IDENTITIES of the WORLD

EPISODE 2
FALLING THROUGH THE CRACKS

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FINANCIAL INCLUSION MUST WORK FOR THE URBAN POOR TOO

Dodging two-wheelers and bicycles in the heart of Chennai city, 47-year-old Kannika Arumugam scurries across a road carrying a large pot. She pumps potable water from a hand pump on the other side of the street, provided by the government. This is to supplement the hard water from the bore well in her building, for which the landlord charges Rs 100 ($1.40) a month.

Kannika lives in a single-room house with a small kitchen, but three teenage children means she has had to rent another room next door. The narrow passage that leads to the entrance runs alongside the rear wall of a large building, blocking all natural light. With a single window that can be opened just a sliver, the lightbulb is on throughout the day.

For water, electricity and house rent, Kannika spends a minimum of Rs 6,500 ($91) a month, nearly 75 percent of what she earns by working as a maid in five houses. Her husband Arumugam, who fixes vinyl floor tiles for a living, does not have a regular income. Occasionally he gives small amounts of money, but Kannika bears most of the household expenses herself — including the school and college fees of her children. There are also unanticipated expenses for hospital visits, school projects and the like.

Some names have been changed on request.

The sum of money she pays through the month, as interest or interest plus deposit, is a lot more than her monthly income. So she ends up borrowing to clear debts, stuck in a vicious cycle of loans and interest.

The diversity of work done by the working class in urban areas make them invisible to policymakers. From a high-level perspective, the contributions of a maid, or a hawker who sells peanuts, or a designer who screen-prints business cards, are obscure. The contribution of a farmer who grows rice or vegetables to feed the nation, on the other hand, is more obvious. “Relatively, farmers have better access to formal credit because of [banking industry] norms,” says Meenakshi Rajeev, a professor at the Centre for Economic Studies and Policy, Bengaluru.

One of the reasons that so many low-income urban residents must regularly borrow money is that they’re forced to manage a multitude of small income sources, and the financial rhythm of each is different – wages are paid daily, weekly or monthly, depending on the job.

Kannika makes and sells household cleaning products to augment her income from maid work, for example. In her area, men and women sell flowers, trade in recyclables, stitch clothes, bind books, and do many other informal jobs. Between cities too, the types of employment differ, based on the predominant industries in those areas – such as manufacturing, services or tourism.

In an attempt to ease the financial burden of people working in the unorganised sector, the government of India launched Pradhan Mantri Jan Dhan Yojana (roughly translated as ‘Prime Minister’s Scheme for People’s Wealth’, and

Kannika Arumugam at her home in Chennai, India. Photo credit: Gayatri Nair commonly known as “PMJDY” or just “Jan-Dhan”). This massive financial inclusion drive, which kicked off in 2014, allows citizens to open a special account that does not require a minimum balance.

Jan-Dhan account holders get a debit card and accident insurance of Rs 100,000 ($1400). Payment of Rs 12 ($0.17) per year gives account holders life insurance of Rs 30,000 ($419). Previous financial inclusion schemes ran into problems with dormant accounts, so, to keep accounts active, the government uses them to pay welfare benefits such as subsidies for cooking gas and payment for rural employment. If the account is used regularly, the owner also gains access to an overdraft facility of Rs 5,000 ($70).

Critics of the Jan-Dhan scheme, however, argue that it’s aimed more at the rural poor and that the urban low-income population is being left behind. “The Jan-Dhan scheme may be active in rural areas, but not in urban branches,” said a senior staff member of a nationalised bank in Chennai. This was echoed by another staff member at a private bank in Chennai, neither of whom wished to be named.

The enormous diversity of income sources, rhythms and industries in urban areas resists a one-size-fits-all approach to financial inclusion like that offered by Jan-Dhan. A diversity of solutions is needed, and they must be carefully crafted to work with the diversity of credit sources that have developed in these communities.

Kannika Arumugam collecting water from the local pump near her home in Chennai, India.
Photo credit: Gayatri Nair

One of the Indian government's policy focuses in recent years has been on improving the economic wellbeing of rural farmers, who voted overwhelmingly for Prime Minister Narendra Modi in the last election. But over this period rural-to-urban migration has increased, leading to a growth in the low-income population in towns and cities. Rental rates and demand for houses are both rising as a result, and the growing slums show that while cost of living has increased, the income of the urban poor has not.

In Chennai, nearly 29 percent of the city's population lives in slums. Kannika's neighbourhood, however, is not classified as one, suggesting that there are people in much worse situations. But still she sees no way out of her cycle of debt. Having a Jan-Dhan account has not made any difference in her borrowing patterns – she loans money from two microfinance institutions and three individual creditors on a regular basis, as she did prior to having an account. The only benefit of having an account, she says, is that her cooking fuel subsidy is deposited automatically.

Jan-Dhan accounts do offer an overdraft facility, but the bank where Kannika holds a Jan-Dhan account said none of their customers had ever used the overdraft facility.

Similarly, most of the urban poor are unaware of the insurance cover provided by the account. Kannika, who cannot read or write, can perform basic financial calculations. But while the entries in her Jan-Dhan passbook reveal an annual deduction of Rs 12 ($0.17) as her contribution for life insurance, she is aware neither of the insurance inherent in Jan-Dhan nor of the deductions from her account for it.

Map credit: Duncan Geere

It’s not just the customers that lack awareness of Jan-Dhan’s features. Some of the banks that are the main drivers of the scheme are also not particularly clued-in. Staff I spoke to at two private banks and one public sector bank said that Jan-Dhan is no longer active, so new Jan-Dhan accounts couldn’t be opened, which is—of course—untrue. While one branch of a public bank allowed the opening of a new Jan-Dhan account, another branch of the same bank declined.

Kannika and one of her daughters outside their home in Chennai, India.
Photo credit: Gayatri Nair

Meanwhile, Kannika's struggle for financial independence continues. She rues the day, a few years ago, that she pledged her jewels to a local pawn shop that charged exorbitant interest rates which she wasn't aware of. After she failed to meet the payment schedule, the shop appropriated the jewels. It was only afterwards that she learnt that banks also offer loans against gold.

Instead of Jan-Dhan accounts, many of the urban poor – including Kannika – depend on microfinance groups, sometimes called "self-help groups", to borrow money. These are based not on physical collateral, but on social collateral where group members encourage and monitor each other to pay interest on time. Kannika says that, on three occasions, the group had to cover the interest for two members who were unable to pay, because they didn't want a defaulter tag, lest it affect future loans.

To borrow money from banks, these groups must pay exorbitant interest rates (between 24 and 28 percent) and processing fees. But Kannika says that she's aware of this.

"I don't mind, because they are only helping us. Unlike in banks and pawn shops, I don't have to pledge jewels to borrow money," she says.

Kannika Arumugam returns home after collecting water from her local pump in Chennai, India.
Photo credit: Gayatri Nair

However, even within these groups people can fall through the cracks. Sundari, a single mother, doesn't earn enough working as a maid to pay her rent, electricity charges, and other costs. She borrows when she needs money, but with no avenue for additional income, she struggles to pay the interest, and was removed from a self-help group for repeatedly missing payments. Now she depends on pawn brokers instead. The ineffectiveness of the Jan-Dhan scheme for people like Sundari is laid bare in the fact that the Madras Pawn Brokers Association has said that its business is not declining due to the introduction of Jan-Dhan.

Samapti Guha, chairperson of the Centre for Social Entrepreneurship, Tata Institute of Social Sciences, Mumbai, agrees that Jan-Dhan simply does not offer the right solutions for the urban poor. "For them state intervention is necessary," she says. "Jan-Dhan focuses only on accessibility, whereas financial inclusion has two more dimensions, namely, availability of financial products and usage of these products."

She adds: "The nature of poverty varies among regions, states and households. No uniform solution can remove poverty."