

A snapshot of microenterprises in Hyderabad slums

Analysis of the baseline data from
the Spandana impact evaluation
study

Spandana

- Spandana is an MFI operating mainly in AP. 200,000 clients and growing.
- Offers group loans, individual loans with daily repayment, consumption loans.
- Basic group loans start at Rs 7,000 and has a one year cycle. Early repayment is possible and additional Rs 2,000 is available after 6 months.

The goal of the impact evaluation

- Determining the impact of microcredit on
 - Starting a business
 - Business expansion
 - Household welfare
 - Decision making in the household
 - Ambition and saving behavior
 - Etc...
- Why is an impact evaluation useful?
 - Current scenario implicitly subsidizes microcredit, but it may not last without evidence
 - Even if clients repay and continue to come, microcredit may not be beneficial to them (they may not be rational when they make the decision to borrow)
 - Understanding the areas in which microcredit has an impact is important.

Evaluation Design

- Evaluation is conducted in 100 “small slums” in H’bad. In these small slums, we randomly selected 50, where Spandana started working, and 50 where they did not.
- Baseline study was conducted before lending started, with a little over 2,000 households (20 in each slums).
- Baseline study was conducted in early 2005.
- Households were randomly selected in each slums as long as they had at least one prime age woman (not selected for having a business or wanting to start one).
- A post survey will be conducted after about 2 years, after lending has penetrated the slums, and the effects of the loans may have started to occur.

The average family

- The average family is a family of 5, with monthly expenditure of Rs 5,000.
- Poor, but not ultra poor: only 6% of these households live under a dollar a day per member, but 47% live under 2 dollars a day.
- 67% of the household live in a house they own, and 29% in a house they rent. The median house has two room, kutchra for 2/3 of the time.
- 98% of the 7 to 11 years old, and 84% of the 12 to 15 year old are in school.

Businesses are very prevalent

- 31% of the households run at least one small business.
- Out of these, 9% of households run more than one.
- For comparison, in the OECD, only 12% of the households run a business.

But these businesses have little...

- Specialized skills:
 - 11% tailors
 - 8% fruits and vegetable sellers
 - 17% general store or Kirana store
 - 6.6% telephone boot
 - 4.31% auto owners
 - 6.3% milk business
- Employees:
 - Only 2% of business have a partner
 - Only 10% have any employee, none has more than 3
 - Including household members, 58% of business have only one person working in them, and 95% have less than 3

But they have little...

- Assets
 - Only 20 out of 730 business have a separate room in which they operate.
 - 20% use no productive asset whatsoever.
 - Productive asset that are used:
 - Sewing machine (43)
 - Table (71) and Chair (83)
 - Balance (61)
 - Pushcart, motorized or not (86)
 - Almost none of these assets are rented.
- Scale of business:
 - Sales: Rs 13,000 per month on average
 - Profits: Rs: 3,040 per month on average.

Debts

- A large fraction of household have debt:
 - 69% of the households have at least one outstanding loan
 - 46% of the households have more than one outstanding loan
- The average loan, when it was taken out, was for Rs 20,000 (median Rs 10,000)
- The average interest rate is 3.85% per month.
- Loans are taken from moneylenders (49%), family members (13%), friends or neighbors (28%). Rarely commercial banks, almost no MFI loan (before penetration)

Perceived credit constraints and repayment capacity

- Perceived repayment capacity: Rs 500 per month (median) and Rs 1,000 (mean)
- More or less the repayment on a Rs 7,500 loan from Spandana...
- Among those households who do not have a loan, 56% say they want one but could not obtain one.
- However, people are largely unaware of: how much of the loan is still outstanding, how much longer they will need to pay the installment for, etc...

Reason for incurring debt

- Relatively rarely taken for a business expense:
 - Households that have business are no more likely to be indebted.
 - Main purposes for taking out a loan: Health (17%), temporary difficulty (10%), Marriage (13%), Home construction (10%), regular consumption (10%).
 - Business acquisition only 7% and business expansion only 1.33%.

Savings, Insurance and shocks

- 34% of the households have a savings account.
- 26% have a life insurance policy.
- But almost none have any health insurance cover.
- Yet 40% of the household had to spend Rs500 or more on health in the last year.
- For those who had to spend, the average expense was R7500 (median Rs 3,000)
- 60% of the households who had a sick member had to borrow: so 24% of the household borrowed for health in the past year.

Some possible lessons

- Many households have businesses, which remain at a very small scale.
- They currently operate with very little capital and few employees: more a way to have a job for the business owner.
- A Rs 10,000 loan is probably not sufficient to greatly expand the business.
- There little specialized skills involved in the businesses, so the more businesses start, they more they will crowd each other out.
- It seems possible for most household to expand the business, and yet they have not expanded. Not sure they are very keen to expand within the range in which they operate.
- Microfinance may help them expanding by “forcing” them to channel additional revenues into expansion (rather than “wasted” expenditures).
- Household have access to (expansive) sources of credit, but no insurance whatsoever.