Portfolios of the Poor

How the World's Poor Live
On $ 2 a Day

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Chapter Two

THE DAILY GRIND

SUBIR WAS 37 when we met him, and his wife Mumtaz only 29, though their oldest son Iqbal was by then at least 14. They had come to Dhaka, Bangladesh, when Iqbal was a baby, soon after their scrap of land in central Bangladesh was washed away by the great Ganges River. They had three more children, all sons, and Mumtaz was pregnant again and delivered her fifth son midway through the research year ("No more!" she told us). Day by day, Subir and Mumtaz focused on managing life on a dollar a day per head—and sometimes less. Their strategies, and those of other diarists, are the subject of this chapter. We will see how their money management responds to the challenges of living on income that is both low and uncertain, and how doing so determines much of their financial lives.

Subir and Mumtaz had arrived in Dhaka almost penniless, and like many others in that situation had chosen to set up home on government-owned land, settling in an area known as the "fire slum" (*pora bosti*) because it had burned down so often. They built a hut of rough timber clad in woven bamboo with a few sheets of corrugated tin as a roof. At least they had no rent to pay, and utilities cost them little: their bathroom was the local water pump, and their toilet a public one set up by an NGO. They paid a few pennies a month for electricity for their one lightbulb.

Our opening chapter asserted that it is not just the *low value*, but also the *uncertain timing* of their incomes that makes money management so important for poor households, and so it was for Subir and Mumtaz. Institutions such as the United Nations and the World Bank usually focus on explaining why incomes, totaled over the year, are so low, and what can be done to raise them. But the unpredictable ups and downs of income are also an important part of what it is to be poor, and they cause many of the specific challenges faced by the households we came to know.

The low returns and uncertain availability of work opportunities lead households like Subir's to patch livelihoods together from different sources, each irregular and unpredictable. For a while, Subir, who generally pedaled a hired rickshaw, enjoyed a spell driving a motorized rickshaw. On good days, he earned $2.50. Most of the time, though, he pedaled a rickshaw—extremely demanding work that only the very fittest can do day after day. Subir, like most men of his age, found it too exhausting to do for more than four days a week. Even when he was working, his earnings fluctuated with weather conditions, political strife, harassment by the police, and simple good and bad luck.

Toward the end of the year, their teenage son, Iqbal, got a job in a garment factory at $27 a month. Iqbal, who had never attended school regularly, then gave up scavenging for scrap materials for a dealer in their slum. His younger brother Salauddin, 10, continued to rag-pick, and earned $6 in a good month. After the new baby was born, Mumtaz returned to a job working as a maid, earning some $10 a month. A boarder earlier had been contributing another $7 a month, but he left when the baby arrived. Taken together, total household income peaked at an average of $3.15 a day for the seven of them. In bad times, it fell as low as $1.90 a day. They fell into the poorer half of the Bangladesh sample.

Making these uncertain income flows deliver a stable home life was a constant preoccupation for Subir and Mumtaz. Most of the time they succeeded. They never had to beg, but they did skip meals, and the quality of their food varied. Sometimes we found them eating hot meals three times a day—mostly rice and lentils, sometimes

a bit of fish, or, as a rare treat, even beef. Usually, though, they ate twice, and in really bad times just once a day. But at least they ate something every day, and it is a tribute to their resourcefulness that they managed that.

Subir and Mumtaz and their family survived thanks in part to financial tools. The most intensively used tools, however, were not those celebrated by advocates of microfinance for the poor. In the year we spent with them, Subir and Mumtaz did not, for example, seek a "microcredit" loan to fund the expansion of a small business. True, Subir could have earned more if he owned his own rickshaw rather than renting, and a loan would have hastened the purchase. But, as we show below, he had good reasons not to do so. Others looking at the couple's situation might instead stress the importance of helping people like them to save to build up meaningfully large assets. Borrowing and saving for the long term are indeed important to poor households, as later chapters show, but long-term goals were not the *primary* financial concern of most households we met. Instead households like that of Subir and Mumtaz borrowed and saved mostly to meet pressing short-term needs: their main objective was cash-flow management. Being able to manage immediate needs is a precondition for considering long-term ambitions—but the way that poor people achieve it has received scant attention from policymakers and others arguing for financial access for the poor.

The most basic objective for households like that of Subir and Mumtaz is to make sure that there's food on the table every day, and not just on days when income flows in. As we argued in chapter 1, the poor households we met actively employ financial tools not *despite* being poor but *because* they are poor. When it came to managing money, Subir and Mumtaz put a premium on the flexibility and convenience of their financial tools, even though those tools were not always reliable. Their juggling reminds us that money is fungible—it can be split and combined in a number of ways. We argue in the concluding section that embracing this flexibility of money can open vistas for financial providers looking for better ways to serve poor households.

Diary households in both the urban and rural areas of all three countries employ strategies and have portfolios that, no matter how they vary in detail, are similar in important ways. Most important, they are characterized by frequent small-scale transactions. Both saving and borrowing are involved, often with multiple partners and using several different kinds of instruments simultaneously. The result is portfolios with large flows of cash: large relative to the level of outstanding debt or of savings held at any one time. The primary goal is managing cash flow. Richer people's objectives, like maximizing the returns on assets or minimizing the cost of debt, are, of necessity, secondary. Even policy initiatives designed to help poor households build stronger balance sheets through accruing major assets, such as Individual Development Accounts (IDAs, a subsidized long-term saving mechanism for low-income households in the United States), work best if the households can first manage cash flows. Asset building is an important objective of poor people's portfolios, and chapter 4 discusses this process further, but in this chapter we suggest that understanding the financial lives of poor households starts with a focus on cash flows rather than balance sheets.

The next section of this chapter describes the importance of frequent and small transactions used for basic money management. The sections that follow show why this pattern holds: multiple occupations leading to low incomes—often patched together from uncertain parts—result in a "triple whammy" of incomes that are not just small but also irregular, and that have to be managed with financial instruments that do not always fit the household's cash-flow patterns. The balance of the chapter describes how households cope with the triple whammy—and where hidden costs lie. The concluding section brings together ideas on ways to help poor households cope with their most basic, daily challenges.

Small Balances, Large Cash Flows

Though the households we worked with included some that were very poor, none lived hand to mouth, if we take that phrase to mean

that all income is consumed directly and immediately. It is a remarkable finding, and not what might be expected in communities where some scrape by on less than one dollar per day per person. But the finding remains hidden if we look only at asset accumulation. Not surprisingly, the diary households have relatively few financial assets. Year-end asset values tend to be small: a median value of $68 in Bangladesh, $115 in India, and $472 in South Africa.[1] Even adjusting for differences in purchasing power in different countries,[2] these assets are not large, and might lead us to assume that they could sustain little financial activity. But what we learned is that data on balances told us little about what happened during the year. The financial diaries were designed specifically to lift the veil on a wide array of financial activities that take place day to day and week to week.

The story is revealed when we look at cash flows rather than balance sheets. During the year, all of the financial diary households pushed and pulled through financial instruments amounts far greater than their year-end net worth.[3] By "push" we mean deposit, lend, or repay. By "pull" we mean withdraw, borrow, or accept deposits. If cash flowing into the household is not immediately consumed or invested, it is pushed or pulled through a financial instrument in one way or another. We use the expression "turnover" to mean the total sum of money being "pushed" into instruments plus the money being "pulled" out of them. Table 2.1 shows the households' high turnover in financial instruments. As we describe later, most of the activity runs through informal devices, below the radar screen of regulators and bankers.

The high level of financial cash flow is particularly surprising when considered in relation to income. We might call this ratio the "cash flow intensity of income": the sum of funds borrowed, paid out, recovered, deposited and withdrawn, divided by income of all sorts. In India, households shifted, on average, between 0.75 and 1.75 times their incomes, with high-velocity money movers like rural small traders shifting more than three times their earnings in an average month. In South Africa, the monthly turnover in cash flows was slightly more intense, at about 1.85 times the monthly income.

Table 2.1 Year-End Financial Asset Values and Annual Cash Flows through Financial Instruments for Median Households

	Bangladesh		India		South Africa	
	Year-end asset value	*Annual financial turnover*	*Year-end asset value*	*Annual financial turnover*	*Year-end asset value*	*Annual financial turnover*
Rural	57	568	18	590	220	3,447
Urban	74	547	169	810	792	6,264

Note: US$ converted from local currencies at market rates.

In general we found that the flows moving through financial instruments are large relative to income even in households with low incomes and small balances. In Bangladesh, where rural incomes are lower than urban ones, median turnover in the countryside is nevertheless higher than in the town. In South Africa, the poorer half of the households turned over a bigger multiple of their income than the richer half. This is despite the fact that many of the richer households were wage employees and had their wages paid into bank accounts from which they would then withdraw cash, inflating the value of turnovers. The lowest annual turnover of the entire financial diaries sample was $133, that of a rural Indian household living from the income generated by a tiny farm and wage labor. Nevertheless this small turnover was still more than three-quarters of their very small income. Most households have turnover in excess of $1,000 over the year, and many have much higher. This attests to our general notion that lower incomes require *more* rather than *less* active financial management.

Subir and Mumtaz's portfolio for the Bangladesh research year 1999–2000 is given in greater detail in table 2.2. For each of the categories of instruments they used, we show the closing balances, as we did for

Table 2.2 Portfolio Summary for Subir and Mumtaz over the Research Year

	Closing balance	*Turnover*
Financial assets		
Semiformal Informal		
Microfinance savings	10.20	49.40
Private loans out	30.00	117.00
Home savings	5.00	18.00
Subtotal	$45.20	$184.40
Financial liabilities		
Semiformal Informal		
Microfinance loan	30.00	47.00
Interest-free loan	14.00	84.00
Private loan	15.00	105.00
Pawn loan	0	10.00
Moneyguarding	2.00	66.00
Shop credit	4.00	50.00
Subtotal	$65.00	$362.00
Financial net worth	−$19.80	
Total turnover		$546.40

Note: US$ converted from Bangladesh takas at $ = 50 takas, market rate.

Hamid and Khadeja in chapter 1. We also show the total turnover during the year (the flows in and out of each class of instrument). By placing the balances and the flows alongside each other, we highlight one of the big points made above: balances are small relative to flows.

Balances are sometimes so small that one might conclude this is not a "portfolio" at all, in the sense in which a modern financial adviser would use the term. Nevertheless, the fact that there are many different instruments and that the flows are relatively large shows, clearly, that Subir and Mumtaz, and households like them, are financially active. We need to pause for a moment and adjust our perspective if we are to understand the real importance of these poor-owned portfolios.

Multiple and Uncertain Occupations . . .

Understanding the reasons for high turnovers is the starting point for understanding the financial lives of these households. We move to that task by showing how, despite a wide variety of occupations, the income characteristics of our diary households led them to the predicament that we call the "triple whammy."

Some of our diary households are headed by someone with a long-term permanent waged or salaried job. But these are the exceptions. In the Bangladesh diary set, for example, there are only two households out of 42 that obtain most of their income from a single permanent job: both are private car drivers living in the capital. There are other waged jobs—quite a few urban households are like Subir and Mumtaz and have one or more members working in the garment factories—but, as with that couple, these jobs provide only part of the total household income, the rest coming from self-employment, casual employment, or petty businesses. Jobs that appear permanent may turn out not to be. While just over half our Delhi households received regular wages from a single source, half of this group lost their jobs during the year and had to search for new work (sometimes several times), while most of the others were hired on contract and thus had no rights to regular work or benefits. In the countryside, in both Bangladesh and India, there are farming households who depend for the large part on their crops, but even in their case at least a part of their income comes from other sources. The wealthiest farmers will also have secondary jobs such as teaching or own some form of transportation, and the poorer ones will also labor on other people's land or on public works, or seek casual jobs in retail, transport, or construction, or in casual self-employment like the cigarette-rollers of India.

In South Africa, social welfare pays out monthly grants to the elderly, children, and the disabled.[4] The system reaches down to many poor households: in our South African sample of 152 households, 27 percent had grant support as their main source of income. Within our sample, these government grants made up 48 percent of the

average household income in the rural areas and 10 percent in the townships. These monthly payments certainly make income more regular, and we later show that this regularity does make it easier to engage in higher levels of financial intermediation. But these incomes are small: in the rural areas, a grant meant to support one person supports, on average, a family of four. As a result, grants are rarely enough to cover costs, and most households supplement them with small business, casual work, and remittances from working relatives. Moreover, having come to rely on regular monthly payments, grant-dependent households are left particularly vulnerable when they don't arrive on time. During the study year, we observed several occasions where grants were not paid out. Sometimes households, such as Sabelo's (whose situation is summarized in table A1.2 in appendix 1), were the victims of bureaucratic glitches, and twice during the study year grants were not paid out in the urban township of Diepsloot because of riots.

Figure 2.1 illustrates the kinds of employment we encountered and reveals some differences between the three countries, especially between South Asia (Bangladesh and India) on the one hand and South Africa on the other. In the figure we offer three definitions of employment and show what proportion of adults in diary households are engaged in them. We see, at the left of the figure, that more than 40 percent in South Africa enjoy regular wages, a rate two or three times higher than in South Asia, where earning steady wages is far from the norm.

In the center of the figure we have widened the definition of earning activity to include casual work, such as minding someone's store or doing farmwork on an irregular basis. Under this definition, the percentage of adults employed increases sharply for Bangladesh and India, to about 40 percent, and moderately for South Africa, where it captures about 55 percent of all adults. The third definition casts the net as wide as possible, to include adults who undertake any type of income-earning activity. India easily surpasses South Africa in employment when it is defined this broadly: in India, many adults are self-employed at least part-time in subsistence farming, trading, tiny service industries like rickshaw pulling or maidserving, or in home-

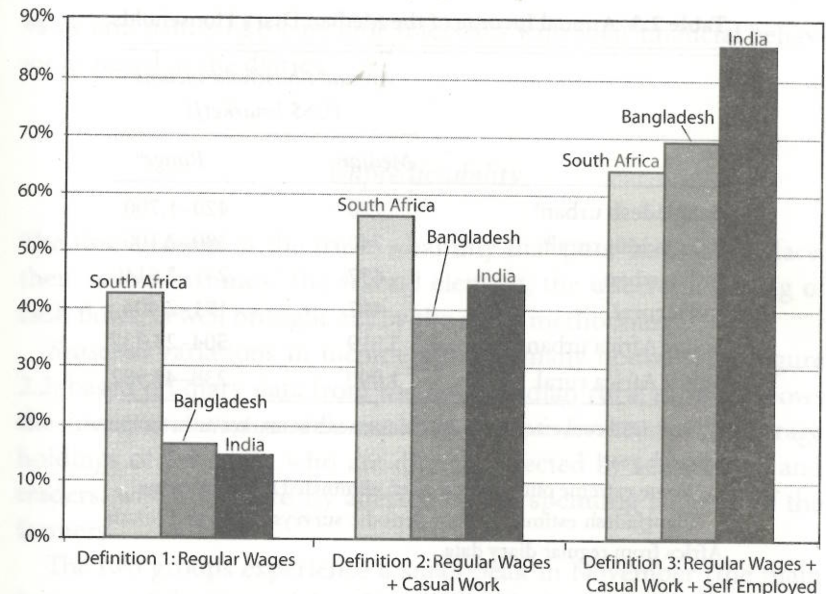

FIGURE 2.1. Income-earning categories of financial diaries households. Share of financial diaries adult individuals within each category (percent).

based production such as rolling cigarettes, or sewing, or rearing poultry and selling eggs.

Notice that in South Africa fewer than 70 percent of the adults who could be earning income in some way are managing to do so, whereas in India more than 85 percent of adults bring in some income through work of some sort. This figure does not include the South African social welfare grants discussed earlier, and these grants may explain the difference in income-earning patterns between South Africa and South Asia.

One other difference between South Asia and South Africa is the number of children at work. If we judge by the evidence of the financial diaries households, South Africa has managed to do away with child labor for the most part. But in Bangladesh, two of Subir and Mumtaz's boys had been working since they were about eight years old. In the Bangladesh sample as a whole, eight out of 42 households, and in the Indian sample, 10 out of 48 households (19 percent in each

Table 2.3 Annual Income of the Median Diary Households

	Annual household income (US$ [market])	
	Median	Range[a]
Bangladesh urban[b]	720	420–1,700
Bangladesh rural[b]	740	380–2,100
India urban	637	241–2,611
India rural	497	171–2,404
South Africa urban	3,919	504–23,337
South Africa rural	2,090	238–49,982

Note: US$ converted from local currencies at market rates for the research year.

[a] Some extreme outliers have been eliminated from the range.

[b] Bangladesh estimated from periodic surveys; India and South Africa from regular diary data.

case) had children under the age of 15 who worked for at least some of the time during the research year.

. . . and Low Incomes

When occupations are intermittent, part-time, casual, or multiple, and where children may also work, it is not easy to measure total household income. For Bangladesh, where we focused on financial transactions and didn't systematically collect income and expenditure flows, we have estimates of income based on periodic enquiries. Our researchers in India and South Africa, on the other hand, aimed to record *all* income and expenditure flowing in and out of their sample households. Based on these data, table 2.3 shows both the median household income and the range of incomes for the urban and rural parts of our sample for all three countries.

To give some meaning to these statistics, we include an extensive table in appendix 1 that shows daily per capita income data for a selection of households chosen to illustrate their varying sizes, locations, and occupational patterns, with notes about ways in which the

value and nature of the income intersects with their financial behavior as noted in the diaries.

Unpredictability

The first element of the triple whammy that poor households face, then, is low incomes. The second element, the uncertain timing of cash flows, is well brought out by the diary methodology.

Seasonal variations in income affected many households. Figure 2.2, based on diary data from the north Indian rural sample, shows the income of two middle-ranking groups: farmers with average holdings of 3.5 acres, who are directly affected by seasonality, and traders, who are indirectly affected by the spending patterns of the farmers.

The two groups experience a small peak in November (the main harvest and the time of the Hindu festival of Dewali and, in the research year,[5] the Muslim month of Ramadan). But the much larger peak is from February through May, the local marriage season. All farmers who can do so hold back their grain from the November harvest, to sell and spend after February. Traders, on the other hand, mostly without farmland, earn the bulk of their annual income during these two festival seasons, so their peaks and troughs are different from those of farmers. Even small farmers, like Sita (featured in chapter 4), whose income derives mostly from farm labor, face sharp fluctuations in income since available work is concentrated around the months of August, November, and December. The annual income of her three-person household, at $353, is far from the lowest in our sample. But it is extremely uneven, with 60 percent falling in four farming months between June and September, leaving a long trough when monthly income went as low as $9.50 and averaged $13.50 for three consecutive months.

For small farmers, income is also highly unreliable, far more so than for larger farmers. While rural Indian respondents agreed that the research year was generally a bad year for farming, larger farmers mostly met their expectations of harvest, while small and marginal

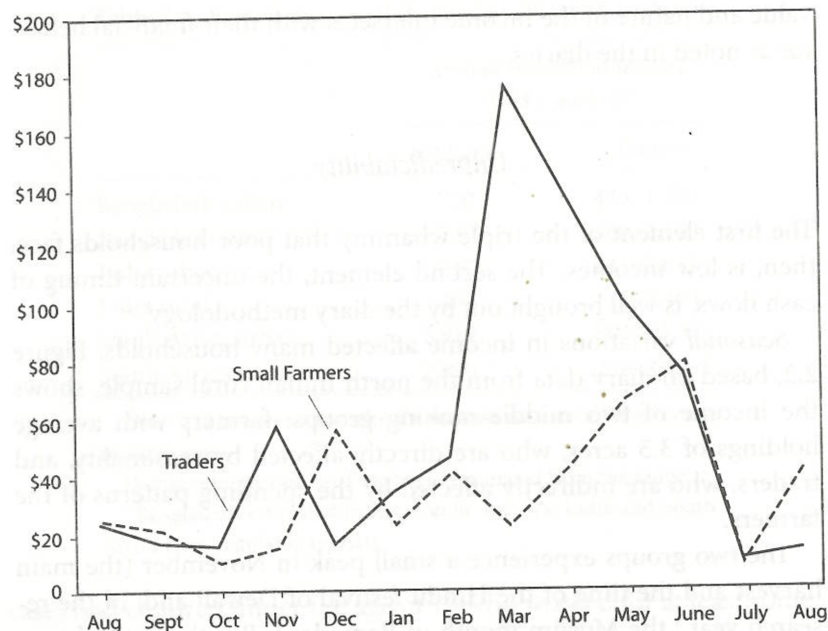

FIGURE 2.2. Incomes of two Indian occupational groups, aggregated monthly. US$ converted from Indian rupees at $ = 47 rupees, market rate.

farmers recovered only 25–30 percent of what they'd expected. One cause was the disadvantaged position of their land on the tail end of canal irrigation, but an equally important problem was their inability to raise timely finance for farm inputs when required, in unpredictable weather conditions.

So both small regular monthly incomes and modest seasonal incomes produce a need for intermediation, explaining why poor households that experience these patterns in income tend to hold portfolios of transactions and relationships.

But there is no doubt that *irregularity*, and above all *unpredictability*, of income causes even more serious challenges in cash-flow management, resulting in ever more innovation in trying to address them. Figure 2.3 illustrates this effect with a case from South Africa. Pumza is a sheep intestine seller living in the crowded urban hostels of Cape Town. She supports herself and four children with her business. Every

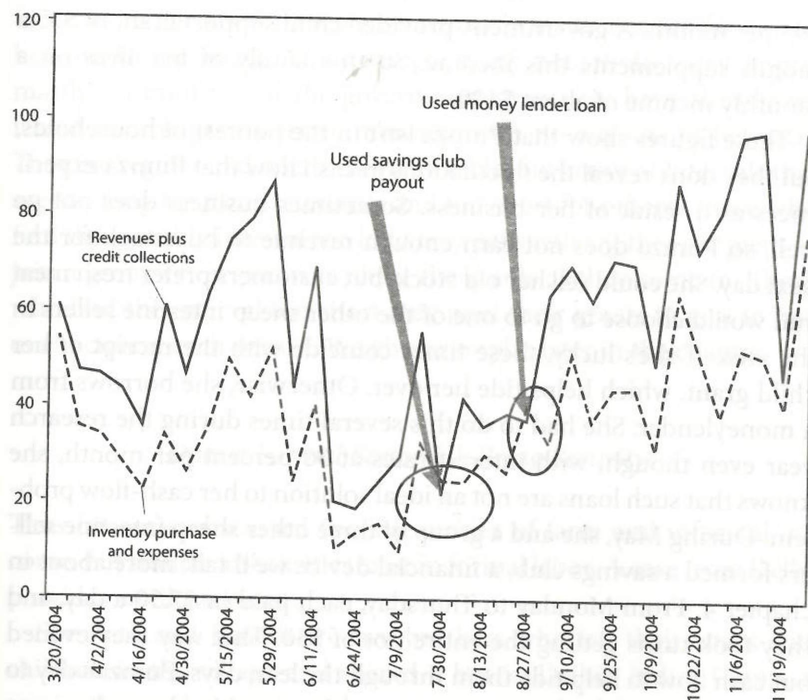

FIGURE 2.3. Revenues and inventory expenses of a South African small businesswoman. Daily cash flows aggregated fortnightly. US$ converted from South African rand at $ = 6.5 rand, market rate.

day she buys intestines, cooks them on an outside fire between the hostel buildings, and sells them to passersby. On average she earns revenues of about $6–$15 day from this business from which she needs to pay for her stock and expenses, as well as support her family.

She tries not to give credit to customers, knowing that it will hurt her cash flow, but she broke this rule five times during the year for special customers. She needs to spend about $5 every day buying the raw sheep intestines, and about once a month she travels to buy wood for the fire, an expense of between $1 and $5, depending on how much wood she buys. On the whole, then, this can be a fairly profitable business, and indeed Pumza tends to make a profit of about

$95 per month. A government-provided child support grant of $25 a month supplements this income. So this family of five lives on a monthly income of about $120.

These figures show that Pumza isn't in the poorest of households, but they don't reveal the fluctuations in cash flow that Pumza experiences as a result of her business. Sometimes business does not go well, so Pumza does not earn enough revenue to buy stock for the next day. She could sell her old stock, but customers prefer fresh meat and would choose to go to one of the other sheep intestine sellers in the area. If she's lucky, these times coincide with the receipt of her child grant, which helps tide her over. Otherwise, she borrows from a moneylender. She had to do this several times during the research year even though, with interest rates at 30 percent per month, she knows that such loans are not an ideal solution to her cash-flow problem. During May, she and a group of three other sheep intestine sellers formed a savings club, a financial device we'll talk more about in chapter 4. From Monday to Thursday, each paid in $7.50 a day, and they took turns getting the entire pot of $30. That way they evened out cash flow to help tide them through the lean days. Pumza's day to get the pot was on Monday. However, despite this plan, when one partner failed to pay, she ended up going to the moneylender once again. After four weeks of trying to make the club work, it fell apart. Later in the year, Pumza took on a temporary government-sponsored job cleaning streets for four weeks while her daughter kept the sheep intestine business running. She started another savings club with three other coworkers in this job. Contributions were $30 every week, so every month, Pumza would receive a payout of $120. During July, when the weather was cold and rainy and potential customers for sheep intestines stayed indoors, a payout from this club helped Pumza bridge her business cash flow.

Of course, small incomes can be difficult to manage even if they come regularly. Siraz, for example, is a car driver in Dhaka, Bangladesh, who earns about $77 per month. He received his wage every month on time, but the wage was so small that any hiccup during the month—a child's illness, an unexpected visitor to entertain—would require him to dig into savings or to borrow. Still, in Siraz's case the

fact that people knew he was paid regularly made it easier for him to borrow. In the South Africa sample many households survive primarily on the basis of the government grants we have already referred to. The grants arrive monthly, with no payouts in between. They are regular and relatively predictable, but arrive at intervals that are too long for some recipients and too short for others. Those who find the monthly interval too long may pair with another recipient or join a group of recipients to share the grants as they come in. Those who find the interval too short may pool their grants to give to just one recipient each period. We give examples later in the chapter.

Does a Formal Sector Job Bring Security?

Thus far, we've discussed the insecurities of farm and informal income, but similar insecurities exist in formal labor. A case from Delhi provides an illustration.

Somnath and Jainath are two brothers who left their wives and children in the village and shared a hut in Delhi's Indira Camp, a semiauthorized squatter settlement that provides labor to the factories of Okhla Industrial Area, Delhi's foremost industrial zone. The brothers worked in the finishing sections of export garment factories and received wages at daily or piece rates. As peripheral workers hired by a broker, they faced excessive work at some times and no work at others. They got work through "emergency orders" rather than as core workers in the factory. Variations in their workload were reflected in their income flows. Their combined monthly wage fluctuated between $85 and $53 and stopped completely for four months in the middle of the research year. For two of these months they were in their village, but it took them two months to find work after they came back to Indira Camp. Jainath returned to the garment factory, but was told he could earn his earlier wage only if he worked 12 hours day, seven days a week.

Before they left Delhi, the brothers had managed, between them, to remit an average of $26 per month to their village, but after returning to Delhi they sent nothing, and this neglect made them very anxious.

They had also borrowed money, first to get home, then to cover their stay, and then to get back to Delhi, a debt of over $100, most of it with interest. Only by the goodwill of their landlord and a grocery store manager, both acknowledging their good payment record in the past, were the brothers able to sustain themselves into a fifth month, when work finally came their way. By that time they had accumulated debts of $120. Somnath paid a bribe of $4 to get his job back, but only three months later, lost it again. When he received his final salary, Somnath managed a small remittance of $11 to his wife and child, the first since he had left Delhi for the village seven months earlier.

To compound their difficulties, the brothers' hut was robbed the following month and $64 was stolen. Somnath found factory work and managed to arrange a small wage advance to keep the grocer happy as their shop bill rose. But within a fortnight he was once again out of work, told that there were no orders for the factory. As the long dry summer loomed, Somnath worried that he would be out of work for several months. His fears were realized. When we finished our research and left Indira Camp in July 2001, Jainath had left for the village, also dismissed by his employer, though with a promise to take him back in September. Somnath was holding out in Delhi as the stakes, and his debt, continued to rise: loath to borrow from relatives and ashamed to go home and admit defeat, Somnath couldn't leave until he'd paid the accumulated debt of nearly $90 to the grocer and landlord, on whose goodwill he had depended so heavily.

A formal sector job, then, doesn't necessarily translate to more reliable income in South Asia. In South Africa, however, labor laws are much more rigorously enforced, and when households do manage to find a waged job, they tend to have a fairly reliable source of income. Even grant recipient households could depend on regular monthly grant income. In our study, these households were able to "leverage" their more regular sources of income to engage in larger-scale financial intermediation: with a regular income, they were more comfortable taking on higher levels of debt and lenders were more willing to provide loans. As table 2.4 shows, regular wage earners in South Africa are usually better off in terms of both absolute income and income per capita than those earning irregularly (those whose income

Table 2.4 Regular versus Irregular Income Households, South Africa

	Wage-earning households	*Grant-receiving households*	*Irregular income households*
Share of sample in profile	49%	27%	21%
Financial statistics			
Average monthly income	$635	$188	$235
Average monthly income per capita	$219	$61	$87
Debt/service ratio	13%	17%	7%
Debt/equity ratio	22%	23%	19%

Note: US$ converted from South African rand at $ = 6.5 rand, market rate.

comes from a small business piecemeal work, or remittances from relatives). But grant recipients, who are *poorer* than irregular earners, still have debt service and debt-to-equity ratios that are nearly the same as regular wage earners.

Like a small start-up business, a poor household may indicate financial health by carrying a certain level of debt. A start-up business needs to take on debt in order to invest and grow. Likewise, poor households need to access debt so they can weather interruptions that may threaten their investments in the long term. Accessing debt can prevent a family from lowering its nutritional intake or pulling children from school in an emergency.

Policymakers in South Africa worry about debt levels growing too high. In our sample some households did take on more debt than their incomes could handle, or borrowed with terms of credit that were not transparent. The South African National Credit Act, introduced in 2007, is intended to improve transparency and curb overzealous commercial consumption lending.[6] However, many of the high debt situations in the South African financial diaries developed through borrowing outside of the formal financial sector, beyond the scope of regulatory policy. Many grant recipients did not increase debt through formal lenders, who would require a payslip, but through

informal debt at a local store or with a local trader.[7] Moreover, in many instances debt did not arise from reckless consumption, but from stretching too small an income over too many mouths to feed, a matter of meeting basic needs between payments. Regular income in the form of a grant eliminated one part of the triple whammy and allowed these households access to more financial opportunities to manage their small incomes.

Partners in Money Management

In the portfolios of our diary households, common patterns emerge. One is that most transactions are carried out with "informal" partners rather than with formal institutions like banks and insurance companies. The partners are often neighbors, who seldom keep documentation of agreements, and certainly nothing that would hold up in court.

This doesn't mean that poor households are simply at the mercy of grasping moneylenders. Far from it: the most frequent partners are friends or relatives offering interest-free loans. Turning back to the financial portfolio of Subir and Mumtaz, we note a number of kinds of loans in table 2.2. Subir, an affable man with lots of charm, managed to borrow often and without owing interest. In just two months—November and December 1999—he borrowed five times, all from neighbors and colleagues, and Mumtaz borrowed once, from her sister. The sums were tiny: none of them exceeded four dollars, and all were quickly paid back from rickshaw income. Small as they are, interest-free loans like these, which featured in many of our diaries, did the job they were intended to do—they ensured that the household members ate something each day. They constitute one of the two core elements of managing money for everyday survival, and as such they deserve more of our attention when we are thinking about how to improve financial services for the poor.

The other core element is small-scale savings. Every household we met made some attempt to save. All the older members of Subir and Mumtaz's household, for example, saved at home in some way:

Mumtaz in a locked box in a drawer in the cupboard, Subir in a cloth bag tied into the roof timbers, and son Iqbal, who set himself an ambitious target of saving $20 in a clay bank bought from the market (he failed: he broke it open when he thought he had about $5 and found only $2). Often they had small savings at home even as they took loans, and this behavior offers us another insight. Poor households less often *choose between* alternative instruments (say, loans and saving) than they maximize access to *both* in a world where nothing fits perfectly and access is constrained. Spending money is patched together from various sources—a bit from savings, another bit from a moneylender loan, another from an interest-free loan, and so forth.

The tools used for informal saving and borrowing are generally close at hand (savings hidden in the hut, loans from nearby neighbors) and flexible (that is, without strictly fixed terms or payment schedules), two hallmarks of desirable cash management tools. Convenience has also been taken to heart by the microfinance providers operating in our Bangladesh study areas. When we first met them, Subir and Mumtaz told us that they had decided not to join a microfinance institution (an "NGO" to them) because their main need was to save, not borrow. If they borrowed, they might not be able to make the regular weekly repayments. But then they heard about an NGO where borrowing wasn't compulsory, and joined it, at first just to save. They used the savings account primarily to patch gaps in their cash flow, saving small sums when they could, and drawing down the balance when they needed to for food, travel costs, medicine, and the like. This account provided them with useful liquidity in times of need: they withdrew sums of $10, $5, and $4.60.

When, later in the year, they grew comfortable with Mumtaz's NGO, they began to borrow from it. They might have put their NGO loan toward the purchase of a rickshaw for Subir, freeing him from the cost of renting one. Such microlending to support microenterprise or self-employment has been a leading premise of the microcredit movement. But the couple decided that buying a rickshaw was too risky because they had nowhere safe to park it at night.[8]

Instead, they used the loan to stock up with rice, bought a wooden cupboard (their only piece of furniture apart from an old bedstead),

and lent $20 to a fellow rickshaw driver at a nominal 17.5 percent interest per month, a loan that was repaid three months later with about half the interest honored and the rest forgiven. In short, they used the funds mainly for basic consumption needs for themselves and others. The couple's behavior with their NGO loan should make us think carefully before we conclude that loans for poor people are of little value, or may even be a dangerous temptation to fall into deep debt, unless they are used for working assets. Rightly or wrongly, Subir and Mumtaz believed that there were other constraints, besides the lack of capital, to their buying a productive asset—in this case the risk of loss. They may have been too timid, but they also saw other good uses for the loan: a stock of food, a piece of furniture, and the chance to strengthen a financial relationship with a colleague and make some money at the same time.

Against the backdrop of small-scale do-it-yourself saving and frequent interest-free borrowing, the couple engaged in a wide range of other deals to bridge gaps between income and expenses. They took goods on credit from two grocery shops and a restaurant. They raised $10 once in the year, when things were especially tough, by pawning Mumtaz's only necklace (happily Subir redeemed it from rickshaw income a few weeks later).

Through vigilance and energy, Subir and Mumtaz managed to keep their family fed. The process was never easy and required tools that were flexible and easy to access. The informal sector has proved to be the best provider of those tools so far, and the challenge for the formal sector is whether it can do better, with services that are just as flexible and convenient, but also more reliable and more liquid. It might be tempting to learn "tools of the trade" by watching the local moneylender, but as the next section describes, the most important providers of loans are not moneylenders but friends and neighbors.

Small-scale Lending and Borrowing

To manage day to day, the diary households patched and stretched their savings and their loans, a strategy that was called into play

whenever an employer failed to pay on time, a spell of unemployment hit, or a visitor suddenly arrived, to name just a handful of reasons. Perhaps because saving is something that an individual or a household can do without involving others, virtually every diary household saved. In Bangladesh, for example, not a single one of the 42 households, even the very poorest, was without some form of do-it-yourself saving. And yet for none of these households was saving-at-home a sufficient strategy: all of them had to turn to others in their community to bolster their capacity to manage their money. So while saving was the most ubiquitous instrument, much more cash flowed through loans. In Bangladesh, when we looked at all withdrawals from saving and all loans taken by the households, including the very smallest transactions of each type, loans outnumbered savings withdrawals by four to one.

Overwhelmingly, the loans were taken locally, in the "informal market." In Bangladesh, 88 percent of all borrowing deals were informal, a figure that climbs to 92 percent for the poorest part of the sample. In India, 94 percent of all borrowing was informal, which, again, climbs to 97 percent among the poorest respondents. Of all respondents in the poorest category in India, only one household had borrowed from anything but an informal source, and that was from a microfinance institution. But the term informal "market" is misleading here, because in all three countries most of these loans were interest-free. While moneylenders loom large as lenders of last resort, charging fees that can stretch the capacities of borrowers, informal-sector borrowing usually means paying zero interest, and in general the smaller the sum the more likely that is to be the case.

After home savings, interest-free borrowing was by far the most frequently used financial instrument in all three countries. It complements rather than contrasts with the households' attempts to save at home, because interest-free borrowing and lending is in essence a way of harnessing the savings power of a neighborhood or family network to address the cash-flow problems of its individual members. To tap into this network the diary households needed to be part of it: the portfolios of the poor are thus portfolios of transactions and relationships. Better-off people might manage money on an everyday

Table 2.5 One-on-One Interest-Free Borrowing and Lending

	Borrowing		*Lending*	
	Average number of loans per household	*Average amount*	*Average number of loans per household*	*Average amount*
Bangladesh	6.9	$14	2.8	$14
India	4.9	$28	1.4	$54
South Africa	2.8	$190	3.0	$132

Note: US$ converted from local currencies at market rates.

basis with a credit card. For the poor households in our study, the main strategy was to turn to each other, using one-on-one lending and borrowing between friends, family, and neighbors.

Table 2.5 shows the incidence of interest-free lending and borrowing over the course of the financial diaries study. The "average number of loans per household" is the total number of times that borrowing or lending happened in the country samples, divided by the total number of households in the samples. Both urban and rural areas are included. Lending and borrowing were constantly observed among the households, and in rather small amounts. Most loans were short term—repaid in days or weeks rather than years. In South Africa, for example, it usually took about two months for a borrower to repay a loan. In Bangladesh, most of the very smallest loans were returned within a month.

These interest-free borrowings and lendings were ubiquitous among the households in all three samples. In Bangladesh, for example, 41 of the 42 diary households took one or more such loans in the research year, and 24 households gave such loans. In India, 44 of the 48 households took one or more such loans in the year, and 22 out of 48 gave such loans.

Interest-free borrowing and interest-free lending relate to each other in interesting ways. Often there is an understanding that the borrower will return the favor and lend when the need arises: we call this "reciprocal" lending and borrowing. In other cases, the borrowing

flows one way and the creditor in one deal is unlikely to become the debtor in the next: this might be called "obligatory" lending since it depends on the lender's sense that he or she is obliged to help out the borrower with a loan. "Obligatory" lending appears to be common in Bangladesh and India, where there are many fewer reports of interest-free lending by the diary households themselves than of interest-free borrowing. This suggests that many poor people go to wealthier people (people outside the range of our enquiry) for such loans—better-off family members or employers, for example, who feel some sense of responsibility to help out.

To smooth their consumption, then, poor people often lean on those around them with marginally more resources, and this is true not only in purely cash transactions, but also in groceries taken on credit, in rent payments delayed, and in advances taken against wages. All these transactions have in common that the advance (whether in goods, services, or payment for labor) is given within an existing relationship that reduces the risk to both borrower and lender.

Interest-free transactions between households in the informal network are not confined to borrowing and lending. In all three countries, there is a well-established tradition of "moneyguarding"—storing cash for others seeking a safe haven for savings or for cash that needs to be kept aside for some later purpose. Subir and Mumtaz, whose story started this chapter, did so. They sometimes looked after money for neighbors: they accepted $18 from a group of young workers who were planning to carry the money back to their village a few weeks later. Banks may not have regarded Subir and Mumtaz as potential clients, but the young men who had come to Dhaka from Subir and Mumtaz's rural district saw them as their temporary personal bankers.[9]

Certain arrangements defy pigeonholing as saving or borrowing. For example, people may agree to share their wages or salaries, if their money arrives at different times. In South Africa, some women have money-sharing arrangements built around the receipt of their monthly grants from the government. Nomthunzi and her neighbor Noquezi each receive an old age grant of $115 a month, but they receive their payment at different times of the month, Noquezi on the

third and Nomthunzi on the twenty-first. They always exchange $31 out of the $115 grant, so they are able to receive a boost of income before their next grant is paid out. In this way, just as their cash is running low, the other comes along with a fresh $31 to tide the recipient over until the next grant. A contrasting arrangement was used by Nomveliso and her sister. Nomveliso is bringing up three grandchildren using government grants for old age and child-care totaling $141 a month. She once opened a bank account to save money, but it is now inactive: the time and cost to visit the bank aren't worth the bother. Instead, she has an arrangement with her sister to pool their child grant of $26 so that each gets $52 each second month—a more substantial and in their view more useful sum. The difference between these two examples is that Nomveliso and her sister get a double-sized grant every other month, so they are building a lump sum. Noquezi and Nomthunzi are tiding each other over in the middle of each month, so they are dividing up their cash flows to make them stretch further. This "grant timing" is an elegant informal instrument in which the timing of transactions is defined by the grant recipients themselves, thus adding reliability and lessening the unpredictability of much that goes on in the informal sector. It combines lending and mutual insurance, but stops short of creating dependence. As such, it shares the virtues of some kinds of savings clubs, especially the RoSCAs, that we look at in chapter 4. Both hold lessons for the design of commercial loan products.

The Full Triple Whammy

We have looked at the first two parts of the triple whammy—incomes are low, and cash flows are irregular. The third part of the triple whammy is that existing financial instruments are not well suited to address either of these problems. In the previous section, we saw that the diary households rely almost exclusively on the informal sector when they need to intermediate these low and irregular cash flows on a day-to-day basis. A few statistics from diary records will show just how much the informal sector dominates. Two of our countries—

Bangladesh and South Africa—have well-developed formal or semiformal financial sectors that do reach down to poor households like those of our diarists. In Bangladesh, microfinance institutions (which we count as semiformal) reached no less than 30 of our 42 diary households (21 households held loans and savings during the research year and another nine held savings only). Despite this role, their share of turnover and of balances in the Bangladesh portfolios was small: just 15 percent of all turnover, 13 percent of all household financial assets, and 21 percent of debt. Since these numbers include *all* dealings that our households had with microfinance institutions—including the relatively large loans for small businesses and capital purchases that we will look at in chapter 4—the microfinance institutions were responsible for an even smaller share of transactions aimed at day-to-day money management.

In South Africa a number of formal providers, including formal lenders, provident fund providers, and insurers feature in the portfolios of our wealthier diary households. Nevertheless, if we ignore the monthly direct deposit transactions through banks that are more common in South Africa than in South Asia because more people get paid wages or grants, the formal share of transactions in our diarists' portfolios was as small as it was in Bangladesh.

Informal transactions have many virtues. First, they are conveniently close at hand. Using your own home as your savings bank is the ultimate in convenience, and doesn't require dealing with others. In transactions with neighbors, friends, and relatives, paperwork is rarely required—especially important in places like Bangladesh and India, where many household heads are illiterate. Your partners are people whose culture is your own and whose behavior can be predicted. Second, as we have just seen, there is often no financial price to be paid, and even when there is—as we shall see in chapter 5—the terms can be flexible and the price can sometimes be negotiated down. There are rarely difficult deadlines to meet.

But the dominance of the informal sector in the lives of our diary households should not be interpreted to mean that poor households are happy with the instruments available and have no need of anything else. Far from it. In the next section, we outline the limitations

of informal finance, to help us imagine how we might improve financial services for the poor.

UNRELIABILITY

Many of the shortcomings of informal finance are aspects of its general *unreliability*. Its lack of capacity—its financial shallowness—is perhaps the most important. Your partners—be they reciprocal lenders, moneylenders who charge interest, or moneyguards to whom you have entrusted some savings—may simply not have the cash on hand when you need it. Or they may behave unreliably—promising you a certain sum at a certain time but failing to follow through. This is one of the greatest tensions in the financial lives of the poor: the people best placed to help—neighbors and family members—are typically poor themselves. They are trying to manage their own tenuous financial lives and are not always able to help others. Diary households often complained that they had to approach several lenders to put together even a small sum. Insecurity is another aspect of unreliability: savings stored at home can be lost, stolen, washed away in storms, captured by relatives, or eroded by trivial expenditure; savings stored with moneyguards or clubs can be poorly recorded and stored, or even misappropriated.

LACK OF PRIVACY

We have seen that the world of informal finance is accessed through networks based on kin, community, and workplace. That is not always good news. Reciprocity, for example, has costs as well as benefits: one diarist told us, "I don't like borrowing interest-free loans because then I'll be obliged to reciprocate." Informal deals are rarely private, and exposure to the public gaze can cause much social discomfort, a nonfinancial cost of informality. This can also be the case with borrowing from informal lenders who charge interest. Sultan, a carpenter in Delhi, told us that he prefers borrowing on interest from intermittent lenders in his squatter settlement, but dislikes it when they use one's debt as a basis for intimidation and rude behavior.

Approaching several people for loans before getting one is not merely an inconvenient outcome of the financial shallowness of the informal sector, but a source of stress and shame.

For migrants who have left poor families in the village to make good in the city, this embarrassment is acute. Somnath from Delhi, whom we met earlier in the chapter, avoided recourse to relatives at all costs, because he was ashamed and anxious that, if he couldn't repay on time, he would strain the relationship. Similar feelings were voiced by as many as half the Delhi respondents: they would go to several informal sources (colleagues, neighbors, the grocer, one's employer) before they would resort to relatives. Sultan the carpenter explained this reluctance, telling us that, although he has many relatives living close by who are in a better financial position than he, he avoids taking money from them. These relatives provide support out of love and duty, he told us, a kind of social security. If he took a loan from them and wasn't able to repay it, he might lose the social relationship with them, which he valued greatly.

The time, energy, and emotional toll of borrowing informally appear to be global phenomena. Rekha, from Bangladesh says, "I feel proud when I give loans and shameful when I have to take them. Still sometimes I have to take them, there's no other way of managing." Lungiswa from Lugangeni, South Africa, told us, "I would take groceries on credit from one place in town. The owner gives it to you easily, but then he also embarrasses you when he asks you in front of everyone when you are going to pay. So I'm going to take credit from another place, even though I'm charged interest." Ranju from Delhi's Okhla Industrial Area explained that she avoids immediate neighbors for reciprocal borrowing and lending since such people could hold it against her when they talk. Instead, she relies on two families from her village residing in the same slum but several lanes away.

LACK OF TRANSPARENCY

One might hope that being so open among neighbors and friends about your financial trials would at least reduce your chances of being duped. Unfortunately this is not always so: informal deals can lack

transparency. Delhi respondents, for example, reported several cases of informal deals between individuals which went bad because of cheating. One moneyguard made off with two months' worth of a respondent's income. A "friend" of another respondent had given her fake gold as collateral for a secured loan. Two respondents had passed on their savings club receipts to friends in greater need who never paid up, and several respondents reported that wages kept back with employers were never fully paid.

In South Africa, *spaza* shops are local stores in townships and villages that cater to those without enough time or money to travel to larger stores in commercial centers. Because *spaza* shops' costs include transporting goods over bad roads and long distances, and because they have few competitors, prices are usually higher than in larger stores. One would therefore think that poor rural households would avoid these shops and put up with the inconvenience of travel to buy their goods elsewhere. But in our rural sample *spaza* shops were often used because one could take goods on credit and pay later in the month. Nearly 80 percent of the rural sample in the South African financial diaries used credit at these shops to bridge cash flows each month. But the terms of this arrangement were not transparent. The interest charged was not typically discussed, and borrowers often found that they owed money after they believed their debt to be paid.

An example is Mamawethu, a middle-aged woman living in rural Lugangeni, South Africa, with her two daughters and two grandchildren. Disabled by arthritis and asthma, she received a government grant of $115 a month. Two sons lived in Cape Town and sent remittances now and then, but for several months they were unable to do so. During that time, Mamawethu took credit worth $15 at one of the local *spaza* shops, and repaid several months later. However, the *spaza* shop owner told her that she still owed $54 because of the accumulated interest. In frustration, she used $54 from her savings club payout of $62 to pay back the *spaza* shop. During the next month, when she had no cash to buy groceries, she borrowed $15 from a moneylender. Even though she would pay 20 percent per month interest, at least, she said, she knew the rate was fixed.

Households in all three countries conducted an overwhelming proportion of their saving and borrowing on their own or with informal partners. Both the strengths and the weaknesses of these informal devices offer lessons for the design of financial services for the poor. We have noted that informal arrangements offer flexibility and convenience but may lack reliability, privacy, and transparency, and rely too heavily on kindness, goodwill, and norms of mutual obligation. An important element of reliability rests with rule-bound agreements, clear expectations on both sides of transactions, and professional relationships—elements essential to formal transactions but mostly absent in informal ones.

Enter the Formal Institutions?

If the formal sector is to meet the financial needs of the poor, more attention will have to be given to the cash flows of poor households. Two features of cash-flow-friendly finance have emerged strongly from this chapter: bite-size payments that can be extracted from normal household cash flows, and flexibility in payment schedules. Happily, both features have been taken up—separately—by formal providers seeking to do more business with the poor, and examples can be found in our diary work in South Asia.

The first of these features—small, frequent payments—has already been embraced by "semiformal" microcredit providers. Muhammad Yunus and his Grameen Bank—joined by others in Latin America, Africa, and Asia—offer loans that can be paid back in small weekly or monthly installments. Much of their success in showing that the poor are bankable has depended on this feature, which acknowledges and respects the small cash flows of poor households.

Bangladesh was the only one of our three countries where microfinance institutions had a large presence. Microcredit loans there were ostensibly restricted to business uses, but as Subir and Mumtaz's case shows, they can be diverted to other, sometimes multiple, uses—including short-term consumption needs. The loans were repaid in weekly installments starting the week after disbursement, and in

almost every case where a microfinance loan was taken by a diary household, a fraction of the loan capital was retained at home to ensure that the first weeks of repayment would be covered. We take another look at how microfinance services were used in chapter 6.

When Subir and Mumtaz took a loan from the local microfinance NGO, they on-lent some of it, as we have seen, to their boarder Hanif, the young lad who slept in a corner of their hut. This worked well: Hanif got a capital sum he wanted, and repaid the loan by giving 10¢ of his wage each day to Mumtaz, which she deposited into her savings account at her NGO's weekly meetings. Both deals—that between Mumtaz and her NGO and that between Mumtaz and her boarder—worked well because the tiny-but-frequent repayment schedule matched their cash flows.

Informal devices often feature small, frequent payments (we will analyze them in more detail in chapter 4). But just as often they feature flexible payments, our second key feature. While there may be a general understanding of how and when a loan between neighbors, relatives, and colleagues is repaid, there is rarely a fixed date or schedule. While it may be difficult to raise an informal loan, there is a certain give and take in the modalities of repayment, because relations between borrower and lender are so often tied by kin, village, or workplace. This flexibility is mimicked by modern credit cards and overdraft facilities, and India's commercial banks have, in the last eight years, likewise tried to reproduce it by refashioning their seasonal crop loans as the "Kishan Credit Card."[10]

The seasonality and unpredictability of farm income, we have shown, leaves small and marginal farmers in dire need of products to help with cash-flow management. Those who can produce land documents have long accessed bank finance in India. But the loan products on offer were rigid, disbursed at particular times twice a year before each of the two agricultural seasons, to be repaid all at once after six months. Kishan Credit Cards disburse at any time, in whole or in parts, up to an agreed credit limit, to be repaid as preferred by the client, provided the whole balance is cleared once a year (after which a new draw can be made). Three households within the Indian sample were making use of this innovation, and as the following case

of Tulsidas illustrates, the product's flexibility is highly appreciated, although further creative ingenuity and informal contacts are still required for a farmer to overcome seasonal and low income.

Tulsidas farmed 10 acres of fertile land and reared sheep, producing an annual income of about $700, supplemented by spending a few months each year in Bombay working as a security guard for $37 a month. Tulsidas's main challenge was to retain his harvest to avoid low prices for small amounts. Of a total produce of 6,300 kilos of grain, he sold 2,000 kilos for $164 in November 2000, soon after harvest, to finance the winter crop and buy warm clothes. Then from December right through August 2001 he lived on a bare minimum by selling 200 to 400 kilos a month. That August he sold sheep to finance the next crop. Out of his 6,300 kilos, he was left with 3,000 to be sold as prices climbed during the growing season.

December 2000 through July 2001 was thus a "strategic" lean period for Tulsidas, with spending kept to a minimum (an average of $37 a month for a family of 12) to realize the benefit of higher grain prices after August. Although he had a high credit limit on his Kishan Credit Card, he had spent it the previous year, to pay off debts and rebuild his house, and still owed the full balance of $575. However flexible its product, the bank couldn't be tapped at that moment.

Instead, Tulsidas managed to avoid selling more grain over these months thanks to a friend who ran a grocery store in the village. First, the grocer forwarded him groceries worth $72 to supplement the meager grain income. Second, in March 2001 when the bank asked Tulsidas to clear his loan with interest in full a year after he took it, he turned again to his grocer friend for help. Rather than selling off grain, Tulsidas persuaded him to put up the full sum of $575 for a few days, to allow Tulsidas to clear his balance and then draw down the full amount again. This he did, and with his fresh loan in hand, Tulsidas repaid his friend—and held on to his ever more valuable stock of grain.

Both Mumtaz and Tulsidas showed creativity in devising arrangements to fit their circumstances, taking a standard product—the NGO loan or the new-and-improved "crop loan"—but bending it to make it work for other ends. Such behavior is not unusual in the

diaries. Being poor does not disqualify you from being inventive in your finances.

Both of the innovations we have described here—breaking loan repayments into small pieces, and flexible lines of credit for small and marginal farmers—help households manage loan installments despite the ups and downs of their incomes. They are good examples of designing products to fit real cash flows.

Conclusions

In developed countries, the aim of personal financial management is generally wealth accumulation and asset-building, acquisition of property, a retirement plan, and investment in children's futures. The view that aspirations like these should be achievable for the poor has taken root most firmly in the United States, where there has been a movement to create publicly subsidized savings plans for poor households, known as Individual Development Accounts (IDAs). The policy has been tested in studies dubbed the "American Dream Demonstration."[11]

Having more assets would certainly help the households in our study, adding a cushion in difficult times and creating resources for major investments. In chapter 4 we discuss the difficulties faced by our diary households when they try to create sums large enough to buy tangible assets like property and intangible ones like pension coverage. But we should beware of looking through *only* the asset-building lens when planning improvements in financial services for the poor: the diaries show that the challenges and priorities of the households are, in many ways, more fundamental.

Even when financial growth is low or absent year on year, just having access to basic financial services can have a fundamental impact, one that may be as important as asset-building. This is because when incomes are low, financial strategies need to focus in large part on coping with the irregularity and unpredictability of income in order to get food on the table and address other basics. If that focus is not in place, hunger and other forms of deprivation loom, and the household can slip quickly into destitution. The diaries reveal what one-off surveys tend to miss: poor-household incomes are not merely low but awkwardly timed, and the financial services used to address this irregularity in incomes are imperfect. This chapter has been devoted to the consequences of this triple whammy.

Not surprisingly, poor households put a great deal of effort into "cash-flow management"—making sure that money's on hand when needed to meet basic expenses. In the rich world, a household's portfolio of financial instruments is usually managed on the basis of risk and return. The portfolios of poor households are instead managed to ensure that money can be obtained in the desired amounts at the desired times. Money is scarce and its supply erratic, so dealing with cash flow is usually more urgent than calculating the best mix of return and risk. If wealthy households can indulge in a slow and steady style of financial management not unlike that of an established company, poor households tend to look more like start-up companies, judiciously allocating cash on hand and constantly looking out for new funds. Cash-flow analysis, rather than balance-sheet analysis, is the way to begin understanding their financial lives. These financial efforts, though, would have been hidden had we only looked at the accumulation of household assets from one year to the next. Year-opening and year-end balances may scarcely differ, but in the months between all manner of financial tools are used intensively.

Richer people manage their basic cash flow using a wide range of reliable devices: credit cards, debit cards, checks, automatic teller machines, and the like. But even they can run into cash-flow problems, so it is not surprising that poor households, who lack the luxury of such services, have to work even harder to manage their money. Patching cash-flow mismatches between income and expenditure is ideally done through saving and dissaving, but, because appropriate vehicles are hard to find, poor households more often turn to small-scale borrowing and lending with friends, relatives, neighbors, and employers. It is often hard work, and it can carry high costs—some of which are social and psychological and not just economic.

For poor households, then, having alternative sources of reliable, convenient, reasonably priced financial tools would make a big

difference. In this context, it is notable, and even surprising, that helping them with cash-flow management has received limited attention in microfinance strategies.

In recent years, business experts have made the case that the world's poor constitute an enormous and largely untapped market for goods and services, a next frontier for retail business. Marketers eye billions of dollars' worth of soaps, radios, mobile phones, and financial services to be sold to customers like our diary households if only retailers can develop the right products and marketing strategies.

If you take the view that the poor constitute a viable market—that there is a "fortune at the bottom of the pyramid," as C. K. Prahalad has put it—product development starts with a recognition of households' financial ups and downs. Seeing that the poor could not afford many of their existing products, multinationals like Proctor and Gamble and Unilever found a solution by selling single-serve packets of shampoo to poor households in India. The single-serve packages, costing a few cents each, turned out to be a popular option for people lacking the daily cash flow to easily purchase large bottles of shampoo, regular-sized tins of tea, 200-count bottles of aspirin, and the like.[12]

The innovation did not reside in the nature of the products. There is nothing special about the shampoo itself. Rather, it came from discovering a way to suit payments to patterns of household cash flows. The insight arose from understanding the financial lives of the poor and responding effectively to their needs.

What features are needed for a mass market in tools for cash-flow management for the poor? Our priority list would start with basic reliability and flexibility: services that are rule-bound, transparent, and simple to understand. Loans that are disbursed on the date promised, in the amount agreed upon, and at a standard price. Savings accounts that allow ready access and convenient withdrawals, with deposits and withdrawals made in any value. Insurance contracts that pay out quickly and with little haggling when needs arise. These qualities are

demanded (and often taken for granted) by the world's richer households, but they are no less important for the world's poor.

The diaries show that informal financial mechanisms tend to be quite flexible, but not always reliable. Microfinance services, on the other hand, tend to be reliable, but not always flexible. One element of inflexibility in microfinance is the insistence by some lenders that all loans be invested in businesses. They do so partly because they believe that an important part of their mission is to foster economic development through business growth, and partly because they fear that loans cannot be repaid without revenue from business. The diaries show, however, that poor households need to borrow for a wide range of needs, not just business, and that they are prepared to find ways of repaying loans from ordinary household cash flow.[13] For the diary households, today's reality is that so-called business loans are already being used for many nonbusiness purposes, as chapter 6 will show. Embracing the notion that households seek loans for general purposes will open up possibilities for innovation and expansion for microfinance providers.

There are other simple ways to make loans more flexible. One idea common in informal lending (and sometimes in microfinance lending) is allowing penalty-free grace periods when cash-flow problems hit. Another idea, introduced by Grameen Bank in the past few years, is to allow borrowers to "top up" their loans (by borrowing again what they have repaid) part way through the repayment schedule, to increase liquidity. We return to this example in chapter 6. Another important path is the development of loans with a range of terms, including short-term "emergency loans."

Yet another innovation is to offer loans secured against liquid assets commonly held by the poor, since the security allows for more flexibility in repayment schedules. Here, the experience of India's banks is again instructive. Indian banks have fulfilled their obligation to lend to "priority sectors" (the poor) mainly by lending to jointly liable groups of poor customers (building on the pioneering work of the Grameen Bank). But the banks are also lending against deposits and gold, to individuals, at rates slightly higher than to joint liability groups but on more flexible terms. A 2003 study of five rural

banks showed that such loans, while small in terms of dollars disbursed, account for 25–35 percent of all accounts. The study pointed out that it is the less well-off customers who pledge either their old fixed deposits or jewelry as security to tide over cash-flow constraints and concludes that—despite their non-priority sector classification, indeed perhaps because of it—these loans could become the principal banking product for low-income individuals.[14] Moreover, because poor households strive to enlarge their access to both savings and loan services, they are often happy to take loans secured against their own savings: indeed this is regarded by some of them as an ideal situation in which they enjoy liquidity even while they preserve their precious savings.

These features—small frequent payments, flexible schedules, and loans against small-scale physical and financial assets—are the ones we highlight for the specific task discussed in this chapter: managing money on a day-to-day basis. We do not dwell here on features important for the other key money-management tasks we have identified—risk management and building lump sums: these will be discussed in the next two chapters.

Improved money-management tools will not solve all the problems faced by poor households. But they will help them do better. In human affairs, incremental improvements can provide the basis for broader changes. Because, as the diaries show us, money management is a matter to which poor households themselves already devote much time and energy, the potential impact of improved tools is exceptionally promising.

Chapter Three

DEALING WITH RISK

In 1974, Jaleela and her baby fell seriously ill with dysentery. Jaleela, one of our Bangladeshi respondents, recalled the acute difficulty she then faced. The family had no savings to speak of, and her husband was unable to raise loans quickly enough to pay for treatment. He resorted to mortgaging her marriage jewelry to a pawnbroker. Happily, mother and child survived, though the jewelry was lost. Years later, her husband, a rickshaw driver, fell ill and couldn't work, and the family went hungry for three days until a neighbor supplied them with food. Then in 1992, Jaleela again fell seriously ill. She used a microfinance loan for treatment, but that wasn't enough: she had to draw down all her savings before she was cured.

To be poor in Bangladesh, India, or South Africa is to live not only with the difficulties of managing life on a day-to-day basis, but, like Jaleela's family, to live with the risk of large-scale disruption to lives and livelihoods. Jaleela's story shows that the disruption caused by health problems often requires solutions far beyond the medical cure. Even though Jaleela and her family eventually received medical treatment, their health problems also became financial problems. In each instance, financial solutions became part of the full equation they needed to solve.