3–4 months as could be done with finance companies. In the group-discussion, there was a difference of opinion on the functioning of the MFIs. One of the participants stated that she has been borrowing from one particular MFI for eight years, had taken several loans, and had never missed an instalment. But the group also reported the case of another MFI working in the same area that had its staff put a lock on the house of a borrower for missing just one weekly instalment. This led to a discussion on how stringent MFI rules were and how it was unfair to expect them to repay on behalf of other members of the group (if someone defaulted) when they are hard pressed to repay their own loans. They also felt under pressure in seeking newer sources of loans, as the MFI loan sizes were never big enough to meet the demands of their business. However, one of the participants also felt that all these conditions were clearly spelt out before they joined the MFI and since they had agreed to them at the time of joining, they should not be complaining later. She also mentioned that a lot depended on how the staff of each MFI handled the customers. All participants felt that the MFIs did not really cater to their needs – not only were the loan sizes small, there was no flexibility in the repayment schedules or the time for repayments either.

Financial Diaries data

Based on the Financial Diaries data maintained by the households from September 1st 2008 to August 15th 2009, we used 11 months data from September 2008 to July 2009 to understand the flow of moneys related to the businesses of these households. We had asked these business households to separate out the cash outflows and inflows they considered for their businesses, as opposed to cash outflows and inflows for the household. A handy way of distinguishing between cash inflows and outflows for business was to consider the cash that left the individual's hands for business purposes as a cash outflow and the cash that came into the individual's hands through business dealings as cash inflow. A cash outflow towards business would imply spending on purchase of stock, and travel

and food, while on business. There was no accounting of the labour put in by the individuals. A cash inflow from business was the gross sales revenue. As seen in Fig. 1, typically, these businesses had average daily business inflows (gross sales revenue/turnover) 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 bed linen, bedcovers and such from house to house), shown by H 73. Otherwise, the gross sales turnover of each household selling bronze vessels typically exceeded Rs. 500 per day. A bangle seller (H74) was even able to make sales of Rs. 10,000 during a good marriage season. New stock was purchased in these businesses as and when the existing stock needed replenishment. This is given in the column titled cash outflows to business since the major business outflows for such businesses is purchasing stock, apart from daily food and travel. Typically, the average for the business outflows is higher than the median, because there are very few "very good" days when the businesses need rapid replenishment of stock. At first glance, the figure confirms anecdotal evidence about the returns on informal businesses being very high (Banerjee & Duflo, 2011).

The only two items appearing consistently in the diaries for business investments were purchase of stock and travel. There was no mention of any labour charges. If labour charges were taken into account, the returns from these businesses would be lower. The investments into business made by the various households differed. Households 11, 41, 43, 77, and 78 were selling bronze vessels. Of the five, only households 77 and 78 were doing well. Household 11 had over-invested in stock. Household 73 was selling cloth and was clearly in the red. That was also the reason for the median cash-outflows for both these households being higher than the mean (see Fig. 1). Households 41 and 47 did not purchase much stock during the year. Household 74 which sold bangles, required lower investment in stock, compared to selling utensils. Table 1 shows the investment in stock and travel (including food while travelling) by the various households. Clearly, a good proportion of the cost outlays had to be made on food and travel, given the nature of their business.

However, we found that business outflows entailing purchase of stock was a small proportion of their gross sales revenues because they did not club the business outflows with another lumpy outflow item – namely, the cost of the loans taken. Table 2 clarifies the extent of loan repayments (principal + interest) that these businesses are undertaking.

We compared the median purchase of raw materials that went into their businesses with loan repayments (principal + interest). Excepting two households, H41 and H 47, (which had not recorded any borrowings) – the outflow on loan repayments was between two and six times the outflows done towards business. The cash inflows from business had to be multiple times their cash outflows towards their business, to take care of loan amortization. While formal businesses would have reconciled their accounts to calculate the precise return on business investments and the extent of leveraging needed, these businesses did not keep accounts of such nature, and often cannot, because they are not able to make a distinction between interest payments on their loans (a Profit and Loss Accounts entry) and principal repayments on their loans (a Balance Sheet entry). This is due to the nature of MFI loans, where repayments are in equated weekly instalments, and the borrower is often unsure of what part is used towards principal repayments and what part towards interest on his/her loan.

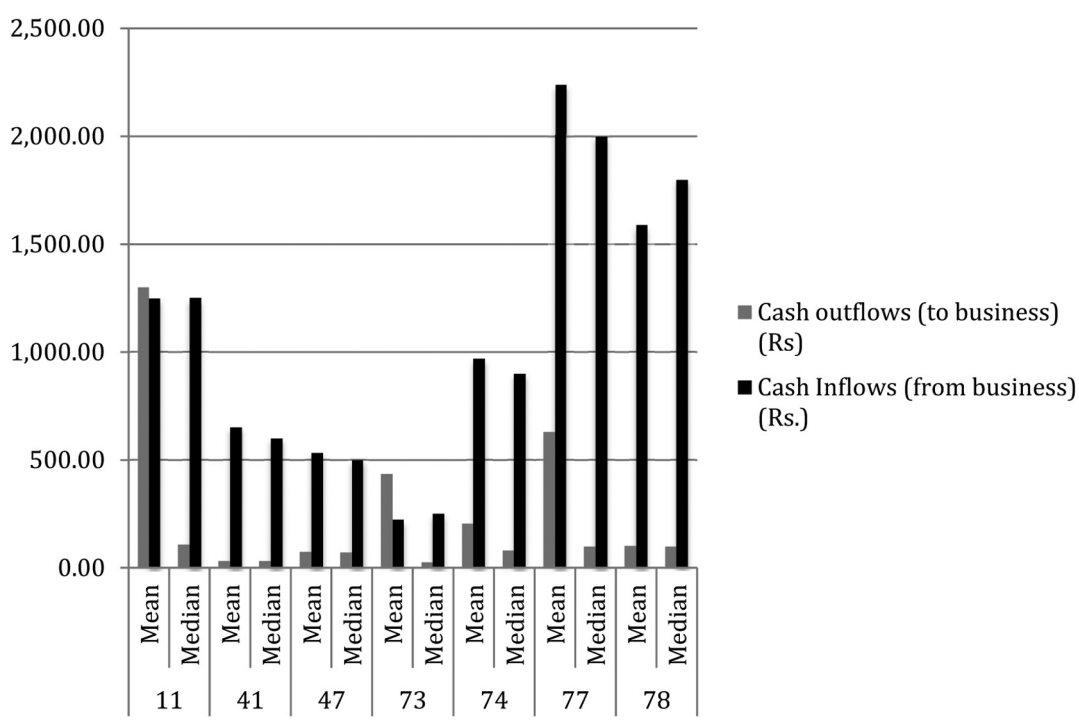


Figure 1 Snapshot of the businesses in the year 2008–09.

Table 1 Investments in stock and travel.

Household code	% of investment on stock	% of investment on travel and food
11	92	8
41	0	100
47	4	96
73	91	9
74	65	35
77	84	16
78	84	16

Table 2 Business and loan related cash-flows.

Household code	Cash outflows (investments in business) as a % of cash inflows (returns from business)	Loan repayments as a % of cash inflows (returns from business)
11	8.65	18.82
41	4.61	4.76
47	13.13	–
73	11.36	54.09
74	8.25	48.04
77	4.47	20.32
78	6.3	18.2

Borrowings and repayments

Table 3 gives the extent of repayment burden that the households faced for the year 2008–09. Apart from taking loans from five of the six MFIs operating in that region, most households took informal loans from finance companies and moneylenders. Their contention about MFI loans being unsuited to their requirements needs to be understood from this perspective. The households would benefit from a larger loan size and also from a greater flexibility in the repayment conditions. Multiple memberships of MFIs also imply that attendance of meetings (in this case four times a week) would affect businesses adversely. It should be reiterated that their businesses entail travel to near-by villages, and therefore the cost of attending MFI meetings is high.

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. Not only were the MFI loan sizes small, the rigid loan repayment cycles prevented them from being dovetailed to the revenue cycles of the businesses. The correlation between Business Incomes and MFI Repayments is 0.035. The next section gives this in greater detail.

Repayment schedules and cash inflows

Out of the seven households, we have taken four households 11, 73, 74 and 77 to illustrate how the MFI repayment cycle is unsuited to the business needs. The data was culled from their financial diaries and the entries have been collated month-wise. All these four households were clients of multiple MFIs and had also taken informal loans. Members in all these households were related to each other. Households 11 and 77 sold bronze vessels. Households 73 and 74 were female-headed households and had shifted from selling bronze vessels to selling cloth (household 73) and selling bangles (household 74). Household 11 was facing extreme volatility in business, because the primary income earner in this household had been ill for several months. He could not go out on business for several days during the study period. As seen in Fig. 2, despite huge investments in stock, most of it could not be sold due to illness. Loans – both from MFIs and informal sources – were a means of running the household and covering health expenses. Household 73 was clearly unable to run the cloth-business – the business revenues were in the negative for most part of the year. In this household a widowed woman with four dependents – her mother in law and three children – was running the business. Her son had just begun helping her in the business. However, it remained in question whether loans could pull her out of her circumstances. Household 74 was that of the bangle seller, who lived alone and whose business was less prone to cyclicality as compared to selling bronze vessels. The most confident of all the businesswomen we interacted with, she was quite candid that her earnings were completely dependent on the efforts she put in. She had however incurred huge loans – not for business, but to meet the demands of relatives, and that was a strain on her. Household 77 had four members of the household engaged in the business of selling bronze vessels and therefore, best off among the lot. Household 77 did not require a yearlong repayment schedule; it had the ability to go in for shorter loan periods.

The net earnings for all these businesses followed more or less a cyclical pattern, as mentioned earlier. Business earnings were higher during the festival seasons (October–November for Id and Diwali and April for the Ramanagaram Oorhabba or the local festival). Added to the cyclical pattern were the individual household characteristics (the number of dependents in the family, the status of health of the earning members, and so on) that increased the volatility of earnings. Lenders would benefit from having a loan repayment module that takes into account these business highs and lows. As shown in Figs. 2 and 3, the four households were treated similarly by MFIs. The issue here is not merely of loan size but that of matching the loan repayments with the business earnings. Clearly, the four households, despite borrowing from multiple MFIs and from informal lenders, were not able to match loan repayments with business earnings.

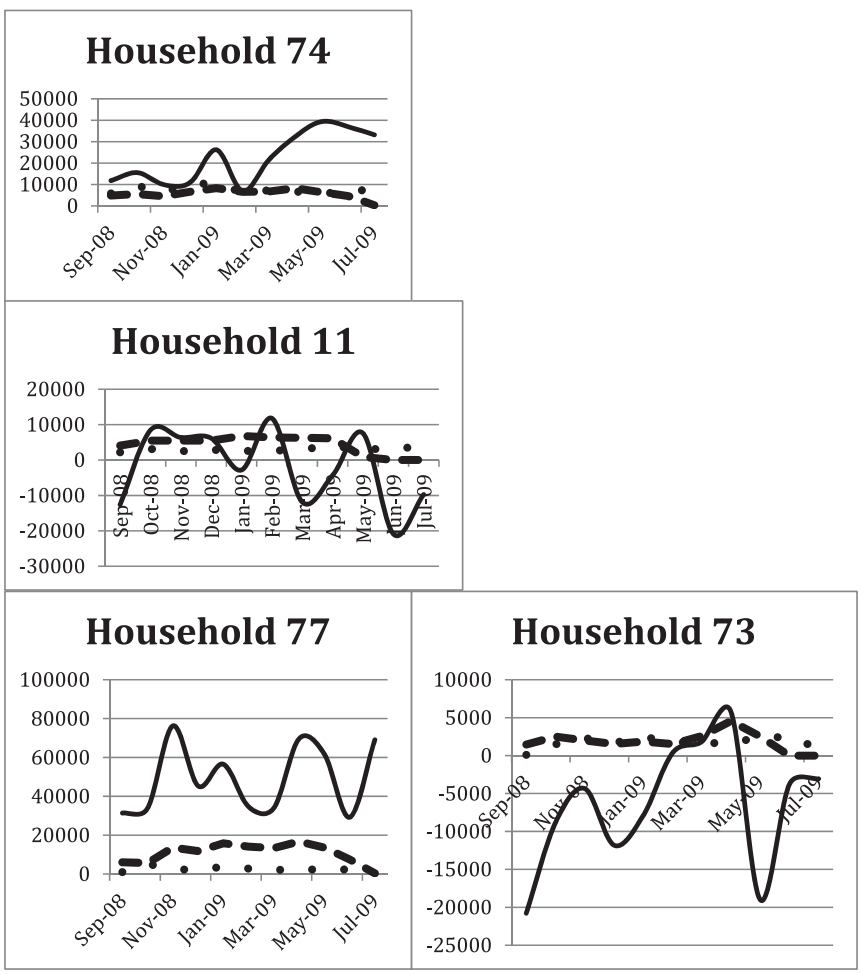
This points to a bigger problem – that these households were scrambling for loans from every available source. Every transaction involved taking time off from their business. In the group discussions they stressed two key aspects of MFI loans, which would help them – *bigger loan sizes* and *shorter repayment cycles* or provision for paying off their loans sooner. What is shown in Fig. 2 is monthly data. With weekly repayment schedules (that all the MFIs in this area followed), the mis-match between repayments and earnings would worsen. We show this in the case of households 11 and 77 – both involved in the same businesses, but clearly at opposite ends of the spectrum where business revenues are concerned. Any MFI would see the logic of treating these two households differently.

Table 3 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	1905	–	2775	12,817	16,300	11,213
MFI 2	12,348	2035	–	1965	12,473	14,981	11,726
MFI 3	8278	710	–	9252	17,795	62,600	15,490
MFI 4	7300	1880	–	3720	9944	18,020	2150
MFI 5	7300	1880	–	3720	9944	18,020	–
MFI repayments (Total)	**46,146**	**8410**	**–**	**21,432**	**62,973**	**129,921**	**40,579**
Other informal finance	17,990	1440	200	–	4500	6000	60,240
Private funds/Moneylenders	17,990	600	–	20,200	95,100	22,620	–
Bank	–	–	–	–	–	–	–
SHG (Self Help Group)	–	250	–	–	–	415	–
Pawn	–	–	–	–	–	–	–
Cheeti/ROSCAs (Rotating savings and credit associations)	–	–	–	–	–	–	–
Informal loan repayments (Total)	**35,980**	**2290**	**200**	**20,200**	**99,600**	**29,035**	**60,240**

Discussion

In this paper, we bring together two strands of research in developing economies that are closely related – the informal sector and microfinance institutes. Studies carried out on microfinance need to take a realistic look at what microfinance can and cannot achieve (Morduch, 1999). Lately, microfinance has come in for increasing criticism for its



____ Net business incomes; _ _ _ _ MFI repayments; . . . . . Informal loan repayments

Figure 2 Repayments and business income schedules (monthly in INR) – households 74, 11, 73, and 77.

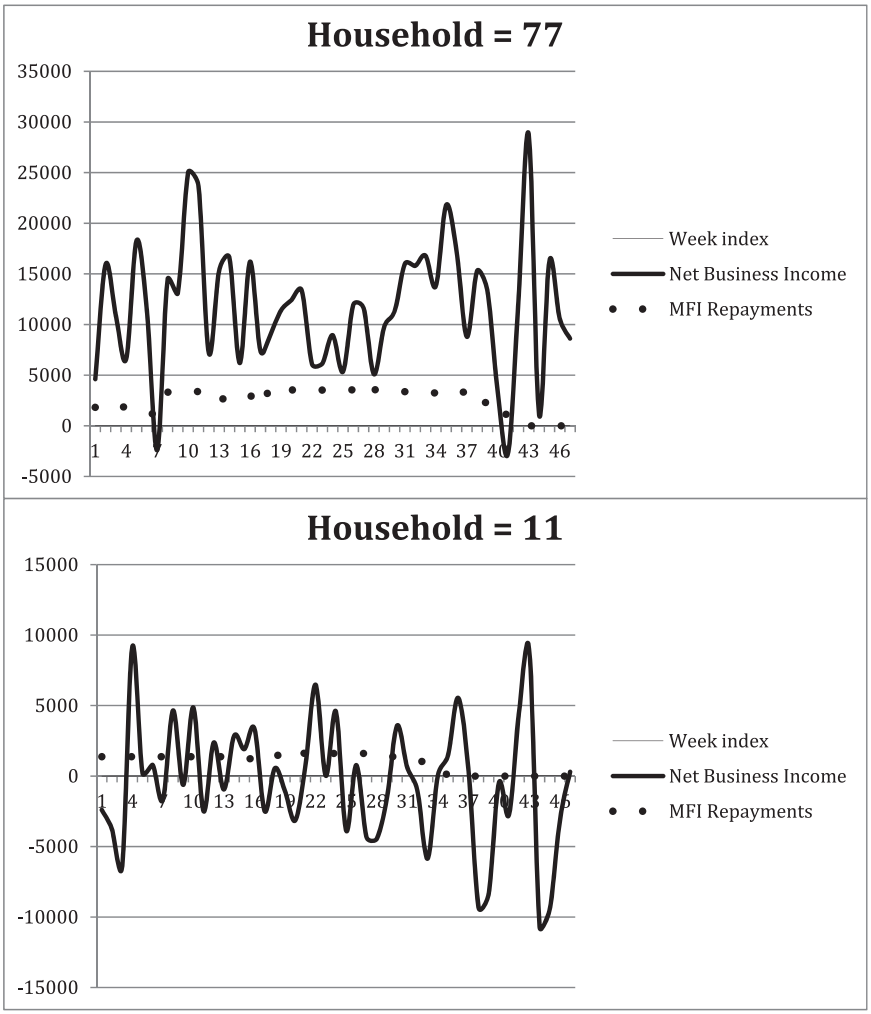


Figure 3 Repayments and business income schedules (weekly 1–47 weeks; INR) – households 77 and 11.

inability to understand its clients, often leading to endemic crises in several countries, including the much talked of Andhra Pradesh crisis in India (Srinivasan, 2010). The mandate of this paper is not to look at the MFIs per se but to look at a typical client of most MFIs – households in the business of door-to-door peddling of wares. By looking at such informal businesses, we hope to shed light on some of the problems facing the MFI sector today. The businesses in our study are of interest to us for two reasons. First, though these businesses were in the informal sector, they were not ad-hoc in that they were not started sporadically for the purpose of income-generation for the household. All the seven business households we analysed had been in the business of peddling wares for generations. Their business acumen had therefore been honed through experience and caste-networks. This is particularly important as there is a great deal of perplexity on why businesses among the poor, despite showing high returns, do not grow (Banerjee & Duflo, 2011). Often, the reason given is that enterprises among the poor are attempts to eke out a living where employment opportunities are not available. We do not deny that a lot of the informal sector businesses belong to this category. In our sample of 90 households, only nine individuals in the entire sample had formal jobs that gave them regular, monthly wages. All the others were employed in the informal sector. Of the jobs taken up by the women, coolie or daily wages work (mostly filature work in the informal silk units of Ramanagaram) dominated; next came traditional businesses as described above and last were the petty businesses (including selling fruits and vegetables). Several of these were done sporadically, and were more a means to supplement the low and uncertain family incomes. However, the seven business households that we analysed were more in the line of business as we traditionally know it. In the focussed group discussions, our respondents described to us their notion of profits (the value of the stock in hand, after they have sold the rupee value of the stock purchased, inclusive of their travel and food charges), pricing of the products, the differing mark-up on the costs (the same item was sold at a different price in the villages as compared to the towns), on why they took up the business of peddling vessels or bangles and what more could be done to help them in their business. Therefore these households were not in business because they had no other options.

Second, given the nature of their jobs, it was very difficult to obtain hard data on such businesses. Most of our respondents were out travelling peddling their trade, often seven

days a week. It was here that our methodology of financial diaries gave us a unique advantage. We managed to get detailed information on the daily cash inflows and outflows related to their business. We were also able to get information on their loans and repayments. Almost all our respondents had borrowed from multiple MFIs and were finding the weekly repayment schedules very taxing in terms of time. Going beyond anecdotal evidence, we were able to show how a standard MFI loan was unsuited to these businesses. These businesses were seasonal in nature – and often the people running the businesses knew best when they would be facing a cash crunch in their business. Because of the seasonality, shorter repayment cycles made sense since they could repay within a given season and borrow afresh for another. The other issue that we have highlighted is that we have to go beyond business seasonality to understand such businesses. These informal businesses are household based, and household characteristics – demographic characteristics, health of the members, education levels of the members – play a big role in determining the earnings. We showed how two households (H11 and H77) despite peddling the same wares – bronze vessels – were doing very differently. This was because the main bread-earner in H11 was ill and despite investment in stocks, could not travel daily to sell his wares. Most of the loans in this case were used up in feeding the household or in his health expenses. Household 77 on the other hand, had four adults in the household involved in this business, and justified getting a bigger loan than a standard-sized group loan given by an MFI. Microfinance institutions should make a distinction between these two business households. The type of the product also matters. Peddling clothes in this day and age (H73) probably does not make business sense – given the growth in mass-produced fabric and the increased retail sales points of ready-made clothing, including bed linen and other household accessories. This was clearly noticeable in the cash flows of H73. Debt is increasingly seen to have a socio-cultural context (Guerin et al. 2012). We could see this in the life of the bangle seller (H74) in our sample. Despite the ability to make a decent living from her business, she was heavily in debt trying to take care of her relatives financially. The fact that she was a widow and that she had severed connections with her natal family, meant that she ended up having to help her relatives financially to maintain relations with them. The use of MFI loans was not for business, in her case.

In all our discussions with these entrepreneurs, the issue of the cost of the credit did not arise. Which meant that the interest rates on loans were less of an issue to these clients as compared to the other poor clients of MFIs. This could also be gleaned from the several loans that they had accessed from other informal lenders – private moneylenders and chitties, all at very high interest rates. But to take this argument further and state that since MFIs are in the business of selling a standardized product, it is up to the borrowers to make the required cash-flow adjustments is putting the cart before the horse. Informal businesses face a heavy opportunity cost in terms of time and earnings in carrying out such adjustments of financial management. Such financial adjustments carried out by the poor cannot be cited as an evidence of their financial sophistry (Collins et al., 2010). On the other hand, it is imperative for MFIs today to go from product-centric organizations to client centric organizations and address key issues of who their clients are and how they use their products (Dunn, 2002).

For the informal sector to be seen as a dynamic sector where "bare-foot" entrepreneurs can boot-strap their way out of poverty, it is essential to understand their businesses in the first place, so that appropriate financial products and services can be prepared for them. In this paper, through our sample case studies of seven such entrepreneurs we show how one such much-touted product, a standardized MFI loan can only go so far. Despite the small sample size, we submit that the frequent iteration that is at the heart of the financial diaries methodology makes this study more accurate than many large-scale one-off household surveys. It is representative of its universe of small time peddlers in the urban and peri-urban areas of India, as it represents their day-to-day financial behaviour, providing deep insights into their lives and businesses.

Conclusions

The very definition of the informal sector makes the task of data collection, record keeping, and monitoring very difficult and this explains the lack of data on the informal sector. It is here that fine-grained studies of household cash flows like those obtained through financial diaries have an advantage. Combining quantitative with qualitative data, this methodology is able to generate thick descriptions of the respondents. In our work in Ramanagaram, we were able to cover several aspects of informal businesses that would have escaped data obtained through surveys. The various informal businesses among the poor are often seen less as a testimony of their entrepreneurial spirit, and more as a symptom of the failure of the economy to provide them with jobs (Banerjee & Duflo, 2011). By analysing the business cash flows of four such entrepreneurs in detail, we learnt that the story is more nuanced than that. Financial products and services made to serve such businesses often hamper this cause, due to the lack of effort spent in understanding the nature of such businesses. We deal in great detail here with one such product – micro-credit. The microfinance movement, by forming joint liability groups (JLGs) and self-help groups (SHGs) among the poor, has pioneered the cause of financial inclusion, as there is still a woeful lack of access to formal finance for the poor. In our own study-area, for example, there were branches of at least two nationalized banks within a vicinity of one square kilometre and yet none of our seven respondents had a bank account. However, there is a need to go beyond standardized microfinance loans, especially for those among the poor who are involved in informal businesses. By dovetailing the cash inflows from business to loan repayments, we were able to show that a standardized microfinance loan was unsuited to their business cash flows. This also focussed on various aspects of the loan – the size, the repayment schedules, and the time period needed for repayments. The MFI movement is based on provision of hassle-free credit to the informal businesses of the poor. A uniform, "cookie-cutter" product, while serving the cash-flow needs of the MFIs, is at odds with the needs of their clients.

In this paper, we concentrated on seven traditional businesses households. Though the sample size is small, the in-depth, iterative methodology based on the keeping of financial

diaries by these households, authenticates the accuracy and the representativeness of the sample. These households are representative of a type of business endemic in the urban informal sector today – door-to-door peddling of wares such as vessels, bangles, and clothes. Through their financial diaries, we have been able to show that such businesses are very heavily leveraged, and they are ready clients for MFI loans. On the part of the MFIs however, there has been an abysmal lack of understanding of this business. Informal businesses are marked by seasonality not only due to the characteristics of the businesses, but also due to circumstances of households running them. If the informal sector is to be vibrant enough to support the economic lives of the poor (Marjit & Kar, 2009), and if we really need a billion "bare-foot" entrepreneurs, then a better understanding of their businesses is required.

Acknowledgements

We wish to thank the erstwhile Microfinance Group of the Indian Institute of Management Bangalore and Professor R. Srinivasan for making this study possible. We are also thankful to our field workers – Rathna, Sudhamani, and Umarani for being with us through this more than yearlong effort. And lastly, this would not have been possible without our diary writers – the courageous women of Hajinagar and Ambedkarnagar, Ramanagaram. The usual disclaimer applies.

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