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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

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   APPENDIX/ANNEXURE

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CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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A STUDY ON FINANCIAL MANAGEMENT PRACTICES OF POOR HOUSEHOLDS IN CHENNAI AREA

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ABSTRACT

This paper examines how the poor manage money and is based on livelihoods surveys and demographic material about people living on the slums, in Chennai. The slums are vulnerable locations housing very poor communities without the municipal services because they are not listed in revenue records. We used a new approach of getting the poor households maintain financial records to understand their coping strategies. Previous researches of this nature in Chennai slums have not used this approach. The study demonstrates that the poor live in a diverse economy where community spirit, family assistance and trust play roles equally important to markets, concluding with evidence-based discussion of financial inclusion for application in these types of marginalized societies for policy makers and microfinance industry.

KEYWORDS

Financial inclusion, Microfinance, Slums.

JEL CLASSIFICATION

D12, D31, D63

INTRODUCTION

Since access to money is not readily available for the poor, the concept of 'financial inclusion' was born. The exclusion from the financial sphere for poor occurs at two levels: the more vulnerable people are kept out of the payment systems; and excluded from the formal credit market itself, compelling them to access non-institutional sources. Therefore, interventions that are designed mean to connect them to mainstream banking and lending systems so that the poor can access capital from the market when they needed it. These interventions assume that the poor are not competent managers of money and finance, and all informal financial arrangements as exploitative. Financial inclusion also assumes that those who are to be brought 'within the net', that is those who live within a certain political boundary, as 'legal' citizens.

To investigate how the extreme poor make a living, we look at people living on the slums, in Chennai. We focus on six slums on the banks of the Adayar River, in Chennai, Tamilnadu. A significant number of people live on the slums, in a physically uncertain, legally unsure, and ecologically fragile environment. Their vulnerabilities arise from many factors: annual inundation; riverbank erosion; absence of municipal services such as roads and electricity, water supply and sanitation; and the illegitimacy of their existence due to lack of legal status both of their properties and themselves. To survive, people have fine-tuned sophisticated 'hand-to-mouth' survival strategies to cope with poverty (Samanta and Lahiri-Dutt 2005).

To understand how the poor people survive on low cash incomes and manage what finances they have we need to see what happens inside the household. What informal credit systems do they depend on? What roles do trust and hope play in their survival? This paper explores the multiple sources of informal credit that the poor have created, investigates how these sources are mobilized and accessed by individuals, and highlights the role of informal credit in livelihoods and the overall well-being of individuals, households and communities.

RESEARCH METHODOLOGY

This paper emerged from a broader research project on the livelihoods of people on the slums of the Adayar River in Chennai in Tamilnadu. Different phases of this self-funded intensive field-based empirical research were carried out from 2013 to 2014. The slums are located on the Adayar either within the Chennai or the Chingleput districts of Tamilnadu. We studied the slums that were more accessible from the Chennai area.

The study was undertaken at two levels: community and household. At the community level, we looked into indebtedness, sources of credit and the reasons for debt of slum dwellers in seven slums with an overall understanding of the kind of different types of dwellers and their nature of financial status by discussions with the notable leaders and opinion makers in that society. A structured questionnaire was used to understand the different sources and uses of money at the household level besides the use of a diary to note the day to day financial transaction of the households.

In an effort to understand the informal sources of credit and money circulation systems within the slums we explored the financial strategies of households to manage money. Ten households from four slums participated in this exercise, and allowed us to record and analyze their financial policies and economic behavior in detail. This was done by keeping financial diaries based on daily interviews over a one month period in both a lean season (the monsoons, when the river is in spate) and a peak season (winter, when the river is used for commercial washing). These diaries, much like household-level balance sheets and/or cash-flow statements, recorded how individual households managed their money.

A few words about the subjective nature of the research method are relevant here. To start with, the world of the *slums* was entirely different to ours, the authors, who lived in the Chinglepet district. Securing access to the slum people's homes and lives was not a straightforward and easy process. The precarious legal situation of slum dwellers also meant that we needed to exercise caution and ethical judgment. Only those who were willing to be transparent about their finances participated in the survey. Because of its personal nature, each family had the option of leaving the study at any time. We also involved school going adolecents of local communities to act as facilitators where ever needed to visit the families every evening in their homes to note down the day's activities that involved money.

LITERATURE REVIEW

In India, financial inclusion through microcredit made a start under the leadership of the National Bank for Agriculture and Rural Development (NABARD) in the 1990s in the form of the SBLP (State Bank Linkage Program) to bring the poor within the formal financial system. The strategies of financial inclusion generally expect the poor to build livelihoods to escape poverty through self-employment with the help of only a very small amount of credit. The concept of financial inclusion has easily lent itself to intervention to provide microcredit, which is claimed to be the most efficient means of poverty alleviation and the best way to make the poor self-reliant (Hulme and Mosley 1996; Morduch and Haley 2002; Zaman 2004). Microcredit has been criticized in recent years however. Scholars (Duvendack et.al. 2011) have pointed out that there is no clear cut evidence that microcredit schemes have a direct, positive impact on poverty or on livelihoods

and hence may not be useful in the long run. Although the main arguments for microcredit-based financial inclusion are poverty alleviation and empowerment of women, studies have shown that some of the interventions neither help poverty alleviation (Kabeer 1998, 2000, 2005; Hunt and Kasyanathan 2001) nor significantly empower women (Karim 2011; Burra et al. 2005; Cheston and Kuhn 2003; Kalpana 2005).
Financial inclusion, as envisaged by micro-credit programs, often does involve other aspects of human development and well-being, for instance education, access to credit, capacity-building for production, and awareness of and linkages to the market economy (as argued by Alphonso 2004, Chauhan and Rajdev 2014). Studies (Krishna 2003; Guerin and Palier 2005) have also noted that the provision of microcredit in the name of financial inclusion have actually increased the levels of indebtedness of rural poor. Despite the immense popularity of microcredit, no clear evidence yet exists that financial inclusion has positive impacts on poverty and livelihoods (de Aghion and Morduch 2010). Some civil society research initiatives for the urban poor in India (such as by Nirantar 2004) have equated microcredit with a 'band-aid' applied to a deep wound without treating it. They argue that microcredit has discouraged the exploration of other strategies to combat poverty and unemployment in India. To try to alleviate poverty and its related problems without analyzing the social and economic issues of unequal resource access and distribution is a superficial exercise.

RESEARCH GAP AND NEED FOR STUDY
In academic discourses on poverty, debate has so far been mainly about the measurement of poverty, the scales and indicators, poverty alleviation strategies, and financial help from donor agencies, governments, and non-government institutions. T Planners and policymakers, who design schemes for poverty alleviation, neglect the importance of understanding the financial practices of the poor. The broad-based economic surveys that they carry out do not cover the minute details of the income and expenditure of the poor over time. Nor do anthropological studies come up with quantitatively understandable details about the financial management by the poor. Only a radical shift in research methodology, away from the universal answers, can fill this gap in understanding and identifying viable methods of cash management. What is needed is 'thick description' (as called by Geertz 1973: 3) that will contextualize lives. Indeed, theorists are increasingly paying attention to the social economy that was largely ignored by economists trained to see only in a certain way (Murray 2009, Banerjee and Duflo 2011). Pertinent to our project is the research by a group of scholars (Collins et al. 2009) who used the technique of financial diaries of 250 poor households to understand their fiscal policies for daily maintenance in the short term as well as in the long term. Their robust analyses offer fascinating insights into the monetary lives of the poor. Our observations verify some of their findings; for instance that the poor can not necessarily always plan for the short term. The ways in which they plan for the long term and thereby save money are different, requiring a high level of inter-household cooperation and collaboration. The poor also do not consume their entire incomes immediately, but try to put their money in different places to minimize the risk of loss. In other countries, a growing body of literature shows that customary practices, state regulations, and market exchanges give rise to a hybrid economy (see Altman 2009a, 2009b for examples on traditional/aboriginal/indigenous societies). From a theoretical perspective, such diverse economies have been conceptualized by the human geographer Gibson-Graham (2006).

RESEARCH PROBLEM
Programs of poverty alleviation use the concept of 'financial inclusion' on the belief that because the poor are subject to usurer exploitation when they are excluded from financial services provided by banks and other financial institutions ((RBI 2006; 2007). Giving them access to banks is the policy measure to help the poor escape the vicious cycle of poverty. Traditional modes of usury, are widely considered as evil and exploitative, and there is no interest in understanding why people might access these 'services'. Hence the government tends to use two policy prescriptions: one is to close informal modes of credit delivery outside mainstream regulatory measures; the other is to find the means to provide 'financial inclusion', and protect poor from exploitation by moneylenders who charge exorbitant rates of interest. This is why international financial agencies such as the World Bank in their 2001 report on attacking poverty have promoted financial inclusion as a primary strategy for poverty alleviation. However the key assumption that the poor on their own do have the ability to manage financial decision making is imperative in all these policies. We had not found any study to check if this assumption is valid in the current level of economic and cultural development and this study was proposed to examine this assumption.

OBJECTIVE
Understand the financial decision making by poor households in Chennai slums.

HYPOTHESIS
The hypothesis we wanted to check was that the poor households do not have any ability to take financial decisions on their own.

FINDINGS OF THE STUDY
We found that of the households we studied two-thirds of the families are indebted, although the proportion varies significantly across the slums we studied. The remoteness of individual slums and the period of occupation by its inhabitants seem to influence the level of indebtedness. Within a given slum the amount of debt varies widely between families. Indebtedness of about 45% of them is low less than Rs. 5,000 while 40% of families have medium-level debts varying between Rs. 5,000 and 20,000. The remaining 15% of families are heavily indebted with loans of more than Rs. 20,000. If we assess the average level of debt for the indebted households across the slums, then those near Adayar town and Kotturpuram have borrowed the most.
In general, only about 10% of slum families have access to the formal credit that banks offer4. This is because many do not have ration cards or other documents to prove their citizenship. Use of banks is also low because lands slum families stay are mostly unrecorded in revenue records and thus of no value to banks as a mortgage. Lastly, the slums are physically remote; some only accessible by good road even during the dry season. Those families such as washermen with valid land titles that access the formal credit systems of banks are relatively better off. The financial situation of each household is specific to that households and can change dramatically even within a short period of time. Whilst some can overcome pressing needs in the short-run or in the long-run, there are also cases in which households have sunken deeper into poverty. Often, vulnerability to physical emergencies such as floods and riverbank erosion, as well as to financial emergencies such as medical emergencies, sudden death of the male income-earner, or social obligations such as a daughters' marriages have worsened the family's well-being by compelling the sale of house.
The 90% of slum households who cannot access banks depend on a number of informal credit sources. The availability of credit and the conditions attached to it play an important role in determining livelihood strategies of these people. Households without any savings frequently borrow from various informal credit organizations. Of the different sources of credit available locally, the most important (52%) for the slum dwellers is still the *marvadis*, or money-lenders, followed by relatives and friends (38%), then banks (10%). Reasons for taking loans vary widely; reasons can include daily consumption needs as well as building of livelihood assets like the purchase of property or to meet exigencies such as a daughter's marriage. Among house owners and laborers, loans for business are most significant, whereas small consumption needs, especially in the lean season during the monsoons, dominate among the poorer.

MONEYLENDERS AS SOURCE OF FINANCE
The most significant source of informal credit in the slums is the moneylender, locally called the marvadi. Even though people pay a high interest rate of Rs 50 to Rs 60 per Rs 1,000 each month to the marvadi, the poorer families still depend on them. The obvious reason for this is that there little or no access to formal credit from banks. The other reason is more psychological—a faith or trust in the old system and the advantages of taking out a quickly repayable loan. The moneylenders also prefer short-term loans as they believe that the poor cannot repay longer-term loans. It becomes difficult for the washermen to repay the loan if profit is low from a season due to a fall in the business or due to accidental loss of the business by drought, flood. For this reason, the moneylenders

selectively judge the repayment capacity of the borrower. Unfortunately, the poorest of the poor sometimes do not get a loan even from a moneylender. To ensure repayment from the poor, some moneylenders prefer special conditional loans called '*kandu*'.

KANDU LOANS' CONTINUING RELEVANCE

'Kandu' is a traditional advance-lending system that continues to play an important role in the subsistence economy of the slums. Here, the people borrow the total amount required to meet an expense in cash from the marvadis, who are also wholesale businessmen selling assets. The interest rate is commonly set by the marvadis depending on his personal relations with the client—his familiarity with and trust in him or her as a borrower. The essential condition of 'kandu' is that the borrower is required to settle daily income to the respective marvadi.

Some moneylenders, to make up defaults, may even buy the assets lower than the market price. In spite of these exploitative pre-conditions, for a number of reasons slum dwellers prefer kandu over the usual form of loan from moneylenders. Marvadis generally try not to lend to the people whose repayment capacity is poor, whereas a 'kandu' loan is accessible even to poor. Another reason of preferring 'kandu' is the possibility that some of the marvadis would be lenient and allow one more year for repayment if the person is in real distress. The marvadi may also waive off the additional interest. This mutual faith and trust add a positive dimension to 'kandu'.

Though 'kandu' loans are usually depicted as the villain of poor people, in the communities studied, the economic nature of people has presented a completely different aspect about this practice, and even suggests the reason for continuation of these types of loans irrespective of the popular public opinion against the same.

ROLE OF MICROFINANCE GROUPS

Informal credit groups are a relatively new addition to the sources and ways of credit mobilization in the slums of Chennai. The oldest group is the SMILE that was formed in 2005 by a voluntary group. The group now has 4000 shareholder members scattered over Chennai. Usually such societies are run by a core management committee comprising six to ten members (depending on the total number of member). The membership of the committee changes every three years. All monetary transactions (getting loans, repayments, and dispute resolution) are carried out at monthly meetings in the presence of all the members. Core members are also selected in those meetings to be the office-bearers for three years. In March 2011, this committee had a capital of Rs 14 lakh—a substantial increase over the initial capital of Rs 1.5 lakh in 1999. This capital is kept in a nearby bank in an account jointly held by two or three founding members. These informal credit groups operate much like an informal bank, and people living on the slums use them for both credit and savings. The informal credit is provided at interest rates less than those charged by local moneylenders, 5% per month, that is, 60% per annum, but still at 36% which is more than three times the rate charges by commercial banks. These groups flourish not only because slum-dwellers are unable to access the banks without citizenship papers; even those who could are reluctant to use banks and prefer to use these groups. The reluctance is rooted in the large amount of paperwork required by banks, which is conducted in English, and going to the bank is a daunting task for the illiterate poor. Others, who use credit for business, benefit from the shorter application and loan processing time of these informal institutions.

ROLE OF INFORMAL CREDIT SYSTEMS

When we asked individuals about the effectiveness of these informal credit mobilization systems, responses were varied. Families with more property usually benefit more from these credit groups: they can procure a short-term loan, especially just before a wet season more easily and can immediately repay with interest. Some relatively better off families also use credit as a way to build up savings. The poorest families prefer this source of credit as no assets are required to be mortgaged. There are also differences in reasons for taking out loans; often the poorer families borrowed to meet their consumption needs whereas the better-off families use loans for farming. Peer pressure to repay these debts is also great. Some families that are unable to repay debts experience extreme peer pressure from other villagers—as most of their money is also with this group as public shares. There are cases where extremely poor families have had to sell their cattle or part of their assets to repay the loan and accumulated interest. The positive aspects of the system of informal credit are several; the poor can access cash when needed and they can do so reasonably quickly, and no longer have to depend on local moneylenders and be subject to their exploitation. The negative aspects, however, relate to the nature of the slum communities and the purpose of the credit.

HOW POOR HOUSEHOLDS MANAGE THEIR MONEY

To understand the financial lives of the slum households, we adopted the techniques used by Collins et al. (2009), and kept financial balance sheets for 40 households. The diaries were kept for two months during the last year of our study, that is, 2014, and we took one lean season month (during the monsoons) to balance one peak season month (during the summer). This gave us a better idea of financial management at times when plenty of work was available as well as when work opportunities were limited. Due to the limited literacy of survey participants, we took local slum dwellers as research assistants to visit each household on alternate days to note the details of income and expenditure. We also tried to understand both short- and long-term financial strategies. This was done informally while discussing the day's income and expenditure with the household members. The resultant data revealed great complexity in household financial behavior.

SUMMARY

Based on the findings we can reject the hypothesis that do not have any ability to take financial decisions on their own, as we have adequate proof of their decision making skills in complex environments. We see that individuals take risks, but also work within communities to support each other. The collective strength of the community is a key pillar in maintaining live and livelihoods people can depend on others in the community to lend small amounts when faced with a major family expenditure like a daughter's wedding. The financial success of many couples lies in their ability to generate surplus and build assets gradually: sales of gold jewellery to start a business that yields some income. Families stick together in the face of adversity and support each other. In some, the husband and the wife run the household based on mutual collaboration and expenditure-sharing and have a varied basket of resources to fall back upon. People try to utilize a variety of skills to widen their income base and use different season's or household members' incomes for different purposes. Slum dwellers manage their micro incomes with extreme caution and care, and maneuver through emergencies and family crises expertly. Those who earn seasonal incomes, buy their annual supply of non-perishables when they are earning. From our interviews with individuals, we found it possible to summarize the various financial strategies of the slum poor in two headings, primary and secondary. They represent a combination of community and household level credit and money management systems. The following table presents these:

TABLE 1: STRATEGIES USED BY FAMILIES FOR MEETING FINANCIAL NEEDS

Primary Strategies	
1.	Seek loan from marvadis
2.	Seek kandu loan
3.	Invest in children's education
4.	Generate surplus from minimum
Secondary Strategies	
1.	Join informal credit group to save and borrow
2.	Save in good season
3.	Earmark different incomes for different uses

(Source:Research Data)

The relationship between the two sets of strategies is not linear and there are overlaps depending on the nature of the household and contingent situation. One household, for example, lives on bare minimum and adopts none of these strategies. Even then, one might say that their strategy is to take risk and see what the future holds for them.

CONCLUSION

This paper demonstrates that unlike what is commonly expected, poor people can have significant financial skills. These skills are generally not captured by quantitative measurements of formal system parameters. The informal systems of credit and household money management systems need further investigation; for example to explore the mechanisms of capital accumulation, asset building and factors that contribute to success and failure of individual households. The poor often have more faith in moneylenders than they do in banks, especially as they need quick access to money. They also value personal relationships which often help them to survive through extreme crisis. The diversified livelihood base developed through social relationships should not be beyond the understanding of policymakers who need to think about ways a bottom up approach can be developed to understand what poor people do, what they need and when they need it to their sustain their livelihoods. Before we connect the poor to the mainstream financial systems through Bank Linkage or other policy instruments, there is a need also to look at the specific contexts in which the poor live and manage money ingenuously through informal networks. Unfortunately—but perhaps not surprisingly—the data reveal that social factors such as the need to marry off daughters comprise a significant reason for running into debt. The many household data illustrates this and suggests that just financial inclusion would not help the poor. There is an urgent need to implement pro-poor policies to provide basic services like health, education, water and sanitation rather than focusing solely on financial inclusion. The implication of the study is that policy interventions that aim to tag the poor to the bottom rung of the formal monetary system as 'micro-partners' needs re-thinking.

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