



Microfinance : Microcredit

The Financial Diaries

After over 30 years of microfinance, what do we really know about how the poor manage their money?



'Our idea was to try to understand the kind of choices people are making, and not to just guess from microfinance,' says Professor Jonathan Morduch of New York University. (Photo: Adam Rogers/UNCDF)

Seven years ago, a London-born development expert named Stuart Rutherford had just co-founded a small microfinance institution in the slums of Dhaka when he began to seek a deeper understanding about his poor clients.

"Very little indeed was actually known about the financial lives of poor people," recalls Rutherford, a visiting fellow at the University of Manchester's Institute for Development Policy and Management.

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As part of a research project, he recruited several dozen families in Bangladesh, visited them every two weeks, and asked them about their income and expenditures, and how they saved and protected against risk. At the same time, 1999-2000, fellow researcher Orlanda Ruthven carried out a similar survey in India. The project became known as the Financial Diaries.

"Many microfinance initiatives assumed that poor people had little or no financial life other than being exploited by wicked moneylenders. The Financial Diaries were designed to examine whether or not poor people have active financial lives, and if so, what form they take and what the reasons behind them are."

The Financial Diaries project continued to grow. In 2002-2005 Rutherford used the 'diary' methodology to explore the financial lives of users of the Nobel Prize-winning Grameen Bank, following the redesign of its services, known as Grameen II.

Dynamic, active financial lives

The biggest set of data, however, came from the Financial Diaries

project led by Daryl Collins in South Africa during 2003-2005, which examined the incomes and expenditures of around 180 households.

"We took a more quantitative approach in South Africa," says Collins of her project's focus on collecting data about how households were utilizing monthly wages and government assistance. "We wanted to get a lay of the land, and not necessarily from a microfinance perspective."

The data revealed - among other things - that South African households used an average of 17 financial instruments each year, including 11 credit instruments, 4 savings instruments and 2 insurance instruments. Collins also found that many of the financial tools - savings and insurance instruments - utilized by the poor in South Africa are designed to prepare families for funerals, which can sometimes cost the equivalent of seven months' income.

To illustrate dynamic and forward-thinking financial behavior in South Africa, Collins likes to talk about Mimimi and Jonas, one of the couples she visited every other week on the outskirts of Cape Town.



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The eight Millennium Development Goals at a glance (Photo: Reuters)

Jonas worked as a gardener; Mimimi ran a local bar. Their dream was to build a house in the rural Eastern Cape. Over the course of a year, Collins learned about how they were managing their business and saving through membership in local savings clubs. Of the 509 US dollars that Mimimi and Jonas earned each month, they saved around 390 dollars. The rest went to monthly expenses: 49 dollars on food, 31 dollars for home building, 16 dollars on electricity, 14 dollars on transport, 6 dollars on a mobile phone, and 3 dollars on cigarettes.

Understanding the choices people make

Mimimi and Jonas, it turns out, were excellent financial planners and savers. But they were just one of the many households that Collins and her team looked at in South Africa. Certainly not everyone Collins visited shared Mimimi's business savvy, nor were daily financial concerns the same in each household.

"Our idea was to try to understand the kind of choices people are making, and not to just guess from microfinance," says Jonathan Morduch, a microfinance expert at New York University who is working with Collins, Rutherford, Ruthven and David Hulme, a professor at the University of Manchester, on a book about the Financial Diaries entitled "The Portfolios of the Poor."

"We are finding some really important things," says Morduch. "One is that people we see are very actively managing their financial lives, even the very poor. They are not always making the best choices, but they are making very active choices."

The Portfolios of the Poor

"The other thing is that they are paying a lot of attention to saving," adds Morduch. "They have to even more than the richer people, because they're operating on such thin margins. If a health crisis emerges or they can't get together the school fees for their kids, there are much bigger consequences than for a better-off household."

"The Portfolios of the Poor" is expected to come out sometime in 2007, and will highlight some of the lessons learned from the Financial Diaries project. The book will be aimed not only at academics and microfinance practitioners, but also the general public and business people, where many assumptions about the financial lives of the poor remain unexamined.

"This idea that the poor are not focused on financial management is clearly not coming through," says Morduch. "It's nice for us to be able to show it in so many different ways and places."

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