

# UNDERSTANDING THE MOVEMENT OF CASH IN PRIVATELY-LED ENTERPRISES IN DHARAVI & THE SCOPE FOR ELECTRONIC OR MOBILE PAYMENTS



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## PURPOSE OF STUDY

Dharavi, Asia largest slum located in the heart of bustling Mumbai, is home to nearly 5,000 informal medium to small-scale enterprises producing goods worth about USD 600 - 650 million a year. Due to the informal nature of businesses, there exists a high frequency and large volume of unrecorded transactions in the unorganized sector. These transactions primarily involve the use of cash.

This is despite business owners in Dharavi having access to banking services and financial products. The first commercial bank branch in Dharavi opened in 2007, and by 2010 it had registered businesses in excess of INR 44 crore (approximately USD 8.8 million). Since then, following the inflow of other commercial banks, Dharavi has also seen the introduction of electronic payment systems, including mobile banking services provided by telecommunication companies; ATMs provided by State and commercial banks; POS terminals at store-fronts; remittance services provided by Business Correspondents (BC) and Customer Service Providers (CSPs). Yet, cash remains the predominant mode of transaction in Dharavi.



INFORMAL BUSINESSES IN DHARAVI





## INFORMAL BUSINESSES WITH QUESTIONABLE LABOR PRACTICES

### INTERVIEW

We interviewed 100 entrepreneurs in Dharavi to understand the social, cultural, and business factors influencing this preference for cash transactions over banking transactions (including the usage of electronic banking systems such as ATMs, POS systems for Debit and Credit cards, Internet banking and mobile banking).

### FOCUS GROUP DISCUSSION

For in depth insight into business transactions, we also conducted focus group discussions (FGDs) with 10 business owners. To ensure we captured a holistic perspective, we assessed the preferences of stakeholders on both the demand side (manufacturers, retailers and customers), and the supply side (suppliers) wherever possible. In addition, we conducted interviews with key bank officials and banking agents located in various locations of Dharavi.

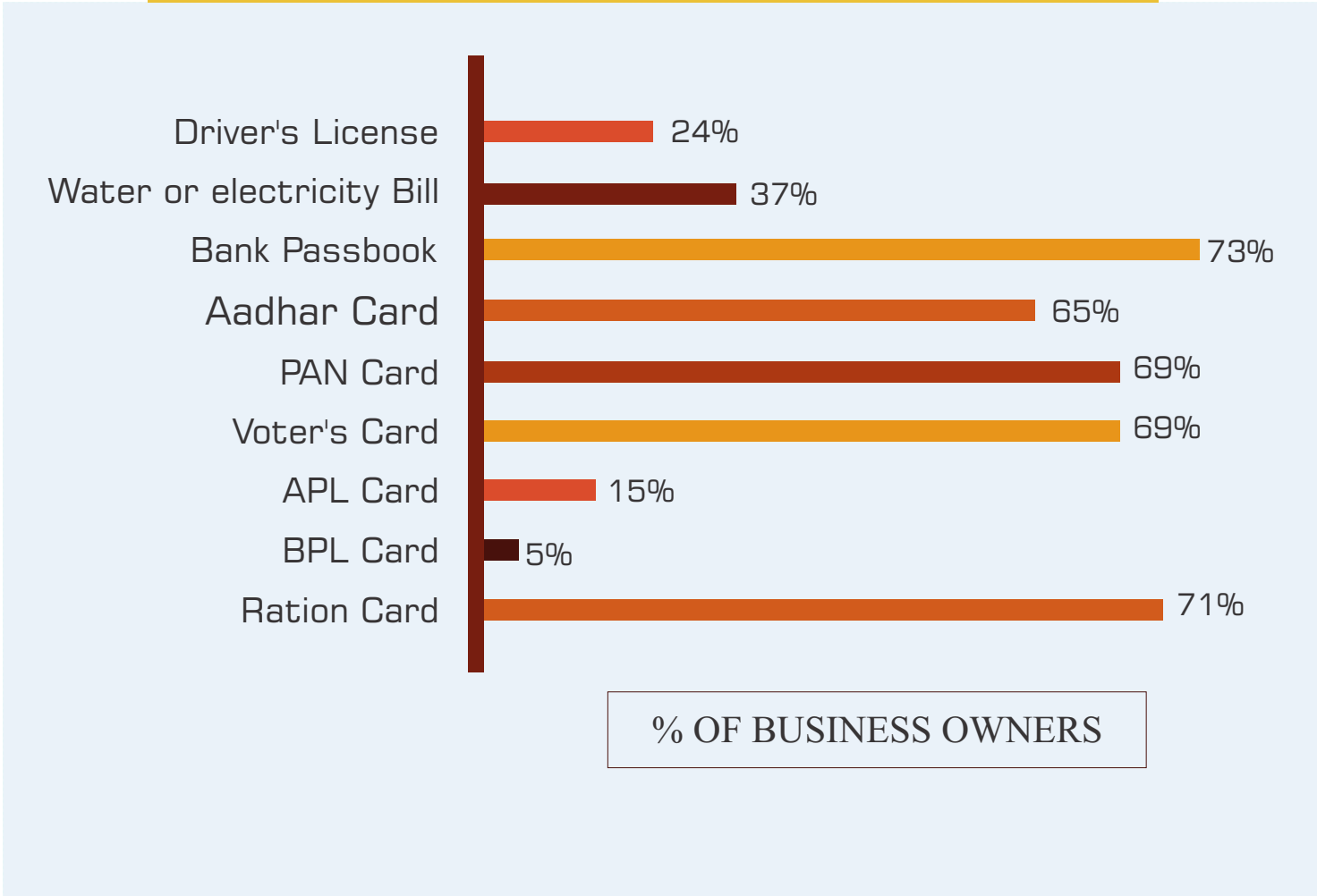
Many enterprises were inaccessible because of the hazardous and questionable labor and environmental practices of the enterprises. We therefore selected enterprises based on their accessibility and willingness to share transaction details. To document the cultural patterns and perspectives of respondents in their natural setting, we adopted ethnographic as well as experimental research methodologies.

# ACCESS TO BANKING SERVICES WAS NOT AN ISSUE

We interviewed a diverse group of entrepreneurs, with 69% identifying themselves as Hindus and 24% as Muslims. Even though 60% of them considered themselves migrants, they had been residing in Dharavi for 26 years on average, with their families. Only 9 entrepreneurs were staying alone in Dharavi, with their family members living in their native villages. As shown in Figure 1, most of them had the identification cards needed to register for banking services in India.

Among the 100 business owners surveyed, 89% had bank accounts. Almost all the accounts (94%) had been opened in Dharavi. Only 3% of accounts were used for “payroll direct deposit”, in which paychecks are electronically deposited to the saving accounts.

FIGURE 1: BUSINESS OWNERS WITH IDENTIFICATION CARDS



## ACCESS TO BANKING SERVICES WAS NOT AN ISSUE

81% bank account holders reported that they used banking services to safeguard their money, whereas only 46% of account holders reported using banks for business transactions. 61% of account holders reported that they were paying fees for opening bank accounts. Almost all account holders reported that they frequently deposited (99%) and withdrew (87%) money, while only 27% reported online money transfers for their business transactions. From our field observations, we also learnt that many preferred keeping their money in banks for safety reasons, and that whenever they needed money for transactions, they preferred withdrawing and paying via cash.

### **Box 1: What makes a successful bank in Dharavi?**

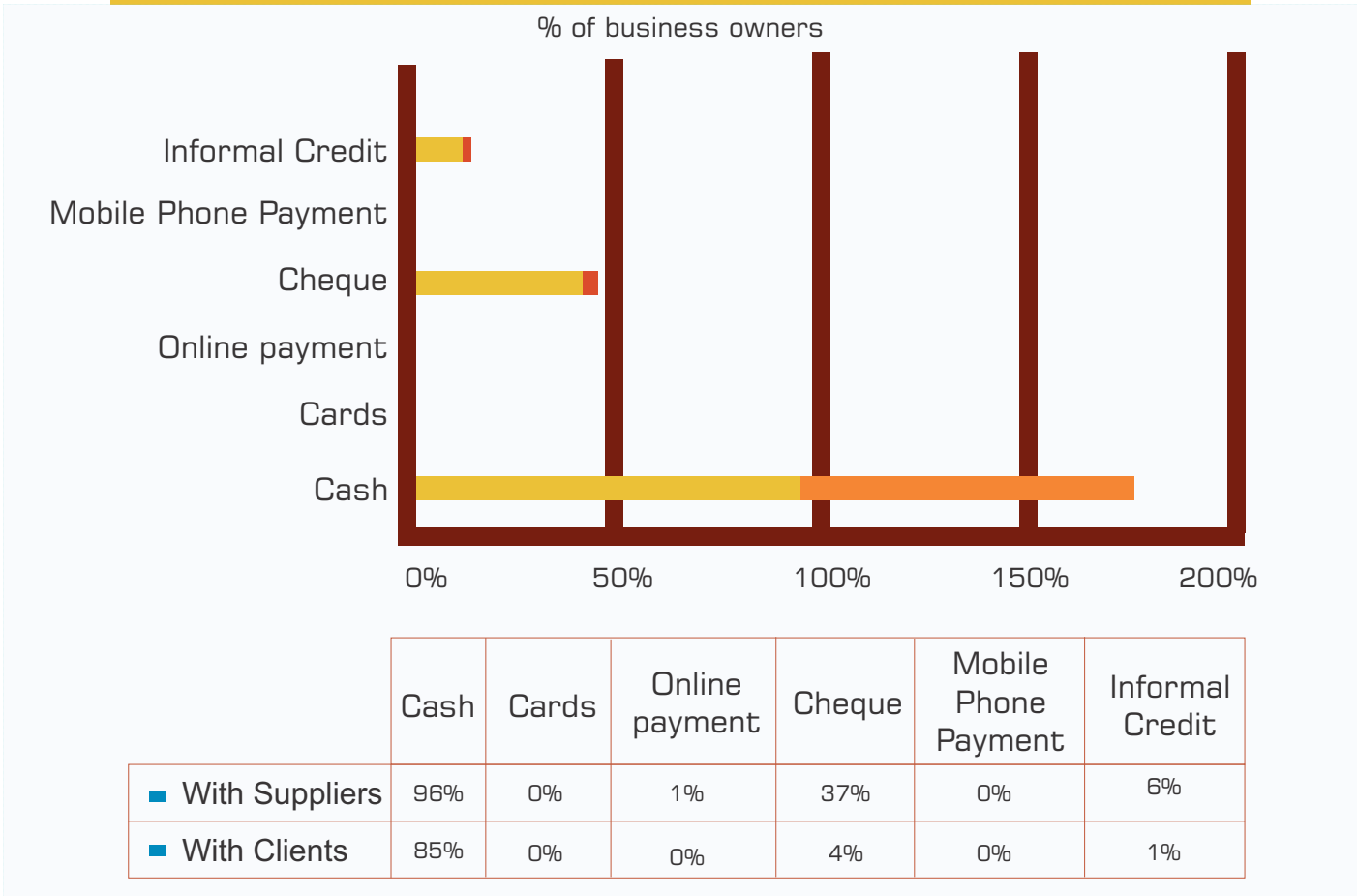
Abhyudaya Co-operative Bank Limited has been serving residents since 1986. The bank opens between 8:00 AM and 1:30 PM in the day, and between 3:00 PM and 8:30 PM in the evenings. These timings are especially convenient for business owners and their employees who typically work late in the evening. The bank also provides lockers to safeguard cash. According to bank officials, the bank deposits approximately 75% of its transactions in cash, and 25% in checks. The bank official we interviewed revealed that on average INR 3.5 crores (USD 580,000) are deposited and INR 5 crores (USD 800,000) withdrawn from the bank daily. (Note: These numbers were based on self-reported data from bank managers).



# BUSINESS OWNERS PREFER CASH TRANSACTIONS TO AVOID TAXATION

As mentioned earlier, despite having bank accounts, business owners would rather withdraw money to pay for business transactions than rely on mobile banking options. From FGDs with 10 of the business owners, we found that when payment was in excess of INR 25,000 (approximately USD 400), business owners –mainly those in lucrative enterprises like the leather or recycling trade– preferred giving checks to their suppliers. However, they preferred not to take checks from their clients, as they wanted to avoid having to deal with bad checks. With new clients, the authenticity of the checks needed to be validated, and this easily took 2-3 business days. In other words, dealing with check transactions was a slow process. The use of electronic payment systems such as Internet banking or usage of debit or credit cards was almost negligible as shown in Figure 2. Almost all business owners reported a preference for undocumented transactions. This is because the Government levies no tax on undocumented transactions, providing bigger profit margins for business owners.

**FIGURE-2: PRIMARY MODE OF BUSINESS TRANSACTIONS**



## Box 2: Mystery shopping

### Reasons for refusing an electronic transaction

We conducted a mystery shopping exercise in 30 stores. After selecting items worth more than INR 5,000 (USD 75), we handed the storeowners a credit or debit card, or suggested online money transfer to pay for the merchandise. In all cases, business owners refused an e-payment transaction, primarily because.

**Insufficient Demand** – Business owners stated that in a month only one customer at most requests to pay via credit or debit cards, or via Internet banking. Therefore, hosting expensive POS systems that charge a fee per transaction was not feasible, especially for small transactions.

**Insufficient Knowledge about E-Payment Systems** – A majority of business owners had neither access to the Internet in their stores, nor the adequate computer literacy skills to conduct transactions via Internet banking. This lack of experience using e-payment systems resulted in low take-up and usage.

**Distrust of E-Payment Systems** – Business owners indicated that they did not trust e-payment systems such as credit and debit card terminals. This perception arose from having heard about poor experiences of other business owners who had lost money or faced operational issues when working with terminals.

**Savings on Undocumented Transactions** – Cash transactions were undocumented and therefore the Government did not levy taxes on these transactions. Saving on taxes resulted in bigger profit margins for business owners.



## Box 3: How do transactions happen?

Business owners primarily transact with three main stakeholders:

### Suppliers

Business owners make payments to their suppliers either wholly in cash, or partially in cash and partially in checks, which are then cashed at local banks. Transactions conducted in cash are undocumented, while transactions involving checks are “documented”. A tax of 3.5% is levied on these documented transactions. Business owners are required to physically carry the requisite amount to be paid to their suppliers in cash, and cash provisions are made in advance to ensure that payments through checks are minimized. In limited cases when business owners did not have sufficient cash, Internet banking was used to transfer payment into their suppliers' bank accounts.

### Retailers

Business owners preferred payments wholly in cash from retailers, or a combination of checks and cash. Transactions made in checks are documented and a tax of 5.5% is levied on the retailers by the government. Business owners preferred payments wholly in cash from retailers, or a combination of checks and cash. Transactions made in checks are documented and a tax of 5.5% is levied on the retailers by the government.

### Employees

Most business owners had migrant laborers manufacturing goods for them. These laborers were from poor socio-economic backgrounds. They were paid in cash only. These laborers frequently remitted money, and thus saved with their employers (the business owners) until they had saved up enough for remittance.



## CASH TRANSACTIONS HELP AVOID UNDUE ATTENTION FROM AUTHORITIES

Only 3 out of 100 business owners reported that they would lose their suppliers if they adopted electronic transactions, and 8 reported having lost retailers or customers when they opted for electronic transaction. Though some business owners did have credit and debit card payment systems in place, they were less likely to use these systems because cash was the culturally accepted mode of transaction. Business owners stated that by keeping transactions undocumented, they could avoid undue attention from authorities such as income tax officers, potentially exposing the questionable business and labor practices employed in the manufacturing of goods.

We interviewed 20 suppliers to understand their preferences for cash and e-payment systems. While 14 suppliers reported engaging in a combination of cash and check transactions, 3 reported wholly transacting in checks, and the other 3 wholly in cash. Half of the suppliers reported that they used cash because business owners preferred cash. All suppliers stated that they were comfortable dealing with cash and perceived cash transactions as being safer.

## HIDDEN BUSINESSES & ENTERPRISES



## VOLUME OF CASH TRANSACTIONS

Table 1 documents the volume of cash transactions between stakeholders. Because cash transactions were undocumented and self-reported, we assumed that business owners had significantly under reported transactions to avoid undue attention to their financial behavior. Business owners reported that they had a cash transaction of more than INR 50,000 (approximately USD 860) on average a month prior to the survey. At the same time, suppliers reported a transaction of INR 156,000 (approximately USD 2,600) per month prior to the survey

(Note: This amount does not include transaction amounts via checks).

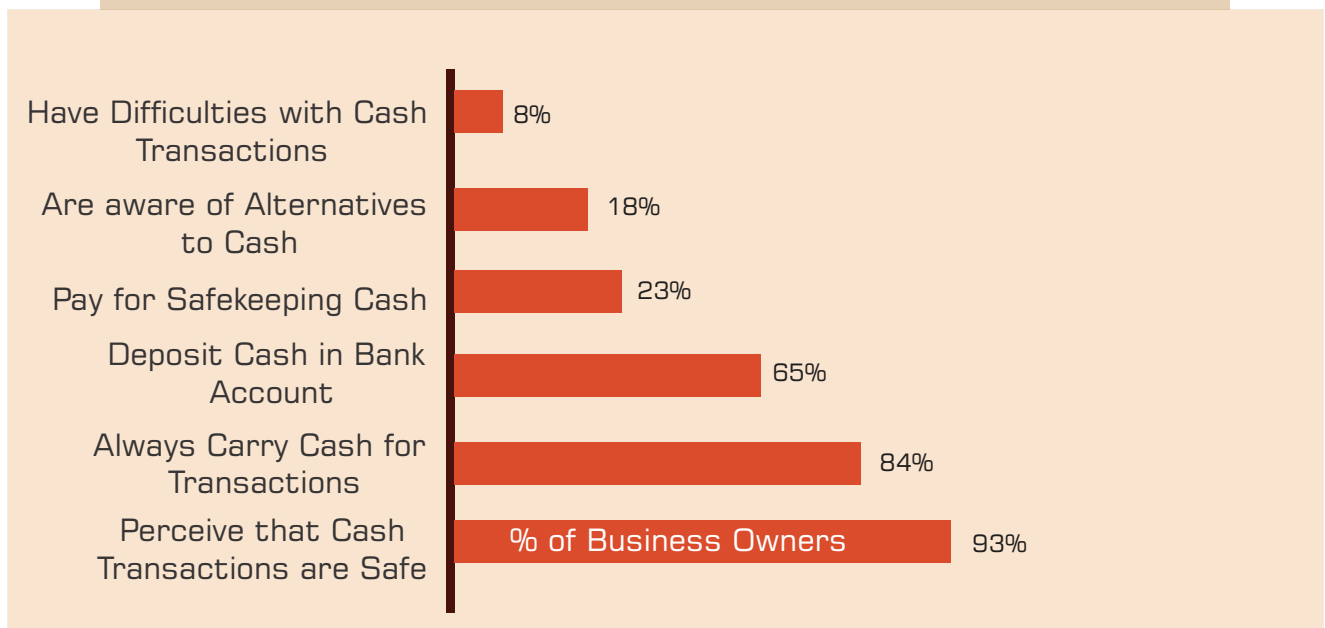
**TABLE 1: VOLUME OF CASH TRANSACTIONS**

		Last Transaction	Last 1 week Transaction	Last 1 month Transaction	Last 3 months Transaction
<b>Reported by Business Owners</b>	With Suppliers	INR 2,255 (USD 38)	INR 10,058 (USD 168)	INR 22,100 (USD 368)	INR 63, 886 (USD 1,065)
	With Retailers	INR 971 (USD 16)	INR 8109 (USD 135)	INR 29,527 (USD 492)	INR 62,625 (USD 1,043)
<b>Reported by Suppliers</b>	With Business Owners	INR 33,853 (USD 564)	INR 43,615 (USD 727)	INR 1,56,000 (USD 2,600)	INR 5,39,286 (USD 8,988)

## USING BANKS TO SAFEGUARD SAVINGS

Though the majority of business owners (92%) reported that they did not face any difficulties in handling cash, some shared stories of their cash being stolen or eaten by mice, and of the losses they incurred when fake or damaged notes were transacted. Supermarket owners, in particular, reported that they had to tender more cash during festive seasons as they often ran out of cash during such days. Regardless of these issues, almost all business owners (93%) felt that handling cash was safe. Likewise, almost all of them (83%) reported that they always carried cash for business transactions. Two in three business owners we interviewed reported that they had used banking services to safeguard their cash, though they immediately withdrew money from banks for business transactions. Not all business owners were aware of the benefits of electronic transactions, such as the speed and convenience of facilitating such transactions, and the minimized risk of stolen cash. Only 18 business owners reported that they were aware of the benefits of electronic or online transactions, while the rest reported having heard about it, but had never tried to understand the benefits.

**FIGURE 3: DEALING WITH CASH**



## CUSTOMERS LACK INFORMATION ABOUT ELECTRONIC PAYMENT SYSTEMS

Business owners expressed that they would invest in the infrastructure to accommodate debit and credit cards, Internet banking and mobile banking in case suppliers, retailers and customers demanded e-payment systems. We conducted exit interviews with 115 customers who were shopping in Dharavi markets (including supermarkets). While all of them reported that they primarily used cash, 3 indicated that their family members used a variety of payment modes at the supermarket, with a preference for credit and debit cards. These 3 customers stated that their family members favoured e-payment systems because their salaries were directly deposited into their bank accounts, and therefore it was easier to pay using debit cards instead of withdrawing cash from the Bank for purchases. Around 7 customers reported that they only gave checks to the retailers they knew personally. Around 17 customers reported that they often purchased items on credit because of the mutual trust shared with the retailers. Almost 59% of the customers reported that they used cash because business owners strongly preferred it. Almost 70% of customers we interviewed stated that they had no knowledge and awareness about e-payment systems and thus were not comfortable with using debit and credit cards in stores. Despite the mixed responses, customers were interested in learning more about the workings of electronic payment systems. Customers we interviewed reported, on average, cash transactions of INR 1,937 (USD 32), INR 6,146 (USD 102) and INR 15,865 (USD 264) in one week, one month and three months prior to the survey respectively.

**59%**

USED CASH  
BECAUSE  
BUSINESS  
OWNERS  
STRONGLY  
PREFERRED IT

**70%**

CUSTOMERS  
HAVE NO  
KNOWLEDGE  
AND AWARENESS  
ABOUT THE  
MODERN  
PAYMENT SYSTEM



Despite the mixed responses, customers are interested in learning more about the workings of electronic payment systems



## LACK OF AGGRESSIVE MARKETING BY BANKS

Several commercial and cooperative banks operate in Dharavi, including Axis Bank, State Bank of India, Hindustan Co-operative Bank Limited, Abhyudaya Co-operative Bank Limited, Tamilnadu Mercantile Bank Limited, and Indian Bank. We conducted interviews with Bank Managers at the two most popular banks - Abhyudaya Co-operative Bank Limited and the State Bank of India. The purpose of the interviews was to understand the bankers' perspective about financial services being offered, and their perceptions of the use of banking services by business owners.

The bank officials of Abhyudaya Bank stated that clients had limited understanding about banking services, in particular services such as Internet and mobile banking services. Bank clients checked their transactions via their phones, but were uncomfortable with conducting Internet and mobile banking transactions. Because ATMs were conveniently located in several locations of Dharavi, most clients preferred withdrawing money to pay for transactions.

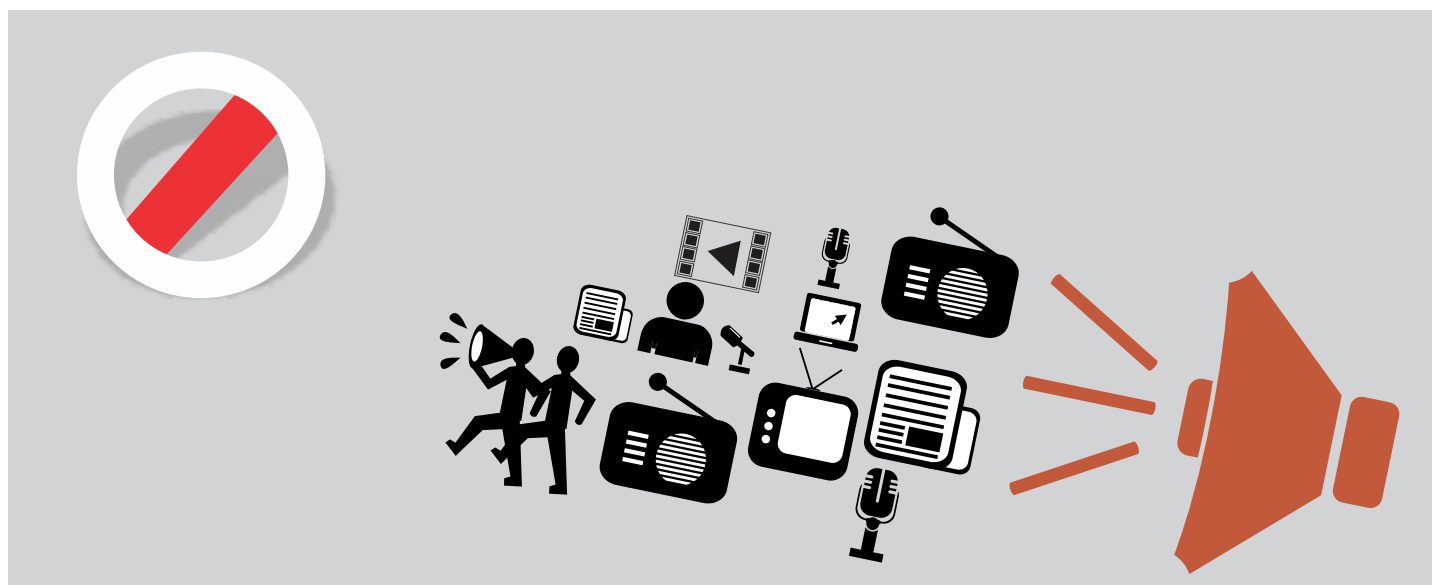


ADVERTISEMENT OF BUSINESS CORRESPONDENCE SERVICES

## LACK OF AGGRESSIVE MARKETING BY BANKS

The State Bank of India's (SBI) Dharavi branch is located in the outskirts of Dharavi, in a residential community. The branch manager stated that their branch had recently started focusing on migrant workers working in Dharavi because this client segment popularly used remittance services. The branch had started offering No-Frills Accounts that could be opened with minimal Know Your Customer (KYC) documents and which offered check-books that could be used in multiple cities. SBI also set up Customer Service Providers (CSPs) to provide basic services such as remittances, account opening, deposits and withdrawals.

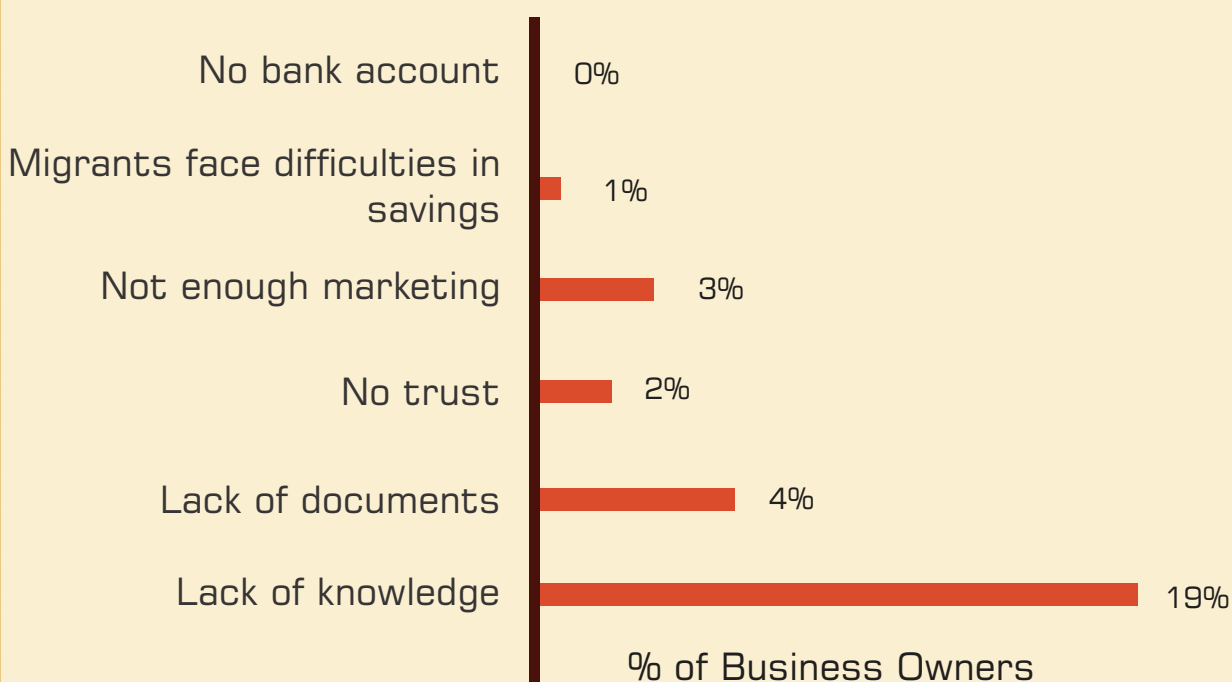
The CSPs were small-scale business owners who operated the banking services from their own shops. When clients visited CSPs, they paid INR 25 (USD 0.41) in fees for transactions up to INR 1,000 (USD 17). In addition, SBI also offered the Immediate Payment Service (IMPS), and Internet banking service. Clients with advanced knowledge about mobile banking used these services. SBI bank managers stated that major impediments to the adoption of e-payment services were the lack of knowledge about these systems and their features, and inadequate financial literacy and knowhow about financial services in general.



## LACK OF AGGRESSIVE MARKETING BY BANKS

We interviewed 25 banking agents located in various locations in Dharavi. On average, these 25 agents had been operating as CSPs for the past 15 months, serving around 20 customers each day. Almost all agents reported opening their shops late into evenings to provide services to migrant workers who were busy working in the day. While all the agents provided remittance services, around 18 of them provided saving services as well, charging flat charges for both deposits and withdrawals. When we asked about the challenges the agents faced in offering financial products, Almost all the banking agents relied on marketing efforts by the banks, and almost all CSPs (23 out of 25 CSPs) relied on “word of mouth” marketing to advertise their services, while some (15 out of 25 CSPs) reached out to the employers of migrant workers. 16 CSPs reported many who can be potential clients were not aware of the products. Nonetheless, the CSPs did not have enough time to advertise their financial products and educate clients about the benefit of using their services. everyone unanimously reported the client's lack of knowledge about the financial products as a key challenge, as shown in Figure 4.

Figure 4: Challenges faced by clients



## NEED OF THE HOUR: CUSTOMIZED FINANCIAL EDUCATION

### FINDINGS

Our findings indicate that cash is the preferred mode of transaction, despite ubiquitous access to banks, ATMs and CSPs. However, a lack of awareness and distrust of e-payment and mobile and Internet banking services was impeding their usage. From FGDs with business owners, we learnt that even when equipped with basic financial knowledge, business owner soften relied on unpredictable cash flows and paid insufficient attention to their financial requirements for the future. As cash was always on hand, problems of procrastinating savings or lack of self-control led to temptation spending and undisciplined savings behavior. It is interesting to note that the rationale for keeping cash on hand was unique for each group. For example, a business owner saw benefits of saving on taxes when transacting in cash, whereas a migrant worker saw benefits of saving on waiting time at banks. Thus, we gathered that generic information about financial products and services would not be sufficient to cause a change in behavior, mainly because the day-to-day savings needs were different for each target group and it would be difficult for respondents to relate to needs other their own. Furthermore, there are currently no financial education modules focusing on cash-only versus cash less scenarios, the long-term savings capabilities via investment products and improved decision-making processes.

Keeping these findings in mind, we recommend that financial providers design context-specific messages that would not only address the knowledge gap about financial products and services, but would also address the underlying behavioral biases impacting financial decisions. For example, business owners with a savings account are aware of mobile and Internet banking options. However, they perceive bigger gains by saving on taxes, and therefore see no benefit in using banking services for business transactions. Yet, by focusing on short-term savings on taxation, business owners would have to operate with unpredictable cash flows – sometimes, a lack of readily available cash would result in the business having to be shut down for days till members in their social network helped business owners secure the necessary cash.



### FINDINGS

Thus, when interacting with business owners, financial providers should tailor the discussion to focus on investment options that would allow business owners to build a healthy and dependable cash flow, and to secure the enterprise.

We also learnt that the interest paid by the bank was not a significant incentive for business owners to actively use banking services. However, business owners did face the risk of receiving fraudulent currency and clients defaulting on the pending balance in cash, particularly when payments were to be made at a later date. In addition, with limited reserves at the Bank and large sums of cash on hand, business owners feared for their personal safety. In case of personal tragedy, they also feared that their family would not have access to their stash of cash. With transactions not being legally recorded, business owners feared losing cash on hand during unforeseen events as well.

When it came to migrant laborers employed in Dharavi to manufacture goods, we found that employees had a limited understanding of formal banking services and were apprehensive about banks. Migrant laborers lived with their co-workers, and often dealt with theft and robberies. Additionally, with cash readily available on hand, most of them squandered their savings on gambling and other temptation goods such as alcohol and chewing tobacco. Migrants needed to be informed about financial services such as remittances, and the benefits of putting away their savings in banks. In addition, migrants should be encouraged to work with their employees to establish automatic deposits of salaries to their accounts to reduce temptation spending.



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