



**Assessing the Impact of  
Microenterprise Services (AIMS)**

Management Systems International  
600 Water Street, S.W.  
Washington, D.C. 20024-2488  
Tel: (202) 484-7170 • Fax: (202) 488-0754  
E-mail: aims@msi-inc.com

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**MANAGING RESOURCES, ACTIVITIES, AND RISK IN  
URBAN INDIA: THE IMPACT OF SEWA BANK**

**EXECUTIVE SUMMARY**

**Martha A. Chen and Donald R. Snodgrass**

**September 2001**

The AIMS Project is implemented by Management Systems International (the prime contractor) in partnership with Harvard University, the University of Missouri, and the Small Enterprise Education and Promotion Network. The Project is a technical resource of the United States Agency for International Development, Global Bureau, Center for Economic Growth, Office of Microenterprise Development (Contract No.PCE-C-00-95-00036-00).



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## **The Study: Goals, Site, and Research Procedures**

This study, one of three parallel core impact assessments carried out under the AIMS project, was intended to measure the impact of microfinancial services on low-income women in an Indian city. The services in question are the credit and savings programs of SEWA Bank, a cooperative bank that operates in Ahmedabad, the principal city of Gujarat state in western India. SEWA Bank is a sister institution of the Self-Employed Women's Association (SEWA), a trade union dedicated to advancing the interests of low-income women who work in the informal sector. SEWA provides a range of development services and engages in struggles to help these women gain a collective voice and improve the welfare of their families as well as their personal economic and social positions. Since its establishment in 1974, SEWA Bank has provided a widening range of financial services to SEWA members, including savings, credit, and insurance.

Three sub-groups of working class were selected for intensive study: two groups of program participants – current borrowers from SEWA Bank and savers in SEWA Bank who did not have a loan outstanding – and a control group of comparable non-members of SEWA. The women studied are very poor. Half of them live in households where per capita income is below the World Bank's dollar-a-day poverty line and the rest are only slightly better off. They live in a country whose low economic growth (until recently), regulatory environment, and traditional social structures make it hard for low-income individuals or families to improve their living standard. Their city, moreover, has experienced the collapse of its principal industry and is known for periodic civil unrest, slum evictions, floods, drought, and recently a major earthquake. Most of the women studied belong to Backward or Scheduled castes or tribes and all of them suffer severe discrimination based on gender and social class. All the women in the study worked in the informal sector in 1998, forty-one percent as microentrepreneurs and the remainder as dependent sub-contractors or casual laborers.

The core of the study was a sample survey that collected information on 900 working class women who live in ten wards of Ahmedabad, as well as on their households, microenterprises, and other informal sector economic activities. Surveys conducted in early 1998 and early 2000 provided complete and consistent data for a panel of 798 respondents, permitting both cross-section and longitudinal statistical tests of the impact of microfinancial services.

To supplement the two surveys and facilitate sound interpretation of their results, three complementary analyses were carried out. The first of these was an overview of the economic, social, and political setting in which SEWA Bank's microfinancial services are provided and its clients make their livings. Second, the objectives, structure, and operating procedures of SEWA Bank were reviewed to provide a thorough understanding of the microfinancial institution involved. Finally, detailed case studies of 12 SEWA Bank borrowers were conducted with the aim of gaining a deeper understanding of the problems and opportunities that SEWA Bank clients face and the specific ways in which microfinancial services can help them in their daily lives.

The study sought to identify, characterize, and measure the impact of credit and savings services on SEWA members. Its theoretical foundation assumed that resources obtained through participation in financial services are fungible and are combined by the household with other resources to be allocated within a household economic portfolio.

AIMS explicitly hypothesizes that specific impacts may be found at three different levels.

- ◆ At the *household level*, participation in microfinancial services may lead to higher household income, more diversified household income sources, improved housing, increased ownership of major household appliances and motor vehicles, higher educational participation by children in the household, increased expenditure on food (especially among the very poor), and improved effectiveness in coping with shocks.
- ◆ At the *enterprise level*, participation in microfinancial services may lead to increased revenues, fixed assets, and employment, as well as improved transactional relationships.
- ◆ At the *individual level*, participation in microfinancial services may lead to increases in the client's control over resources and income within the household economic portfolio, her self-esteem and self-confidence, and her ability to deal with the future.

Four important characteristics of SEWA Bank and its clients shaped this particular study and distinguished it to some degree from the other core impact assessments.

- ◆ SEWA Bank emphasizes savings over credit. Like credit, savings can be used in the household economy to generate resources for enterprise expansion, to finance housing improvements, or to pay down higher-cost debt. Even those who borrow must save subsequently to repay their loans. We were therefore interested in the impact of saving as well as that of credit. We hypothesized that not only would borrowing from SEWA Bank yield benefits, as in other microcredit programs, but also that members who maintain savings accounts would experience benefits unavailable to non-members of SEWA.
- ◆ Many SEWA Bank members are not microentrepreneurs but rather make their living as sub-contractors or laborers. In addition to testing the impact of financial services on microenterprise, therefore, we also examine their impact on the total informal sector earnings of the household.
- ◆ SEWA Bank credit is not solely, or even primarily, intended for fixed and working capital loans for enterprise development. The Bank provides secured and unsecured loans for a variety of purposes, including housing improvement, debt repayment, redemption of mortgaged assets, and social consumption purposes such as education, health, and weddings. Since the range of loan purposes is unusually wide, one's a priori expectation that impact will be felt at the enterprise level is weakened.
- ◆ SEWA and SEWA Bank offer a number of other services to their member/clients. The Bank itself provides health, property, and life insurance. Other branches of SEWA organize and train working-class women for a variety of "struggle" and "development" activities. This wide range of services raises an important question that we were not able to examine in depth in this study: to what extent an individual's participation in multiple services enhances the impact of borrowing and saving.

Ahmedabad, the site of the study, is a traditional commercial center that gained fame as India's main producing textile city in the late 19<sup>th</sup> and early 20<sup>th</sup> centuries. After independence the textile mills declined and ultimately closed, creating severe unemployment in Ahmedabad and forcing thousands of male and female workers into the informal sector, which became increasingly competitive. After the economic policy reforms of the early 1990s, Gujarat emerged as one of India's fastest growing states, but much of the new economic activity was located outside Ahmedabad or in sectors that provided few employment opportunities for the poor. Relatively few secure jobs were created by formal sector employers. Salaried positions were particularly scarce for women, who continued to face severe social constraints on their ability to earn a living for themselves and their families.

At the end of 1999, SEWA Bank had 28,000 shareholding members and 119,000 depositors. The Bank had made 34,000 loans since its formation in 1974. Deposits totaled \$4.4 million on March 31, 1999. SEWA Bank offers current, savings, fixed-term, and recurring accounts. It lends a maximum of 25,000 rupees (\$538) for three-year terms at 17 per cent interest. Unlike many microfinancial intermediaries, the Bank has never received a grant. In 1999 it received its first outside capital when it borrowed \$600,000 from the Government of India's Housing and Urban Development Corporation (HUDCO). Cautious lending policies, low delinquency rates, and modest operating costs have permitted SEWA Bank to be financially self-sustaining throughout its history.

Analysis of data from the two rounds of the sample survey followed the core AIMS data analysis plan. For each impact hypothesis, a quantitative impact variable was defined. Several moderating variables were used in the tests to reduce selection bias and account for major influences on the impact variables other than program participation. Values of the impact variables were compared between controls and (respectively) borrowers, savers, and clients (borrowers plus savers). The following tests were performed for each hypothesis:

- ◆ Cross-section differences were examined and evaluated for statistical significance using analysis of variance (ANOVA). A positive finding was taken as possibly indicative of impact but not conclusive.
- ◆ The direction and statistical significance of changes between Rounds 1 and 2 of the survey were evaluated. Did the impact variable move in the expected direction, and if so was the change significant?
- ◆ Gain score analysis was used to compare amounts of change over time between treatment and control groups and determine whether such differences were significant.
- ◆ The strongest test used was analysis of covariance (ANCOVA), which controls for the possible influence of various personal characteristics on the impact variables. The methodology makes it possible to determine whether borrower, saver, or client status is a statistically significant determinant of changes in the values of the impact variables between survey rounds, once certain moderating variables have been taken into account. This procedure minimizes, although it does not eliminate, selection bias.

The 12 case studies involved four borrowers from each of the three dominant trades in which SEWA Bank borrowers are concentrated: vegetable vending, bidi (hand-made cigarette) rolling, and

garment making. The women were interviewed in two rounds and gave detailed accounts of the resources, activities, life-cycle events, and emergencies within their households. The results of these interviews were then analyzed on a case and comparative basis.

## Findings

Borrower households had higher per capita income in Round 1 than saver households, which in turn exceeded the average for control households. Some of these differences may be attributable to participation in SEWA prior to the Round 1 survey. In the two years between survey rounds, average real household income per capita rose 13.9 per cent. Savers enjoyed the largest increases, followed by borrowers and controls in that order. Microenterprise generated nearly 40 per cent of household income, while women's activities also accounted for about 40 per cent of the total. However, income from microenterprises in manufacturing and from sub-contracting (including both bidi rolling and garment making) fell between the two rounds of the survey. Microenterprises in trade did much better. The largest contributors to rising household income, however, were salaries and semi-permanent employment, both predominantly male activities.

The households studied reported high levels of debt. At the time of the Round 1 sample survey, they owed an average of \$294, equivalent to 27 per cent of household income. For savers and controls, nearly all of this money was borrowed from informal sources, with family and friends making up more than half the total. SEWA Bank borrowers owed only slightly smaller sums to informal lenders but increased their debt by borrowing about half the total amount owed from SEWA Bank. It thus appears that borrowers use SEWA Bank to increase their outstanding debt for whatever reason, rather than to pay off loans from other sources. The case studies confirm this impression. Case study households used only 10 per cent of their SEWA Bank loans to pay off old debt, devoting 70 per cent of what they borrowed to investments in business and housing, 18 per cent to pay for weddings, and 2 per cent to cover medical expenses.

While most households try to save and all SEWA Bank clients have at least one savings account, total reported savings were quite small. At the time of the Round 1 survey, households in the sample held an average of only \$47 in financial savings. However, SEWA Bank clients had two to three times as much savings as non-clients in Round 1 and held most of these funds in SEWA Bank. Controls, by contrast, saved primarily through chit funds and rotating saving/credit associations. No one in the sample seems to have much to do with banks other than SEWA Bank, either as a source of credit or as a savings vehicle.

At the time of Round 1, more than one-half of the households in the sample (53%) were living below the "dollar a day" poverty line established by the World Bank. A further 34 percent had daily per capita incomes in the \$1–2 range, leaving only 13 per cent above the \$2/day level. Round 2 showed only modest improvement, on average, in these poverty measures. The percentage of households below \$1 fell and the percentage above \$2 rose, in both cases by less than one percentage point. The efforts of borrower households to escape poverty brought mixed results: the numbers below \$1 and above \$2 both increased. Saver households made steadier progress, with the numbers in the \$1–2 range and above \$2 both rising. Underlying these small net changes was a good deal of change in the poverty status of particular households. The position of borrower households was

particularly volatile. Nearly half of them (122 out of 264) moved from one poverty category (below \$1, \$1–2, or above \$2) to another between survey rounds. Overall, borrowers had the largest share of non-poor households in Round 1 and experienced the largest increase in the number of non-poor households between rounds. Yet they also had the most households that slipped to a lower poverty category between survey rounds. This suggests that while many borrowed to take advantage of business opportunities and were able thereby to improve their lot, others may have borrowed out of desperation, then found that borrowing did not solve their problems.

The hypothesis tests on data from the sample survey establish that SEWA Bank's financial services have several of the impacts postulated by AIMS but fail to support certain other hypothesized impacts. These tests suggest that the use of the credit and savings services of SEWA Bank raises household income, both total and per capita. SEWA Bank's financial services are also strongly associated with spending on housing improvements, with expenditure on consumer durables, and with school enrollment, especially for boys. There was at least some suggestion that participation in SEWA Bank enhances all the remaining hypothesized impact variables: income diversification, expenditure on food, and the ability to cope with the financial shocks that are common in this environment, but the evidence is mixed. The number of loans ever taken from SEWA Bank is strongly related to several impacts. Compared to one-time borrowers, repeat borrowers enjoy greater increases in income, lay out more money on household improvements and consumer durables, are more likely to have girls enrolled in primary school, and spend more on food.

The urban working class population in our sample frequently experiences financial shocks of several kinds: deaths of family earners, theft losses, fire losses, job losses, business failures, serious injuries or illnesses, civil unrest, births, marriages and other events that either interrupt normal income flows or necessitate extraordinary expenditures. In Round 1 of the survey, 71 per cent of respondents reported at least one significant financial shock during the past two years. One fifth of the sample experienced two or more shocks during that period. Although we hypothesized that participation in SEWA Bank would help clients cope with crises by having to resort less frequently to the liquidation of earning assets, evidence in support of this hypothesis turned out to be weak. Sample households cope with risks through combinations of saving, borrowing, and insuring. The instruments available to them are clearly inadequate. As a result, many of the sample households, including some SEWA Bank clients, remain deeply in debt.

Forty-one per cent of the women in our sample operate microenterprises as their principal economic activity. Nearly all the others work as dependent sub-contractors (36%) or as laborers (22%). Only 12 women (1% of the sample) hold salaried jobs. Microenterprises operated by women in the panel generally raised their revenues between rounds of the sample survey, but the increase was smaller than the rise in household income and was not clearly linked to participation in financial services. The clearest finding is that the informal sector earnings of respondents and both the total microenterprise revenues and the informal sector earnings of respondents' households are positively impacted by participation in SEWA Bank. There also appears to be some significant impact on employment, although the total amount of employment created these microenterprises is very small. Notably absent in our quantitative findings is any apparent impact on the principal microenterprise (if any) of the client herself. Nor did we find any significant impact on the fixed assets of

microenterprises anywhere in the household. Finally, it should be noted that we saw no significant impact at the enterprise level from long-term participation in SEWA Bank as a repeat borrower.

Our interpretation of these somewhat negative findings at the enterprise level relies on several contextual factors:

- ◆ There is severe overcrowding and keen competition in the informal sector in Ahmedabad. Although the income level is rising, even among the poor, scope for an individual entrepreneur to expand his or her microenterprise is limited because any gains will swiftly be competed away.
- ◆ Specific constraints apply to all the principal trades in which women in our sample participate. For example, street vending faces problems with municipal regulations and the police, bidi rollers have been fighting with the employer/contractors over rates of pay and retirement contributions, and garment makers face rising competition and have trouble acquiring needed new skills.
- ◆ SEWA Union engages in “struggle” (trade union and lobbying activity) on behalf of all women engaged in some of the major trades in which women in our sample participate. SEWA Union has fought for higher piece rates in bidi rolling, garment sub-contracting, and incense making. It has pushed for improved government services and benefits such as those provided under the Bidi Workers Welfare Act. It has tried to get the municipal government to provide better infrastructure and services in the neighborhoods in which their members live. SEWA Union has worked to reduce police harassment of street vendors and obtain better market space allocations for vendors. The impact of these and other struggle activities is not easy to identify or measure. To the extent that non-members of SEWA share in the benefits, however, differences between members and non-members fail to provide an adequate measure of impact.

Survey findings indicate some impact at the individual level. They suggest that women who borrow repeatedly over an extended period benefit most. The case studies also suggest that women who participate most extensively in a range of SEWA activities enjoy more extensive benefits. Analysis of the quantitative survey findings indicates that women who borrow from SEWA Bank participate actively in the decisions regarding whether to borrow, how to use the loan proceeds, and how to use the resulting increases in microenterprise revenues, if any. Participants in SEWA Bank do not appear to have more positive images of themselves than other working-class women or to be more optimistic about the future. They are, however, far more likely to have personal savings accounts and to be taking specific steps to prepare for the future. One reason why more significant individual-level impacts were not detected in our study may be that many working class women in Ahmedabad entered the labor force by the 1970s (if not earlier) and were already economically mobile and participated in household economic decision making long before our Round 1 survey. They did not have to be induced to such behavior by SEWA Bank.

The detailed case studies leave little doubt that SEWA Bank and its sister institutions have been able to improve the lives and work of countless women in Ahmedabad in ways that our survey did not capture or measure. For example, Gayatri (a pseudonym) has taken two loans from SEWA Bank and

attended 2–3 SEWA Union meetings. When asked about the impact of SEWA on her life, Gayatri readily listed several impacts. To begin with, SEWA has helped raise the piece–rate for bidi–rolling. As Gayatri noted, “A bidi–roller cannot bargain on her own. Bidi–rollers need to join together to bargain effectively.” Second, SEWA helped Gayatri secure a scholarship for her daughter, the only one of her children who scored high enough on school tests to be eligible for a scholarship under the Bidi Workers Welfare Act. Over a 7–8 year period, Gayatri’s daughter received 450 rupees per year in a scholarship and 170 rupees per year as food allowance. Third, Gayatri has benefited from the financial services of SEWA Bank. She was particularly grateful to have a secure place to save money out of the reach of her gambler husband. Finally, Gayatri was one of 150 or so bidi–rollers who, in a lottery draw, “won” a house in a SEWA–sponsored subsidized housing project. Only one of these impacts – the beneficial impact of savings services – is due to SEWA Bank and would have been captured in our survey. The other impacts – increased piece–rates, scholarship, and subsidized housing – are due to SEWA Union and were not captured in our survey.

The study shows that the urban poor earn their living primarily through their labor power. Their main physical asset is their housing stock, which often serves as a place of business as well as abode. Social relations – including both social claims and social obligations – are important and ultimately tied to the provision of informal financial services. Other than through SEWA Bank, few poor households have access to formal financial services. Informal borrowing, saving, mortgaging or pawning of assets, and insurance (for marriages and deaths), drawing on both vertical and horizontal social ties, are the only financial services available to poor households. Social norms relating to caste and gender also matter. The elaborate social system that confers advantage or disadvantage based on a person’s gender and caste is still pervasive, in urban as well as rural areas.

The level of resources and range of opportunities available to low–income working families in Ahmedabad make earning a decent living quite difficult. Compounding their day–to–day struggle to secure livelihoods, the poor have to face numerous risks or contingencies with few financial resources. They must save as best they can or borrow to meet household financial needs, including housing improvement, life cycle events, and emergencies. Because they repeatedly need lump sums in excess of what they are able to save up, they borrow money on a regular basis from various informal sources. Each household, therefore, manages a diverse financial portfolio including loans from several informal sources and several types of informal savings. Some observers view this continuous cycle of saving, borrowing, spending, and repaying as a vicious circle that demonstrates how poor households try to cope with risk; others view it as a virtuous circle that demonstrates how poor households manage their money. Our findings suggest a mixed picture. Some households are able to manage this cycle with discipline or resilience, while others are unable to control it and fall into a spiral of indebtedness.

Since informal savings and borrowing are the only financial services available to most poor households in Ahmedabad, SEWA Bank expands the available options for SEWA members to save and borrow. Considering the reasons why low–income households take out loans, the impact of borrowing from SEWA Bank is not necessarily greater than the impact of saving. Given similar household needs, the household that is able to save to meet anticipated needs might do better than the one that is unable or unwilling to save and is forced to borrow to meet its financial needs. Clearly, financial shocks constitute one important motive for borrowing. Thus borrowing may indicate either

financial stress or financial stability. The same can be said for forced saving such as the minimum saving required to borrow from SEWA Bank. By contrast, voluntary saving – particularly repeated deposits or earmarked fixed deposits – is more likely to indicate financial stability. Some of the impacts measured in our statistical analysis were at least as great for savers as for borrowers, or even greater. It is also notable that savers enjoyed a greater increase in income between survey rounds than borrowers.

The fungibility of loans clearly emerged as a theme from both the statistical analysis and the case studies. Credit is used for many purposes and individual loans are used interchangeably with other loans and with savings. To begin with, loans were used for various purposes within the household, not just in the respondent's enterprise or other economic activity. Contrary to the orthodox understanding of how microfinance works, we found that borrowing from SEWA Bank had impact on different enterprises in the household but not on the respondent's own primary enterprise. Second, loans were used for both fixed and working capital, even for the same enterprise. Third, loans were used interchangeably for production and consumption purposes. Even among microentrepreneurs who run their own businesses, borrowing from SEWA Bank was often intended to meet household needs or to invest in other enterprises, not to expand their own businesses. Finally, we found fungibility among various forms of debt, including the following patterns: two or more loans being used for a single purpose; one loan being split for different uses; and one loan being used to repay other loans.

Why would low-income working women (or their households) want to borrow from SEWA Bank, rather than from informal sources? First, SEWA Bank charges 17 per cent per annum while most informal lenders charge more than twice as much, sometimes four times as much. In addition to higher interest rates, there are other costs of informal loans. Several case study respondents report that they prefer the anonymity of taking loans from SEWA Bank, compared to the shame associated with borrowing from family, friends, and neighborhood moneylenders, and the disciplined regularity of repayments to SEWA Bank, compared to the whims of their informal creditors.

Why would low-income working women (or their families) want to save at SEWA Bank? There is little doubt that they want a safe place to save, not only for security from theft and fire but also from unwanted claims by their husbands, children, or other relatives and from unnecessary withdrawals by themselves for their own and their families' spending needs.

## **Emerging Themes and Lessons**

We drew several broad lessons from our study, both for research and for the practice of microfinance and microenterprise development. Briefly, these are:

Implications for research:

- ◆ The mix of quantitative and qualitative methods used in the AIMS project was helpful because it allowed for both statistical validation of impact and qualitative interpretation of impact. The supporting analyses of context and program provided additional support for interpretation and program-related feedback to SEWA Bank.

- ◆ Like AIMS, future assessments should be guided by a core set of research questions or hypotheses and a clear understanding of different methods.
- ◆ Equally important is the need to modify and test hypotheses, measures, indicator variables, and survey questionnaires to “fit” the characteristics of the local context and the specific program.
- ◆ Capturing or measuring change is difficult, particularly at the enterprise and individual levels.

#### Implications for practice:

- ◆ The concept of microfinance needs to be broadened. There has been a longstanding and widespread assumption that the role of microcredit is to promote microenterprise development, that clients invest their loan proceeds in their enterprises and then use the added cash flow from their enterprises to repay their loans. Our findings and the experience of SEWA Bank support an increasingly popular alternative conception, namely that clients use their loans as they (or other members of their household) see fit and then repay their loans with funds from various sources, within or outside the household. In the setting that we studied, there are two primary reasons for the fungible use of loans. First, it is hard to develop a microenterprise, particularly a female enterprise, in Ahmedabad. Second, households living at or near the \$1-a-day poverty line face a range of competing demands on their financial resources, including housing improvement, life cycle events, and emergencies.
- ◆ The concept of microenterprise development also needs to be broadened. Microfinance has long dominated the wider field of microenterprise development. Recently, there has been renewed interest in non-financial or business development services. The SEWA Union experience and our findings suggest a need for sector-specific business development services that address as many backward and forward linkages – and constraints – as possible.
- ◆ The concept of women’s empowerment also needs to be broadened. SEWA’s model of empowerment grows out of 30 years of experience and focuses on women’s identity as workers or economic agents and therefore addresses both class and gender relations. The underlying model of power that dominates the SEWA model relates to the power relationships that women experience in their working lives. SEWA’s understanding of the importance of class-based power relations poses a challenge to conventional feminist understanding of the primacy of gender relations.
- ◆ Finally, the concept of poverty alleviation needs to be broadened. Poor working families like those in our study face difficult problems of household financial management. Besides offering severely limited income earning opportunities, the environment in which the poor live periodically presents them with financial crises. These events, which are sometimes predictable but are often unexpected, involve either one-time expenditures or interruptions of normal income flows that are large relative to the total

financial resources available to the household. Insurance, pensions, social welfare programs, and other institutionalized mechanisms that help families in developed countries cope with poverty and financial crises are generally unavailable in developing countries. Borrowing and saving must therefore carry more of the load. Programs like SEWA Bank give people expanded access to credit (often their first contact with formal financial institutions) and help them to save. When these programs offer better lending terms and credit and savings instruments that better fit clients' needs, they strengthen the ability of the working poor to use finance to cope with financial crises and improve the welfare of their families.