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Client-Profiling Study

A Qualitative Study of Experiences of Female Microfinance Clients

Phase I: URBAN - TAMIL NADU

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1 Introduction

Microfinance programs have been embraced around the world as an important strategy for poverty alleviation. Studies have demonstrated that microfinance services have important poverty alleviation outcomes in terms of reaching the poor, improving their economic well-being, and empowering them – specifically, poor women¹. Many different rationales can be offered prioritizing the access of women to microfinance services. Seventy per cent of the world’s poorest – those living on less than a \$1 a day – are women. A vast majority of women has exhibited excellent repayment records in spite of the daily hardship they face².

Microfinance is defined as the provision of appropriate financial services to significant numbers of low-income people with an end object of poverty reduction. The credit provided is expected to be invested in income generating activities as working capital or as productive assets.

However, it is still unclear whether the loan is indeed utilized to productive ends or for other consumption purposes. Moreover, there is little understanding of how women manage to repay despite the high interest rates of MFIs. The purpose of this study is to document and understand how women decide to become clients of an MFI, how they utilize their loan amount and the factors that guide loan usage and repayment patterns. By focusing on the end user – the microfinance client – rather than the MFI, this case study seeks to address the most basic and glaring gaps in knowledge about microfinance borrowers, including household profiles, experiences with the MFI, and financial management. Such issues cannot be addressed by surveys alone as surveys are more constricted in terms of time and details and thus are conducted in an environment where it is sometimes difficult to elicit honest responses from respondents.

Client-profiling is an important tool used in the study to analyse who the microfinance clients actually are as opposed to who MFIs might think they are. Client-profiling can, accordingly, enable MFIs to modify their program in the future, both to better suit their clients’ needs and as well as meet their program objectives more effectively.

¹ Ashe 2000; Todd 2000; Fisher 2002; Khandker 2002; Robinson 2002; Simanowitz 2002; Snodgrass 2002

² Khandker 2002

This study focuses on in-depth interviews with and observation of a concentrated number of participants. The methodology may be easily replicated across locations in the coming year, compiling, slicing and presenting results by issue and by geography.

1.1 Introduction to Mahasemam

The MFI that we partnered with in the Urban Tamil Nadu chapter of this client-profiling study is Mahasemam. Mahasemam is a microfinance institution registered under the Indian Trust Act 1882 since July 12, 1999 and espouses the central cause of helping to “eradicate poverty and improve the social status and self esteem of poor women” through provision of “innovative and sustainable financial services³.” Currently, Mahasemam operates on the Grameen Bank Model and has a reported loan recovery rate of 99.1%, with 221,613 members as of March 2007. Its vision is “to help two million people out of poverty by 2015.”⁴

Our study participants were taking an income generating (IG) loan repaid weekly over a period of 50 weeks. Following the traditional model, loans are collateral free and increasing in size over time. After saving Rs 11 per week – Rs 10 savings plus Rs 1 subscription – for 5 to 11 weeks⁵, the members get an initial loan of Rs 5,000⁶. Interest on the entire loan is at a flat rate of 10%. The weekly interest amount decreases every ten weeks for the first thirty weeks, leaving the lowest interest amount for the final 20 weeks. The weekly principal amount repaid is the same for all 50 weeks.

Mahasemam provides a number of benefits and additional product offerings to its IG loan members: a grant of Rs 2,000 if a husband passes away, a grant of Rs 10,000 to the immediate family if the member passes away, a medical camp every six months for basic health tests (such as, anemia), 50% off on the hospital bill at a participating hospital⁷, an education loan (Rs 3,000 per child for a maximum two children per year), and a marriage loan (Rs 20,000 given one week before the marriage, to be repaid in 15 days)⁸.

Mahasemam deducts a portion of each loan (for example, Rs 500 from a loan of Rs 5,000; Rs 1,000 from a loan of Rs 20,000) to finance loan documentation as also to fund the above benefits, and gifts for all the members every year. Members are however expected to

³ <http://www.mahasemam.org>

⁴ Mahasemam. “Background,” “Methodologies,” & “Operational Highlights.” <http://www.mahasemam.org>.

⁵ According to reports from women, duration of pre-loan saving varies because of limited availability of funds.

⁶ Several years ago, when Mahasemam was in the early stages of adopting the Grameen Bank Model, having recently switched from the SHG model, the first loan amount was only Rs 2,000,.

⁷ We did not hear any clients mention receiving such a discount.

⁸ Interest rate on education and marriage loans is unverified, but likely 10%.

repay the amount in full and not just the amount received (that is, Rs 5,000 or Rs 20,000, not accounting for the deductions).

We use the repayment schedule of a loan of Rs 5,000 as an illustration:

Rs 119 ⁹	+	Rs 11 ¹⁰	=	Rs 130	for 10 weeks
Rs 114	+	Rs 11	=	Rs 125	for 10 weeks
Rs 109	+	Rs 11	=	Rs 120	for 10 weeks
<u>Rs 104</u>	+	<u>Rs 11</u>	=	<u>Rs 115</u>	<u>for 20 weeks</u>
Rs 5,500	+	Rs 500 in savings	=		in 50 weeks

Mahasemam's clients must be married and under fifty years of age. Mahasemam officials explain that in order to increase their repayment capacity and get bigger loans, individual women must grow a business. There is no set loan schedule, however: a second loan may be 10,000, 15,000 or Rs 20,000 depending upon the business that the member is running.

Though Mahasemam claims to be an advocate of innovation, our interaction with the branch officer indicated that Mahasemam is not experimenting with any new loan products at the moment. When asked if the Mahasemam offers "emergency loans" or "sick loans," this officer replied that while Mahasemam does not provide any loan officially categorized as a sick loan, if someone truly needs money to fund medical treatment, Mahasemam officials do verify this independently and then extend assistance in the form of, say, a second loan of Rs 20,000 instead of Rs 10,000.

We learnt from the branch manager, Mahasemam has been experiencing difficulties in funding and has reduced its maximum loan size from Rs 30,000 to Rs 20,000. Discussions with a few clients however indicated that this reduction was more to the tune of "Rs 20,000 or Rs 15,000 from Rs 50,000". In addition, the MFI has cancelled the education loan. As per the branch official interviewed, Mahasemam is responding to the consequent client disappointment by offering Rs 3,000 as additional loan over and above the regular loan amount, subject to the availability of funds.

⁹ Rs 100 principal and Rs 19 interest (Rs 100 per week x 50 weeks = Rs 5,000).

¹⁰ Weekly Rs 10 savings plus Rs 1 subscription.

2 Research Guide

2.1 Research Questions

- 1) Why does a woman join a microfinance institution?
 - a) What are the factors within the household that influence an individual to participate in micro-credit activity?
 - b) What are experiences at the ground, of a participant in a micro-credit activity?
- 2) What is the experience of the client as a “money’s owner”?
 - a) What self-management strategies does the client adopt over the course of loan use and repayment?
- 3) What happens to the loan money?
 - a) In what ways is the loan amount used?
 - b) Are there specific needs or social factors that determine loan usage?
 - c) When does a client not use loan money for pre-decided purposes, as communicated to the MFI?
 - d) What roles do family members play in deciding the usage of loan money?
 - e) What roles does the woman client play in this decision-making process?
- 4) How does the household come up with the money to pay the repayment amount every week/month?
 - a) Who arranges the repayment amount?
 - b) What role does the client play in repayment?
 - c) In what ways does the start of new income generating activity, if any, influence the repayment cycle?
 - d) What happens when the income generating activity fails?
- 5) What happens when the repayment amount is not arranged?
 - a) What are the client’s experiences with family members in such situations?
 - b) What are the client’s experiences with MFI officers and other members?

For Drop Out Clients:

- 1) In what ways did “the participation” in the group influence her life?
- 2) What were the reasons for opting out of the process?
- 3) In what ways are “financial services” for her household met now?

2.2 Sample

The table below presents specifications on all the female clients about whom data was gathered for this study. The conclusions drawn in the study have been based to a greater or lesser extent on the information collected with reference to these individuals.

	Location	# of Years in Group	Loans received (in 1000's)	Source of Data	# of Hours Interviewed	Notes	Status
1	Chennai	<1	5	In-depth Interview	6 hrs		
2	Teyradi	<1	5	Short Interview	40 min	C.L.**	
3	Teyradi	<1	5	Short Interview	1 hr	affluent	
4	Chennai	<1	5	Short Interview	1 hr	C.L.	
5	Chennai	<1	5?	Indirect*	0		
6	Chennai	<1	5	Indirect	0		
7	Chennai	<1	10	Indirect	0		
8	Chennai	2	5, 20	In-depth Interview	2 hrs		Drop-out; looking for another group
9	Chennai	2	5, 15	Indirect	0		Drop-out
10	Chennai	2	5, 15	In-depth Interview	3 hrs		About to drop out
11	Chennai	2+ ϵ	5, 20, 20	Indirect	0		
12	Chennai	2+ ϵ	5, 20, 20	In-depth Interview	5 hrs	C.L.	
13	Chennai	3+ ϵ	2, 10, (15?), 20, 25?, 20	In-depth Interview	5 hrs		
14	Chennai	>3	5, 15, 20	In-depth Interview	2.5 hrs	Ex-C.L.	Arrears

* Indirect: From information in interview with another client

** C.L.: Center Leader

A borrower who has only taken her first loan is defined as a “New” borrower. A borrower who has availed of more than one loan is defined as an “Old” borrower. A “Small loan” entails repayment of a loan of Rs 5,000 and a loan beyond Rs 5,000 is defined as a “Big loan.” The clients reviewed have been profiled within this loose framework as follows:

New, small loan x 6 (1 of which is in-depth)
 New, big loan x 1
 Old, big loan x 5 (4 of which are in-depth)
 Old, small loan x 1 (drop-out looking for new group; in-depth case)
 Plus one more drop-out.

Interviews included hour-long conversations with each center leader of the two in-depth participants, and a ninety-minute joint interview with the Mahasemam branch manager and area manager.

2.3 Data Collection Methods

Data was collected by means of:

- *In-depth interviews* with study participants and center leaders following a general interview guide. Notes jotted during the interviews were subsequently detailed out in narrative form in word-processor journal to ensure that content was recorded and preserved in a way that is well understood and unambiguous;
- *Informal interviews* to allow “others” to interact freely and share information – including MFI officers, group members, and neighbors; content was again recorded in word-processor journal;
- *Participation observation* at center meetings to monitor interaction both between MFI officers and clients, as well as interaction among member within a group; observations recorded in the said journal;
- *Elite Interviews* with the MFI branch manager and area manager following a prepared question guide; content again recorded in journal;
- *Journals* maintained on a daily basis documenting the above interview content and observations.

2.4 Limitations

The original research proposal called for a certain sampling plan: twelve members spread evenly between urban and rural constituencies, consisting of four, “randomly chosen” participating members and two drop-outs – all from a single center for each area type.

Complications on the field and the additional time constraints of operating within an internship period compelled us to cover only urban clients. More importantly, our sample was picked not from one but 6 different urban centers. This scattering implied that we were not able to control for group and community characteristics in the variety of microfinance experiences we learned about.

Additionally, study participants were not chosen randomly. We relied on a combination of introductions from Mahasemam officials and introductions from a center leader who was one of our core study participants. Despite the potential for selection bias, the level of honesty evaluated among our study participants reveals that we were not necessarily introduced to perfect, model participants. That being said, we did find it difficult to get introduced to defaulters.

Participation in the study required that female clients be reasonably available for interviewing, which took place during the daytime. This pre-condition conceivably reduced

diversity and ruled out people who were engaged in different activities and could accordingly have varying attributes, profiles, and microfinance experiences.

The research proposal originally called for extensive observation of participants in their daily routines and interactions with household members/community. We were not able to fully fulfill this requirement since urban residents did not seem to welcome or even find plausible the idea of being observed while they went about their daily tasks and interacted with their families and neighbors.¹¹ We did, however, closely observe interpersonal interaction during center meetings and idle, transitional time before and after interviews.

Next, as in all field data, problems of memory recall remain. This lacuna is especially relevant in our present study since we discussed activities and purchase decisions that took place over a year ago. Thus, details could have been missed leading to inconsistencies and accuracy issues. Similar consequences were also but natural given that clients were often inclined to tell us what they thought we wanted to hear¹². As a non-speaker of the local language¹³ as well, I relied on a female translator who accompanied me in all field work. Within the presence of four degrees of translation and interpretation in each exchange, meanings may have been lost, inserted, or misinterpreted¹⁴.

Finally, the small sample size renders our findings statistically insignificant. While statistical significance is an important tool for demonstrating the veracity of study findings, the prohibitive cost of obtaining and recording detailed case studies makes it unfeasible to replicate the process across thousands of individuals¹⁵. Nevertheless, the findings are true for the individuals interviewed and for that reason alone they fulfill our central purpose: to reveal in-depth experiences of the individual borrower, answer questions unobservable through more scalable research approaches, supply tangible accounts of how microfinance theory compares to its practice, and suggest areas for further research or reassessment of strategy.

¹¹ Whether or not this approach would have been a beneficial and necessary component of the data collection process is a question that can be answered when this study is subsequently carried out in another region.

¹² Proper introductions and consecutive meetings lower the above risks.

¹³ Tamil.

¹⁴ Working with one translator and having ample opportunities to discuss our observations with one another after interviews were ways of lowering the risk of misinterpretation and of catching details that were not translated during the interview.

¹⁵ This project *will* be replicated several times across India, however.

3 In-Depth Cases

	“Name”	Eyeball Age: “Around ___”	# of Years in Group	Loans received (in 1000’s)	# of Hours Interviewed	Notes	Status
3.1	Majeeda	30	<1	5	6 hrs		
3.2	Angarika	50	2	5, 20	2 hrs		Drop-out; looking for another group
3.3	Suvali	50	2	5, 15	3 hrs		About to Drop Out
3.4	Nandita	40	2+ ϵ	5, 20, 20	5 hrs	C.L.	
3.5	Asha	50	3+ ϵ	2, 10, (15?), 20, (25?), 20	5 hrs		
3.6	Medha	40	>3	5, 15, 20	2.5 hrs	Ex- C.L.	Arrears

3.1 Majeeda

Majeeda is a shrewd, smiling young woman, three fourths of the way into her first loan, Rs 5,000.

She exhibits a strong desire for independence, but has long been precluded by her husband in making a better living for herself. Majeeda went through college to study history; has worked as a typist, as a receptionist at a letter company, and at Petrol Bank; she would have like to become a teacher or to continuously work in an office, since she has the computer skills and educational background to do so. Majeeda’s husband, on the other hand, dislikes the idea of his wife working and prefers his wife to stay at home, take care of the kids, and cook. Accordingly, Majeeda has never stayed at her formal jobs for very long.

There are many issues of trust and reliability with Majeeda’s irresponsible husband, who skips work and cajoles jewelry out of Majeeda only to pawn it for money that he does not use productively or return to Majeeda.

At one point, Majeeda even told her husband, “Why don’t we sell jewels to start something together? A business – it could be good.” He did not reply, and Majeeda did not invest alone because her husband would not allow it.

Once Majeeda, as a Mahasemam member, had money assigned to her for the purpose of starting a business, however – she did it; in this sense, we have a success story: with the prescription that a client needs to have a business in order to get money, Majeeda’s husband approved. To reaffirm, Majeeda belongs in the job market, what with her education

and work experience. However, since her husband resents the idea of her working away from home, Mahasemam presents a compromise solution. This perspective makes the microfinance package appear to be sustainable on the part of the client; if a woman can be close to home while running her business, taking good care of the kids and her husband, the husband is contented and more likely to accept her and her work.

Majeeda's first loan was Rs 5,000 and she believed she should be very careful in handling it. Thus when she got Rs 4,500 in cash from the branch office one morning, she came home and less than two hours later went to buy saris and nighties. She spent Rs 3,500 in one afternoon in one store, buying five Rs 150 saris, four Rs 200 saris, and spending the remaining on nighties. She spent the money this quickly because she did not want to risk her husband taking the money – in which case getting the loan will have been useless.

Since she also did not know how well the business would do and knew she had to start repaying her loan right away, she kept aside Rs 1,000 partly to be used for three weeks' repayment (Rs 130 x 3); she put the remaining Rs 610 to household expenses – a large amount of money compared to the Rs 20 or Rs 30 a day her husband usually gives her.

In any cycle of her business, Majeeda ends up reinvesting Rs 3,000 and earning Rs 1,000 to Rs 1,500 profit; this profit goes towards loan repayment and house expenses, while Majeeda makes sure not to spend more than the profit amount minus the repayment amount. Since Majeeda only reinvests the amount that covers what it cost her to buy the garments in the last cycle, there is no growth and no increase in profits until she gets another loan.

Majeeda has about 12 customers; she sells a wholesale priced Rs 80 nightie for Rs 120 (for which an installment might be Rs 20) and sells a wholesale Rs 200 sari for Rs 350 (for which an installment might be Rs 40). Majeeda intelligently varies her business by demand; buying more saris during the festivals, and more churidars and nighties when there are none. To keep the collection money safely away from her husband, Majeeda makes sure to buy another sari or nightie whenever she gathers enough money, so there is never much money lying around.

Regarding repayment, Majeeda says she repays from the business only. However, her husband has the effect of precluding her earnings when he is at home. In the last three weeks that we interviewed Majeeda, she did not have money for the corresponding center meetings: her husband has been home in the evening, when she usually makes collections; since he was

home, he expected Majeeda to be home as well, and if she is not, he barrages her with questions¹⁶, which Majeeda dislikes.

Thus Majeeda did not go out to make collections every day and her clients were able to make excuses, whereas if she had gone everyday, they would not have been able to postpone their payments.

In these three weeks, Majeeda asked her husband to help her repay; she told him that if she does not repay, she will not get another loan; he told her to ask the group members to pay for her, and never contributed even one rupee during those three weeks.

According to Majeeda, the group covered up for her; asked how the group reacted, Majeeda said that the center leader did not react badly, because she knows and understands her family problems. We asked, “And the group?” “They didn’t mind; anyhow they do whatever the center leader tells them to do: if she tells them to share, they share.” Surprisingly then, when we talked to Majeeda’s center leader, we found out that the center leader has been covering up for her, and that whenever *anyone* does not have their payment, it is the center leader who covers up¹⁷.

At the time that we spoke to her, Majeeda was frustrated with feeling dependent on her husband (from which we might infer that the sari business is not bringing her enough profits), and wants to go to work. As such, she is not keen on taking a subsequent loan of Rs 15,000: Majeeda mistrusts the sari business, and so fears such a big loan: both because her husband might coax money from her and then she would not be able to repay her loan – and because she is afraid to invest so much money at once into a sari business. She says that ideally, she would like just Rs 6,000 to cover education costs and she would go to work a salaried job. Alternatively, she says she will get a loan of only Rs 8,000 or 10,000, use some towards her sari business and the rest towards school fees and household purposes.

3.2 Angarika

Angarika was a client in Mahasemam for two years - two loan cycles before she dropped out of her group due to difficulty repaying. Four months later, she wants to return, but cannot find a group that will let her join.

¹⁶ “Why are you late?” “Where are you going?”

¹⁷ When we asked the center leader if she knows why Majeeda is not paying, she had a very understanding face and said, “Her husband is not working...” This response is surprising; should we infer that women in her center rely on their husbands working in order to repay their loans? Or could it be that she is referring to the fact that her husband disturbs her business operations?

Angarika lives with her son, daughter-in-law, grandson, and until recently, a daughter who just got married. She joined Mahasemam because of its lower interest rate, therein avoiding the high rate of moneylenders.

Angarika had been doing a flower tying business for three years when she got her first loan of Rs 5,000. She spent Rs 500 on household expenses and applied the remaining Rs 4,000 on blouse bits from a wholesaler plus 10 saris (bought at Rs 130-150 each; sold at a Rs 30 to 35 margin). She made Rs 80 per week from the customers of this new business. However, the blouse bits business was a failure, in Angarika's words: the cloths were not quality, and people were not paying her properly¹⁸. Nevertheless, Angarika saved throughout the week and the repayments for the Rs 5,000 loan came from her flower and blouse bits profits. Towards the end of the month, it was occasionally difficult to repay (as business is slower then), and she might have been missing Rs 100. In that case, her neighbors and family lent to her at no interest.

After she got her second loan, Rs 20,000, Angarika wisely began a cycle business: with Rs 15,000 of the Rs 19,000 received in hand, Angarika bought six new, small cycles. The remaining Rs 4,000 was put to family uses: Rs 1,500 was paid to a moneylender, Rs 500 went to household expenses such as the electricity bill, and Rs 2,000 was paid to their landlord (since at one point their rent had doubled and they did not pay two months of rent)¹⁹.

The cycle shop did well: with a charge to children of Rs 2 per half hour to rent a cycle, the shop made Rs 150-200 profit per day and operated out of a thatch hut that used to be Angarika's parents' place. Currently, Angarika's brother is staying there and maintains the shop with her help, in addition to his own business of servicing stoves²⁰.

Unfortunately, during her second loan, Angarika underwent a uterus operation, and was hospitalized in a government hospital for two months. Even while she was in the hospital, she was expected to make repayments, "since [her] group would not accept [her] missing a payment for a single week." When questioned why nobody covered up for her, Angarika said that nobody covers up for other people in her group.

To maintain repayment while she was in the hospital, then, Angarika's son repaid the weekly sum with his [rented] auto rickshaw income. But the son's salary is not enough to

¹⁸ The improper collections may be due to the quality of the cloths and/or the apparent trend in installment-based door-to-door sales in which payments from customers are frequently hard to obtain – customers are away or make an excuse about not having payment.

¹⁹ The landlord took the money out of their 10,000 advance on the house; apparently, either no interest or minimal interest was charged.

²⁰ We did not ascertain whether/how profits of the cycle shop were shared.

support the family and Angarika's loan; every week, Angarika's son would tell her, "What, I pay house rent, auto rent; I pay for groceries; I pay your weekly repayment; this is very difficult for me to pay." Angarika felt very bad and thought, "No need to carry this burden," so she dropped out of her group when she finished repaying her second loan.

Angarika's repayment situation during and after her operation was exacerbated by the fact that two cycles (one third of the business assets) were stolen while she was in the hospital; around that time also, one cycle was in repair, leaving only three cycles in circulation.

It is important to distinguish that Angarika's micro-financial downfall was not directly due to a financial burden²¹, since she did not pay (or paid minimally) for her government hospitalization. Her undoing was the sheer amount of time (2 months) that she was hospitalized and the irreversible consequences of this long period of internment: lost hours of labor [in the flower business] and stolen assets (conceivably the result of insufficient supervision, and avertable had Angarika been present). In effect, Angarika should have been able to take out another loan, since she repaid her previous loan, and with a subsequent loan she might have grown her cycle shop further and done well. Angarika's case reveals, then, that perhaps the psychological consequences (e.g. guilt) of inflicting stress on family members can dissuade good members from remaining clients as much as or more than if she had shouldered the burden herself by going to a moneylender to help repay the MFI loan.

In the meantime, Angarika continues her flower business. She currently is getting loans from a moneylender again, and is now repaying a Rs 5,000 loan with Rs 50 daily repayment²². From the flower business, Angarika reports that she earns about 200 to Rs 300 profit per day, buying flowers (untied) at Rs 500 on Tuesdays and Fridays, and at about Rs 200 all other days.

Things to think about:

Angarika is the right client for microfinance: she showed entrepreneurial characteristics by having a flower business before she joined Mahasemam and once she joined, she started a cycle shop, increased her income, avoided the moneylenders and exhibited repayment capacity. Now she is back with the moneylenders and earning less income, so wants to join a group again. She is asking both old and new-ish groups to join their group, but the center leaders are saying that their groups are full and/or that they want

²¹ Unlike for Asha (Sect. 3.5), whose hospitalization did cause a direct, consequential financial toll.

²² The duration quoted was 3 months; either the duration or the daily repayment amount are misreported or mistranslated, then.

to keep their groups smaller in order to breed discipline; alternatively, there are no fresh-starting groups that Angarika knows of. It is curious: is Angarika unable to find another group because people know of her repayment record, or is there simply no system or precedent for integrating new members into an old group²³? This is important: if an area is micro-financially saturated – that is, if everyone who fits the proper profile for a microfinance client plus did not have some kind of emergency [that caused them to drop out] is a member of a group – then are not certain people with the right profile but some bad fortune excluded from financial access yet again, since no new groups will be forming? How are people who legitimately dropped out of a group (due to sudden hospitalization or other legitimate hardship) to regain their membership? Could MFIs afford to incorporate some flexibility in repayment to give time to members to overcome their medical/economic shocks – so that these good clients do not drop out in the first place?

3.3 Suvali

When we were introduced to Suvali, we thought we were meeting our first defaulter, but Suvali is not a defaulter in actuality: she has less than six weeks to finish paying off her second loan (Rs 15,000) and after that she cannot get a loan because of a rule at Mahasemam that people over 50 cannot obtain loans. In a sense, she is dropping out “naturally.”

Suvali chose to join Mahasemam because it was an access point for money and she had some familiar small businesses that could use it: for the past 20 years, Suvali has held a samosa stand, held an appom/dosa stand (stopped a year ago), sold silver vessels (stopped two years ago), worked as a maid in houses, hotels, and restaurants, and sold saris door-to-door on an installment basis. In these past 20 years, her sari business has not been continuous, however, but dependent on getting lump sum amounts²⁴: i.e. moneylender sums. Just before joining, Suvali was working as a maid in a hotel and holding a samosa/sweets stand once a week, but not selling saris. Since Mahasemam was a source of a lump sum payment, and since one must report a business to join, Suvali restarted her sari business. With Rs 4,500 at hand,

²³ Nandita (of Sect. 3.4) once said that her group has had no new members join since starting. On the other hand, the branch manager we spoke to said that women *can* join new groups, and would start on a small loan again if they did – so the possibility (or ‘system’) is there. If there are many other women like Angarika, then, who lucked out of microfinance, MFIs might need to think of some incentives for center leaders to allow new members into their center, some disincentives for keeping groups “too” small, or some preventative measures (like repayment flexibility and insurance) to keep the good clients from dropping out in the first place. The presence of “arrears” members is evidence that this is beginning to take place.

²⁴ There is evidently no sustainability and/or growth in sari businesses.

Suvali spent Rs 2,000 to buy saris, Rs 500 for grocery items [e.g. rice, oil] needed for that month²⁵, and another Rs 2,000 to repay a moneylender²⁶. During the loan, Suvali saved throughout the week in order to have her weekly repayment, and kept her repayment amounts separate from money put to household use.

As is increasingly evident, however, sari sales is not an ideal business: having grown old, Suvali found it difficult to do both her sari sales (which requires making regular rounds to customers) and the maid work, so she felt no reason to apply for another loan. At this point, her elder son asked her to acquire another loan under her name, but give the loan money to him. Still stating “sari business” in her application, Suvali gave the Rs 15,000 loan to her elder son for his contracting and house painting business, which he had had before Suvali joined Mahasemam. This arrangement was successful: the son took responsibility for repaying the loan, and the night before or morning of Suvali’s group meeting, gave Suvali the repayment amount. Suvali’s role was simply to remind him, just in case, of the repayment, to drop the money off in the meeting, and in the occasion that her son did not have the money, to ask the neighbors for money, who lent at no interest.

Suvali continued her sari business throughout her second loan and left her maid work at the hotel, probably to be in integrity with her loan application and out of difficulty in doing both maid work and sari sales, respectively. Since she has no future loan and does not want to return to the moneylenders, she will discontinue the sari business; moreover, she is very convinced that she wants a monthly salary, and that it is “better to leave the saris and do any one job, in one place.”

Like Majeeda, then, Suvali too prefers the job market over owning a small business; at this point in her life, Suvali is no longer the prototypical microfinance client. Nevertheless, her access to microfinance was advantageous, since it benefited her son – and necessarily Suvali – within a manageable arrangement.

When asked how their monetary needs will be met now that she no longer gets loans, Suvali replied that if her son needs money, he will go for moneylenders; alternatively, he will shrink the business.

²⁵ Suvali mentioned that whenever they have money, they buy in bulk like this; when they are tight on money, they cut this expenditure.

²⁶ For a loan taken after a flood, whence there was no work or income. They paid interest for a year before closing the loan with Mahasemam money. Since then, Suvali has not gone to a moneylender, except for a loan, several months ago, for Rs 2,000. The loan was applied for travel expenses and lost work to search out Suvali’s younger son’s wife, who Suvali thought had disappeared. She is still paying Rs 200 per month on interest.

In reality, Suvali's daughter-in-law (the elder son's wife) has joined Mahasemam to replace Suvali as a good access point to money.

3.4 Nandita

Nandita, a 3-year-old group's center leader, is a clever, proactive women who laughs, makes constant jokes, and is casually confident. At the same time, she is responsible and very compassionate of her members..

Nandita discovered Mahasemam when, on her way to buy vegetables, she noticed a meeting taking place in the street. Curious, she stayed to watch, and when the Mahasemam officials headed to their office, she asked them about their service. Having been an SHG leader for a year, she was impressed by the comparative benefits of Mahasemam and gathered 40 members in her area; she also takes credit for helping form an additional 12 centers just by spreading information on Mahasemam²⁷.

Nandita is the quintessential micro-business owner: she sells saris in her home via several kinds of installment arrangements (daily, weekly, and monthly), has a flower tying stand on Tuesdays and Fridays (temple days), a "tiffin center" the remaining five days of the week, (in which she carries a basket of idlies, dosas, and sambars along the streets), and a kind of ration-card business (wherein she profits from people who get items at a subsidized rate from the government but do not need all that they are entitled to).

Nandita makes approximately Rs 100 per week from the flower stand, Rs 250 per week from the tiffin basket sales, Rs 40 a week from her sari sales²⁸, and Rs 60 -80 from her ration-profiting whenever she goes to the ration shop. In the midst of so many mini businesses, Nandita does not go for wage labor because she likes having her own small businesses and finds it convenient to be at home. This affirmation confirms that Nandita is an exact match for micro-finance as she is "at home" in a small business setting.

Nandita's family includes one son, a daughter, a remarkably affable and thoughtful husband, and a grandson left by her deceased elder daughter. Nandita's younger daughter works at an export company for ready-made clothing and is also a member of Nandita's

²⁷ Nandita mentioned at one point that a field officer told her, "If you help spread information and create more groups, I get a promotion." Her incentive to help a field officer like so may be questioned, however it is likely that her position as an influential and favorable center leader played to her advantage when her unmarried daughter requested to join, when she and her daughter received a total of four education loans though strictly speaking they should have received only one, and in otherwise according Nandita some negotiating power.

²⁸ Nandita charges a premium of only Rs 50 on saris she sells. Similarly, she profits only Rs 1 per kilogram of rice, and Rs 5 per liter of kerosene, minus Rs 5 per card she borrows.

group, upon Nandita's request; this daughter brings Nandita Rs 500 per week; Nandita's son, who has a bank account, works at a courier service.

The following is Nandita's account of her relevant cash flows since joining Mahasemam²⁹. Originally, Nandita acquired 5,000 + 5,000 = Rs 10,000 from her and her daughter's loans. The addition of Rs 20,000 in savings from a chit fund made the total Rs 30,000. Nandita borrowed Rs 30,000 from a private moneylender at 10% month³⁰, and further borrowed Rs 10,000 from her brother at no interest – bringing the total to Rs 70,000. Rs 50,000 was used to construct a proper first floor for their house (converted from a thatched hut); Rs 20,000 was used to start a cycle shop, which rented out cycles at Rs 2 per hour and made repairs. With the Rs 20,000, 6 small cycles and 11 big cycles, all secondhand, were bought and repairs undertaken. They operated this business for 6 to 7 months, reportedly making Rs 600 to 700 per day. Nandita explained, however, that since hers is a slum area, there are lots of “rowdy”/gang people: these people did not return the bikes on time or in the same condition; sometimes also they did not pay, and protesting them would cause more trouble. For these reasons they decided to stop the business.

Nandita's second loan of Rs 20,000 plus her daughter's Rs 20,000 (two weeks apart) was used, with another Rs 15,000 from her son's savings, to construct the second floor of their house. They then used the first floor as a recycling shop that her husband runs and Nandita helps maintain. People bring recyclable materials such as steel, plastic, paper, and alcohol bottles to the shop, the husband pays out Rs 15 for every kilogram people bring, and from the company that he hands the recyclables to, he receives Rs 18 per kilogram.

The idea for this recycling store came from the husband's relatives and one of his friends, who both have this business. The friend suggested he start the business and introduced him to the company that buys the recycled materials off of him. Nandita approved of the venture because she saw that it was successful in two streets over. When asked her role in the decision-making process of adopting the business, Nandita laughed and recounted that she has always been the decision-maker in her family, along with her daughter. Her “husband is not a good decision-maker; he accepts whatever [she says].”

²⁹ There are some objectionable details in this account of acquired monies; it clearly can only be taken as an approximation of the true cash flows.

³⁰ She reportedly repaid him in 6 months, in part by borrowing Rs 10,000 from another moneylender. He has the following loan product: receive Rs 10,000 minus 15% (Rs 1,500) in interest in hand, and repay Rs 100 daily. She is still repaying this daily Rs 100, but it is “not difficult” for her. She reports taking this type of loan multiple times.

Before the loans, Nandita had an income of Rs 100-200 a day from her small businesses. Now she reports making 300 to Rs 400 a day (Rs 200 or more coming from the shop); furthermore, this shop is much better than her husband's previous business, which involved irregular pay and roaming away from home. The new shop is just downstairs, the husband works Monday through Saturday, and now he does not spend away his earned money on drinking before it gets to Nandita. Nandita is pleased with this business.

At the time we were interviewing her, Nandita received her 3rd loan of Rs 20,000 some four weeks back. She had had some jewelry in a pawn shop (see below), and with Rs 10,000 of the Rs 19,000 she received in hand, she reclaimed the jewelry. Next, Nandita's husband asked Nandita for Rs 5,000 to be used as rotation money (or "working capital") for their recycling shop – i.e. as cash for paying individuals who bring recyclables. The husband repays Nandita Rs 125 weekly – that is, he pays a portion of the principal and interest on the Mahasemam loan. The remaining Rs 4,000 were "...for the household." Household purposes means food, groceries, cooking materials, school fees (Rs 850 per month, including private school and tuition center), nighties for Nandita, any replacements for things in the home, and medicine.

Asked whether she increases her consumption, Nandita laughed: "If usually we have Rs 10 per day, and now 20, Rs 30, of course we'll spend it." They might buy biriyani from a nearby hotel instead of cooking, for example. We asked if she had any of this Rs 4,000 from four weeks ago left; she waves her hand and laughs, "Gone." "This kind of money gets used quickly."

In terms of repayment, Nandita saves throughout the week; sometimes there is no business, or she is not feeling well and does not work, but her daughter is earning and giving her money weekly. Otherwise, she has recourse to a moneylender when it is hard for her to repay. Strikingly, there has never been a time when Nandita did not have a repayment amount at the group meeting (she reacted with surprise and amusement at our question). She says people do not cover up for one another in her center. "But they have a pledge!" I say. She replies, "Oh yes they'll tell you the pledge, very happily...and then they'll do something else." Instead, she, the center leader, covers up for everyone³¹.

³¹ We pointed out that we witnessed a woman retrieving Rs 2,000 from her household during her group meeting to cover up for four people – but Nandita said that she returned in the evening to this woman's house and gave back Rs 2,000. Where does she come up with such cash? Shopkeepers in the area know Nandita and hand over cash to her without interest. Since these people necessarily have cash at hand, they provide ready access to cash if it turns out she needs it on the day of a meeting. She quickly repays the shopkeeper – who had only been an expedient for money rather than a long term lender – by pawning items to a pawn shop (hence, in whole or in

Nandita says she does not rely on future loans from Mahasemam to continue her businesses; she is the kind of person who has and will run a business even without a loan from Mahasemam. She simply sees Mahasemam as distinct because of its low interest rate.

3.5 Asha ³²

Asha heard about Mahasemam around three years ago in a local meeting led by Mahasemam officials. Women in the meeting were told, “If you save for five weeks and start a business, you can get ‘x’ amount of money; if you grow your repayment capacity via a better business, we will give you a bigger loan; like this, you can increase your income.” According to Asha, nobody offered them money like this before. She thought it would be good to improve her economic condition and decided to become a member. There was no family influence on her decision to join, nor was there any resistance. She reports feeling happy when she got her first loan and “fully involved” in responsibility.

Asha’s husband is very domineering but gives Asha a lot of responsibility: Asha is responsible for all money allocation of the household. He is o.k. with Asha participating in MFI activity as long as she maintains her responsibilities as a housewife and is in the house whenever he is³³.

Before joining Mahasemam, Asha sold idlies in the morning but was predominantly a housewife; upon joining, she bought blouse bits in bulk and sold them in her area. Consequently, she grew the business into a sari sales, choosing the business because she does not know any other. Asha reports buying saris from a wholesaler at Rs 200 and Rs 400-500, and selling them in people’s homes for Rs 350-400 and Rs 800-900, respectively. When someone buys a sari, they pay for it in monthly installments and Asha goes to customers’

part, the Rs 10,000 from the most recent loan). Even though she pays interest on these items, she does not charge any interest to late-paying members.

³² Asha is the first client we interviewed. It is important to mention that Asha was extremely open at the outset, but quickly became suspicious of an affiliation with Mahasemam due to pressure she received from group members who overheard our conversation, and told Asha that she was revealing too much/would not get a future loan. There is reason to believe, then, that she stopped talking liberally and may have given us answers she thought we would want to hear.

Also, Asha has not been working for ten months. Accordingly, she kept finding our questions irrelevant and was insistent that she could not remember past information. In the end, she may have given haphazard answers, and we suspect their accuracy. Due to ambiguities and inconsistencies, understanding loan particulars and loan use is not the highlight of Asha’s case.

³³ If her center meeting is going on and he is at home, Asha can be seen running back and forth between the meeting and her house.

homes to collect the money. Unlike what we have heard from other women, she says that it is rare not to get the money owed to her³⁴.

Though there has been quite a bit of confusion about what loans Asha has had up to now (how many, what amounts), her loan progression is likely either 2, 10, 15, 20 or 2, 10, 20, 25 (in Rs thousands). She has also just been approved for a fifth loan: Rs 20,000.

Since Rs 1,500 in hand out of Rs 2,000 was not a lot of money, Asha spent the money of her first loan on household items – cable bill, electricity bill, and grocery items. Her descriptions for future loans are generic: she reports spending some money on her business and some on the household, eventually also setting money aside for initial loan repayments for bigger loans³⁵.

Asha's moneylender involvement is extensive: ten months back, Asha underwent a uterus operation in a private hospital³⁶. She and her husband took out Rs 7,000 in loan from a moneylender to cover the operation costs at the start and another Rs 4,000 from the same moneylender at the end of the operation.

Currently, Asha has no saris and has not worked since her operation. Presumably, her last sari profits went towards paying the moneylender interest and repaying her Mahasemam loan rather than for buying more saris. At this point, Asha is self-reportedly waiting on a new loan from Mahasemam so that she can buy saris *and* so that she can repay the moneylender³⁷.

Asha's family is now paying Rs 1,100 per month in interest on their moneylender loan. How does Asha manage? The husband gives Asha his taxi income of Rs 3,000 per month, which Asha is to allocate between household purchases and other obligations; one of her sons gives her an additional Rs 1,000 per month. From this 4,000, Asha takes Rs 1,100 for the moneylender as well as the repayment amounts for Mahasemam. If she sees there is not enough money to cover everything, she will take Rs 500³⁸ in loan from the moneylender in order to pay Mahasemam. With the promise to repay four days later, Asha gets the Rs 500 at no interest; if she does not repay in time, the moneylender tacks interest onto the Rs 11,000 loan.

³⁴ See note 29.

³⁵ See note 29.

³⁶ With bitterness, Asha reported that she repaid her loan even in the week she was in the hospital and that Mahasemam did not "help her."

³⁷ It is notable that Asha is not getting another moneylender loan to restart her business. Probably, she does not believe she could overcome another moneylender loan with her sari income alone: hence the reliance on a future loan from Mahasemam. When asked whether she prefers working or not working, Asha laughs and says she prefers life with business, because right now she feels very bored. She also says, "Life is better with the business," economically-speaking.

³⁸ The approximate amount of the weekly obligation for her latest Mahasemam loan.

Notably, Asha is not taking another loan from the moneylender to purchase more saris, but she *has* been taking out moneylender loans to repay Mahasemam. This is noteworthy: she will for sure take a moneylender loan to repay Mahasemam because she HAS to repay Mahasemam, and she will for sure find a way to give presents at weddings and funerals, yet she will not as surely take a moneylender loan for her business, which is supposed to bring her profits; this distinction suggests that MFIs' incentives ("loans are for business") are indeed effective at causing women to go to work, since otherwise, women of certain profiles (e.g. did not have a business before joining, have husbands who are accustomed to them staying at home) would not put a priority on business.

When questioned about her upcoming loan use, Asha said she wants to develop the business and buy more costly saris as well as nighties, saying definitively that she must not give the money to the moneylender because it will spoil her business; when asked further, though, she admitted she has a dilemma about whether she should use some of the money to relieve her debt anyway.

Originally, Mahasemam told its women that they would get 5, 10, 15...up to Rs 50,000 in loan³⁹. Two months ago, when Asha was still repaying her latest loan, she found out at a group meeting that "there are not sufficient funds" and that now Mahasemam has reduced the max to 20,000, or 15,000⁴⁰. Asha also explained with bitterness that Mahasemam had promised education loans, sick loans, and others, but that this year Mahasemam did not give the education loan even though they promised it for every year, and did not "help her out" when she had her operation.

Despite these disappointments and being told that the new maximum loan amount is lower, despite hearing that Mahasemam is experiencing trouble with funding, and despite not being sure whether, when, and what loan she would get, Asha continued to repay her loan.

To sum up: upon joining Mahasemam, Asha increased her personal standards and built her repayment capacity by seeking a higher earning business at the recommendation of Mahasemam. Though she probably still saw a moneylender before her operation, her debt became much higher and especially unmanageable after her surgery. The financial burden of

³⁹ In a conversation with the branch manager, however, we were told that the max was never 50,000 but 30,000, and that only 5 members, who have big businesses, have received the 50,000 loan.

⁴⁰ The maximum loan size was reduced to 20,000, but both Asha and the center leader were unclear whether the max was reduced to 15,000 or 20,000; the fact that there is discrepancy even regarding this strong piece of information is a suggestion that there is some real miscommunication or asymmetry of information between members and Mahasemam officials.

the operation left Asha and her family relying on the hope of a new loan to help relieve this debt as well as to restart her business.

3.6 Medha

Medha is a calm, polite, and intelligent woman who lives inside a very spacious, one-room house that looks like the inside of a school house and/or church. She is evidently not extremely poor, since the entrance to her house contains a laundry machine and her husband is currently being considered for an auto-rickshaw bank loan.

Medha heard about Mahasemam from her sister's neighbor in another area. She became interested in the convenience and low interest rate of the opportunity, so approached the Mahasemam office directly. As there were no centers in her area, Medha left her address, and when Mahasemam expanded to her region, she started the first group and became its center leader.

Medha's business is currently cooking⁴¹: large prayer meetings are held in her spacious home and she cooks for the participants; her home also doubles as a night school for 50 children, while Medha receives ingredients and pay to cook for the children⁴². Additionally, Medha creates "packets" of food for SHG groups of various economic means (buying ingredients herself) and gets paid for a grocery-buying service.

With the Rs 4,500 that Medha got in hand from the first loan, she used Rs 2,000 for buying ingredients. The other Rs 2,500 was used partly for household purchases and mostly for repaying a moneylender loan used on private school fees (for two daughters, one son)^{43 44}.

Medha's group, which began with 50 members, is in its 4th year. Medha herself cancelled five members: three due to age and two due to irregularity in repayment and attendance; it is because of these two women that Medha, the original center leader of her group, came to have difficulty as a Mahasemam client and ended up in moneylender debt. In the first loan cycle, "everybody in the group was disciplined." Four weeks into their second loan (Rs 15,000), however, two women began to be irregular to meetings and tardy in

⁴¹ Incidentally, Medha did both cooking and sari sales before joining Mahasemam. She did not find the sari business convenient, however, because of the collections process, so when she decided to concentrate on one business upon joining Mahasemam, she felt the better choice was cooking.

⁴² In both cases, she does not charge rent for use of the space.

⁴³ Medha received an education loan from Mahasemam after her second loan; in a manner that rendered meaning even before translation, she relayed that this loan was *very* useful.

⁴⁴ The flow and timing of our conversations was such that we did not get to discuss any loan use beyond the first loan.

repayments. One of the women, for example, moved to a new house, became abandoned by her husband, and was left with three children and no income. Medha “understood her situation,” and to cover up for the member’s missed payments, Medha went to a moneylender: “You cannot demand money from people who have no income,” says Medha.

Medha ceased to be center leader after she finished repaying her second loan. Today, Medha still pays interest on the moneylender loan she took out to cover for the two defaulters; and yet, Medha is *managing* to pay the interest: it was not because of the burden of covering up for defaulters that she chose to give up her role as center leader. “The main reason [she] left” – and here she began to look plaintive, gaining insistence and anger as she spoke – is that previously, the manager at their Mahasemam branch was a kind and polite, “good man”. While the group was in its second loan cycle, the manager was switched⁴⁵, and this new [branch] manager is, according to Medha, a harsh, “bad man;” there was a long delay in sanctioning the group’s third loan, and when the group members repeatedly asked the manager when they would get their loan, he said to them, “Why do you ask for a loan? Why are you being rowdy?”

Looking back, Medha’s group had received its second loan immediately: one day they refinanced repaying their first loan and the next day they received a fresh, new loan; they achieved this flow by requesting the second loan as they were finishing their first loan. When it came almost time for the third loan, the group members expected an ensuing loan immediately, so the women paid advances (several weeks’ worth of repayment in one week) by getting money from a moneylender – in order to get the next, bigger loan earlier. But it was three months before any members got a third loan, and the members were suddenly faced with paying extended interest to their moneylenders⁴⁶.

A total of twelve members, Medha included, ended up receiving Rs 20,000 for their third loan three months after finishing their second loan. It took another 5 ½ months before the next 12-15 people got their third loan – and this loan amount was only Rs 15,000: same as their second loan. The remaining 20-some members have still not gotten a loan; Mahasemam has told them, “You will never get a loan,” and supposedly they have left the group.

⁴⁵ When we spoke to the branch manager, he told us he had been branch manager since the branch opened. Presumably, as Mahasemam accumulated centers in Medha’s area, they opened another branch and reassigned her center to the new manager.

⁴⁶ It is likely that Mahasemam began experiencing funding problems around the same time that Medha’s group applied for its third loan – hence the loan delays. Since, however, the group experienced the delays at the same time that they met their new manager, they evidently attributed their newfound troubles to the new manager.

During the three-months' gap, everyone lost their trust in Mahasemam, and began to think they would not get another loan. ****Nevertheless,**** once women received their third loan, they were very regular both to meetings and in repayments, according to Medha⁴⁷.

In arrears:

Medha and another couple women in her group are “arrears members”: that is, Medha did not pay for two weeks and has a valid reason⁴⁸, so she will simply finish her loan two weeks later than originally scheduled.

Medha says that she can overcome these two weeks of arrears: if she were very sure that she will get a fourth loan, she would be ready to borrow from a moneylender to overcome the two weeks' delay; she would pay three weeks in one go and be set to finish the loan cycle with the other women, as she “[does] not want to be arrears and [wants] to be together with the group.” When we continued to probe, Medha clarified that she is Rs 1,000 worth of repayment behind the other women. She would be willing to borrow from a moneylender and pay the interest because right now she has a much bigger interest burden she wishes to eliminate: the interest of the Rs 20,000 moneylender loan to cover for the two defaulters and another Rs 10,000 loan for her family and private school fees; these loans together make for Rs 3,000 in interest per month, without having repaid any principal. Thus Medha is keen on using her fourth loan to help close the two previous moneylender loans and thereby end her monthly interest obligation. By comparison, this new Rs 1,000 moneylender loan would not be a big concern for her, and she knows that she could use part of the next loan to return this principle if she needed to.

3.6.1 Salient Points to Consider • Conclusion to In-Depth Cases • Contribution to Bank-to-MFI Funding Discussion

Medha's case is compelling and invaluable. It reveals a particular type of ever-greening: the use of a Mahasemam loan to repay a moneylender loan, which was used to repay an earlier Mahasemam loan – i.e. an engineered way of using a future loan from Mahasemam to repay an old loan.

There are several important points in Medha's story:

⁴⁷ As expected, those still without a loan were completely disappointed, and have lost their belief in Mahasemam.

⁴⁸ She was a center leader and is currently in moneylender debt because of it.

1. Despite extended disappointment from – and some serious negative signaling on the part of – Mahasemam, the members exhibit regular repayment behavior once they receive another loan.

This suggests a befuddling kind of demand for the Mahasemam loans – befuddling in the sense that the loans are favored even after they have turned out to be expensive⁴⁹.

2. Medha is repaying her third loan even though she is not sure that she will get a fourth loan. As with Asha (Sect. 3.5), she still experiences an “incentive to pay” of sorts: though these women do not know whether they will get another loan, they will exhibit good behavior *just in case* they can get another loan.

This type of uncertainty and holding-clients-in-suspension is an indication, then, that if funding from banks is stopped, it does not necessarily mean that old loans will not come back to the MFI. The MFI could perhaps play the situation as a delay in sanctioning another loan due to “insufficient funds” (the same cause that Mahasemam reports to its clients) – and continue this behavior until they get all their old loans back or until they find another source of funding.

3. As far as our findings with a very small number of urban Mahasemam clients suggest, there is no such thing as no “capacity to pay.” There is *always* a capacity to pay because, at any time, borrowing from the moneylender is an ever-present, ever-accessible option for the individual who is convinced that she needs to repay – whether by a pressuring group, an incentive-waving Mahasemam, or her imperfectly knowing, yet hopeful, self.

In a sentence: if there is “incentive to pay” then there is “capacity to pay.”

Additionally, as long as most of the people in a joint liability group care about the *chance* of a future loan, someone in the group (like the center leader) is going to cover up for a few who decide not to pay.

Finally, then, it is important to discover if the same kind of good-behavior-in-the-face-of-uncertainty found to occur in Mahasemam occurs in other MFIs as well; if it does, then MFIs could rest assured that until they find the next channel to finance their lending, their old loans will come back – so long as they transition quickly enough. There is of course the risk of widespread defaulting once news catches widely that an MFI has not been issuing any new loans for a long time.

⁴⁹ Expensive due to interest on the moneylender loans, which were intended to facilitate speedy access to larger Mahasemam loans.

4 Short Cases

	“Name”	Eyeballed Age	# of Years in Group	Loans received (in 1000’s)	# of Hours Interviewed	Notes
4.1	Samiya	40’s	<1	5	1 hr	Affluent individ.
4.2	Prisha	40’s	<1	5	40 min	C.L.
4.3	Random	Late 30’s	<1	5	0	Consumption Loan
4.4	Majeeda’s C.L.	30’s	<1	5	1	C.L.
4.5	Nandita’s Daughter	30’s	2+ε	5, 20, 20	0	Unmarried
4.6	Poonam	Late 20’s	<1	10	0	1 st loan is big
4.7	Lalita	30’s	2	5, 15	0	Drop Out

4.1 Samiya

Samiya is the business owner par-excellence yet most unexpected MFI client: she and her family run a full-fledged fish shop with an adjacent convenience store; furthermore, she owns and operates a grinding mill, heads a 7-year old SHG group “comprising 470 women” and sells fresh milk thanks to a Rs 1 lakh machine that preserves milk for 36 hours (which “the government gave” to her “because[*she*] is president of [*her*] SHG”). She has been sanctioned for a loan of Rs 70,000 from the State Bank of India, is a self-proclaimed social worker, and is sponsoring free food for 1,500 people for three days during a festival. Finally, her husband is a panchayat leader.

Samiya came to know about Mahasemam in the first place by way of a Mahasemam field officer who knows her and asked her to create a center, since she knows many people and is an experienced leader. Samiya denied his request, as her SHG is enough work for her, but joined a group anyway when one formed in her area less than a year ago.

It is unclear why Samiya joined, since she cannot benefit from membership in any striking way: her first loan (now repaying) is Rs 5,000, and Samiya could not even remember what she did with it, for the amount of money is not a significant sum to her – e.g. she and her family regularly needs Rs 20,000, which they receive from a moneylender. With the Mahasemam money, then, she speculates she bought some knives.

When asked why she joined, she said that being part of a group “somewhat good” – she can learn about families and about other people.

It seems contradictory to have such an affluent woman in an organization that seeks to help raise poor people out of poverty. According to the branch manager we spoke to, however, Mahasemam does not reject a client on the basis of wealth as it is up to the group leader alone to decide who is in the group.

4.2 Prisha

Prisha is a center leader in Teyradi. We quickly discontinued our interviews with her (her profile – urban, center leader in first loan, sari sales – was too similar to others’); however, there are two points that she mentioned, which are noteworthy in context.

First of all, she recently cancelled 10 members out of 50 because they were irregular in meeting attendance for 8 weeks, as well as occasionally not paying on time. She made a point of saying that the “money doesn’t matter; that discipline is what matters.” This assertion provides a confirmation that attendance is believed to be an important indicator for the health and success of a group, and another instance of a center leader deliberately targeting discipline for her group (Sect. 3.2: Angarika).

Secondly: while in several centers, we heard individuals claiming that members do not cover up for one another and do not excuse a member from paying even for a single week, in this center, there is a member who left Teyradi for an emergency with her family and is being covered up for 10 weeks at no extra rate charged (she will pay when she returns).

4.3 Random Client

At Majeeda’s center meeting, we discovered a woman who does not hide the fact that she uses her loan for consumption purposes only (and not for a business). Like Majeeda, she is in her first loan. Allegedly, her household is slightly better off financially, and the husband takes care of repayment.

This woman provides another example of a case in which the client’s profile and client’s loan use do not match the corresponding aims of micro-finance.

4.4 Majeeda's Center Leader

This center leader heard about Mahasemam from Nandita (Sect. 3.4), then a new center leader across the street who explained Mahasemam's service and benefits, and asked Majeeda's center leader to start a group.

Her current business is sari sales, however she joined Mahasemam because the loans get bigger in each stage, and wants to open a Xerox shop. As that business requires a much bigger loan, she is selling saris in the meantime.

This center leader is about to complete, or has recently completed, her first loan: Rs 5,000. It was from her that we first discovered that center leaders are taking on all the responsibility for covering up for members who do not pay.

She reports that being center leader is a big responsibility and that covering up for people is very difficult. Nevertheless, she plans to continue in this role.

4.5 Nandita's Daughter

Nandita's daughter works at an export company of ready-made clothing and earns a salary; accordingly she did not need to join Mahasemam, nor was it her own initiative to join. Nandita asked her to join – inferably so that they could pool their funds together – and she did. Indeed, their combined loans facilitated the start of a cycle business as well as a major reconstruction of their house.

Nandita's daughter started a sari business, and hands over all money including her salary to Nandita to manage.

Nandita's daughter is a peculiar participant on account of her being unmarried, contrary to the prerequisites of membership in MFIs. To enable her to join, Nandita and her daughter talked to the branch manager, some auditors and other men, explaining to them that the daughter is not going to get married at this point and that for all practical purposes, her deceased elder sister's son is her own son now – “So can she join?” Mahasemam agreed.

By contrast, we were told, an unmarried woman at another area tried to join, but was denied.

4.6 Poonam

Poonam is the daughter-in-law of one of our core participants and happens to also be a daughter of the local center leader.

According to her mother-in-law, Poonam was the only woman in their area *not* in a micro-finance group, and the mother-in-law (a member) thought, “Why shouldn’t she also join?” Poonam’s mother encouraged Poonam to join as well.

However, there seems to be no personal desire to participate in an activity of proactive economic betterment on Poonam’s part.

Notably, Poonam’s first loan was Rs 10,000, perhaps because of her distinctive relations. Poonam and her husband live in a small house that has no toilet; with the loan, they had a toilet constructed. Poonam’s employed husband repays the loan, since Poonam is only a housewife and mother to a young son. Her loan application states that she has a sari business, although according to her mother-in-law, she neither knows anything about the business nor is involved with it.

Conspicuously, Poonam always sits aside in an alley during the center meetings, separate from the group – consequently she does not even look like a member of the group, but a bystander. Inferring from the absence of a personal initiative to join, and her lack of accountability for repaying her loan, she probably does not feel like a real participant in the group. Also, the pressure of having a center leader for a mother and an active participant for a mother-in-law may be particularly humbling.

4.7 Lalita

Lalita is a drop out whom we had met and even scheduled to interview. The interview did not follow through, however, because this individual decided that it would not be convenient for her to interview what with all the household responsibilities put on her and the presence of her husband’s family in the household.

The following details were given by her former center leader.

Lalita was a maid in a wealthy man’s house when she had an affair with the driver and became pregnant. The driver subsequently cheated on her and did not want to marry her on account of her dwarfism.

A group of women in the area gathered, went to the man and told him to marry Lalita, threatening they would go tell the police that he impregnated a woman and left her. The man thus married Lalita – but it is not a happy marriage. Lalita takes care of her husband, who abuses her, as well as her husband’s mother, father, and sister; all of them live in the same place, and Lalita is treated as their servant.

According to the center leader, Lalita gave the first, Rs 5,000 loan to her husband. With her second loan, Rs 15,000, she used some money to start a sari sales business, but gave the rest to the husband. The husband did not repay.

The center leader cancelled Lalita after her second loan on account of her being highly irregular with repayments, but this center leader was compassionate and understanding of Lalita’s situation rather than bitter or disapproving.

The center leader ended up removing Lalita from the group several weeks early by taking the remaining repayment obligations out of Lalita’s Mahasemam savings, and giving Lalita what was left.

It is unclear how Lalita made it through the 2nd loan, given she must have always struggled to repay without the help of her husband and with a compromised business.

This account is an instance where a disrespectful, unreliable relationship between the husband and wife is at root of the failed micro-finance experience. The husband could not be relied upon or convinced to pay up and Lalita did not have the kind of environment that would permit her to concentrate on and invest in her own business herself.

Regardless of whether a small business was something she would have liked to have, to start a business does not seem to be the reason Lalita joined.