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

Lakshmi Kumar, PhD
Institute for Financial Management and Research (IFMR), Chennai

Jyoti Prasad Mukhopadhyay
Institute for Financial Management and Research (IFMR), Chennai

Abstract
There is by now ample evidence that the poor lack access to basic financial services. It is, therefore, no surprise that financial inclusion has become a focus of attention for development professionals seeking to alleviate poverty around the world. However, the nature of poverty and deprivation, the livelihood, and the financial needs of the poor vary widely across different contexts. In India, for instance, the financial needs and practices of the poor differ across rural and urban areas. An in-depth understanding of the financial behavior of the rural and urban poor is essential for designing the right product-mix that addresses their needs. Our study contributes to this goal by examining how the rural and urban poor in the state of Tamil Nadu, India, manage their money. We adopted the "Q-squared" methodology (combining quantitative and qualitative methods) to gain a holistic understanding of the financial behavior of these two distinct populations. We used financial diaries to collect data on income, consumption, savings, borrowing and lending from a sample of poor households over a period of six months. Our research subjects were mostly women. In general, the study found that these populations shared a similar practice of diversifying portfolios of savings, borrowing and insurance products. At the same time, the research found evidence of diverse financial needs of the rural and urban poor. Mainly, the study found that the two disctinct populations differ in (a) the activities for which they use the various financial tools and (b) the degree of access to a diversified portfolio of services.

Keywords: Poverty, financial exclusion/inclusion, financial behavior, rural/urban poor

See also executive summary.

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Introduction

Eradication of poverty through inclusive growth has become the mainstay of development policy pedagogy in India over the past decades. Despite the phenomenal spread of microfinance in India, financial inclusion remains a distant dream. Poor households still lack access to dependable savings, credit and insurance products. High transaction costs of formal financial services is the greatest challenge that development practitioners face in reaching out to the poor. And yet, the focus on costs often ignores other important factors that play into the uneven distribution of poverty and financial exclusion across different populations within the country.

If we analyze poverty from a "capability" perspective then it is pertinent to note that the nature of poverty and severity of deprivations vary between rural and urban India.[1] For example, poor households in rural India face greater uncertainty in terms of their livelihoods and lack access to infrastructures such as roads, railways, health facilities, education, and safe drinking water, not to mention financial services and non-farm employment opportunities. The urban poor also suffer from such deprivations but at a lesser degree. Therefore it is imperative to study rural and urban poor from a distinctive perspective for a better understanding of their needs. This study brings a new contribution to the existing literature on financial inclusion by examining in depth the life stories of Tamil Nadu's rural and urban poor.

An integral strategy of a successful poverty alleviation program is to secure access to finance for poor households. To this end, in the early 1980s, a microfinance movement began in India under the patronage of the National Bank for Agriculture and Rural Development (NABARD). The movement led to the formation of self-help groups (SHG)—small groups of members (10-20) who made equal and regular contributions towards a common fund to be used to lend to members in times of need. SHGs operate as a sort of microcredit institution.[2] The movement made rapid strides in rural India where it has become an important engine of financial inclusion. Growth of urban microfinance, on the other hand, is a recent phenomenon and has received considerable attention of social researchers in recent years.[3] A stalling of growth of microfinance in the rural areas and untapped demand for credit in urban areas are the prime reasons behind this growth.

Against this backdrop, in this paper we focus our attention to the differences in financial behaviour between the rural and urban poor in the state of Tamil Nadu. Tamil Nadu is the eleventh largest state in India by area and the seventh most populated. In the year 2012 it ranked second in terms of output. The state ranked 6th among states in India according to the Human Development Index as of 2011. The rate of migration to urban areas has been very high in the last decade in Tamil Nadu. Thus, about 49% of the state population was classified as urban in 2011.

The following study looks into the variations in the financial lives of the poor across rural and urban areas in Tamil Nadu. In general, the study found that these populations shared a similar practice of diversifying portfolios of savings, borrowing and insurance products. At the same time, these populations differ in (a) the activities for which such products are used and (b) the degree of access to a diversified portfolio

[1] See Sen (2000).

[2] Under this model, SHGs are either directly financed by banks or through financial intermediaries like NGOs or other formal agencies without any collateral requirement. Regular savings and peer pressure are the two key aspects of this lending model. As of March 2009, there were more than 6 million SHGs in India with more than US $ 50 billion savings with banks (NABARD report, 2008-09).

[3] See "Reaching the Other 100 Million Poor in India" (IFMR 2006), a nice collection of case studies on urban microfinance conducted by Centre for Micro Finance (CMF) at Institute for Financial Management and Research (IFMR), Chennai.

of services. Thus, while most rural poor households in Tamil Nadu borrow for agricultural purposes or for animal husbandry and/or for related activities, their urban counterparts borrow for a variety of other activities: vegetable vending, tailoring, flower selling etc. Further, the transient nature and lack of homogeneity in the urban population also makes it difficult for the urban poor to access microfinance institutions such as the SHGs, which function on the principles of peer pressure and social collateral. On the other hand, urban migrants in India are able to smooth their income and consumption better than the rural poor. The former seem to have more options for borrowing, for instance, given their greater access to social contacts.

The paper is organized in six sections. Section 2 discusses the rural-urban heterogeneity in terms of financial behavior and other indicators of well being. Section 3 reviews existing relevant literature and describes objective of the study. Section 4 deals with the methodology used for data collection. Section 5 discusses the results of our study and Section 6 concludes.

Financial Services for the Urban and Rural Poor: Key Issues

The urban poor are not a mirror image of the rural poor. Yet often these two groups are subject to the same microfinance products. Microfinance as a pro-poor financial service first began with the Grameen model in Bangladesh and has been successfully replicated in several rural areas in different countries across the globe. In India, the Self-Help Group Model (SHG) model has been adopted by NABARD to promote microfinance primarily in rural areas.[4] However, there has been little research or programs that address the needs of the growing urban poor in India. In other parts of the world, microfinance programs have been successful in targeting the needs of the urban poor. For instance, Latin America has been successful in implementing urban microfinance programs.[5] Central America developed its own indigenous methods for microfinance.[6] Learning from these others contexts, microfinance institutions and other agencies in India must also begin to address the needs of the urban poor. To this end, an in depth understanding of the financial behavior of the urban and rural poor is essential to serve them better. We need to take into account the heterogeneity in activity and needs of the urban poor vis-à-vis the rural poor to offer them customized financial products. In the following we outline some key differences in the living conditions and challenges that face each of these groups.

Migration woes

One of the key factors that shape the lives of both the urban and rural poor is internal migration. The rural poor migrate to nearby urban towns and cities in search of better livelihoods. Lack of employment opportunities in rural India together with low pay compel the rural population to migrate to cities. Since the rural poor cannot afford to pay for a decent housing, they end up staying in slums which lack basic infrastructure. Urban migrants can be further classified into two sub-groups: "permanent migrants," a group of migrants from rural areas that migrate to cities permanently; and "temporary migrants," individuals that commute from rural to urban centers seasonally or at regular intervals (Ruthven, 2001). Migrant workers in general, but permanent migrants especially, cannot access basic banking services

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[5] For example, the MFI Bancosol in Bolivia, or Financiera Crear in Peru.

[6] Examples include REDIMIF (Guatemala), ASOMI (El Salvador) , ASOMIF (Nicaragua).

as they fail to fulfill Know Your Customer (KYC) norms stipulated by the Reserve Bank of India for not having proof of address, even when the bank branch could be at a stone's throw distance from the migrants' squatters. Even the no-frills account system fails to reduce these migrants' woes since those accounts remain mostly dormant or inoperative (Thyagarajan and Venkatesan, 2008). Inability to access banking services poses a serious problem in remitting money to the migrants' homes in rural areas. This calls for a technology solution to help migrants circumvent problems of distance. The Unique Identification Program initiated by the Government of India (GoI) is a commendable step in this regard. Under this program all Indian citizens will be provided a bio-metric identification card with a unique number which serves as a proof of identity and address all over India and hence it facilitates availing banking and other services that require fulfillment of KYC norms. Further in depth understanding of the savings behavior of both permanent and temporary migrants will help practitioners to design savings products that can cater to their needs.

Diverse livelihoods

Diversity of income generating activities of the urban poor as described by Ruthven (2001) and also in a report published by Ujjivan (2005) is another important distinguishing characteristic of the urban versus the rural poor. Urban poor households are mostly engaged in income generating activities which are comparatively less volatile and require higher skill levels such as tailoring and embroidering. Among the urban poor, there are additional differences between wage earners and self employed or those with variable income. The rural poor are engaged in agricultural or allied activities, animal husbandry or other non-farm activities such as flower business or petty shop. Since the nature of activities of the urban and the rural poor varies greatly, the credit needs of these populations are also fairly diverse. A single customized loan product with pre-determined repayment schedules can not meet such diverse needs. Hence the question that arises at this juncture is how to design efficient loan and savings products that meet the diverse financial requirements of these different groups.

Lack of government support

The main reason for rapid growth in rural microfinance in India is NABARD and the several initiatives of the Government of India towards rural development and poverty eradication. NABARD was set up as an apex development bank with a mandate to facilitate credit flow for the promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas.

However, one of the main causes of urban poverty, migration from rural areas, often remains unaddressed. Migrant workers' financial and other basic needs do not get adequate attention of the government and policy makers. Urban poverty received due attention of the government only in the ninth plan (1997-2002) primarily through the scheme Swarna Jayanti Shahari Rozgar Yojana (SJSRY). This particular scheme was the amalgamation of three earlier schemes: Nehru Rozgar Yojana (NRY), Urban Basic Services for the Poor (UBSP) and Prime Minister's Integrated Urban Poverty Eradication Program (PMIUPEP). The key objective of SJSRY was to create employment opportunities for the urban unemployed population through self-employment initiatives, wage employment and necessary skill-based training. However, a lot remains to be done to meet the financial needs of urban migrants through microfinance programs with the required support from the government.

More specifically to the role of the government in addressing the needs of the urban poor, we can also learn meaningful lessons from the success of urban microfinance in Latin America. Several studies have found that micro entrepreneurs in Brazil, for instance, prefer supplier or installment credit to the "lump sum" loans typically offered by MFIs. Research on micro-entrepreneurs in several urban regions in Latin America found that focus group participants made a distinction between purchasing on credit, which is considered a negotiation of time, and taking a loan, which is considered a financial transaction. Urban clients seem to prefer products that have lower payments, extended time periods and tying with existing products. This is rather different from rural clients who prefer straight jacket products.

Habitat

More than 60 percent of India's population live in villages and are dependent on the vagaries of nature and hence have volatile income. Most of the urban poor live in *pucca* houses, houses built of substantial material such as stone, brick, cement, concrete, or timber, while the rural poor live in *kutcha* houses, houses are made of mud, bamboo, grass, or thatch. Groundwater is the main source of drinking water in rural India, while tap water is the main source of water for the urban counterparts. Overall, according to India Assessment Report (2002) published by Planning Commission, GoI, about 26-31 percent of rural population and 7-9 percent of urban population (of which majority are poor) in India continue to drink water from unprotected sources. India's urban poor households have greater access to electricity compared to their rural counterparts. Even after more than fifty years of independence there are villages in India that go into complete darkness after sunset.

As authors Jean Drèze and Amartya Sen (2013) recently noted in outrage, despite its rapid economic growth, India still lacks basic infrastructure such as sanitation facilities for half of its population. The rural poor suffer a disproportionate amount of this burden. Thus, about 80 percent of the households in rural India do not have toilets.[7] Meanwhile, many of the middle class urban dwellings are not required to provide toilets for their low-income servants, many of which fall under the category of termporary or permanent urban migrants.

Overall, the quality of habitat bears an important role on microfinance. Microfinance borrowers with access to safe drinking water and sanitation facilities are less likely to fall sick and hence are more likely to attend weekly meetings and repay loans on a regular basis. Generally speaking too, as the case studies we discuss below demonstrate, health is one of the key sources of financial disaster for the poor given their lack of savings for emergency funds. Similarly, access to electricity can enable a microfinance borrower to start a profitable business (e.g. rice vending, dhosa batter making, etc.) requiring use of power.

Microfinance and its gender dimension

The majority of microfinance institutions (MFIs) lend only to women given that women are the most disadvantaged group both sociologically and economically and, at the same time, they are more reliable for making making due payments given. Givent that the microfinance model necessitates attendance in weekly meetings, institutions trust women more than men as they are likely to be more "disciplined". The basic premise behind lending to women is that they are not only creditworthy but are less likely to misuse

[7] In an attempt to reduce vulnerability, the Ministry of Rural Development in India launched the Indira Awas Yojana (IAY) housing scheme in 1985 for poor rural households. The main objective of IAY is to provide financial assistance to the Scheduled Castes/ Scheduled Tribes, non-SC/ST rural poor people living below poverty line (BPL) in rural areas for constructing houses. However, the performance of the scheme varies across different states. For example, The Eleventh Tamil Nadu State Plan document does show remarkable progress in this front. It shows that more than 900,000 houses have been constructed primarily in the rural areas and about 85,000 houses have been upgraded at a cost of Rs. 8,239 crores (approx US $ 1500 million) and Rs. 126 crores (approx US $ 23 million) respectively in Tamil Nadu. This scheme has the immense potential to secure safe housing for the poor.

the money and are more likely to share the fruits of the investment with the entire household. In addition to the economic benefits, it is argued that women's increasing role in the household economy will lead to their empowerment. If these are the reasons for selecting women for loan disbursements, it is even more important to ask if providing loans to the poor women is resulting in women empowerment as suggested and followed by several MFIs in their mission statements. According to Kumar, "empowerment is an issue only to those who have faced discrimination and have not been given their rights. …To these women in the short run, microfinance seems a transformation to economic independence. For microfinance to effectively contribute to women's empowerment, or facilitate it at some level, the women involved must perceive themselves as being deprived of the same and/or choices, which will be taken care of by not just access to finance but by the feeling of the deprivation of the choices they make (2013: 76)."

Given that women are at the center of many microfinance programs, we decided to conduct our research primarily with women in urban and rural areas to see how they manage their domestic financial accounts.

Literature review and objective of the study

The basic premise for the proliferation of microfinance across the globe has been to provide credit to poor households without requiring collateral. However, the roots of microfinance can be traced back to the genesis of rotating savings and credit associations (ROSCAs) in countries like Mexico, Chile, Kenya, Nigeria and India (Ardener & Burman, 1995) where various researchers have noted the widespread thrift habits among poor households. Given these practices, one pertinent question emerges: what do poor households save for? A very straightforward reason for savings is found in the theory of Life Cycle Hypothesis (LCH) propounded by Ando and Modigliani (1963). According to LCH, an individual saves during working life to smooth consumption post retirement. However LCH has very limited applicability in the context of developing nations with multigenerational households (Deaton 1997). In general, poor households tend to save for many reasons: to meet working capital needs of a small business, to pay children's school fees, household consumption, religious ceremonies, to purchase a piece of land, to renovate a house, and so on. Such savings can be broadly classified into two forms: "low frequency" savings and "high frequency" savings (de Aghion and Morduch, 2005).

"Low frequency" savings theory tries to explain how the poor households make small but planned savings periodically over a long period of time to finance hefty expenditures in the future. "High frequency" savings refers to poor households' conscious effort to save for mitigating effect of shocks arising from income uncertainty in the future. "High frequency" savings thus can be considered as a natural extension of permanent-income hypothesis propounded by Friedman (1957) which postulates that rational households consume more if a rise in income is permanent but the same household saves whatever it can out of transitory income increases.

It it well established that the poor households' ability to save is seriously crippled by lack of available savings instruments which are safe and dependable (Rutherford, 1999, 2000). In their groundbreaking *Portfolios of the Poor* (2010), Collins, Morduch, Rutherford and Ruthven discuss what they call the 'triple whammy' situation that the poor face; namely, that the poor not only have very low and unpredictable incomes but also have inefficient financial instruments to manage such income flows and this makes their money-management task even tougher. In addition, the poor are often led to financial disaster as a consequence of unpredictable life circumstances. As Banerjee and Duflo (2011) note in yet another landmark publication on the subject, *Poor Economics*, "[r]isk is a central fact of life for the poor, who often run small businesses or farms or work as casual laborers, with no assurance of regular employment. In such lives a bad break can have disastrous consequences (133)". Needless to say, the poor are very much in need of savings and they often are actively seeking savings and credits venues. But what are the necessary features of savings and credit services geared towards the poor?

According to Wright (1999), some of the key issues in offering savings products to poor households include the following: 1) balancing between convenience and returns, 2) balancing terms and needs, and 3) compulsory locked-in savings requirement. Poor households prefer savings products that offer easy accessibility, security, liquidity and assured returns. According to Wright, "poor people generally use a strategy of 'replication and multiplication' and look to create many small self-contained, often self-liquidating, schemes – such as ROSCAs and Christmas clubs" (Wright, 1999: 7). Describing them as "barefoot hedge-fund managers", Banerjee and Duflo (2011) further highlight the diverse strategies that the poor deploy in order to access such means of credit. Following along the footsteps of this emerging literature, the methodology of this paper proposes a deeper analysis of the financial behavior of both urban and rural poor households by closely observing their cash flow patterns.

Another important question that has emerged in the literature and policymaking around financial inclusion pertains to the efficacy of the plethora of microcredit services operating on the ground. A bulk of this literature, for instance, revolves around SafeSave and the Grameen Bank, both microfinance programs launched in Bangladesh.[8] SafeSave's annual report of 2008-09 highlighted a few counterintuitive findings about saving practices among the poor. The report described how savings have been incorporated as an integral part of SafeSave's microfinance lending model. In 2009, 41% of the clients were only saving with this service even though interest rate for loans were as low as 6%; further, 59% of the borrowers were savers as well. The most unique feature highlighted in the report was that 84% of outstanding loans came from clients' savings, a unique model that drives the twin points that the poor can indeed save and that microfinance loans do not necessarily have to depend on generous donations and grants from donor agencies. These findings are pertinent to other contexts where similar microfinance institutions are increasingly developing savings products for the poor. But such programs also need to be attentive to local institutional frameworks.

Thus, in order to offer savings products to the poor in a sustainable way in India, it is essential to offer such products in collaboration with registered financial institutions like commercial banks and credit cooperatives. This is because existing regulations do not permit MFIs in India to offer savings products.[9] According to Cracknell (2005), the first and foremost step in this regard is identification of the right bank and branches and then optimizing use of bank branches to offer savings products at a "low unit cost" to the poor. This is possible only when banks' operations department, marketing and brand management departments work in tandem to achieve operational sustainability.

Another important element in microfinance operations are gender dynamics. Kabeer (1999) describes three interrelated indivisible dimensions of women empowerment, namely, resources, agency and achievements. Further the idea of choice is further qualified by referring to the condition of choice, its content and consequences. Mayoux (2009) defines women empowerment as a process wherein a combination of women's increased economic activity and increased decision making in the household over a period of time could make her socially and politically active. Whether microfinance empowers women however remains a contentious topic in the literature on microfinance. While some claim that

[8] "SafeSave provides reliable basic banking services, profitably, to poor and very poor men, women and children, in Dhaka, the capital of Bangladesh" (source: http://www.safesave.org/purpose). Grameen Bank, started in 1976 by Nobel Peace Prize wining economist Muhammad Yunus, is a microfinance institution which provides small credits to the rural poor especially to the women in Bangladesh.

[9] By contrast, in Bangladesh the Microcredit Regulatory Authority (MRA) was established in August 2006, which is the regulatory and supervisory body of microfinance institutions in Bangladesh. According to the provision of the MRA Act, a license from the MRA is mandatory for operating microfinance activities which includes both deposits as well as savings activities among others in Bangladesh. However, the Grameen Bank as a bank remains out of the supervisory purview of the MRA.

microcredit has helped women increase their income earning capabilities leading to greater confidence and ability to overcome cultural asymmetries (Hashemi et al. 1996; Kabeer 2001; Pitt and Khandker 1998); others contend that loans made to women are usually controlled by their husbands which leads to women's dependence on their husbands for loan installments and may also result in domestic dissension and violence (Goetz and Gupta 1996; Leach and Sitaram 2002).

Lastly, technology innovations that reduce transaction costs can play a vital role in catalyzing and aiding effective product delivery. Mas (2010b) discusses with the help of M-PESA in Kenya the power of mobile technology in reducing transaction costs.[10] The ubiquitous mobile has the potentiality to transform product delivery mechanism. Against this backdrop the objectives of the paper are:

1. To examine financial behavior in terms of income flow, expenditure, savings, and borrowing of both urban and rural poor microfinance client households over a six month period.
2. To examine how technology solutions can help in offering effective savings products to these two distinct groups of poor—namely, urban and rural poor—in a sustainable way.

Research methodology

A large segment of the population in India (about 25%) earns less than $2 per day. They live both in the urban and rural areas. Their unique characteristics and needs shape their daily lives. We used financial diaries to capture all financial transactions of a household in a comprehensive manner over a period of six months starting from September 2010 till February 2011. We sought a more nuanced understanding of their financial needs. In a typical financial diary, we recorded all financial inflows (such as income, borrowing) and outflows (such as savings, consumption expenditures, and lending) based on bi-monthly interviews during the above mentioned period. A careful analysis of such detailed data brings out distinguishing features of financial behavior of the urban and rural poor. The results of such analysis are particularly useful for practitioners who want to offer saving and loan products customized to the needs of the urban and rural poor.

We adopted the Q-squared research methodology (Lawson, Muwonge and Hulme 2007) which systematically integrates 'quantitative' and 'qualitative' research methods into one methodology. We believe that well constructed Q-squared studies triangulate data and can produce deeper understandings of economic and social change or policy impacts by combining the strengths of each approach. Q-squared approaches offer substantial benefits in terms of data quality, depth of understanding and policy analysis.[11] Hence, this research combine information gathered through quantitative methods (surveys) and qualitative methods (in-depth interviews). Survey data provided us with a bird's eye view of the conditions of the ground. Qualitative interviews enable us to write short case studies and delve deeper into the lives of our informants. The Q-squared approach to data collection also helped our enumerators to establish a cordial relation with the participating households which was indeed needed to glean financial information at regular intervals over a long period of time. This informal relation also indirectly allowed us to collect authentic data from the households since respondents were comfortable in giving candid answers (see also Collins et al. 2010).

For this study, we approached a large MFI having wide presence across Tamil Nadu. The MFI gave us access to their clients' database analysing which we got an understanding of the demographic and socio-

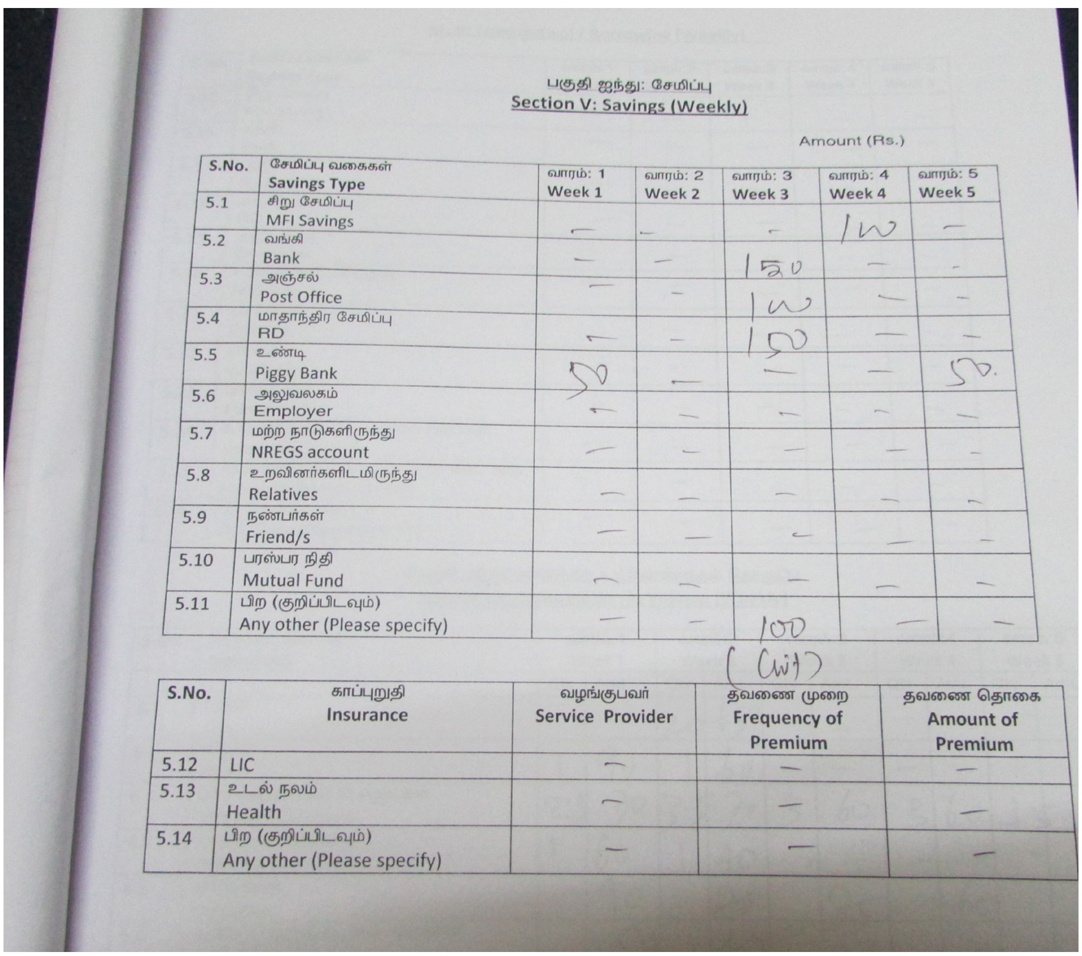
[10] M-Pesa is a mobile-phone technology driven hassle free money transfer system first started in Kenya and later in Tanzania. It allows mobile subscribers with identity proof to deposit, withdraw and transfer money at any time anywhere in the country.

[11] For an excellent reading on this topic see Bamberger (2000).

economic profiles of the SHG members. Due to limited budget four locations: Tituttani, Sriperumpudur, Pammal and S.V Chattram were selected through convenience sampling. These locations were chosen to gain access to both rural and urban SHG members. Mark Schreiner's (2006) poverty scorecard was used to select 60 poor SHG members across the four locations mentioned above. Out of these 60 members, 30 were in rural and the rest were in urban Tamil Nadu. During sample selection, heterogeneity of livelihood was also taken into consideration. Ten members decided to drop out from our study in the course of six months. Hence our final sample consisted of fifty SHG members.

In our first meeting with women SHG members, we collected basic demographic information and established familiarity with these members. In our second meeting with the same group, we asked about their microfinance loans: why they borrowed, on what they spent the loaned money, and how they were repaying. From the third meeting onwards our enumerators started collecting fortnightly financial information from the households and recorded the same in financial diaries (Fig. 1). After recording data in the diaries those were kept with the respondents to create a feeling of ownership among them. Enumerators were given requisite training to show how to record data in a diary and their work was closely monitored to ensure collection of quality data. Diaries were taken back from the respondents periodically for review purpose.

Fig. 1 Sample of a Weekly Financial Diary



பகுதி ஐந்து: சேமிப்பு
Section V: Savings (Weekly)

Amount (Rs.)

S.No.	சேமிப்பு வகைகள் Savings Type	வாரம்: 1 Week 1	வாரம்: 2 Week 2	வாரம்: 3 Week 3	வாரம்: 4 Week 4	வாரம்: 5 Week 5
5.1	சிறு சேமிப்பு MFI Savings	—	—	—	100	—
5.2	வங்கி Bank	—	—	150	—	—
5.3	அஞ்சல் Post Office	—	—	100	—	—
5.4	மாதாந்திர சேமிப்பு RD	—	—	150	—	—
5.5	உண்டி Piggy Bank	50	—	—	—	50.
5.6	அலுவலகம் Employer	—	—	—	—	—
5.7	மற்ற நாடுகளிருந்து NREGS account	—	—	—	—	—
5.8	உறவினர்களிடமிருந்து Relatives	—	—	—	—	—
5.9	நண்பர்கள் Friend/s	—	—	—	—	—
5.10	பரஸ்பர நிதி Mutual Fund	—	—	—	—	—
5.11	பிற (குறிப்பிடவும்) Any other (Please specify)	—	—	100 (wit)	—	—

S.No.	காப்புறுதி Insurance	வழங்குபவர் Service Provider	தவணை முறை Frequency of Premium	தவணை தொகை Amount of Premium
5.12	LIC	—	—	—
5.13	உடல் நலம் Health	—	—	—
5.14	பிற (குறிப்பிடவும்) Any other (Please specify)	—	—	—

Research Findings

Characteristics of women SHG members

The women we selected for our study were relatively young. Around 65 percent of them were below the age of thirty five. These young women were energetic and had the zeal to succeed and uplift their families to a higher income trajectory. Most of the women were Hindu (96%) and belonged to the backward or the most backward classes.[12] About 69 percent of the women we interviewed belonged to smaller families (3-4 members) and the remaining 31 percent belonged to large families (5-6 members) both in the rural and urban areas. In rural areas, 75 percent of the school going children of the SHG members attended government schools. On the other hand, interestingly we found that a majority of children (around 90 percent) of their urban counterparts were enrolled in private schools. About 75 percent of both rural and urban clients had some form of assets, land or a house. However the title of the land was in the name of their spouse or in-laws. Thus women borrowers of our sample did not belong to the poorest of the poor category as selection of SHG members is often done in such a way that poorest women are excluded.

Income: multiple sources and multiple motives

As a first step we felt the need to track the income of the households. Initially we tried collecting daily income data so that we could capture income volatility. However it turned out increasingly difficult to collect such information as visiting all the households at a time convenient to them on a daily basis became almost unfeasible. Also, we found that even a daily worker (coolie) or those who were employed under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) projects were paid on a weekly or monthly basis. This gave these women a sense of continuity and bargaining power. MGNREGA was quite popular in our study areas. Our qualitative interviews with the women SHG members revealed that working under MGNREGA projects gave them a sense of income certainty. We also found that rural women used a part of the wage payment received for MGNREGA work to repay microfinance loans. These findings second what Jeyaranjan (2011) found elsewhere in rural Tamil Nadu. According to Jeyaranjan, "repaying the microcredit instalment was the single largest response from the respondents (p 73)" upon asking about the utilization of the MGNREGA wages. Of course there are several controversies regarding the implementation of this program and its impact on the rural economy but those are outside the purview of this paper. A comparison of month-to-month average incomes of the urban and rural poor did not reveal any significant differences (see Fig. 2). However, both urban and rural poor did experience volatility of income. Poor households were engaged in a variety of activities starting from low-skill based occupation to high-skill based occupation as shown in Table 1.

Income generating activities of the women in our sample were largely governed by their skill level. Most of these women (about 55%) had a very low level of skill and hence borrowed microfinance loan for animal husbandry. However, animal husbandry activities were risky as they depended highly on the breed of the animals and their likelihood to fall sick. Moreover income varied depending on the quantity of milk received from the animals and price of milk. Due to the absence of proper market linkages and milk cooperatives, poor women members could not earn the desired level of income.

About 22 percent of the women in our sample engaged in medium-skill activities such as flower or fruit vending. We observed that women with better understanding of the outside world and customer needs did well in these activities. We also found that women involved in these activities received support and help

[12] The term "backward classes", used officially by the Government of India, refers to a number of socially and educationally disadvantaged groups.

from their husbands and/or other family members.

Fig 2. Average Household Income: rural vs Urban Microfinance Clients (Sep 2010 - Feb 2011)

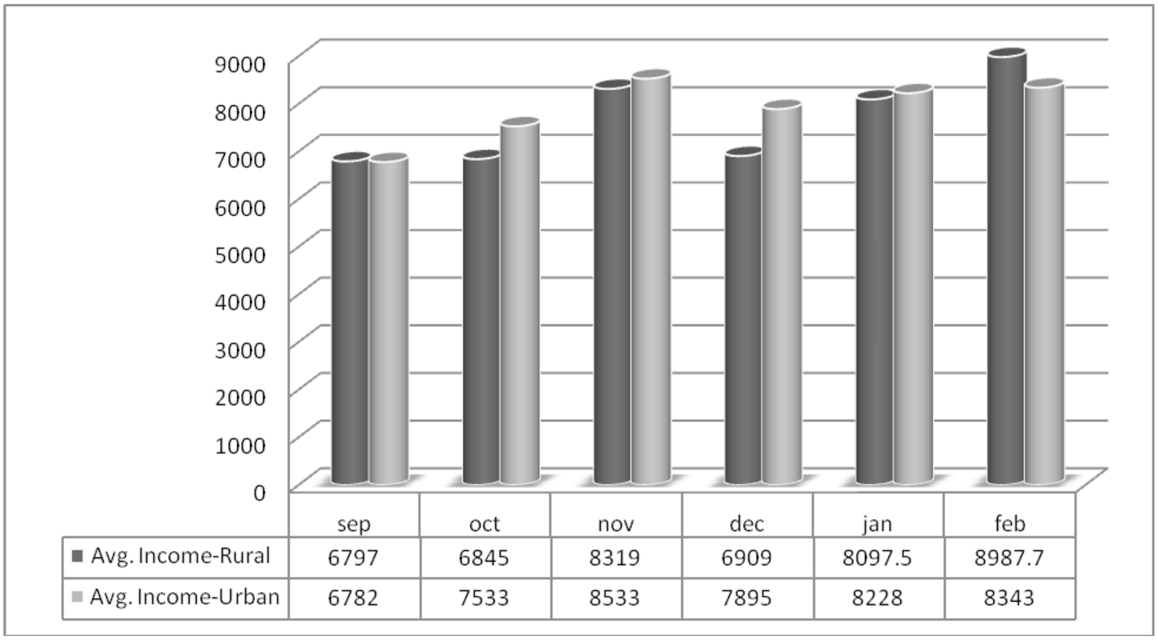


Table 1: Activities of the Poor Women in the Sample

Activity	Income Level	Percentage of rural women involved	Percentage of urban women involved	Skill level needed
MGNREGA, Coolie, Animal Husbandry	Low	40	18	Low
Flower, Fruit and Milk Business	Medium	15	9	Medium
Tailoring, Embroidery and Snack Shop	High	6	12	High

Source: Financial Diaries

High-skill activities like tailoring, embroidery and snack shops were very profitable. The borrowers of loans in our sample were all women. The skills were greater in urban areas as compared to rural areas which in turn resulted in higher income. However the percentage of women with skills were rather less and hence their capacity to earn was poor. Women with good tailoring skill had bought sewing machines with the help of microfinance loans and received continuous orders to stitch garments. Traditional saree with embroidery designs are high on demand and hence women with this skill are tapped by agents from the rural areas at low cost. On the whole we found that the poorest households experienced highest income volatility due to their low skill level which virtually precluded their participation in high-skill-high-income earning activities. This was even more true in the case of rural areas. Kalpana (2011) reports similar findings: "SHG member households, which did not own capital assets….nor had prior entrepreneurial experience, were unwilling to make investments in new business activity (p. 55)."

Consumption pattern: regular versus irregular

Provisioning minimum nutritional support to the poor, both urban and rural, through subsidized food grains and ensuring price stability are the twin objectives of the public distribution system (PDS) in India. Tamil Nadu follows universal public distribution system which doesn't distinguish between BPL (below poverty line) and APL (above poverty line) households. Although, the Government of India is advocating for targeted public distribution system (TPDS), the state is of the opinion that effective targeting of BPL is an arduous task and socially risky as it may lead to large scale exclusion errors. Considering the affordability of the poor households the issue price of rice has been reduced from Rs.2 ($ 0.04) per kg to Re.1 ($0.02) per kg from September, 2008. Tamil Nadu is the first state in the country to supply 1 Kg. of rice at Re.1 ($ 0.02). In all, a BPL family gets about 35 kg of rice per month through the PDS.

The potential to save crucially depends on how much a woman is left with after her consumption needs are met. If incomes are volatile a priori, it seems that it would be difficult for them to consume the same basket of commodities every month, at least for the majority of them. In fact, in the months of November and December, 2010, when food inflation in India was rather high (8-9 percent approximately), we expected that these families would borrow to consume. However, a close examination of the data revealed that almost all the households in our sample on an average incurred the same consumption expenditure with a few ad hoc changes to adjust for the inflation. We found that during the period of high inflation they avoided buying vegetables, fruits and meat. They rather consumed basic cereals and pulses. How was this possible? Tamil Nadu's TPDS was quite successful in providing food security to these families. In this context it is pertinent to note that Tamil Nadu also boasts of a Global Positioning System (GPS) system that tracks pilferage and siphoning off of the cereals meant for sale through fair-price shops. Hence within their limited affordability, our sample households could buy a month's required amount of cereals from the ration shops. Jeyaranjan (2011) also found similar evidence elsewhere in Tamil Nadu.

However, during qualitative interviews, women members expressed their dissatisfaction with the quality of the cereals being sold because often those are not edible and also complained about irregular supply which leads to long waiting time. Sometimes, the women had to lose a day's work to buy their share of cereals from the fair price shops. Despite these limitations, it seems that the TPDS of the Government of Tamil Nadu has helped both urban and rural poor households to smoothen consumption.

Analysis of borrowing

The financial diaries revealed that the poor households in both rural and urban areas faced immense difficulty in meeting hefty but known expenditures (e.g. marriage expenses) and unforeseen lump sum expenditures (e.g. medical emergencies). Medical needs, marriage expenses or funeral requirements are sudden and hence there were no patterns or differences between rural and urban clients in borrowing. Their flow of income often falls short of the cash requirement and also savings are not enough to fall back on. So they resort to borrowing. Table 2 summarizes the key reasons for which our sample households borrowed from external sources. We tracked the households over a period of six months in order to understand the frequency of occurrence of such need and how they coped with it. Such understanding would help practitioners to customize saving products that suit the needs of poor households.

Table 2: Reasons for Borrowing

Borrowing need	Examples of need	Source (Lender)
Managing cash flow	Consumption, business	MFI
Known low expenditure	School fees, temple expenses	Local lender, MFI, post office
Known high expenditure	Marriage, funeral	Local lender, MFI
Other emergencies	Medical	Local lender, MFI, friends

As shown in Table 2, the women preferred to borrow from the MFI for almost all their needs as the interest rates of these loans were much lower. However, in case of an emergency woman members could not even borrow small amounts from the MFI. The disbursement of loans by a typical MFI takes time and in case of an emergency often the borrower is not in a position to wait for the bureaucratic process. How, then, do these women manage? We found that women often resort to local moneylenders who lend to them at high interest rates often against gold pledged as collateral (see Table 3). Our data showed that more that 60% of the household saved their excess income in the form of gold and/or silver because it gave them instant access to liquidity. We also found that a large percentage of women borrowed from their close relatives and/or friends as no collateral was needed for such borrowing and mostly it was reciprocal in nature.

Table 3: Sources of Borrowing

Lender	Interest charged	Collateral needed?	Access rate
Co operative Bank	Low	Yes	10%
Commercial Bank	Low	Yes	5%
Local Lender	Very high	Yes	22%
Pawn Broker	Very high	Yes	40%
Relative	No (reciprocal)	No	15%
Friend	No (depends on relationship)	No	20%

Analysis of savings

One of the main objectives of this study was to unearth the saving strategies of the poor households. In doing so we also realized potential differences between the rural and the urban poor as mentioned earlier. However, before we started analyzing savings, it was imperative to first understand these households' income flows and expenditure flows. Such understanding provided further insights into their savings behavior. Table 4 depicts various means through which the rural and the urban poor saved during the study period.

Table 4: Avenues to Save

Savings products	Rural subscription (%)	Urban subscription (%)
MFI savings	100	100
Banks	10	25
Post office	12	40
Recurring deposit	0	2
Chit funds	30	45
Gold/silver	45	60

Both urban and rural woman members saved with the MFI due to mandatory savings requirement. This they found useful because every SHG group consisted of 12-15 members who contributed on an average Rs 50 ($1) per month. The entire corpus was saved with a bank under a savings account in the name of the group leader. After a year, the earned interest was distributed monthly on a rotational basis as an interest-bearing loan among the SHG group members. It was a small amount but helped them to meet their consumption needs on a rotational basis. We observed that relatively old and matured groups had substantial amounts of accumulated savings.

Among our sample households, individual accounts with banks were rare; more so in rural areas (10 percent) as compared to urban (25 percent). A similar pattern is also reported by Banerjee and Duflo (2007) in rural Udaipur (Rajasthan) and in the city of Hyderabad (Andhra Pradesh). Our qualitative interviews also revealed that most of the poor women feel intimidated by the banks and find the required paper work too difficult to comprehend. Their illiteracy compels them to shun the banks.

Post office savings schemes were found to be more popular in the urban areas (40 percent) as compared to rural (12 percent) areas. Post office savings accounts seemed slightly more popular than the traditional savings accounts with banks. The wide outreach of the post offices and their local touch are the main reasons for their popularity. However, most women members felt that there was no liquidity in such schemes. Only one woman had subscribed to a recurring deposit in a nearby post office and had managed to buy a house with its help.

Most women members interviewed expressed their willingness to set aside a constant amount every month but were not sure how to go about it. This is perhaps one of the reasons behind the popularity of local chit funds in both the rural (30 percent) and the urban (45 percent) study areas. Many chit funds require monthly subscription and operate like ROSCAS. Most women use these chit funds for predicted yearly expenditures such as school fees, annual religious travels (e.g. Sabarimala temple visit). However, most of them borrow from the moneylender for known lumpy expenditures such as marriage or funeral expenses. This was rather an intriguing finding. On further investigation, we realized that a rather high percentage both in the rural (45 percent) and urban (60 percent) population had invested in gold or silver jewelry whenever they had excess cash in hand. These investments were used as a hedge against any financial crisis such that any large expenditure could be met by mortgaging these assets with the local lender or pawn broker against cash at interest rates ranging from three to five percent per month. This finding is in line with what Alcala and Koshy (2007) found in Chennai and Madurai in Tamil Nadu.

Any discussion on saving remains incomplete without a short discussion on insurance products. We collected information on whether our informants had availed of any insurance product to mitigate risks risks of life, health and accident etc. Table 5 shows penetration of insurance products among our study households.

Table 5: Penetration of Insurance Products

Savings products	Rural subscription (%)	Urban subscription (%)
LIC policy (quarterly)	40	75
SBI accident insurance policy (yearly)	30	45
CM's health insurance scheme (free)	25	75

Poor households had to pay premium for Life Insurance Coporation of India (LIC) and State Bank of India (SBI) accident insurance products. Chief Minister's (CM) health insurance (known as Kalaignar scheme) was offered by the Chief Minister (CM) of Tamil Nadu to BPL families for free. The popularity of LIC's life insurance policy in both the rural (40 percent) and urban (75 percent) areas owes to its brand name. LIC has managed to establish itself as a trustworthy service provider. SBI's accident insurance too is rather popular mainly because of assured returns.

The third product namely the CM's health insurance scheme is a beneficiary oriented scheme. Under this scheme, BPL families are identified and are given family insurance cards. The government has a tie up with a local insurance service provider and with several government and private hospitals to provide cashless healthcare facilities. The beneficiaries can avail up to Rs 1lakh ($2200 approx) per family per year. Among our sample households only 25 percent of the rural households had obtained the cards while 75 percent of their urban counterparts had obtained the card. Many of them seemed happy that they had access to better health facilities. As the scheme is relatively new, its impact on healthcare cannot be rigorously evaluated at this stage. We present some of these issues through a discussion of two case studies (see Case Study 1& 2).

Case Study 1

The Case of Suvarna*

Suvarna expanded her mother's flower business in Sriperambudur, a semi-urban place in Tamil Nadu. She also took a loan from an MFI to help her son start a small business in fruits. Additionally, she was able to accumulate enough savings and bought a house. However she never felt the need to buy a health insurance policy. Suvarna's problems began when her mother fell sick and she had to spend a large sum of money for her mother's treatment. She had taken loans that amounted to Rs 2.5 lakhs ($5000 approx) from friends, relatives and moneylenders as well as from the SHG she belonged to in order to treat her mother. She did not yet receive the Chief Minister's Health Insurance Scheme card till the date of our interview. She was worried and utterly upset because her mother's illness was still undetected in spite of all the hefty expenditures. The case of Suvarna was one where she seemed absolutely helpless with no insurance. She had managed to save with the SHG, bank, post office etc. Though she had been very successful in her business, its expansion, diversification (through her son's fruit business) and in asset building (construction of a house single handedly), she still ended up spending all her savings and more for her mother's treatment.

Case Study 2
The Case of Savitha*

Savitha lived about 40 kms away from Chennai in the rural village S. V. Chataram. She had a successful goat rearing business. Previously she had tried other livelihood options but those turned out unlucky for her. The crisis in her life began two years ago when her husband was diagnosed with cancer. She ran from pillar to post to gather a corpus of Rs 50000 ($ 1000) for his treatment. Later on she came to know about the Chief Minister's Health Insurance Scheme that allows families like her to get funds up to about $ 2000 for lifestyle diseases. She availed the same at a premier hospital in Chennai and, to her dismay, the insurance amount dried up quickly. Subsequently, unexpeted events forced her to mortgage her house in order to obtain a fresh loan of Rs 1.6 lakhs ($ 3200) at 3% interest per month from a local pawn broker. She and her son could manage to pay only the interest while the principal amount remained unpaid. At the time of our interview, Savitha's husband's treatment was yet to be complete and hence it was getting increasingly difficult for them to survive. A single family member's sickness pushed the entire family into a quagmire of impoverishment. This and other similar stories raise questions about the type of design products that can protect households like that of Savitha's from falling into perpetual debt trap.

* Names of informants are pseudonyms in order to protect their privacy.

Both Suvarna and Savitha tried hard against all odds and made the maximum possible use of available resources to smoothen their consumption. It is clear that opportunities in terms of income and savings were higher for Savitha who lives in an urban area and has access to both more formal and informal sources of income, savings and credit. However, in both cases, a single medical emergency completely eroded accumulated savings that were results of years of hard toil. In the case of poor households, sickness causes loss of income if they are unable to go for work. So at this juncture we ask a number of pertinent questions: what kind of financial product-mix will suit their needs so that they can cope with health shocks? Who should be the service provider? What should be service delivery model so that it is affordable to poor households?

Conclusions

Our analysis shows that the rural and the urban poor in Tamil Nadu are not homogeneous in nature. Their livelihood activities, access to basic services like health care, education and financial services are different. Consequently their financial behavior and needs also differ. Hence these two heterogeneous groups of poor must be served with different financial product-mix which is commensurate with their needs. More generally, the poor women are desperately in need of financial literacy program that enable them to make informed financial decision.

When we explore how the poor save and insure and examine the differences between the urban and rural poor in India, it is pertinent to revisit the following questions in the light of our research findings in order to decipher the reasons as to why a majority of them do not use formal savings instruments.

How do the poor manage their small savings?
Most of the small savings of the poor SHG members goes to compulsory savings with the MFI. Rarely did woman members access formal banks but a small percentage of them preferred to save with the post office. Without doubt, if innovative and suitable savings products are offered, then SHG members would tend to

use those to achieve their various financial goals.

Do the poor have access to funds for livelihood purposes?
MFIs have successfully lent small business loans at a reasonable interest rate in the form of micro credit to the poor women in our study areas. Such loans not only met their working capital needs but also helped them expand their business.

Can the poor realize the value of their assets? Is it enabling or exploitative?
A lion share of large savings of the poor is in the form of gold or silver. In the event of a crisis these jewelry are pledged to secure a loan and hence often their true value is not realized. Inability to repay such loans compels the poor to forego the pledged jewelry for ever. As a result, their large savings often get eroded without facilitating them to secure productive assets.

Can the poor have access to the current value of future savings (e.g. ROSCAs)?
Most of these women trust and hence invest in local chit funds and use the accumulated corpus to finance known expenditures such as school fees, temple visits etc. The trust in local chit funds is common both in urban and rural areas, but more so in the rural areas.

Findings of our study are very much in line with "savings up" and "savings down" theory propounded by Rutherford (2000). When we look at our sample households' major assets or savings, it seems like a case of classic "saving up" technique. We also found that our sample members resorted to "saving down" approach whereby they borrowed money to tide through known or unknown expenditures such as an emergency medical expenditure.

Our discussion so far shows that the poor households very rarely access formal financial institutions and more so in rural Tamil Nadu compared to urban Tamil Nadu. Most of them manage their small savings and access credit for livelihood purposes from MFIs only. They also save with local chit funds. In other words, the poor lead very complex financial lives and use a variety of financial instruments—be they formal or informal, banked or unbanked.

In case of an emergency, many rely on local lenders to borrow even at exorbitant interest rates. The main assets they try to build in the short run are gold and/or silver which are highly liquid. Else they buy a mobile which they find very useful for communication. About 65 percent of our sample households had a mobile. However, savings predominantly in the form of jewelry (gold or silver) is not a wise idea (Mas 2010a). Holding jewelry is risky because it is more prone to pilferage and its value is market driven. But as our analysis shows, poor households have very limited access to safe savings instruments. Hence when they are in dire need of cash, they desperately borrow and eventually fall into a debt trap.

We found that the poor households do have the potential to save and most of them also possess a mobile but they have very limited options to save. The Government of India (GoI) has tried to speed up the rate of financial inclusion by directing banks to open "no frills account" for the poor, launching of Unique Identification Program, and provisioning of broadband internet connectivity in rural areas. One possible way to expedite the rate of financial inclusion is to promote the Business Correspondent (BC) Model as envisaged by Thorat, Srinivasan, Santhanam and Rathore (2010). According to these authors, in India, the mobilization of savings should be led by banks, and hence the BC model can work as it is a bank led model. If we consider the Indian banking eco-system, it has about 95,000 branches and about equal number of ATMs across the country with about 278 million debit card holders. Yet a large proportion of the population remains financially excluded. As the Indian financial system is pre-dominantly led by banks, the financial inclusion policy orientation has naturally been biased towards the bank-led model.

The Reserve Bank of India has rejected the other two models popular world over namely the non-bank led model and the hybrid model. However, Thorat et al. (2010) proposed the following models of partnerships between banks and for-profit companies:

1. Bank– Corporate as BC – retail agents as BC sub-agents
2. Bank– Retail agents as BCs in a network – Corporate as network manager
3. Bank– Retail agents as BCs in a network – Bank staff as network manager
4. Bank– Retail agents as BCs in a network – outsourced network manager supervised by the bank.

We argue that the BC model has the potential to be successful in providing much needed financial services is because of the following reasons. Firstly, the model involves trained local agents who have much greater acceptance into the local poor community and hence can easily tap their savings and offer necessary financial services virtually at their doorstep. Secondly, the BC model effectively exploits the already available mobile technology. The ubiquitous mobile can be used for offering savings as well as remittance products. BASIX (an MFI in India) has successfully piloted the same. Thirdly, from the financial institutions' perspective, the model opens up scope for having more business with the people who are otherwise left out. Fourthly, within the BC model several self liquidating need based ROSCA like schemes or commitment savings product a la SEED account experimented by Ashraf, Karlan and Yin (2006) can be offered. This will make the BC model not only popular but will also help the poor households to meet both known and unknown lump sum expenditures. Moreover, provision for overdraft facility in case of an emergency which can be verified by the local BC agent will reduce their dependence on local moneylenders and consequent tyranny. Finally, we argue that BC agents can create better awareness and can sensitize the poor about insurance through workshops on financial literacy and can offer this essential financial service to them.

Offering financial products like savings, insurance etc. is a challenging task in a country like India with both geographic and socio-economic diversities. There are still many issues that remain unaddressed or unresolved in this context. The proposed Microfinance Institutions (Development and Regulation) Bill, 2011 in its current form fails to address these issues adequately. As Srivanasan explains, "The bill, without overtly saying so, hints at the possibility that MFIs will be permitted to mobilize thrift (small illiquid savings). If the regulations are introduced for this and MFIs permitted to mobilize thrift it would be an exciting development as it makes meaningful financial inclusion possible. The tough task of ensuring depositor protection remains unexplained" (Srinivasan, 2011, p 96).

In this paper we made an attempt to unearth the differences between the savings strategies of the rural and urban poor in Tamil Nadu. We found some similarities and differences in their income, consumption and borrowing. Income without doubt is connected to the level of skill of the client. However, the MNREGS program has had a major impact in reduction of poverty in the rural areas where livelihood opportunities are very limited. In the case of urban areas where the poor are dominated by migrants, we found that penetration of enterprise activities is higher and the innate drive stronger to succeed among the clients. Additionally the skill levels too are higher in the urban areas which obviously lead to higher incomes.

Efficient public distribution system (PDS) of food grains has ensured that no one remains hungry in both rural and urban Tamil Nadu. Again, awareness about various government schemes is greater in urban areas than in rural areas. However, interestingly we found that during periods of high inflation the poor refrained from buying vegetables and fruits.

Borrowing has been very tricky particularly for the poor. When emergency has been the norm how do you "save up"? As discussed earlier, they often borrowed for medical expenses, marriages or funeral needs. Both urban and rural poor depended on the moneylender or mortgaged their gold from their saving. In fact their borrowing behavior shed further light on their savings strategies. Rural clients hardly saved in banks as they were intimidated by the bank staff while urban clients were able to save some corpus with the bank. India boasts of its wide spread post office network but we again found only urban clients were accessing the same more than rural clients. However, one common similarity between both the urban and rural women was their tendency to invest in monthly chit funds and/or in gold or silver. The former was for known expenses, and the latter to "save down" for unknown expenses. Hence, the link between savings and borrowing is very close and intricate. An in depth understanding of the borrowing patterns of clients will help practitioners to design suitable savings products for these clients. Without doubt MFIs do understand clients well and can offer products suited to their needs. Countries like Bangladesh have succeeded in doing this and India can also follow suit within an appropriate regulatory environment that ensures transparency, credibility and sustainability of savings products on offer.

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About the authors

Lakshmi Kumar is a Doctorate in economics from Indian Institute of Technology (IIT), Madras, a graduate degree in mathematics, and a postgraduate degree in econometrics from the University of Madras. Currently she is Assistant Professor and Program Director of the PGDM-Working Executive at Institute for Financial Management and Research (IFMR), Chennai. She has more than 20 years of experience in research and teaching. She teaches courses on macro economics, managerial economics, international business and microfinance. Her research interests lies in development particularly focusing on financial inclusion, microfinance and poverty. She has worked on several sponsored projects and has published papers in national and international journals.

Jyoti Prasad Mukhopadhyay completed his masters in economics from Delhi School of Economics, University of Delhi. Currently, he is pursuing his doctoral research in economics at the Institute for Financial Management and Research (IFMR), Chennai. Before joining the PhD program at IFMR, he worked with Centre for Micro Finance (CMF) at IFMR Research as a Research Associate for more than three years. He has also worked with The World Bank as a Short-term Consultant (STC) on an impact evaluation study in Chhattishgarh, India. He has participated and presented papers in various national and international conferences both in India and abroad. His research interests include development economics, applied econometrics and behavioral economics.