MicroSave India Focus Note 50

Characteristics of Mumbai Microfinance Market

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Background

Mumbai bustles with activity. It is the commercial and entertainment centre of India, generating 5% of India's GDP, and accounting for 25% of industrial output, 40% of maritime trade, and 70% of capital transactions in India's economy. Mumbai is home to important financial institutions such as the Reserve Bank of India, the Bombay Stock Exchange, the National Stock Exchange of India and the corporate headquarters of numerous Indian companies and multinational corporations. Mumbai's business opportunities, as well as its potential to offer a higher standard of living, attract migrants from all over India and, in turn, make the city a potpourri of many communities and cultures.

MicroSave team conducted a qualitative field research in the various slums of Mumbai to understand the needs of the microfinance clients there. The Mumbai market was very different from the conventional microfinance market seen in other parts of the country. This note highlights some of the unique features of the Mumbai market that microfinance institutions (MFIs) will have to keep in mind when attempting to introduce new products.

Fast Pace of Life

Clients lead a very fast paced life in Mumbai. They have a very tight schedule to maintain, unlike their counterparts of rural/suburban parts of India. These clients generally are a small part of the ever-busy value chain of some large business process that keeps them on their toes all time. MFIs planning to tap these clients will need to be extremely efficient and quick with their delivery and collection mechanisms. A typical example is a vegetable vendor in Mankhurd who needs to collect her goods from the APMC[1] yard in Vashi as early as 4 am. Time is money in Mumbai. People typically reported a huge opportunity cost of the weekly meeting they attended for MFIs. These busy clients generally did not appreciate the weekly meetings. The clients prefer one member of the group to collect the repayments from the other group members in advance and repay. Some preferred monthly repayment schedule.

The Competition

There is a huge demand for funds from the typical microfinance clientele, who shun banks because of their cumbersome demands for documentation. The local *Pathpedhis* (Credit and Savings Co-operatives) lend on the basis of a guarantor from a local Government employee, which is often difficult to arrange. Furthermore, despite their popularity, *Pathpedis*, are alleged to be subject to fraud and siphoning off public money – and thus not widely trusted. Hence low income people tend to use the ubiquitous ROSCAs[2] (referred to as *Bishi* by clients) and the chit funds. The size (lump sum pay out) of the ROSCAs ranged anything from Rs.10,000 up to Rs. 300,000, from 10 to 25 members. The team also found auction ROSCAs where members bid for the “prize” amount available each week or month based on their need and urgency. The major advantage of ROSCAs according to their members is that no documentation is required, making processing faster and hassle free. Also, members receive a substantial sum for their consumption purposes or income generation activity. In addition, there are the “funds”, which are instruments in which they regularly save and from which they can quickly access loans when required – albeit at a much higher rate of interest than they get for their savings.

A very large section of entrepreneurs, predominantly in the slums, who could be termed as ‘perfect individual lending clients’ for MFIs, are unable to access credit. These entrepreneurs have businesses (even though small) with decent cash flows. But their cash inflow and outflow cycles are irregular, so they would not be able to repay loans taken from conventional financial sources like banks. Furthermore, banks’ demands for documentation, guarantors etc. are too onerous for these entrepreneurs. Their only source of finance at present is the ROCSAs and the funds. Some clients have had very bad experiences with ROSCAs because of fraud and quarrels in the group. As a result at times they are forced to turn to moneylenders and pay interest rates in the order of 100% to 800% p.a. Unsurprisingly, perhaps, many clients complained of the debt trap. Considering the fact that Mumbai slums bustle with business activity, it is interesting to note that MFIs

[1] Agricultural Produce Marketing Committee

[2] Rotating Savings and Credit Associations

have not made any significant in-road into this market, even though the demand for credit is high. In a few slums there were a maximum of three MFIs operating in a single area. The *pathpedis* were omnipresent but they only lend to a few people. A large part of the clientele has no access to formal credit, and remains dependent on ROSCAs and funds.

Money Matters

The financial shrewdness of the business sector of Mumbai had also rubbed off on to the microfinance clients. They have a very good understanding of the interest rates (flat and reducing). Whenever they pay more, they made sure that appropriate benefits also accrue – they do not mind paying more when real value extra service is delivered. For example, the door step service of MFIs was greatly appreciated by these busy people, and hence they do not complain about the high interest rates.

Migratory Population

Mumbai has a huge migrant population from the states of Uttar Pradesh and Bihar. They mainly stay in the slums and work in different capacities: mill workers; auto drivers; vegetable vendors; taxi drivers; in saloons, grocery stores etc. They send remittances to their families back in their home villages every month/week. These migrants visit their families once every six months or so. MFIs and co-operatives are generally wary of lending to such people individually for fear of them defaulting and returning to their villages. But many migrants are semi permanent in the city and often several come from the same village. There may therefore be a good opportunity for the MFIs to lend in groups.

Availability of KYC Documents

Most of those interviewed had all the documentation to meet the needs of a financial service provider. These included: ration card; voter's card; as well as electricity and water bills. The shop owners also had a *Gumasta* license to run their shops. However, some documents (for example the *Gumasta*) can be easily obtained for a few rupees. So MFIs should not lend huge sums simply on the basis of a few documents. In addition to documents, MFIs should seek to assess how long the client has been living in the area and, of course, has sufficient cash flows. Requirements like income tax return, external guarantors are disliked by the clients, but they typically accept the need for spouse guarantee.

Importance of Capital

The growth of business was directly related to the amount of investment made (generally for small groceries, shops, small manufacturing units, fabricating units, vegetable and fruit vendors, road side kiosks etc.). Loans meant more cash into business, and enabled clients to increase their goods/stock in business. Focus group participants noted that the demand for goods is enormous and that it is easy to sell whatever they stock. Mumbai provides a market for any type of business and hence one of the major concerns

for the clients is capital, to increase the scale of business.

Conclusion

The Mumbai market is unique and needs to be approached in a different way by MFIs. Loan sizes should depend on the cash flows of clients; and clients who wish to take higher loan amounts will need to show better cash flows. Since Mumbai is a busy place, MFIs need to make their operations efficient and faster: weekly group meetings are likely to be unpopular. The groups might resort to 'collection points'[3] in which the clients accumulate the repayment amount in one member's house and abstain from the weekly meetings. Even the MFIs do not mind this as it makes their work faster and easier. However, this can cause a problem at a later stage when delinquencies begin, and the clients refuse to take up group liability as there has not been a strong bonding between the clients (as they hardly meet). To ease this, MFIs can make smaller groups of people who live close by and can attend meetings easily without any problems. And for clients who have good income flow but cannot abide by the standard way of MFI repayment (weekly, monthly), individual loans are a good option. The risk appetite of the MFIs will determine if they give individual loans to fresh clients or observe clients' behaviour in groups for a while before giving individual loans. But a thorough cash flow analysis will be a must before this. Also the repayment frequency can be different from the more conventional weekly or monthly (like fortnightly). With care, Mumbai promises to be a very lucrative market for microfinance.

[3] Collection point refers to a place (a members' house/shop) in which the clients collect their repayment amount. The field officer collects it from there – this was observed in two MFIs