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INSTITUTE FOR MONEY, TECHNOLOGY
& FINANCIAL INCLUSION

Executive Summary

Patterns of Financial Behavior Among Rural and Urban Microfinance Clients: Evidence from Tamil Nadu, India

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Rural and Urban Poor in India

Over the past decade, development planners in India and beyond have increased their efforts at targetting financial inclusion as a means of poverty alleviation. However, the nature of poverty and deprivation, the livelihoods, and the financial needs of the poor vary widely across rural and urban India. The study by IMTFI researchers Lakshmi Kumar and Jyoti Prasad Mukhopadhay seeks to identify some key differences in the financial behavior of the rural and urban poor as an essential step towards designing more targeted financial tools. The study used financial diaries to collect data on income, consumption, savings, loans, and insurance from a sample of poor households over a period of six months.

Findings suggest significant differences in the types of work activities and alternative sources of income among the two groups (Fig 1). Thus, the rural poor dominate in the low- and middle-skilled work activities (animal husbandry, flower, snack and grocery stores) while the urban poor dominate in high-skill activities (tailoring, embroidery). Further, the rural poor benefit from the government sponsored scheme, MGNREGA (a state funded employment scheme which guarantees 100 days of paid employment) while the urban poor have better access to banks, post offices, and chit funds.

Fig 1. Work Activities

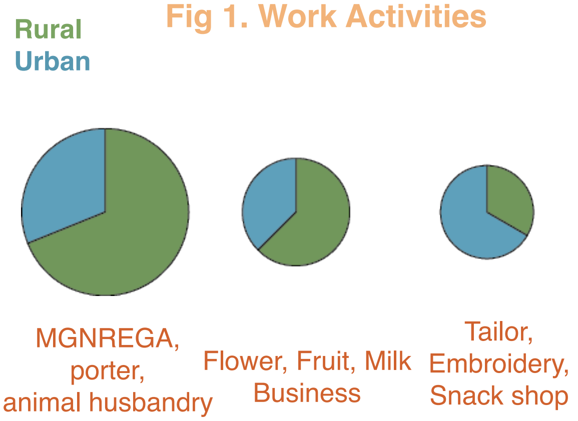
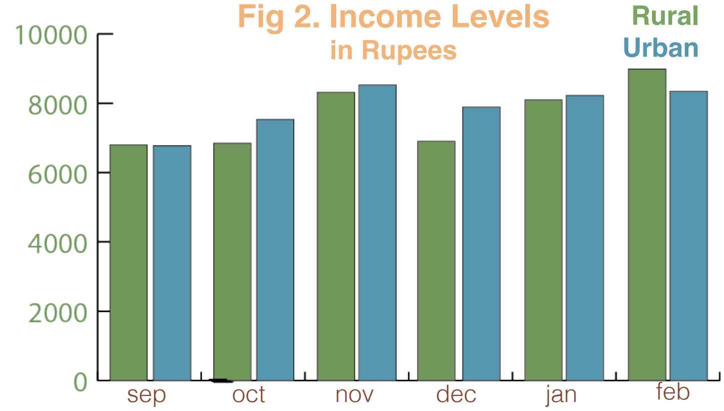


Fig 2. Income Levels in Rupees



Income Volatility and Financial Uncertainty

By and large, all women interviewed for the study expressed a sense of uncertainty about their future. For one thing, income is constantly fluctuating for both the rural and urban poor (Fig 2). Given their ties to the agricultural cycles, rural residents are subject to weather misfortunes. In turn, the urban poor often lack the social networks of kin and friends to turn to in times of need.

Many of the women interviewed were members of SHGs (self-help groups) formed by a local microfinance institution (MFI). These women use SHGs to save and borrow but often encountered difficulties in meeting payments' deadlines. Rural women often used MGNREGA wages to repay the MFI loans.

Overall, both the urban and rural poor experienced volatility of income. Yet, the study also found that households were able to maintain a consistent consumption expenditure over the year. During the period of high inflation, for instance, these women avoided buying vegetables, fruits and meat. Instead, they consumed basic cereals and pulses.

Savings, Loans, and Insurance

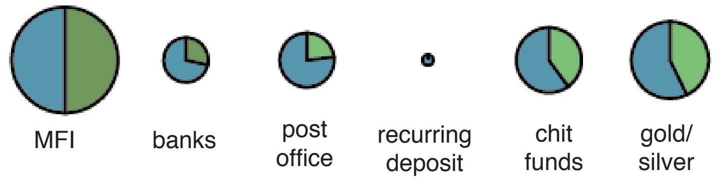
Research into the financial behavior of the poor has shown that, despite lacking access to formal financial institutions, the poor are extremely resourceful. Findings from this study confirm these observations. The financial diaries of the rural and urban women in Tamil Nadu resonate with **Banerjee and Duflo's (2011)** description of the poor as "barefoot hedge-fund managers." Rural and urban women in Tamil Nadu save into and borrow from a wide range of financial institutions, including private (e.g. banks), public (e.g. post office), non-profit (e.g. MFIs), and informal (e.g. chit funds) venues (Fig. 3).

This multiplicity bears testimony to the poor's efforts at diversifying their portfolios of savings, loans, and insurance. That said, while this research found that diversification of financial tools is ubiquitous across the board, it also identified key differences among rural and urban women.

Thus, while both urban and rural woman save equally with the MFI (100% rural, 100% urban), a significantly lower percentage of rural women save in banks (10%) or post offices (12%).

Fig 3. Saving Avenues

Rural
Urban



To avoid the amount of paperwork and high fees imposed by banks, a large number of both rural and urban women turn to informal means of saving such as participating in local chit funds (30% rural, 45% urban) or investing in gold and silver (45% rural, 60% urban). These investments serve as a hedge against financial crisis and emergencies.

Despite the diverse portfolios of savings, loans, and insurance products, the financial diaries of poor women in Tamil Nadu women reveal that financial misfortune due to medical or other forms of emergencies present one of the greatest challenges to financial inclusion initiatives (case studies 1 & 2). Such misfortunes should, therefore, be a prime target in future designs for financial products serving the urban and rural poor in India and beyond.

(rural) Case Study 1 — Savitha, SV Chataram | Case Study (urban) 2 — Suvarna, Sriperambudur

(in USD / annual)

Rural		Category	Urban	
MNREGA wages son working as porter	210 660	**income**	730	flower business
	870		**730**	
compulsory deposit with the MFI	21.6	**savings**	84 42 21.6	recurring deposit post office savings compulsory deposit with the MFI
	21.6		**147.6**	
CM's Health Insurance Scheme	0	**insurance**	13.5	insurance premium
	0		**13.5**	
medical expenses for husband's treatment	6000	**financial emergency**	4550	medical expenses for mother falling ill
	6000		**4550**	
SHG loan for starting a petty shop SHG loan for goat rearing @ 3%/month rate from moneylender	90 180 3189	**loans**	90 180	loan from SHG for expanding flower shop loan from SHG for opening fruit shop
	3459		**270**	
high indebtedness, low or zero savings uncertain future		**financial status**		high indebtedness, rapid erosion of savings uncertain future

Read the full report of the study **here**