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MONEY TALKS:
Conversations with Poor Households in Bangladesh about Managing Money

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Abstract

This paper describes the money management behaviour of 42 low income Bangladeshi households, half of them rural and half of them living in urban slums. Each household was visited twice monthly for a full year by skilled local researchers, and "financial diaries" were constructed which recorded each money management transaction along with its value, the type of financial service or device that was used, and the reasons for the transaction.

The research confirmed that the poor are active managers of their financial resources. 33 varieties of financial instrument were found to be in use by the sample households during the research year, including formal bank and insurance company services, semi-formal services offered by NGOs (the "microfinance" sector), and a very wide range of local informal services and devices. No household, not even the very poorest, used less than four different instruments in the year, and many households used a dozen or more. Private interest-free borrowing was used by all but one of the 42 households, and a large number were also active lenders of money to their neighbours, family, friends and work associates. As well as using a wide variety of instruments, most households engaged in multiple use: on average each household initiated a new money management arrangement every two weeks.

The sums of money involved are large, both absolutely and relative to incomes. The average "turnover" (the total transaction flows of money through financial instruments) per household was $839 in the year. Households are passing money through financial instruments each year in sums equivalent to some two thirds of their total annual income. On this basis, the total value of the "microfinance market" for poor people in Bangladesh probably exceeds $10 billion.

However, households appear to be using financial instruments of all kinds to build "lump sums" of money for immediate expenditure, rather than to build up long-term large financial assets or to hold high-value long-term debt. This is shown by the fact that, for the average household, transaction flows through financial instruments each year are four times larger than the value of their year-end stocks of financial assets or of financial liabilities.

These lumps sums were overwhelmingly formed in the informal sector. The role of the MFIs is thus somewhat contradictory. Their outreach into these households is excellent – they are represented in 33 of the 42 households – but their share of the total money management activities of the households is small, however we measure it. MFIs had only a 15 per cent share of all transaction flows, and only a 10 per cent share of the total number of "lump sums" formed by the households: there were five times as many loans made by just one informal device (interest-free lending) than there were MFI loans in the year. MFIs were also responsible for surprisingly small shares of the year-end balances of financial assets and liabilities held by the households.

The paper concludes that both MFIs and poor households would benefit if MFIs achieved a better understanding of current and potential demand for financial services by the poor, and tailored products and delivery systems accordingly. The better MFIs have a natural advantage in being seen by the poor as among the more reliable of all financial service providers. They could build on this reputation for reliability and offer more flexible services. For example they could offer more than the one fixed-term loan per year (their current practice) and more flexible deposit facilities. In their conversations with our researchers poor people left us in no doubt that access to reliable financial services on a frequent and flexible basis would relieve them of much anxiety, and open up many new opportunities, in the management of their households and livelihoods.

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Abbreviations and other notes

APR	Annual Percentage Rate
ASA	Association for Social Advancement (a large Bangladeshi MFI)
ASCA	Accumulating Savings and Credit Association
DFID	Department for International Development
IDPM	Institute for Development Policy and Management
MFI	Microfinance Institution
NGO	Non-government organisation
ROSCA	Rotating Savings and Credit Association
howlat	An interest-free loan (Bengali)

Money values are given throughout in US dollars at 2000 prices: $1 = 50 Bangladesh *taka*

Money Talks:
Conversations with poor households about managing money

'.....money is equally important to those who have it and those who don't'
John Kenneth Galbraith[1]

Introduction

In October 1999 forty-two low-income households in Bangladesh agreed to co-operate with researchers to write year-long "financial management diaries". Twice a month for the full year the researcher and one or more of the adult members of each household held a lengthy interview during which they recorded, as best they could, the household's money management transactions. This did not mean income and expenditure flows. By 'money management transactions' we meant the various ways in which the household's cash flow was manipulated – how and where and in what amount and for how long money was saved or otherwise stored, how and when loans were obtained and repaid, and how debts were deferred or advance payments received, along with details of all the institutions and people and devices involved, and accompanied by a running commentary on exactly why the various members of the household got involved in these transactions and what they felt about them. The ambition was to paint a picture of the real-life financial preferences and behaviour of poor people that would be unrivalled in its detail and accuracy, and unusually rich in its ability to relate that behaviour to its economic, social and psychological context. We wanted to understand the financial portfolios that poor households manage: this contrasts with much other writing about microfinance which focuses on a single type of service, often from the point of view of its provider.

This paper

This is an account of what we learned. It begins, in a section called *The Researchers*, with information about the authors, methods and objectives of the research, although technical detail is placed in an appendix so that it does not get in the way of the main story. In *The Households* the forty-two households and the areas where they live are described. A section called *The Instruments* examines the financial

[1] Galbraith (1975)

management services and devices that our respondents used during the year. *The Accounts* delves into the amounts of money held as stocks and flowing in and out of the households as transactions. *The Uses* considers questions about how the lump sums, which are the product of the services, are used. A closer look at some of the actors (especially the MFIs) with whom our respondents interacted is given in *The Providers*, and in *Some Opinions* we survey what our respondents said about these partners and about money management in general. Finally, in the *Conclusions* come some suggestions about how the knowledge we have gained could be used to inform outsiders interested in improving financial services for poor people.

Some of the material used was included in an earlier paper entitled 'The Microfinance Market', by Stuart Rutherford, presented to the international conference on Livelihood, Savings and Debt in a Changing World, Wageningen Agricultural University, The Netherlands, in May 2001. There are some small differences in the figures given in the two papers because of further work done since the Wageningen paper, and because of minor changes in analytical method.

1 The researchers

The 'financial diaries' research was carried out by the Institute for Development Policy and Management (IDPM)[2] at the University of Manchester as part of the 'Finance and Development' project assisted by the UK's Department for International Development (DFID). It is part of a larger scheme of research which includes work carried out in India and (in collaboration with *MicroSave-Africa*) in East Africa. The overall objectives are 'to shed more light on how poor households manage their finances and, in particular, how and why they make use of financial services and devices'. The intended audience was anyone involved in or assisting with the development of improved financial services for low-income groups in developing countries – microfinance practitioners, their backers such as donors, and policy makers and academics. Further details can be found on the project's web site (www.devinit.org/findev), and summarised in Appendix 1 to this paper.

[2] The research was led by Professor David Hulme, who conceived the idea of the financial diaries, and managed in Bangladesh by Stuart Rutherford and in India by Orlanda Ruthven. In Bangladesh the principal 'diary' researchers were S K Sinha and Saiful Islam, assisted by Mohammed Eakub. Important contributions were made by Drs Imran Matin and Md Maniruzzaman.

2 The Households

The criteria used for selecting the 'diary households' are set out in the web site and in Appendix 1. The number of households – forty-two – was limited by our resources and by the sheer size of the data-collection task. Such a small number of households obviously cannot statistically 'represent' low-income households in general in Bangladesh, but we are confident that the care we took in identifying them means that we worked with households whose circumstances are typical of millions of others across the country. Though the sample was small, the quality of the data was high, a trade-off which we valued. It often took many visits to discover important money-management behaviour (see for example Box Six in section four) that would have been missed by conventional surveys. The study of the behaviour of these households can lead to insights of wide general applicability.

As is well known, Bangladesh is particularly rich in semi-formal non-government organisations many of which work as 'MFIs' – microfinance institutions. The opportunity to view their role as one of many players that feature in the 'financial portfolios' of poor households was considered an important advantage of working in Bangladesh.

Urban and rural

Half of the sample is rural, and is composed of people nearly all of whom were born in or near the villages where they now live. The other half is urban, and currently resident in one of three Dhaka slums, though most of them have a rural background. Siraj and Fulbanu, the married couple who head the first of our urban households, came to Dhaka twenty years ago to escape from rural poverty, and their four children were all born in the Dhaka slum where they now live: similar stories can be told of many of our urban respondents.

The six locations

The twenty-one households in the rural sample are drawn from three neighbourhoods not far from a medium-sized market town located in central Bangladesh. The economy is overwhelmingly agricultural and dominated by paddy production but with a thriving pineapple trade and a timber industry based on the nearby forests and on homestead woodlots. The first of the neighbourhoods lies along the main road close to the market and enjoys good quality irrigated rice land and excellent transport links. The second lies further back from the main road but is also mainly a rice growing area, while the third is more remote and was accessed by a dirt road until late on in the research year. Some of its land is not suitable for paddy but can be used for pineapple and timber. Most homes in all three areas are mud-walled with thatched or tin

sheet roofs.

This area of central Bangladesh is known to be well-favoured with MFIs, and this influenced our decision to work there, since we wanted to be sure that MFIs featured in our results. On the other hand, in the urban setting in Dhaka, we did not take the prevalence of MFIs into account in choosing locations. Nevertheless, many MFIs were found at work in the urban setting, illustrating the broad outreach of MFI work in Bangladesh at the turn of the century.

In Dhaka we worked in three slums in the western side of the city. One consists of a string of huts squatting on an earthen flood-protection embankment. The other two are dense agglomerations of huts with a mix of tenure types – some are squatters on government land, some squat on private land and others lease from private landlords. Homes are mostly huts of woven bamboo with tin sheet roofs, or blocks of one-roomed plastered brick buildings.

Poverty

Where possible, households were selected after wealth ranking exercises had been carried out with residents. Individual names were selected at random from groups of households that had been ranked as 'poor', 'middling', and 'better-off' by their neighbours. This ensured that we captured differences in wealth between households that could be perceived by the residents even if invisible to us. Since each of the six locations (the three rural neighbourhoods and the three urban slums) provided us with seven respondent households, we chose in each location four households that had been ranked poor, two middling, and one better off. Twelve months later, when they had become very familiar with the households and the environment, our researchers re-grouped our respondents into three categories – poor, upper-poor, and near-poor, and it is these categories, which differ slightly from the original rankings, that we use (among others) in this report. We ended up with twenty-three households in the poor category (thirteen rural and ten urban), thirteen upper-poor households (five rural and eight urban), and six near-poor (three rural and three urban).

The households within any of these categories shared some characteristics but showed marked variation in others. The rural poor group, for example, were found to have similar housing, and to have a similar food expenditure patterns, whereas their ownership of assets and their means of livelihood varied considerably. The age and size of the households are, of course, other important variants. To help the reader build up a picture of the kind of households with whom we were working, the following paragraphs will describe some of these characteristics and the variety found within them. More detail, in tabulated form, can be found in Appendix 2. A fuller data set can be downloaded from the website.

The rural poor

Box One: Saman and Hazara, a rural poor household

Saman and Hazara head a poor rural household typical of many. Born locally and resident in his village throughout his life, Saman, who is unschooled, married an uneducated women, Hazara, but they are putting the youngest children, a son and a daughter, through school – on and off at least. Their other children have grown up and left home. Saman earns about a dollar or a dollar-twenty a day doing farm labour when he can get it, or he goes fishing in the marsh, and Hazara helps with egg sales from their handful of chickens and by boiling and husking paddy into rice for sale. They own no farm land of their own but live in their own mud hut on the patch of homestead land that Saman inherited. The hut is furnitureless: the whole family of four sleeps on the earth in the one room. Cooking is done under a thatched shelter, and they calculate that they spend about 80 cents a day or a little more on food and fuel. They eat twice a day, rice coloured with lentils and chilli, or, on days when Saman gets good work, three times a day plus a little fish. In the best of times they eat meat once a week. They get no food supplements or other form of public entitlement. Hazara has a gold nose-piece worth about $10 and they have their own drinking-water hand-pump, worth $30 when new, but they have no other hard assets apart from the timber standing on their house plot.

The couple are in their fifties, and subject to aches and pains: they spent $12 during the research year on medical costs, mainly patent medicine to help his coughs and colds. In addition to that they spent about $15 in the year on clothes for the whole family, $6 on school books and pencils for the children, and $8 visiting and giving presents to relatives. All this is merely the background to the two dramas that occurred during the research year. First, because they didn't pay enough dowry, their newly-married elder daughter's in-laws threatened to send her back home, and when Hazara failed to get Grameen Bank to give her a 'seasonal loan' to cover for the dowry, Saman had to borrow from his oldest son, something he was reluctant to do because the son forced him, in return, to transfer the homestead plot into his name. Second, Saman found he had to pay a bribe to get that land properly registered before he could transfer it, and he had to sell two trees ($5 each) to raise the cash for the bribe.

There are households in 'rural poor' category both poorer and richer than Saman's. Poorest is probably Maymana, a widow in her fifties who lives with her unschooled 14-year old son Mafizul. She begs and gleans, and he gets casual work when he can – he is in poor health with a growth on his spine which is getting little medical attention. They have a tiny one-room mud hut on inherited land with a tin roof but no furniture at all, and they own no other asset. At the other end of the scale are households headed by men and women who are younger and fitter than Saman and Hazara, and own one or more cows whose milk they sell, but otherwise pursue a similar livelihood strategy of mixed day labour and farming. There are two 'outliers' – households whose livelihood and income patterns are untypical of the others, headed by men who trade timber but dissipate much of their wealth on gambling.

The rural upper-poor

The upper-poor group – there are five households – are the most heterogeneous. No two household have the same livelihood strategy. There is another timber trader, Chan Miah, but he is better educated than the two traders in the poor group, and he doesn't gamble, so he does better. There's a shop-keeper, Abu Taleb, who has a high-school pass, but whose shop is undercapitalised and performs erratically. Another

well-educated man, Jalil, is a jack-of-all-trades: he was a postman but he managed to get that valuable job taken over by his son, so now he does a bit of farming on his small patch of land, or day labouring or contract-farming for neighbouring farmers, and then goes off to the market to work as a night guard: he has the largest family of five children still at home. But another two household heads have no education whatsoever: one is a widow whose only son farms and trades farm produce, and the last, Abdus Salam, is a skilled tradesman, a mason. His household includes a married daughter, and the shop-keeper's household includes a live-in shop assistant, so the composition of the household is more complex than in the poor group. Generally, the upper-poor households have higher levels of income and expenditure, made from and spent in a wider variety of ways. But like the poor families, they live in modest mud-walled tin-roofed homes on inherited homestead land in the village, side by side with the poor and the rich.

The rural near-poor

We use the term 'near-poor' in a literal sense. These are families who share the same environment, economy and culture as the poor and upper-poor, and live among them, but who do better by virtue of having more assets, in the rural case based on inherited land. The rural near-poor – there are only three households in the category – are the most homogenous, since all are farmers with landholdings of three acres or more of good irrigable paddy land, and all three build other livelihood activities on this strong base. Gani, for example, who lives near the main road, owns and runs a '*tempu'* (a sort of collective baby-taxi), sometimes acting as his own driver, sometimes hiring a driver, while both Hasan and Akkabar use their pump-sets to supply water to other farmers, at a fee, and trade in fruit. All three men were born in the homes they now own. They have rather bigger families (between them these three have nine children living at home), and they send their children to school. Their homes are similar to but more roomy and better furnished than those of poorer groups: Gani has a house of several rooms plus an outhouse for labourers to sleep in during the season, and a cow-shed. They own livestock (seventeen major animals between the three of them, at the last count) and their courtyards are a-flutter with poultry. All own machinery – bicycles, pump-sets, the *tempu*, power tillers and so on: we calculated the total worth of Gani's mechanical assets at $4,500. Naturally, they have higher income and expenditure patterns, each spending over $100 a year on health, and the two with high-school-going children spend heavily on education: Akkabar estimates he spent $300 on education in the year, including transport costs and fees for a home tutor, but this is exceptionally high. Since they consume their own rice, their cash outlay per day on food is only a little higher than for the upper-poor. Akkabar reports that he stores his paddy and sells it off at a rate of anything from $12 to $60 each month to finance his various cash expenses. Gani's *tempu*

earns him a net $2 to $5 a day when it is running (it isn't always), his two main rice crops each year bring in at least $400, and he can earn $1 a day selling water with his pump-set during the season. Hasan and his son sold $450 worth of pineapples during the research year.

The urban poor

Box Two: Abdul Barek and Peara, an urban poor household

This wholly illiterate couple arrived in Dhaka, from a poor village in the south, only in 1998, and they are finding out the hard way how to cope with urban life. Abdul, now 42, is a mason's helper – an unskilled job, and insecure. Often there's no work for him but when there is he may earn up to $2.50 a day. He spends about $1.50 on food and cooking fuel each day, less when he's out of work or ill. When we meet them they are staying in the slum home of relatives, trying to cut costs. They don't school their six-year old boy (his sister is only three), and they couldn't afford to buy the children new clothes for the Eid festival. Later, they move into a one-room woven bamboo-walled lean-to with a tin roof, and pay $6 a month for it (though they're often in arrears). Abdul's health is not good: he has jaundice and then repeated colds. Peara is younger than her husband (she is his second wife): she takes in a little sewing but is unable to contribute much to the family budget. A new baby is born during the research year.

Abdul and Peara are newcomers to city life, but there are several well-established families in our sample who are as poor as they, and some poorer. Abdur Rashid and Ranu, for example, are dealing with his old age and failing health. He's about 60 and too ill too work properly, so he tried to move from labouring to shop-keeping, but found he had no retail skills, and made a loss. Ranu, younger than her husband, holds down a job in a small local soft-drinks factory where she earns a little under a dollar a day. They put their 14 year old son Jahangir into a garments factory, and that brings in a wage of $20 a month, but because Jahangir is unskilled he's not much valued at the factory and the wage is irregularly paid. As the research year winds on, we worry about them: they are getting deeper into debt and Rashid's health costs are mounting. But Ranu remains optimistic.

Our urban poor group of households (all but one of whom are headed by migrants from the countryside) share similar life-styles. They live for the most part cheek-by-jowl in small one-room tin-and-bamboo shelters, though some own them while most rent them, at rates that vary quite widely (from $5 to $22 a month) with location, type and condition. Food and cooking fuel costs between 30 and 40 cents a day per head. Most households are bigger than in the countryside – the average is 5.5 people. Income for most principal male jobs is between $1.30 and $2.50 a day, and these jobs may be unreliably intermittent, so most households have to develop other sources of income. Occupations vary, but are mainly unskilled. Rickshaw driving is a fall-back job: two of our respondents moved on from it into factory jobs during the year. Self-employment does not necessarily mean owning a business – as the example of rickshaw driving

shows – and indeed there are very few business owners in our sample (and even fewer successful ones). Nearly all the adults are illiterate: most, but not all, are putting their children into school. Health costs are a big problem for many.

The urban upper-poor

As in the countryside, so in the town, the upper-poor group are very heterogeneous – much more so than the poor group. Box Three captures some of this variety.

Box Three: upper-poor urban households

Sobhan and Halima: Sobhan, who arrived in Dhaka fifteen years back, is a salaried private car driver, earning $80 a month and receiving it regularly from an employer who is kind to him in other ways – she lent him money, for example, to finance an abortive attempt to get a driving job in Kuwait. He almost completed high school. His wife, Halima, stays at home and looks after the two children, one old enough to go to school where she is in grade 7. Sobhan spent $40 on her education during the year. Their home is relatively well furnished with a bed, clothes rack and cupboard, fan, TV and tape recorder.

Manzil and Sufia: Manzil, 48 and illiterate, owns a small workshop (not much more than a box of tools in a hired room) where he repairs rickshaws and keeps a varying number of rickshaws to hire out. He had some stolen during the research year, which knocked him back. His son, 17, helps him in the workshop and, enterprisingly, saves up and buys a bicycle to hire out. Two younger children are in school. Their home is sparse: it has only one room and they have just a crude timber bed in it. They have to shift home twice when the embankment is rebuilt during the research year.

Samad and his siblings: Samad is only 25, with a high school pass, and unmarried. He came to Dhaka from a rural town in 1997, bringing his illiterate mother and four siblings with him. He soon got a job in a garments factory, learnt the skills needed to do well there, and now earns $52 a month plus overtime. Since they came to Dhaka three of the younger brothers and sisters have dropped out of school and joined the family work force. Two have garments jobs, and one is apprenticed to a carpenter. The last, 12 years old, is in school.

Siraz and Monoara: Siraz, 37, drives a 'baby-taxi' when he can, but he's only a reserve driver and is often idle. Besides, he's frequently in poor health (he suffers from piles) and unable to work. He came to Dhaka when his land in central Bangladesh was lost to river erosion – a common circumstance. He is virtually unschooled, as is his wife Monoara who goes out looking for a maidservant job to supplement the family income. Fifteen year old Iqbal, their oldest, often scavenges and later gets a job in a garments factory. A ten year old is sometimes in school, sometimes scavenging. They rent their home ($10 a month) and have extended and subdivided it: the family sleeps on one big bed (their only piece of furniture) on one side, and they try (not always successfully) to let out the other side.

The urban near-poor

There are only three households in the urban near-poor sample, and as in the countryside they are 'near-poor' in the literal sense that they live in the same slum environments as the poor group (one in each of three slums covered in the research). Their eating habits are similar, and their expenditure on food not much greater. Their homes are built of similar materials, and are mostly one-roomed, though a little bigger

than those of the poorer groups, and they furnish their homes rather as the upper-poor do, with basic timber beds and cupboards and perhaps a TV or a cassette player.

But unlike the rather homogeneous rural near-poor their livelihood strategies differ greatly. The most successful of the three (in our judgement) combines regular waged employment with private enterprise: Sultan has a driver's job and his eldest son Farid has a factory job, while his wife Kuruna is good at selling saris in the neighbourhood and has a large stock of them at home in a steel cupboard. As we shall see later, they are very street-wise – Kuruna is registered as a member with as many as seven NGO/MFIs.

Widow Tufani, on the other hand, shares a home with her son and his wife, both of whom have garment factory jobs while she lets out one room in the home and feeds her tenants at the same time as caring for her grandson. Mostafa is different again: this 38 year old has a waged job as a caretaker and tries to exploit the contacts this gives him with local politicians and bureaucrats, by getting named as the contractor for earth-shifting jobs, and by getting lent money by a well-known NGO to build a school room and rent it back to the NGO. We get lost in his part-true, part-imaginary world of influence peddling – he is probably the least reliable of all our forty-two respondents. He also puts money into milk-cows that he rears on the embankment where they live: wife Ayatun helps out with caring for them.

The two male household heads in the urban near-poor group came to Dhaka at least ten years back, while the woman came after she was widowed some four years ago. None has any land left in the village, and all seem to be permanent metropolitans now, but at least one of these households regularly sends money back to siblings in the village. Notably, the reported health costs of these near-poor households is around $7 per person per year – lower than for either the poor or upper-poor group.

Variation on a theme

Appendix 2 highlights areas of similarity between households, including between the three 'wealth' groups and even between the urban and rural locations. The most obvious similarities across all groups are in the most visible aspects of their lives: all forty-two families live in homes that are by international standards very modest indeed. All except the three rural near-poor households make do with just one room, almost always with mud, tin-sheet or woven bamboo walls and a tin roof, and there is either no furniture at all or the bare minimum of basic timber pieces. Very few, for example, have anything more than a mud floor. Clothes are similar, jewellery modest – there's not much difference in cash expenditure on these items. Food habits are also similar: most eat three simple boiled-rice meals a day, flavoured with chillies and some vegetables, and vary only in the frequency with which some fish (quite common) and meat (rarely) is

added. With one exception, no-one gets food or other help through public entitlements.

Households are smaller than they would have been a generation ago. The ‘nuclear’ family (parents and their offspring) is the most common pattern, and there are no very large extended families. For the six groups average household size varies between 4 and 5.5. Across all six groups, it is most common that adults are poorly educated, if at all, but that they are trying at least to send the children to school. Incomes vary, but within a range that is small by international standards – very few of the principal breadwinners earn less than a dollar a day (though they may not always get work) and only a few have main occupations that net more than $2.50 a day.

Virtually all households have developed more than one way to earn income, and it is in the strategies that are pursued to earn those incomes that diversity is most apparent – diversity both between and within the six groups. The ‘upper-poor’ groups, both rural and urban, are the most heterogeneous, and only one small group – the rural near-poor, are homogeneous in this respect. The rural near-poor are the only ones that have managed, by virtue of their inherited land, to stick to traditional inherited livelihoods, growing paddy, primarily for home consumption and selling off whatever remains. But even they have added supplementary income sources, some in the modern sector (like Gani’s *tempu*). The rural poor are no longer just farm workers – only five of the thirteen households in that group gets by with farming or farm labour alone: the others use a mix of farm and non-farm day-labouring or self-employment sources. Among the eight rural upper-poor households, no two were pursuing the same livelihood strategy. In the town, too, diversity is the rule, among all three wealth groups.

As Robert Chambers[3] wrote, ‘Local people are themselves diverse, with sharp contrasts of preferences and priorities by age, gender, social and ethnic group, and wealth.’ How that diversity plays out in their preferences and behaviour with respect to financial services is what is explored in the remainder of this paper.

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[3] Chambers, 1987

3 *The Instruments*

Hand to mouth – or are there intermediate steps?

We begin with a basic question: do these households actually 'manage' their money to any extent, or are they living 'hand-to-mouth', spending whatever cash as soon as it comes in? The answer is clear: a great deal of management goes on.

Figure One: Instruments used, by numbers of household, wealth grouped

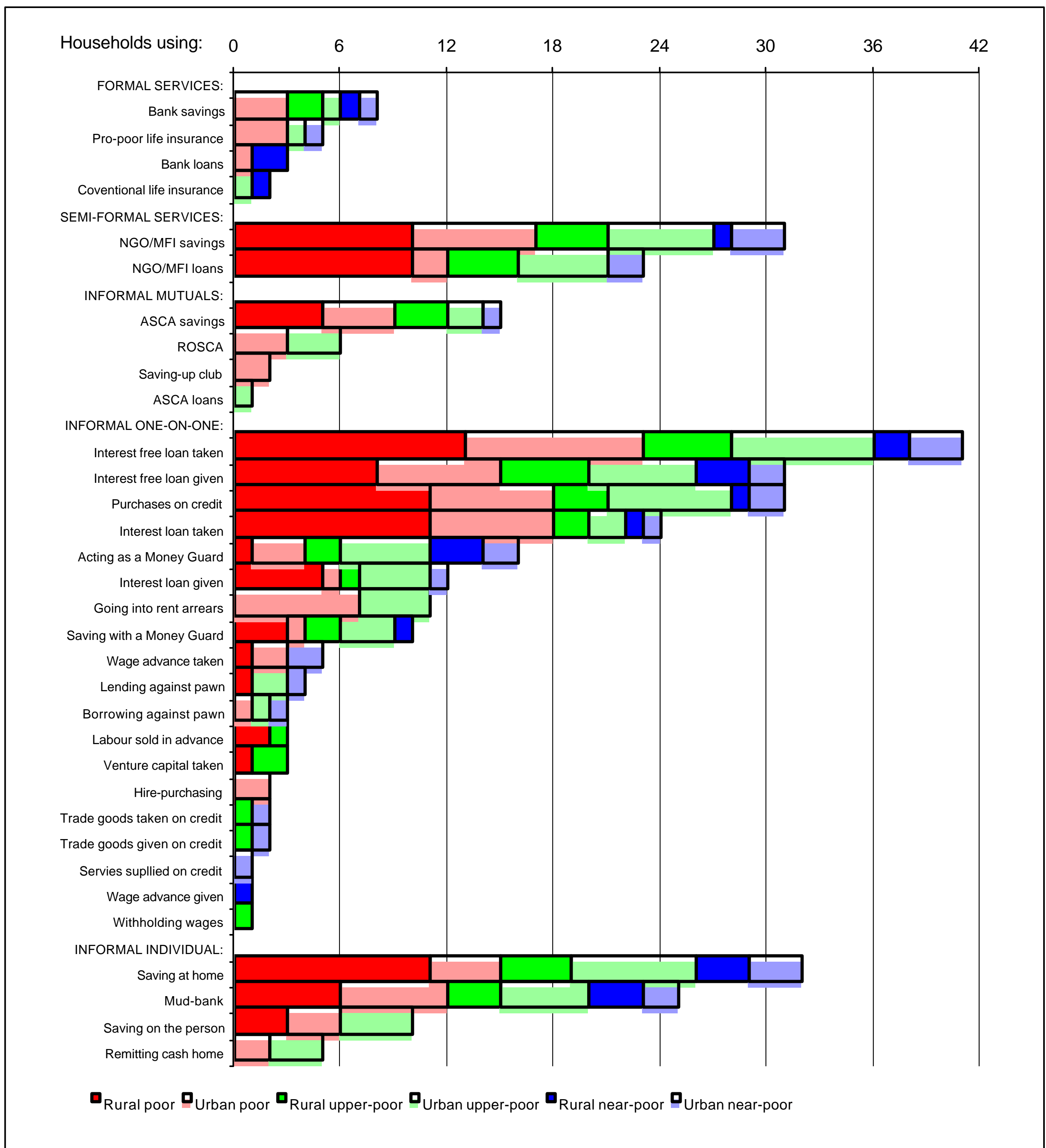


Figure One provides a list of the thirty-three most noteworthy ways in which cash is managed, and shows how many households in each of our six 'wealth' groups were involved in using them during the research year.

The thirty-three 'services and devices'[4] that compose those instruments are divided here into a number of categories. 'Formal', meaning formal bank and insurance company services, and 'semi-formal', referring to NGO/MFI services, should be clear enough. Often in the microfinance literature, though, the informal world is lumped together: it deserves more careful disaggregation. We have broken it down into three classes, based on the important matter of how many parties are involved. The 'mutuals' are savings clubs (like ROSCAs and ASCAs) that require a number of people to come together to manage them. They are thus quite different from services and devices that are handled by two parties – usually a provider and a receiver of services. In this 'one-on-one' class come private lending and deposit-taking services as well as behaviour like going into rent arrears or pawning gold nose-studs. Finally we have the class of devices that individuals can manage on their own – saving at home in one form or other.

The Figure shows, for each of these instruments, how many of the forty-two households used it during the research year. Of course, these households may have used it more than once, and may have used it at some time before the research year started, too: the Figure is not designed to show that, nor does it contain any information about the values of the cash managed. The bars showing the households are themselves broken down to show the six groups of households described in the previous section. Solid red is rural poor, broken red urban poor, then green is similarly used for the upper-poor and blue for the near-poor.

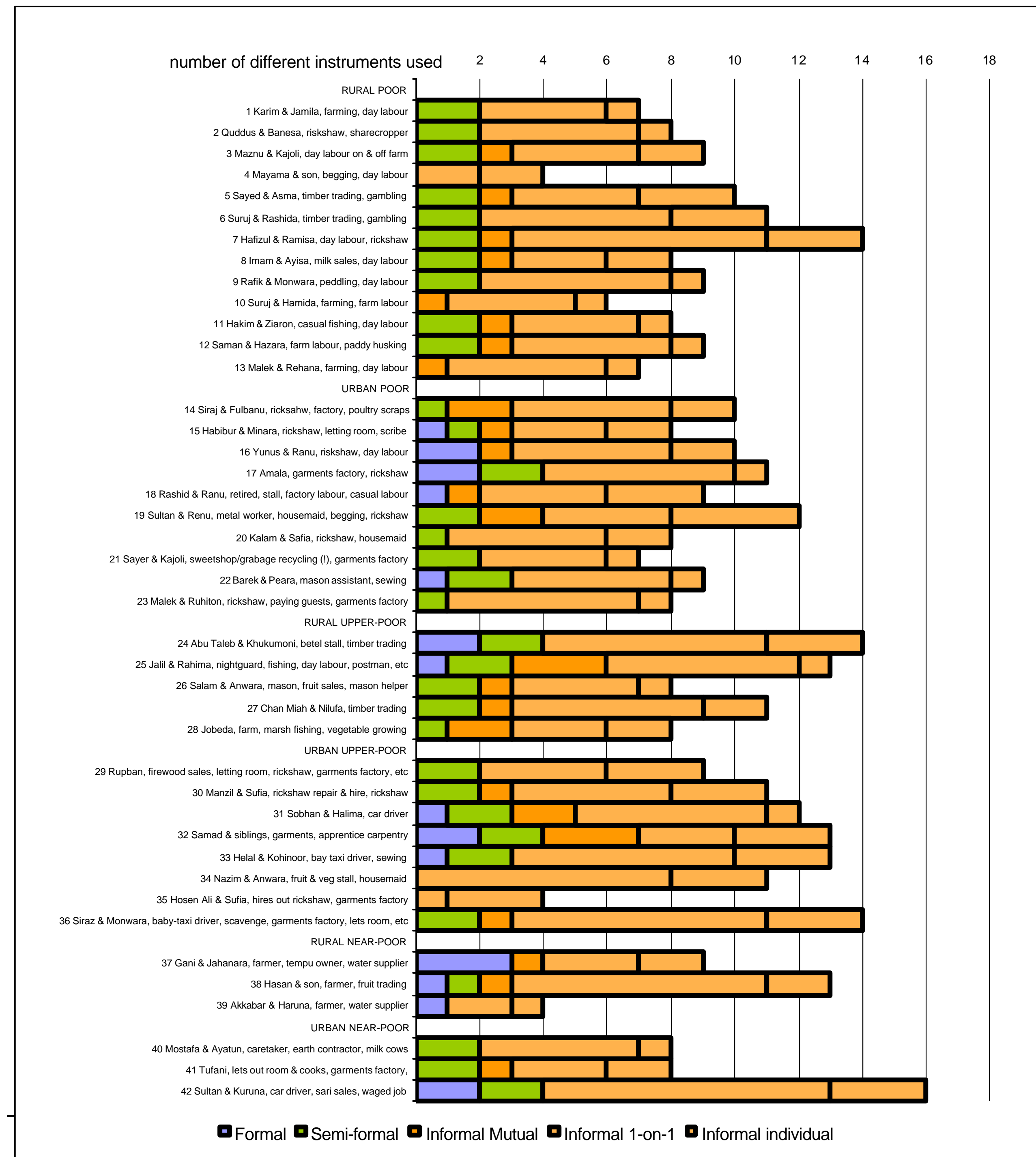
The informal 'one-on-ones' are clearly the biggest group of instruments. There are more instruments (19) in this class than in any other, more instances of household-use (203 out of a grand total of 371 instances recorded), and it includes the most widely-used device, the taking of interest free loans, in which all but one of our 42 households were involved during the year (and thirty-one of them also lent free of interest). Another popular device, taking goods on credit from shops (mostly daily goods from local general stores), is also in this class. Twenty-four households, a majority, were also involved in the taking of interest-bearing loans.

Other popular instruments were MFI savings and loans (a majority of households used both), ASCAs,

holding cash as a Money Guard, and, of course, keeping a bit of cash back at home, often in a 'mud-bank' – an earthen 'piggy-bank' popular in Bangladesh.

Almost every instrument mentioned so far was used by households from all six of our household classes: the only exception is MFI loans, not used by any of the three rural near-poor households (but used by two out of three of the urban near-poor.)

Figure Two: Numbers of instruments used, by household



[4] By 'service' we mean a financial service offered by one party to another in return for a reward. Examples are bank and insurance company services, interest-bearing private loans, and pawnbroking. A 'device' is a non-commercial way of managing money – at home by yourself, with one other person privately, or in a group.

Who does what?

But exactly which households were using which class of instruments? Figure Two sheds light on that, by listing each household and showing how many instruments of what type they used during the year. The Figure shows the dominance of the informal sector for *all* households, shown in orange on the right and divided into 'mutuals', one-on-ones, and individual devices. It also shows quite clearly that the wealth and location differences between our six classes of household don't translate into differences in the range of instruments used. Perhaps the rural near-poor, as a group, use fewer instruments, but the degree of this difference is small. Formal banks and insurance companies are not serving the rural poor, but they have some presence among all other groups, including the urban poor. MFIs have a good presence with all classes except the rural near-poor.

Sultan and Kuruna and their sixteen ways of managing money

So with little difference by wealth and location in the number and type of instrument used, it becomes important to look at the circumstances of individual households – hence the design of Table Three.

Sultan and Kuruna, a near-poor household in Dhaka, used more instruments than any other (household number 42, at the foot of Figure Two). Let us look in detail at them. The two formal services they used were *bank savings*, and *life insurance from a pro-poor insurer*. Like several other respondents, Sultan told us that he rarely uses the bank savings. He has a little money there left over from a former savings episode, but bank norms are so stiff that it isn't convenient to use it regularly. In his mind, it's a small long-term reserve (it may in fact have been eroded away by bank charges).

The life insurance is offered by a formal company which designed and marketed a simplified 'no-frills' policy aimed at the poor and sold to them by itinerant agents. The service has suffered from poor management and design faults: agents don't call regularly enough to gain client confidence, and loans that are promised to policy holders are in fact hard to obtain. Sultan gives testimony to that: he has stopped paying in because he says he never got a promised loan.[5]

Sultan's wife Kuruna and their daughter also use *MFIs*, both for saving and for loans. Indeed, between them they have membership in seven MFIs in the year, with loans from four of them and savings in all seven. They don't remember the name of each MFI, but pursue them energetically – walking out of this one in a huff at not getting a loan, for example, or avoiding that one because they're in arrears with loan

[5] See Matin 2001

repayments. The loans they take are quite substantial - $100, $200, $50, and $120. Much of this goes straight into Kuruna's sari business – she hawks saris around the neighbourhood very successfully, but some money is used for general household expenses.

The household is not involved with informal *mutuals* at all, but is a great user of *individual devices*. Although they live in a hut with woven bamboo walls, they have a lockable *metal cupboard* and seem quite happy to keep large sums in it, of at least $100 – and to show us. This is Kuruna's 'liquid' reserve for household costs and for her sari business, and is also the store for private lending (see below). Their eleven-year old son drops odd pennies into a *mud-bank*, and is astute about the way he uses it – he breaks the bank when it has reached about $1.50 and lends the money, on interest, to his cousin. Finally Sultan himself always has money *on his person*, to care for any problems he may encounter during his driving job.

Like all but one of the forty-two households, Sultan and Kuruna exchange *interest-free loans* with family and neighbours. This kind of 'reciprocal' arrangement is a feature of many communities and Bangladesh proves to be no exception. In some families, including this one, the behaviour varies with gender. We find Kuruna giving many small *'howlats'* (as they are called) to women neighbours, but taking only one – rather larger – loan in return. She gave six *howlats* to neighbours, none worth more than $4 and one as little as 20 cents, and took just one *howlat* of $10 in return. To her own sister she lent a little more, $14. The loans to neighbours were all repaid quickly, but the loan to her sister was eventually converted into a gift. Sultan himself did not engage in this kind of reciprocal lending, but their son did, taking $6 and are holding it for many months.

Kuruna was able to make these small loans because of the cash she always has in hand in the cupboard. Her possession of this safe storage facility also allows (or even obliges) Kuruna to act as a *money guard*. Two of her own women relatives take advantage of this, storing quite large sums of $10 and $40 for a few days or weeks at a time.

But some who want access to the cash stored in Kuruna's cupboard are required to provide collateral, so we find her acting as a kind of *informal pawnbroker*. In the research year we find her lending $10 against a gold earring and demanding – and getting – $1 interest per month for the loan. On another occasion she lends $20 against a gold ring.

Getting hold of larger sums in the informal market may require taking an *interest-bearing loan*, and can be quite difficult, even for someone as well placed as Kuruna. In January she has a temporary cash shortage,

having sold rather too many saris on *credit*. She has to approach three people before she gets the money she wants, $100, and has to promise to repay it quickly and give one sari in interest. Sultan is able to help out sometimes: three times during the year he takes $40, half of his salary, as a *salary advance* from his employer. Meanwhile they constantly take *goods on credit* from their neighbourhood shop-keeper.

Thus the household's sixteen money-management instruments are multiply used: seven sets of savings accounts and four sets of loans in MFIs, four lots of saving at home (the daughter has a mud-bank, too), two '*howlats*' taken and seven given, money guarding for at least two relatives, two loans-out secured by pawns, at least three wage advances taken, at least five shopping sprees on credit, and then just one recorded instance each of bank savings, life insurance, taking an interest-bearing loan and giving one, and selling goods (in this case saris) on credit.

Doing without - almost

What, then, explains the behaviour of households number 4, 35 and 39, who used only four instruments each, and were thus the only ones to use less than six? Not poverty, apparently, since neither households 35 and 39 are in the 'poor' classes. Household 4 *is* poor: it is Maymana, whom we picked out in our descriptions as being especially poor: she's the rural widow with the son with a growth on his spine. Their instruments are all informal: *saving at home* (Maymana) and *saving into a mud-bank* (son Mafizul), and *reciprocal borrowing and lending*. Maymana, despite the difficulties of doing so, makes a point of keeping $6 liquid at home, against any eventuality. Mafizul is only 14, and illiterate, but he is the family's main bread-winner, and he keeps a mud-bank secretly, without telling his mother. He is able to break it and produce $3 to keep them in food during a bad period of zero income when the saw-mill where he was working was closed down by the police. Another reason Maymana keeps cash at home is to enable her to play her part in the 'reciprocal' economy, for though she takes six *howlats* during the year (ranging from 20 cents from a neighbour to $10 from her eldest married daughter), she also lends to at least five neighbours in the year, in tiny sums of 20 or 50 cents each.

Akkabar (household 39, in the rural near-poor group) also used only four instruments, and he is one of the few among our respondents who expresses a distaste for 'getting mixed up in money with other people' *and* can afford to indulge his distaste. He stores paddy at home and sells it off piecemeal when he needs cash, he tells us. Nevertheless, he is tempted by the salesman from the *pro-poor insurance* company, and pays a first premium of $5.50 before changing his mind and taking it back. And of course he is not against using his own wealth to secure good prices – he buys $40 worth of fertiliser when it is at its cheapest and has it delivered later, when it's needed. And even the cash from the paddy sales has to be managed, of

course, a job that seems to be given to his wife Haruna, who has the key to a stout *cash-box*: in the middle of the year more and more cash is entrusted to this box, until it holds a staggering $200 held ready to buy a cow plus calf when a good one becomes available. Just like Kuruna in the city, so Akkabar and Haruna are able to supply financial services to others, by acting as a *money guard* and by giving *howlats*. The money is guarded for a relative, who wanted his $24 kept safe from the temptation to spend it. The *howlats* go to neighbours and relatives, in varying amounts ($10 to $20), and again as in Kuruna's case those made to non-family get repaid quickly, while those to family members may be delayed or not paid at all and end up getting forgiven.

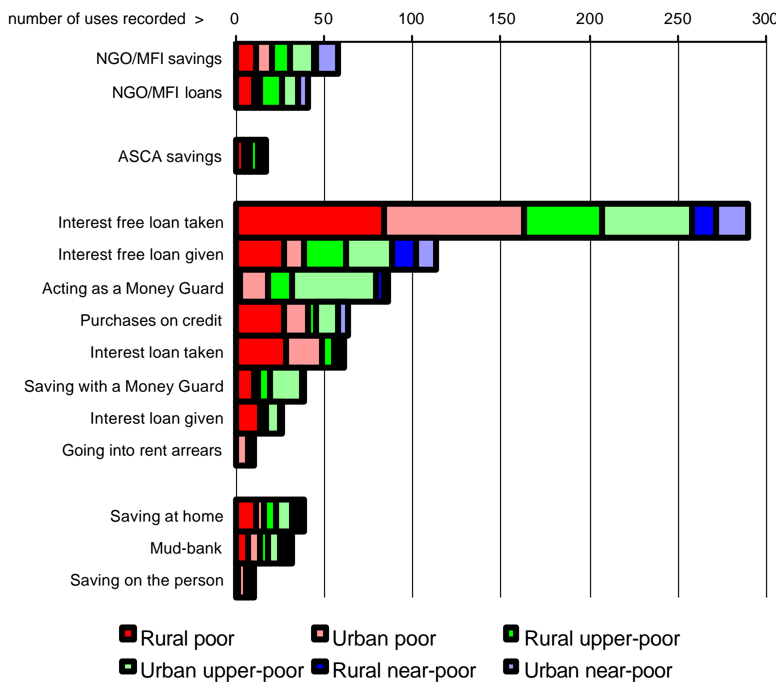
Finally, there is household 35, Hosen's urban upper-poor household, who also uses just four instruments, all of them informal. This is an old couple living alone and nearing the end of their lives, and they have very few wants beyond food and rent ($4 a month). Mrs Sufia has a garments factory job and earns $20 a month, and Hosen has a battered old rickshaw which he can no longer ride but can rent out for 60 cents a day. They have two adult sons living close by who help them out from time to time, so in fact when they're in reasonable health they make a surplus, and are able to indulge two of their dreams – buying another rickshaw (a dream that comes true in the research year), and sending cash back to the village to buy land there. The financial services they need, therefore, are a safe place to save, and a safe way to *transfer cash to the village*. To these ends they keep a *mud-bank* (one was opened in our presence and contained $14) and Sufia keeps cash tightly sewn into her *petticoat* (as many slum women do). At one time she had as much as $16 stored there. Then, after the Eid festival, they use a trusted neighbour to carry $16 back to the village. But they still took a *howlat* of $10 to add to the mud-bank cash to buy the rickshaw – and repaid it quickly from the enhanced rickshaw rental income. On another occasion he borrowed $1 to overcome a short-term cash shortage, and again repaid quickly.

Hosen, by the way, has the older generation's disdain for new-fangled services: MFIs, he thinks, should be avoided, because the loans they give you are troublesome to repay and then when you don't repay 'they shout at you'. He's seen it, and was appalled by the loss of dignity it entails. As for ROSCAs, he was once cheated in one, he says, so he won't touch them now, either. He prefers to save, and it takes our researcher several minutes to catch on to the fact that when he discusses lending with them, he is looking at it from the lender's point of view, seeing it as a form of saving – but not a good one, since borrowers can't be relied on to give the money back when you need it. His understanding of the world of money management is that most methods are unreliable, so the best thing is to do it for yourself whenever you can.

Little and often

We have seen that reciprocal interest-free borrowing is the money-management instrument used by more households than any other – 41 out of the 42 of the households in our sample. The case of Sultan and Kuruna reminds us that it is multiply used – they borrowed in this way at least seven times in the year. Figure Three summarises frequency of use for a selection of frequently-used instruments – those used more than ten times.

Figure Three: frequency of use for fourteen frequently-used instruments, by numbers of household, wealth grouped



There is a methodological problem with this illustration, but it is of interest and remains worth using. The problem is one of counting. In the case of, say, a loan given as a lump sum and repaid as a lump sum, it is easy to count that as one 'use' of an instrument. But what of instruments like saving in a mud-bank at home? Do we count the existence of a mud-bank as one instance of use, or do we count as a use each time it is broken and the contents withdrawn and spent? We have used our judgement in creating Figure Three, for example by counting each new mud-bank as a 'use', and in the case of MFIs treating each loan as one 'use' (even though it is matched by many weekly repayments) and each savings account at an MFI as one 'use' (even though deposits may be made weekly).

Our forty-two respondents reported 290 uses of interest-free borrowing, confirming that instrument's overwhelming popularity. That is an average of about seven uses for each household. One household took 24 such loans, and five others took 13 or more – some of these cases are explored in the box below. But notice some interesting aspects of interest-free borrowing and lending. There are only 40% as many reports of interest-free lending than of interest-free borrowing, suggesting that many poor people go to wealthier people (people outside the range of our enquiry) for such loans – better-off family members, for example. This makes intuitive sense and is to a limited extent confirmed by the narrative in the interviews.

Nevertheless, the poor, especially the rural poor, are responsible for a share of instances of interest-free *lending* (24% of all such reports for the rural poor) that is not far short of their share of interest free *borrowing* (29%), confirming the 'reciprocal' tradition of small-scale borrowing and lending among neighbours and family of similar economic standing.

Box Four: frequent borrowers

Malek and Ruhiton, getting by with help from friends (household 23 in Figure Two)**:** Malek is in his mid-fifties, illiterate and often unwell: his wife Ruhiton's health is even worse. They live in a hut in a Dhaka slum which is well-furnished by local standards, but they appear to us to be a household in decline. He is too ill to drive his battered old rickshaw and tries hiring it out instead. The paying guest they had leaves and they can't attract a replacement. They have three children still at home to feed and school. Income simply doesn't cover current needs. The local shopkeeper refuses them further credit. To get by, both Malek and Ruhiton take *howlats* (interest-free loans) – about 24 of them in the year. Sums range from a few cents up to $10, and total $123. Some of these are repaid within a few months ($58 is repaid in this way – about half of what they borrowed), others are still outstanding at the end of the year. In one case a nephew repays for them and then forgives them the implied debt to himself. In other cases Malek has to take interest-bearing loans to repay *howlats* and to help pay down the debt at the shop. But despite this relatively poor repayment behaviour they don't have much trouble getting fresh *howlats*. Indeed, they act as money guards in their slum – holding smallish sums of $1 to $8 for others. We were puzzled by this and asked around the neighbourhood. We found that the couple still have a sound reputation – they may pay late but you can be sure they *will* pay. Ruhition herself gives *howlats* – she lends about five during this difficult year. They are also helped by the fact that during the research year they adopt a new livelihood strategy and both take jobs in garments factories.

Chan Miah, *howlats* as part of a business plan (household 27 in Figure Two): Quite different is the case of Chan Miah, the rural upper-poor timber trader. His is a cash-intensive business, since he has to sell on credit and to negotiate to be able to buy on credit. He therefore marshals an array of instruments to help him do this. He takes 'venture capital' - $200 supplied by a business friend on the understanding that the friend will get half of any profits made with the cash. He sends his wife to join MFIs to get loans (she managed only one loan, $140 from Proshika). He started a local ASCA, but we couldn't get much detail and discovered that a neighbour believes he misused his position as its Cashier. Mainly, he swaps *howlats* with others in the big local timber business. We almost certainly didn't get the full story, but our records show that he reported taking and repaying fifteen *howlats* totalling $608 in the year, and gave howlats worth slightly more ($627, of which he had got back $556 by the year end). He also took in $300 as a money guard, keeping the cash at home for other smaller timber traders who work or live nearby, while he himself stored about $200 with other traders who have safe premises in the market, to avoid having to carry the cash home at night.

The case of informal interest-bearing loans is not dissimilar. Here again our respondents took more often than they gave, suggesting that they go to wealthier contacts for many of these loans. But the share of the rural poor groups in *lending* is very high, and that of the urban poor very low. The thirteen rural poor were responsible for more than half of all such loans given (14 out of 26). Much of this is due to one household, whose case is described in Box Five.

Box Five: lending on interest

Monwara, getting a good rate of return on her 'savings' (household 9 in Figure Two): Monwara is young, only 31, unschooled, and already on her third marriage (twice to her current husband, Rafik, an erratic peddler). She has learnt to be shrewd about money and shares with Rafiq the management of the household's cash affairs. He is a great borrower, for ever dreaming up new money-making schemes for which he is impatient to get finance (ice-cream vans, public-address systems, and the like). Monwara handles the investments side, and her preferred instrument is interest-bearing lending. She tells us about how she seeks 'safe' people to lend to. In the year we record her lending seven times, in sums ranging from $4 to $60. Some go to relatives (a nephew gets $4, a sister's son-in-law gets $20), most to neighbours, including at least two of our respondent households. The biggest, $60, goes to a member of a local indigenous ethnic group, since Monwara believes them to be innocent and trustworthy. Most of this portfolio appears to be working reasonably well, though not all interest payments are made on time. Perhaps precisely because they are known to lend on interest, this couple do not participate very fully in the local *howlat* (interest free loan) tradition.

The importance of reciprocal lending, money-guarding, and the other instruments that feature strongly in Figure Three may of course not be confirmed when we look at the amounts of money flowing through them. The next section turns to this aspect.

4 The Accounts

Flows

Our main research tool, the regular two-weekly interview, was better at revealing *flows* of money than it was at accounting for *stocks* of money. We obtained good (though by no means perfect) numbers for the amounts of money that our respondents stored and retrieved, borrowed and repaid, and lent and recovered during the year, but less reliable information on the 'balance sheet' values of financial assets and liabilities, especially the 'opening balance' – the position of the household when we first met them. This is because the existence of such assets and liabilities often remained hidden from us if there were no fresh transactions made on them during the year, especially where there was an element of secrecy or shame involved (see Box Six). Moreover, it was not always possible to verify reports of such assets and liabilities by cross-checking. We begin this section, therefore, with some data on the *flows* of money that we recorded.

Box Six: Hidden liabilities: Abu Taleb's venture capital (household 24)

About three months into our work, our researchers were sitting in Abu Taleb's shop, talking to Mintu, his son, who was looking after things in the absence of his parents. A man arrived and started to complain that Abu Taleb still owed him money on a 22,000 taka ($440) 'venture capital' loan made some eighteen months back. Our researchers pricked up their ears: they had never heard of such a huge liability. Mintu politely referred the man to his mother, and when Khukumoni appeared it became plain that she too had no idea that her husband had contracted such a debt: her distress was obvious. A week later Abu Taleb came back from a visit to a holy site in southern Bangladesh and clarified the situation. Most of the money had in fact been returned, in instalments taken from shop income, and only about $40 was still outstanding. Our researchers exchanged glances with Khukumoni – she plays a strong role in the money management of the household and she was as concerned as we were that such transactions could have remained so invisible for such a

The total 'transaction value' recorded in the study was $35,241, an average of $839 per household. That is, in the research year, the recorded total amount of money flowing into assets or paying down liabilities (i.e. savings deposits of one sort or another including loans to others, plus repaying debt) *plus* the total flowing from liabilities or from cashing assets (i.e. loans taken and withdrawals from savings plus receiving debt repayments from others), came to a grand total of $35,241. This is, if anything, an understatement, since it is more likely that we failed to record transactions than that we over-recorded them.

A lot of money

Perhaps the first thing to note about this figure is that its absolute size is large relative to total incomes for the group under consideration. With per capita annual income in Bangladesh estimated by the World Bank at $370 (World Bank, 2000) and an average household size of five, then average annual income per

household for all Bangladesh might be $1,850 and that for poor households around $1,400. In that case, the households in our study are each year ‘managing’ (pushing and pulling through financial instruments) an amount of money ($839) equivalent to about 60% of their annual income. We can make further crude estimates: suppose we assume that 60% of Bangladesh’s 23 million households are poor, upper poor or near-poor in the way that our study households are – an estimate consistent with typical studies of poverty in the country – then their financial service ‘turnover’ each year (the total value of all their money transactions) will be in excess of $10 billion[6]. This is a good reason to take the microfinance market in Bangladesh seriously.

Cities not paved with gold

When we start to break down the gross transaction total of $35,241 we reveal further surprises. The rural share of this total, at $19,648, is bigger than the urban share ($15,592). This is largely due to the much greater propensity – already noted above – of rural households to *lend* to each other. Informal interest-free borrowing is similar for the two groups, with the rural households borrowing on average $79, while the average urban household borrowed $77. But interest-free *lending* for the rural group averages at $60 while for the urban group it is only $21. This difference is true for all three wealth classes. Another difference between the rural and urban groups is that the near-poor rurals, taking advantage of their landed collateral, can use formal services in a way that the urban near-poor can't. These differences are offset in part by the fact that in the town households provided and used informal money-guarding services more intensively than in the countryside. MFI usage, in terms of transaction totals, was similar in town and country.

A poorer share for the poor

There are clear differences in transaction totals between the three wealth classes, as summarised in Table One.

Table One: Average Annual Transaction Totals per Household, by wealth class and location, US$

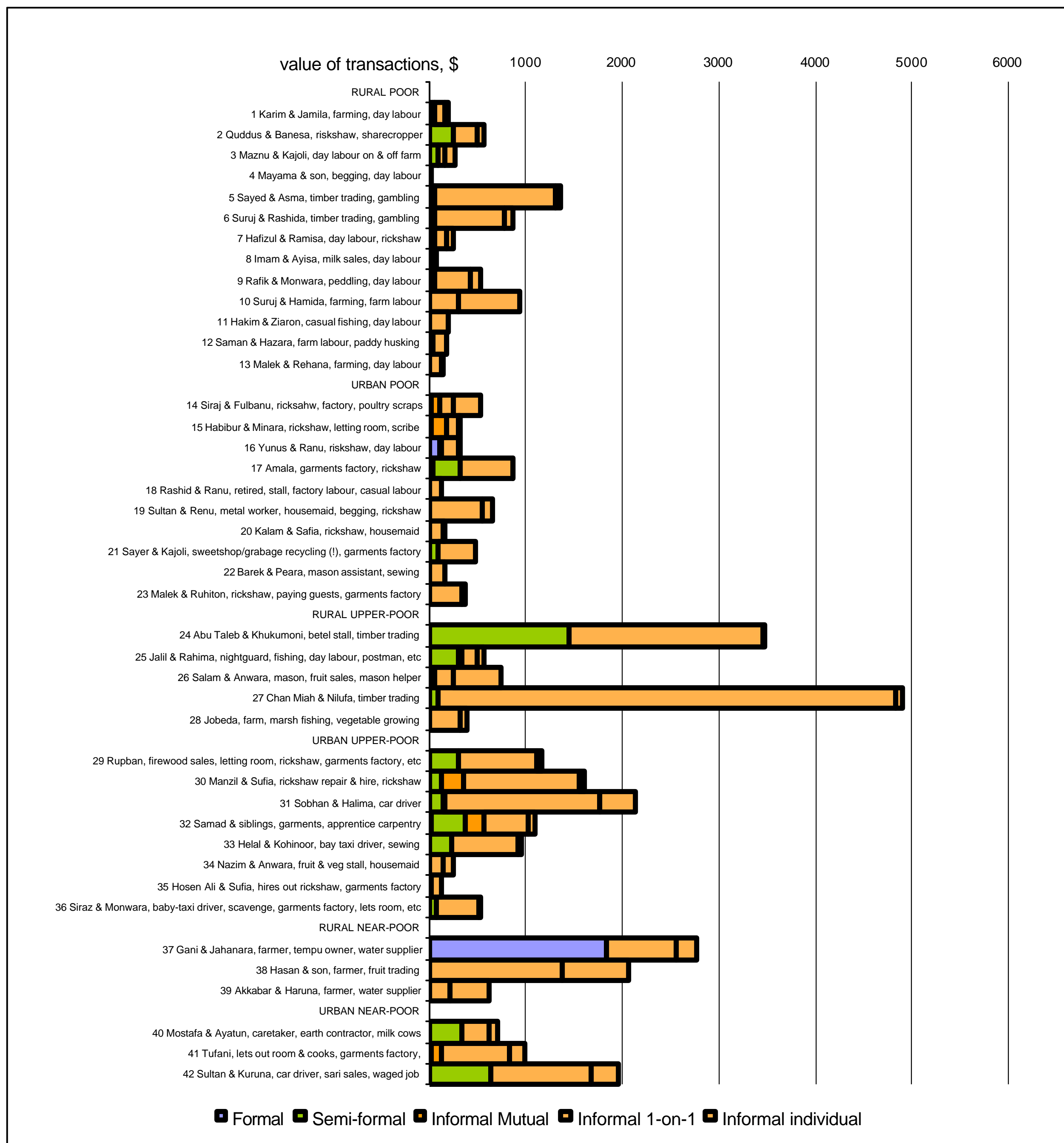
Class	Rural	Urban	All
Poor	433	402	420
Upper poor	2,019	988	1,384
Near-poor	1,307	1,222	1,265
All	**935**	**742**	**839**

That transaction totals for the poor should be lower than for other groups comes as no surprise, although the degree to which this is so is quite sharp. Somewhat surprising is that the

[6] 60% of 23 million is 13.8 million. 13.8 million households multiplied by $839 is $11.5 billion.

upper poor group show a higher total than the near-poor. To what extent is this due to the very small size of the near-poor sample and to the particular composition of the rural upper poor group? To find out, we broke the data down by household. Figure Four gives the transaction totals of all forty-two households, broken down by the main instrument types. The table uses the same format as Figure Two above, allowing direct comparison with that data.

Figure Four: Transaction totals, by household and instrument type, US$



Chan Miah (household 27), the cash-strapped timber trader in the rural upper poor group, is remarkable for two things: he has by far the biggest transaction total, at a little under $5,000, and he conducted

virtually all of it in the informal 'one-on-one' sector as we saw when we described his business in Box Four. His nearest competitor in terms of transaction values is Abu Taleb (household 24), the shop-keeper (see Box Six), but Abu used MFIs for a good part of his finances. Both he and his wife Khukumoni are members (clients) of ASA, a large nationwide MFI, and they started the research year with more than $100 saved there between them. They were both paying down ASA loans when the year began – Abu had taken $300 and Khuku $180. During the year they both paid off their loans and took new ones – of $310 and $200 respectively. But in a change of policy, ASA suddenly told them that they couldn't both be ASA 'members', so Khuku paid off her $200 loan using her accumulated savings, leaving just Abu in the scheme.

This of course inflated their transaction total for the year, since we counted both the savings withdrawal and the loan repayment in our total. But Abu is also in another MFI, Caritas, and uses it vigorously – repaying two loans and taking two new ones (of $120 and $100) in the year.

So why doesn't Chan Miah use MFIs with the same intensity? His wife Nilufa is a member of only one MFI, Proshika. She has an outstanding loan there but her group isn't performing well and she fails to take a new loan during the research year. In an interview Chan told us that he didn't like the MFI conventions, above all the rigorous enforcement – on penalty of embarrassing public exposure – of a fixed weekly repayment schedule. He likes Proshika because 'you repay monthly and they don't complain if you're late', and he says that 'they give you loans on time' – only to find that Nilufa in fact never got her expected follow-up loan! We will have more to say on MFIs in a later section.

The third-biggest transaction total, at about $2,770, is that of Gani (household 37), the well-to-do road-side farmer who is in the rural near-poor group (see the paragraph preceding Box Two in Section 2). His choice of provider is different again, since he is the only household in our study to use the formal sector in a big way. He started the research year with an old loan of $300 taken in early 1998 from a state agricultural bank, and because he had a good year of farming in 2000 he decided to retire it, paying off first the principal and a week or two later the accumulated interest of $149[7]. But he also keeps his cash in the bank: the year opens with a modest balance of $90, but he deposits large sums during the year at harvest times – as much as $510 on one occasion – and makes big withdrawals to invest in machinery. Another near-poor farmer, Hasan (household 38), at first told us that he too keeps cash in the bank, and reported a balance of $380. Later, when we got to know him better, he told us that in fact the cash was stored with a

[7] Interest payments are not included in transaction totals, but accounted as costs of transacting. See later in this section.

money guard – a friend with a shop in the market place. Not only was it more convenient to 'bank' with this merchant than with the highly bureaucratic bank, Hasan also confessed that he thought it wise to keep his savings away from an institution from which he had taken a loan, in case the Manager confiscates the savings.

Figure Four shows that our group of eight urban upper-poor households don't contain anyone with such cash-intensive businesses as those of Chan Miah and Abu Taleb. Still, five of the urban households have transaction totals of $1,000 or more: Rupban with her firewood business who stores cash with family money guards, Manzil who borrows interest-bearing loans heavily to help shift and rebuild his home and rickshaw-repair shop, Sobhan the wheeler-dealer who takes every interest-free loan he can, Samad and his mother and sister who have taken waged jobs but are trying out several instruments to save and borrow, and Helal, who makes do by juggling one instrument with another – taking private loans to repay his wife's MFI dues, for example.

All in all, then, our investigation of the reasons why the rural households in our sample, above all the rural upper poor, have higher transaction totals than their urban counterparts mostly reveals the diversity of individual behaviour and opportunity. It may be that in the countryside the tradition of reciprocal interest-free lending remains stronger than in the town, but that doesn't in itself explain the lower overall transaction values of the urban part of our sample.

Small balances

At the outset of this section we expressed reservations about the accuracy of the household monetary 'balance sheets' that we have constructed for our respondent households. Nevertheless, there is a general pattern that is worth remarking: *balances are small relative to annual flows.* Indeed, many households executed, during the research year, single transactions of a value larger than total year-end balances.

On the assets side, this suggests that financial assets play a small part in the composition of total household wealth. Households are more likely to invest in livestock and business stock, land, machinery, or housing, than in savings accounts or insurance policies, and we have many examples in our narratives of households doing just that. Long-term savings instruments like insurance aren't working well. Almost no-one has a big balance in bank savings. Savings balances at MFIs are likely to be small relative to loans outstanding, and both of these small relative to annual flows of loans and repayments.

On the liabilities side, it suggests that financial debt is not very deep, and again this is substantiated by the narratives. Loans are either repaid quickly, or are forgiven, or are on the way to being forgiven – especially

when the debt is to family. MFI loans are repaid in a year (or are supposed to be – and when they're not, it sometimes means that the MFI has, *de facto*, written the loan off).

Our sample households, then, are using deposit and loan opportunities mainly to create small-to-medium value lump sums for immediate use, not for long-term investment nor for long-term debt.

This pattern distinguishes these households from those in developed economies. A modest household there is likely to have at least one large financial liability – a mortgage on a home, and at least one large financial asset – some kind of store for old-age, in a pension scheme, savings or share account, for example. Relative to these balances, the flow of money from income sources and out to expenditure may be modest, though much depends on the age of the household. For households, the ratio of financial liabilities (debt) to annual income varies from about 70% in France to a high 130% in Japan (*Economist* 2002) : for our sample households it appears to be about 11% (using the figures in Table Two below, and the estimate of $1,400 for annual household income given above). For assets, the comparison is of a similar order of magnitude. The microfinance industry might ask itself whether this difference arises from fundamental differences between the households in the two environments, or from immaturity of the microfinance industry: more on this in a later section.

The pattern of small balances relative to flows is true for all six wealth and location classes:

Table Two: Average Household Financial Stocks and Flows, by wealth and location, US$

	Stocks (year-end balances)		Annual Flow in research year		
	Assets	Liabilities	Deposits made, credit disbursed, debt paid down	Debt incurred, savings withdrawn, credit paid down	Total annual flow
Rural poor:	56	67	224	209	433
Rural upper-poor:	429	279	1,120	899	2,019
Rural near-poor:	475	208	827	479	1,307
All rural:	**210**	**137**	**523**	**412**	**935**
Urban poor:	71	267	159	243	402
Urban upper-poor:	177	106	511	477	988
Urban near-poor:	199	82	647	575	1,222
All urban:	**129**	**179**	**363**	**379**	**742**
All:	**170**	**158**	**443**	**396**	**839**

Table Two shows that one group, the urban poor, has a ratio of assets to liabilities which is out of line with other groups: their debts are almost four times as high as their financial assets, whereas for the forty-two households as a whole assets exceed debts. Examination of the data shows that this is mainly due to outstanding balances on loans taken on interest: such loans amount to 56% of all household financial debt for the urban poor. Indeed, the ten urban poor households were responsible for 74% of all debt of this sort for all forty-two households. Looking more closely, we see that three urban poor households were responsible for the bulk of this debt: Rashid and Ranu (household 18), Sultan and Renu (19) and Kalam and Safia (20). All three are cases of substantial old loans that remain outstanding but may never be repaid – may in fact be on the way to forgiveness or of being negotiated down. Rashid and Ranu's case is detailed in Box Eight below, because the issue of loan forgiveness is worth a closer look.

Transaction costs and loan forgiving

We recorded whenever possible the interest paid or received on loans and deposits, although here again the data should be taken as indicative rather than definitive, since amounts may have been disguised or obscured out of feelings of pride or shame, or because of the ambiguities that surround the taking the interest in the informal economy. The totals were as follows: total reported interest paid out on loans by borrowers for all 42 households was $1,113 in the research year, and total reported interest earned on deposits (including lending) was $165, for a grand total of $1,278, an average of $30 per household. Sub-totals for the rural and urban halves of the sample were similar. Sub-totals for the three wealth groups were $18 per household for the poor, $49 per household for the upper poor, and $36 for the near-poor – these numbers are therefore roughly proportional to the three groups' total transaction flows.

Behaviour with regard to interest charges varies greatly with instrument type. Because the MFIs collect loan interest along with repayments at weekly intervals, they and the formal banks are the only services that earn interest on a consistent basis. The MFI share of reported interest earnings is therefore very high: all-in-all they earned about $436 from our sample households in the year, a 39% share of all such interest reported earned on a mere 15% share of total transaction values.

Private interest-bearing loans took interest erratically, but nevertheless took a bigger share: they earned just a little more – $446 – but they did it on a smaller share – 10% – of total transaction values. This would suggest that the effective private interest rate is about one and a half times that of MFIs.

The study shone some light on what I have called (above) the 'ambiguities' of interest charging in the informal credit market. Interest is paid in full as agreed in less than half of all the interest-bearing loans reported. In a third or more of all cases, the interest is discounted, forgotten, forgiven or ignored, and in the remaining cases the position over interest remains unclear. Some patterns are beginning to emerge, though further research would be needed to confirm them. First, loans within families are the most likely to be forgiven or forgotten. Here is how Siraz (household 36, urban upper poor) deals with a loan from his sister-in-law (Box Seven):

Box Seven: Siraz and his sister-in-law

Siraz is the baby-taxi driver who suffers from piles. At one time he considered buying rickshaws to hire out as an alternative way to make a living. So he got his wife Monwara to approach her sister for a loan of $60. The sister was sceptical – she'd been bitten before – but she agreed to lend them the $60 if they would repay $2 a week for fifty weeks. In other words, she sought $40 interest, an annual rate of 115% (APR basis). In the event, Siraz and Monwara didn't buy the rickshaw. Instead, they spent a third of the loan on a cupboard, a third went on normal household expenses, and a third was lent out to a fellow rickshaw-driver at the rate of 17.5% a month, (210% APR), a loan that worked well enough if a little delayed. Siraz paid his sister-in-law $4, and then told our researchers 'she's rich – she won't mind if we don't pay the interest, you'll see'. A month later he is proved right: the sister-in-law says 'OK, don't pay the interest – but be sure to repay the principal'. Over the next months Siraz repays intermittently, until all but $4 of the principal has been returned. Then he tells us 'that's it – I'm not paying any more'. But a few weeks later he meekly repays the final $4.

This pattern may also apply sometimes to loans from well-to-do to poorer households. Malek, a day labourer (household 13, rural poor) tells us that 'rich people don't put much pressure on very poor people to repay loans', and we have some stories that may corroborate that – though in our study it is the urban poor who renege on loan commitments more than the rural poor, perhaps because the anonymity of city life gives them some shelter from social pressure. Here is a tale from Rashid's portfolio (Box Eight):

Box Eight: Rashid's loans

Rashid is the older man we met in section 2 (immediately below Box Two), who has health problems and gets into debt dealing with them. As long ago as 1997, when he had severe jaundice, he borrowed the very large sum of $400 at the extraordinary high price of 20% a month. The loan was for medical treatment plus capital for his vegetable shop. He has never repaid a penny in principal nor interest. The creditors, local slum dwellers like him, press him from time to time, but he tells them 'I'm too ill and poor to pay anything'.

In 1998 and 1999 he took three more loans, of $40, $40, and $20, at 10% a month, from three local housemaids, and has similarly repaid nothing. The three women abuse his long-suffering wife, Renu, regularly. But during the research year they attempt a deal – they say they'll forgive the interest if he'll only repay the principal. But he doesn't.

In this case negotiation failed, but our research shows that often it succeeds. Sultan (household 19, urban poor) had a three-year old debt of $160 at 10% a month when we met him, on which he'd paid nothing,

so that the interest debt alone had risen to $180. During the research year he successfully negotiated a deal under which he agreed to pay $120 in interest (which he did) and repay the principal at some later date with no further interest. Sayer (household 21, also urban poor) had a debt of $300 incurred locally when his son broke his leg in 1997. He had been making some payments on it, but in the research year the creditor tells him ‘OK, that’s enough – just repay the $120 principal still outstanding but you needn’t pay any more interest’.

Discounting or forgiving, on the evidence from our study, is related to loan use as well as to the relative social rank of lender and borrower. Thus: a rich lender lending to a poor borrower for medical costs is most likely to discount or forgive, whereas loans between equals for business purposes are least likely to be forgiven or discounted. This pattern could usefully be sought in further studies.

Still, there are enough discount or forgiveness stories to float the following proposition, one that I have often entertained when looking at debt in many countries. High stated cost, later negotiated down, is common in private with-interest lending – and may even be the norm. It has two clear functions from the lender’s point of view. First, it acts as a deterrent – if I state a high price maybe the would-be borrower (whom I know to be poor and likely to have difficulties repaying) won't take the loan. Second, it assures me that I will get some early return on the loan: if I manage to get 10% a month for the first three months but then earn nothing more, my overall rate for the term of the loan as a whole may still be positive. Many MFIs charge high ‘up-front’ fees or extra interest charges on their loans for similar – very good – reasons. It is a sensible way of dealing with risk.

So beware those stories of high interest rates charged by wicked moneylenders: their effective rate may often turn out to be much lower than their stated price[8].

[8] More research is needed. In West Bengal, a neighbouring Indian state with many similarities to Bangladesh, poor women villagers I spoke to recently insisted that in their community informal for-interest loans are *not* negotiable: lenders insist on full interest payment, or on labour in lieu.

5 *The Uses*

Usefully large lump sums

The previous section has shown that in the main our households do not use financial instruments to hold long-term financial assets nor to acquire long-term debt. Rather, they use them like current accounts – cash awaiting, or following, conversion into sums of money that are needed for imminent expenditure. Such 'usefully large lump sums' as I have called them elsewhere[9] are constructed out of savings, either by finding a secure place to hold those savings until they have grown into lump sums (a process I have called 'saving up', Figure Five), or by taking an advance against a future regime of saving, an advance normally acquired as a loan of some form ('saving down', Figure Six). Because poor people tend to have small and insecure incomes, and tend to spend much of that income quickly on basic requirements (largely food and the fuel to cook it with) they often find that they lack the cash on hand when they need to buy almost anything else – clothes, medical help, school fees, and so on. Therefore, they need to engage in 'saving up' and 'saving down' regimes very frequently for even modest sums of money – a fact which may account for the high incidence of use of financial instruments (section 3) and the often modest values of the lump sums thus produced (sections 4 and 5).

Figure Five: Saving Up

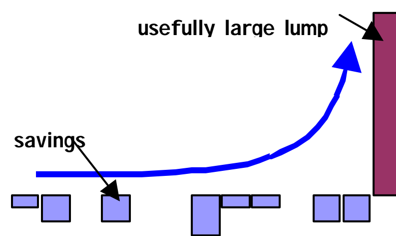
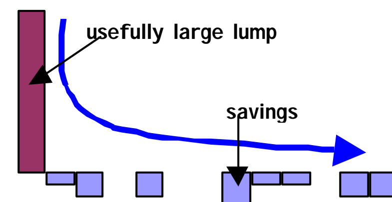


Figure Six: Saving Down



But what, exactly, are the uses that required our households to form these 'usefully large lump sums'?

515 ways to spend money

Our data is of mixed quality. In some cases we have incomplete or even contradictory information. In others, we have coherent accounts that allow us to follow through the whole of an episode of use of an instrument – from the purchase of a new mud-bank through until its being broken and its contents spent, for example, or from the receipt of an MFI loan through its expenditure and full repayment. We took 515 such accounts of how 'lump sums' were formed, and used them in the analyses that follow. Although this is

[9] Rutherford 2000

a selection of data based on cases that we believe to be accurate records, all forty-two sample households are represented in the selection.

First, we broke the sums down into three broad 'use categories', depending on whether they were used

Box Nine: 'transfer sums'

Kohinoor (household 33, urban upper poor) is a member of an MFI called Shaisab, and when we met her she was paying down on a $80 loan, in weekly instalments of $4. Because her husband, Helal, gets only intermittent work as a baby-taxi driver, it was often very difficult indeed to find this $4 week-in week-out. So one week we found her approaching her brother for a *howlat*, an interest-free loan, to cover her MFI dues. This *howlat* is treated in the *life-cycle* category in the analyses in this section. As it happens, Kohinoor managed to pay off her MFI loan and just before the end of the research year she took another loan from Shaisab, this time of $160. She repaid her brother's kindness by on-lending him half of this sum, again as a *howlat*, to help his small business: with the other half she bought herself a gold chain. No doubt she has since been calling on her brother again to help make the weekly repayments.

Amala (household 14, urban poor) is a member of the MFI ASA. In the research year she completed a year of weekly instalments and paid off a $120 ASA loan. She didn't really need a new one, but was reluctant to forgo the opportunity held out to her, so she accepted a fresh loan of $160. This she lent immediately, in full, to a local acquaintance, a man who agreed to supply the weekly repayments of principal and interest *and* to pay Amala profit in the form of paying also for her weekly ASA forced saving of 40 cents. The two deals (the loan taken by Amala from ASA and the related loan given by her to her acquaintance) are analysed in this section within the 'opportunities' category.

for *life cycle* events such as birth, education, marriage, homemaking, death, and general household maintenance; *emergency* uses like health, theft and natural or man-made calamities; or *opportunities* such as investments in productive assets, businesses, land, or consumer durables. 'Transfer' sums (sums used to balance some other sum) were categorised as follows: sums used to pay down debt (9% of all sums) were placed in the *life cycle* category, and sums used for on-lending to others (4% of all sums) were placed in the *opportunities* category (Box Nine).

According to our respondents' reports, almost two-thirds of the 515 lump sums were spent on *life cycle* uses, just over one quarter on *opportunities*, and the remaining 11% on *emergencies*.

Obviously, we assumed that there would be relationships between the value of the lump sum, its use, and the wealth category of the user. A summary of these relationships is shown in Table Three.

Table Three: 515 sums by value, use category, and wealth class of user

	Number of sums analysed, n and %	sums under $10, n and %	sums between $10 and $100, n and %	sums over $100, n and %
23 poor households	278 100%	186 67%	82 29%	10 4%
of which: for life-cycle use	191 69%	148 53%	39 14%	4 1.5%
for emergency use	41 15%	19 7%	20 7%	2 0.5%
for opportunities	46 17%	19 7%	23 8%	4 1.5%
13 upper-poor households	167 100%	75 45%	63 38%	29 17%
of which: for life-cycle use	96 57%	60 36%	34 20%	3 2%
for emergency use	12 7%	3 2%	6 4%	3 2%
for opportunities	59 35%	12 7%	23 14%	23 14%
6 near-poor households	70 100%	29 41%	32 46%	9 13%
of which: for life-cycle use	35 50%	24 34%	10 14%	1 1%
for emergency use	6 9%	2 3%	3 4%	1 1%
for opportunities	29 41%	3 4%	19 27%	7 10%
all 42 households	515 100%	290 56%	177 34%	48 9%
of which: for life-cycle use	322 63%	232 45%	83 16%	8 1.5%
for emergency use	59 11%	24 5%	29 6%	6 1%
for opportunities	134 26%	34 7%	65 13%	34 7%

The highlights of this rather complicated table are as follows. Starting at the foot of the table with the numbers for all 42 households taken together, we see the figures already quoted: just under two-thirds of the 515 lump sums were used for life cycle needs, a quarter for opportunities and 11% for emergencies. But more than half of all sums were of less than $10 in value and only 9% were of more than $100. Of those big $100-plus sums, a big majority were used for opportunities, but that big majority itself accounted for only 34 sums - 7% of all 515 sums: clearly microfinance as it is practised in the village and slums of Bangladesh is only marginally about large investments in micro-enterprises. Still, there is a clear relationship between value and use – bigger sums get used mainly for opportunities, tiny sums overwhelmingly for life-cycle needs, whereas medium-value sums (between $10 and $100) are much more likely to be used for life-cycle needs or for opportunities than for emergencies. Emergencies (of which, incidentally, medical uses is by far the biggest sub-category) is in all three value-classes a minority use.

Turning our attention to differences between the three wealth classes, what we find is in line with what we might expect. The poor are the most likely to use their lump sums for life-cycle needs, and the least likely to use them for opportunities. The proportion of very small sums (under $10) is larger among the poor than among the other two groups, and the proportion of very large sums ($100 plus) is very much smaller. It is the upper poor who are most likely to build large sums and the most likely to spend medium and large sums on opportunities.

The poor are more likely than others to spend their sums on emergencies: there are only two cases among the 278 sums built by the poor where a very large sum is spent on emergencies (see Box Eight), but evidence that they spend quite heavily on this use is shown by the fact that they are just as likely to spend medium sums ($10 - $100) on this use as they are very small sums. A closer look at the data shows that these 'emergency' uses are overwhelmingly health related.

Saving up and down

You can build a usefully large sum by saving up for it (in a bank or MFI savings account, in an ASCA or ROSCA, with a money-guard or by lending cash out, or by keeping cash at home in your mud-bank or petticoat, for example) or by 'saving down' for it (by taking a bank or MFI loan, or borrowing money privately with or without interest, or accepting cash as a money guard, for example). So how were the 515 lump sums in our sample formed? In Table Four we look at this question broadly, just to see how many were formed through saving and how many through some form of borrowing. In the next section we shall look more carefully at precisely which instruments were used.

Of all 515 sums in our sample, only 1 in 5 were formed through saving up. The dominance of borrowing is true for all sub-sectors of the analysis. All three wealth classes form lump sums through borrowing much more often than through saving: though the near-poor group has a substantially greater propensity to use savings (31% of all of their lump sums are formed that way) and the poor group the least (only 15%). In the case of the poor group we note that they borrowed as often for opportunities as they did for emergencies (37 of their 278 sums were used for each of these two purposes), but that they saved for opportunities more than twice as often as they saved for emergencies, presumably reflecting the sudden onset of many emergency needs which cannot be planned for.

Table Four: 515 sums by provenance, use category, and wealth class of user

	Number of sums analysed n and %	sums formed by 'saving up' (by building and then *withdrawing* financial assets) n and %	sums formed by 'saving down' (by *taking* and then paying-down financial liabilities) n and %
23 poor households	**278 100%**	**41 15%**	**237 85%**
of which: for life-cycle use	**191 69%**	**28 10%**	**163 59%**
for emergency use	**41 15%**	**4 1.5%**	**37 13%**
for opportunities	**46 17%**	**9 3%**	**37 13%**
13 upper-poor h'holds	**167 100%**	**35 21%**	**132 79%**
of which: for life-cycle use	**96 57%**	**23 14%**	**73 44%**
for emergency use	**12 7%**	**2 1%**	**10 6%**
for opportunities	**59 35%**	**10 6%**	**49 29%**
6 near-poor households	**70 100%**	**22 31%**	**48 69%**
of which: for life-cycle use	**35 50%**	**8 11%**	**22 31%**
for emergency use	**6 9%**	**1 1%**	**5 7%**
for opportunities	**29 41%**	**13 19%**	**16 23%**
all 42 households	**515 100%**	**98 19%**	**417 81%**
of which: for life-cycle use	**322 63%**	**59 11%**	**263 51%**
for emergency use	**59 11%**	**7 1.5%**	**52 10%**
for opportunities	**134 26%**	**32 6%**	**102 20%**

The only sub-sector in which saving competed seriously with borrowing as a means to form lump sums was among the small near-poor group for lump sums used for opportunities: they saved 13 sums that way, and borrowed 16.

Note, however, that these figures are in some degree misleading in that for 'mutual' type instruments they tend to under-report the role of saving-up. This is because in some cases the sum we report is a loan (a 'savings down' sum), but is taken from a sum that was initially formed through saving up, as when a member of a savings club chooses to spend a sum by taking a loan rather than by withdrawing savings. Take the case of Monwara (Box Ten):

Box Ten: Monwara's factory ASCA

Monwara is the young sister of Samad, the urban upper poor family who migrated to Dhaka and took garments factory jobs. At the factory, Monwara soon joined the informal ASCA (accumulating savings and credit association) that is run by the workers on her floor of the building. This proved useful: they allow loans to be taken against savings. Very small emergency loans can be had interest-free, and Monwara soon took and repaid one of $10 (used to make an instalments payment on an MFI loan). Then the next month she borrowed $30, at 10% a month interest. The ASCA rule is that you can take up to 75% of your saving balance as a loan at any time. Dividends (members' shares of the loan interest income) are to be disbursed after one year.

In the course of our analysis we sub-categorised our three main 'use' categories (Table Five). Readers may be interested in the overall share of lump sums for each of these sub-categories:

Table Five: 515 sums categorised and sub-categorised by use

Category	Sub-category	Number of sums	Percentage of total (515) sums
Life-cycle uses	daily living	244	47
	education	4	1
	marriage	10	2
	household repairs	13	2.5
	repayment of debt	45	9
	entertainment	6	1
sub-total		*322*	*63*
Emergency uses	accident	1	0
	health	45	9
	theft	1	0
	slum demolition	5	1
	bribes & legal fees	7	1.5
sub-total		*59*	*11*
Opportunities	business	54	10
	furniture etc	6	1
	farming	21	4
	on-lending	21	4
	land	10	2
	livestock	10	2
	vehicles, boats etc	12	2
sub-total		*134*	*26*

We close this section with some more examples of lump-sum formation in practice (Box Eleven).

Box Eleven: forming lump sums

Imam and Asiya, a rural poor household (household 8) got into trouble with their $100 MFI loan. They took it to buy roofsheets for the room where their demanding son, Zia, sleeps: he insisted on a better roof when he got married and brought his new wife home, arguing that he brought most of the income into the household from his rickshaw van driving. But Imam and Asiya simply didn't have the means to repay the loan, and they are very embarrassed when MFI staff come repeatedly to their door to demand repayment instalments. The MFI even demanded that Imam sell the roof-sheets to repay the loan. Asiya finally confronted Zia, and shamed him into paying off the arrears – which Zia did from the dowry money he'd just got from his new in-laws.

When we are talking to **Yunus's wife Bibi** (urban poor, household 16) about old debts, she suddenly remembered the $10 she took the year before from her uncle, money that was suddenly needed to treat Yunus's illness. At the time, they had no other way of getting hold of the money. Now Yunus is reminded and he pays down the debt from rickshaw driving income.

Manzil owns a rickshaw repair business and some old rickshaws. As we have seen, he had to shift his home and business twice during the year because of the rebuilding of the flood embankment (household 30, urban upper poor). For this he needed capital, and he managed it by borrowing $140 from his landlord. The deal was that he should repay $5 a week until he had repaid $200. When we said goodbye to him at the end of the research year he had been paying more or less on time and in full – we don't know whether he finally managed to negotiate down the final price of the loan, but he was hopeful.

Rashida, the patient wife of Suruj (the rural poor timber trader and gambler, household 6) told us how Suruj borrowed $20 from their neighbour, Aziz, to go gambling. Aziz began to press for repayment, and Suruj told him he'd repay the debt by taking an MFI loan. However, it is Rashida, not Suruj, who is the MFI member, and she already had a loan which was already overdue. She told that to Aziz. When we next asked Suruj about the debt, he said he hadn't repaid Aziz because Aziz hadn't pressed very hard for it. A few weeks later Suruj did repay, out of timber trade takings.

6 The Providers

This section takes a closer look at the role of one of the key players involved in the provision of financial services and devices – the semi formal 'MFI' sector. We begin with a table patterned on Tables Three and Four, but this time designed to analyse the 515 lump sums by their origin in the three main classes of instrument: formal, semi-formal, and informal.

Table Six: 515 sums by class of instrument, use category, and wealth class of user

	Number of sums analysed, n and %	sums formed in the formal services n and %	sums formed in the semi-formal services n and %	sums formed in informal services and devices n and %
23 poor households	**278 100%**	**2 0.5%**	**19 7%**	**257 92%**
of which: for life-cycle use	191 69%	0 0%	6 2%	185 67%
for emergency use	41 15%	1 0.5%	2 0.5%	38 14%
for opportunities	46 17%	1 0.5%	11 4%	34 12%
13 upper-poor households	**167 100%**	**2 1%**	**26 16%**	**139 83%**
of which: for life-cycle use	96 57%	1 0.5%	10 6%	85 51%
for emergency use	12 7%	0 0%	0 0%	12 7%
for opportunities	59 35%	1 0.5%	16 10%	42 25%
6 near-poor households	**70 100%**	**9 13%**	**6 9%**	**55 79%**
of which: for life-cycle use	35 50%	0 0%	3 4%	32 46%
for emergency use	6 9%	0 0%	0 0%	6 9%
for opportunities	29 41%	9 13%	3 4%	17 24%
all 42 households	**515 100%**	**12 2%**	**51 10%**	**451 88%**
of which: for life-cycle use	322 63%	1 0%	19 4%	302 59%
for emergency use	59 11%	1 0%	2 0.5%	56 11%
for opportunities	134 26%	10 2%	30 6%	93 18%

Here we have yet another analysis showing the dominance of the informal sector. Of the 515 sums we carefully tracked, 451, almost nine out of ten, were formed by informal means. MFIs accounted for one in ten of all sums, and the formal sector a miserable one in fifty.

Where are the MFIs?

The dominance of the informals and the tiny role of the formals is not unexpected and has already been discussed to some extent. Therefore, we now look more closely at the role and performance of the semi-formals – the MFI sector with its special promise of bringing banking services to the poor. As is well known, the MFI sector is well developed in Bangladesh relative to other countries.

By MFI (microfinance institution) we mean, with a few exceptions, NGOs that provide financial services to low-income people, either as their exclusive business or as part of a wider programme of development. They are registered in the most part as social welfare organisations. The main exception to this is the Grameen Bank, which is not an NGO but has a unique formal bank charter. (Other exceptions are *Safe*Save, which is a co-operative, and two schemes owned and run by local government, but each of these features in relation to only one of our households). Nearly all use a variant of Grameen Bank's group-based joint-liability lending scheme with compulsory saving as part of the packet of services. Again, the exceptions (notably *Safe*Save) are very small players in our survey.

There are 26 MFIs providing saving services to our 42 households, and 15 of them are also providing loans. The one that features most often, by a comfortable margin, is ASA, a large nationwide MFI (eight households save with ASA, and seven of them have loans). Others that feature several times are Proshika, another nationwide NGO (four savers, four borrowers), ADRA, a local NGO in the rural area (three savers, three borrowers), Caritas (three savers, two borrowers), ASD, a local NGO operating in a Dhaka slum (three savers, one borrower) and World Vision (two savers, two borrowers).

There are three kinds of reasons that explain why there are more households saving in MFIs than borrowing from them. The first is purely technical: these MFIs insist that their clients (whom they call 'members') save a little every week, without exception. So at any one time there are members who have not yet qualified for a loan, or are between loans. The second reason has to do with client preferences: some clients without a current need for a loan nevertheless wish to stay in the scheme without borrowing, and in order to keep their right to future loans they keep up their savings deposits. Some of these members value the savings as a service in its own right, as much as or even more than they value the loans. The third reason occurs when things go wrong: if groups have broken up or are in the process of doing so, clients may have their savings 'locked' into the MFI while the joint-liability rules are being worked through. Take the cases of Fulbanu and Anwara (Box Twelve):

Box Twelve: problems with MFIs

Fulbanu's false starts (household 14, urban poor): Fulbanu is a member of three MFIs when we meet her. One is a large nationwide MFI (not one of those mentioned above), another is a local MFI and the third is an anonymous entity which we could never track down. At the start of the research year Fulbanu has $15 saved at the 'nationwide' and she deposits another $5 in the next few months. But this is at a time when the embankment, where she lives, is being rebuilt, and the MFI decides to curtail its lending in what it considers a risky environment. Fulbanu is indignant, insisting she'd been promised a loan. Her deposit rate falls off and she begins to negotiate to leave. Finally she drops out, taking $17 of her savings with her.

Meanwhile she tells us she has 'come away' from the local MFI which has also stopped lending.

With these two avenues to loans closed, Fulbanu joins the anonymous MFI, which promises to lend $40 as soon as members have saved $10. Fulbanu pays a $1 entrance fee and then deposits $5 over the next few weeks. But the signs aren't good: other members in her 20-person group are dropping out or not saving, and then the MFI staff fail to turn up at meetings. She starts to negotiate her way out, and finally drops out, getting $2 of her savings back.

Anwara's failing group: Anwara (household 26, rural upper poor) is in a major MFI and on the whole likes it: they are polite, the interest rate is low, and this particular MFI accepts repayments monthly and doesn't complain too much if you pay late. But in the research year there's a crisis. A year earlier, the Leader and Cashier of her joint-liability group had admitted ten new members who were 'too poor', thinks Anwara. Sure enough, most of these ten cannot now make repayments on their loans. The rules are that other members must pay for them, and savings can be confiscated to this end. Anwara has $28 saved in the MFI. So, she decides to stop repaying while her debt to the MFI is still larger than her savings with them. So do most of the other members. Meetings fail to happen. When MFI staff come to the village, the members try to avoid them. Stalemate.

Good outreach

Despite problems like these, it is clear that MFIs have been very successful in reaching the households in our study. The District where our rural locations are sited is well-known as an 'MFI area', being in central Bangladesh and with good communications to MFI HQs in Dhaka. Nevertheless, it is not exceptional – there are many other areas like it. Matin (2000) quotes a study by rural sociologists that notes that in Bangladesh it is now 'very hard to find a control village that hasn't been penetrated by MFIs'. Our urban slums, on the other hand, were not known to be particularly rich in MFIs, yet sixteen MFIs reached our twenty-one households with savings, and nine of them reached them with loans. As we saw in Figure Two, MFIs have reached the poor (their traditional target group) in large numbers: they are present in some form in seventeen of the twenty-three poor households. They have also reached the upper poor (a target group they now increasingly see as important to them) in a big way – present in eleven out of thirteen households. They have even reached a majority of the near-poor, with a presence in four out of six households, even though some of the MFIs still deny that they work with members who own more than a half-acre of land or its equivalent in other assets.

So why are they a minority service?

With this degree of penetration (into thirty-three out of forty-two households, and in many cases multiply present – remember that Kuruna and her daughter (household 42) have seven concurrent MFI memberships), and with a declared ambition to be the bankers to the poor (Yunus, 1998), why is it that MFIs have a rather small share of the money management business of those households (Figures Three, Four and Six)?

MFIs carried out one fifth as many lending deals with our households as just *one* of the informal systems with which they compete – interest-free lending (and one eighth as many deals as interest-free and interest-bearing loans put together) (Figure Three). Their share of transaction-flow values (at $5,120) is less than 15% of the total ($35,100) (Figure Four), so although they may fairly claim that they do fewer but bigger deals than the informal sector, the aggregate value resulting from this strategy is still small. And they have only a 10% share of the 515 'sums' that we analysed in section five (Figure Six). Nor can they claim that they specialise in long-term asset and debt management for their clients: the MFI share of closing balances was only 13% of all household financial assets, and their share of household debt just 21%. Clearly, they are not the main money managers for their clientele.

Then are they a specialised service? Are they still pursuing the ambitions they had when they started out twenty-five years ago – to provide credit only, and that only to women owners of microenterprises? In a literal sense this isn't the case, since Figure Six shows us that only 30 (59%) of the 51 MFI-formed 'lump sums' that we analysed in Section five were used for opportunities, and that the opportunities class contains many other sub-categories besides microenterprises (Table Five). Of course, the fact that members use MFI loans for all sorts of things other than microenterprises does not mean that the MFIs are happy with that state of affairs, and it may be they still want to focus exclusively on business loans. But even if that is the case, they don't appear to be doing very well *vis-à-vis* the competition. Our households went to the informal sector for loans for 'opportunity' uses three times as often as they went to the MFIs (Figure Six, bottom line).

This paper is not the place to make a comprehensive review of MFI practice, so in seeking to understand why MFIs have such a small share of the microfinance market, we will restrict ourselves to brief comments on two broad areas – *flexibility*, and *reliability.*

Not flexible enough

MFI products and delivery systems – in the form they took in our research areas in 1999-2000 – were designed to answer one kind of perceived financial need, and were then further designed to minimise the

risks that MFIs face in offering them. The product is a 'micro-business' loan intended to introduce fresh capital into new and (mostly) existing small businesses that have a particular cash-flow pattern which combines high internal rates of return with year-round consistent and rapid turn-over. Retail trades in year-round goods are best suited to such loans. Few other activities are suitable, since few other activities produce a rate of return that is high enough to amortise the introduced capital at the very high rate that weekly repayment instalments and a zero grace period require *and* produce a surplus big enough to support the household while it undergoes the process. If this product is then offered in a 'one size fits all' fashion – that is, with only one term (a year), one repayment schedule (weekly), and in values that are not directly related to the business being financed – the resulting inflexibility makes the product less useful to many potential clients. Such MFIs cannot satisfactorily serve clients who want to save up a small amount as and when they can and then withdraw it for some sudden use, or clients who would prefer some other loan term or payment schedule, or clients whose need for loans comes in something other than annual cycles, or who want to finance something other than a retail business. One of three things happens: clients take the MFI loan and then 'bend' it as best they can to suit their actual needs; or they find that they can't borrow; or they decide not to borrow. When the service is delivered in the context of the joint-liability group (designed to lower the lending risk), further inflexibility is inevitable (Box Twelve). Inflexibility means that diversity of need cannot be satisfied. Therefore it is not surprising that users' comments on the MFI product are often contradictory (Box Thirteen).

Box Thirteen: divergent views on MFI products

'The weekly repayment system is bad – it simply isn't possible to find the money like that' (Kalam, household 20)

'MFI loans are good – small weekly repayments make it easy to repay' (Kajoli, household 21)

'MFIs don't give you the loan at the time you want it, so that's why *howlats* are much better' (Sufia, household 30)

'ASA is very good – they give a loan when you ask for it (as soon as you've repaid your old one): other MFIs make delay' (Karuna, household 42)

'If MFIs gave loans quickly, I'd go there for one' (Suruj, household 10)

'Proshika is the best – they are not strict and let you pay late if you want' (Halima, household 31)

'ASA is good – it is very strict and prompt, so you are sure to repay your loans and not have them hanging over you' (Samad, household 32)

Reliability – an undervalued virtue?

Many of our households talked to us about the reliability (and unreliability) of the financial services and devices they use – and we report on this more fully in the next section. It seems to this writer that many of the MFIs that featured in our study have not sufficiently understood that reliability is one of their natural advantages. Too many of them are failing to capitalise on it.

State-owned banks are notoriously unreliable. They make lengthy delays, they extract unpredictable bribes, and their officers behave in arbitrary ways with scant regard to rules. Informal devices and services can be unreliable in many different ways (see the next section). MFIs, emerging from the NGO tradition in Bangladesh, are well-placed to tread the narrow line between these two failings: their systems and personnel have not institutionalised corruption in the way that state institutions have, and they have the resources – money, systems, educated staff, powerful backers – that should allow them to deliver reliable (even if inflexible) services. But too many don't, at least according to the testimony of our respondents

Box Fourteen: are MFIs reliable?

A local MFI promised a troublesome group that they'd get fresh loans if they repaid their current ones. But they reneged on this promise. 'These [MFI] people aren't true to their word' says Rashida (household 6): the MFI staff were not available for comment.

'I'm fed up with [this MFI] – it keeps changing the rules. No-one knows where they are with them' (Minara, household 15)

'Shakti's loans are reliable and we like the MFI very much' (Kajoli, household 21)

'After [the NGO] *Shelter* ran away with so many people's savings in this slum we were reluctant to trust NGOs: but we've heard good things about this one we're thinking of joining – they're much more reliable' (Monwara, household 36)

See also Fulbanu's story, Box Twelve.

(Box Fourteen).

In his book 'The Evolution of Cooperation' Axelrod shows how trust builds on simple behaviour reliably reiterated. This may be what we are seeing in the case of the more reliable MFIs in our study. ASA is a good example. Although it is perceived by many households as very strict and very demanding of on-time repayment, it is also honoured as being reliable: they give you the loan you are entitled to under their rules, and they give it in full and on time. Thus, we find that households with ASA memberships often struggle to repay ASA loans even when they are in financial difficulty and may be defaulting on other obligations (Box Fifteen).

Box Fifteen: Keeping up with MFI payments

Amala (household 17, urban poor), a sickly middle-aged woman more or less deserted by her husband who took a second wife many years ago, was making ends meet by lodging and feeding her mother and a nephew. But during the research year they left, leaving Amala to look for other ways to support herself. She filled the gap with an informal interest-free loan but failed to honour the repayment schedule she had agreed. She took loans on interest, too, at a high rate, but when we enquired how these were spent, we found that much was used to keep up her regular weekly savings and loan repayments into ASA. Her reward was that as soon as she paid off her current loan she got a new, larger one from ASA, which she found helpful.

7 Some opinions

We were interested to know how the task of money management is viewed by our sample households. Many of them, as we have seen, are intensively involved in quite complex financial relationships with an array of individual and institutional partners. We estimate that, on average, each of our households entered a new money-management 'contract' once every two weeks. (We use 'contract' in a very broad sense here, of course, to include behaviour ranging from buying a new mud-bank to taking a loan from an MFI.) Since many of these 'contracts' involve multiple transactions (dropping coins into the mud-bank, or making weekly savings and loan repayments at the MFI meeting, for example) it is clear that for many households money-management tasks occur frequently, are part of the daily routine.

Ambivalence

So what kind of task is it? Almost all the households volunteered their views on this at some point during the fortnightly interviews, and for the few others we made a point of asking them. There was a remarkable consistency of view: money management is a necessary evil that causes considerable stress and absorbs much time and energy. Nearly everyone shares this ambivalent view: 'we don't like doing it, but we have to'. Here are a few examples, drawn form all wealth classes in both locations (Box Sixteen).

Box Sixteen: needs must

'Unfortunately, you can't get by without borrowing, even though it's unpleasant' (Hamida, household 10)

'Managing money is a problematic matter – if I didn't have to I'd prefer not to get involved in financial services' (Minara, household 15)

'I feel proud when I give *howlats* (interest free loans), and shameful when I have to take them. Still, sometime I have to take them, there's no other way of managing' (Ranu, household 18)

'I feel a lot of pain when lending or borrowing goes wrong, but I have to do it because I can't manage without' (Renu, household 19)

'Financial transactions (*lenden*) are an important part of life but they can be bothersome' (Barek, household 22)

'When I really need cash then I have to engage in *lenden* – otherwise it's just a bother. I feel great shame if people remind me of my debts in public' (Chan Miah, household 27)

'Without a way of getting money a household wouldn't run' (Sobhan, household 31)

'I don't like lending and borrowing – it's a mental burden' (Akkabar, household 39)

'Lending and borrowing are embarrassing. But I borrow because I need to' (Tufani, household 41)

Kajoli, the wife of Sayer (who makes his living from recycling trash and making and retailing sweets with the income), vividly illustrated the kind of 'need' that leads to involvement in *lenden.* She was reminiscing one day about their son, Kamrul. Some years back he had become involved in a business quarrel which turned violent, and had an arm and a leg broken. The medical bills were large, and this is how the household approached the task of settling them: first they used up business capital cash, then sold business assets. Next went home furnishings – a bed, a steel cupboard, a timber-and-glass sideboard. Only then did they start going the rounds of relatives and neighbours asking for *howlats*, but with minimal success. So they offered to take loans on interest, but still very little was forthcoming. There was one MFI in the slum (this story dates from 1997) but they never seriously considered approaching it since they knew there'd be a long delay before they could borrow, and they believed that the weekly repayment system would be impossibly tight for them. Finally Sayer managed a big loan ($300) from a relative, at a nominal rate of 10% per month. To repay this, they put Sahana, their daughter, who was eleven years old at the time, into a garments factory job, and from her wage they've been paying down the loan intermittently ever since. In mid-2000, during the research year, the creditor relented (as we saw in Section 4, below Box Eight), and agreed that they now need pay back only principal, and no more interest.

Approaching several people for *howlats* before getting one is a tale we often heard from our respondents, and almost as frequent were stories of having to approach the same person several times before the *howlat* is actually handed over. Refusing *howlats*, especially to people who have previously lent to you, is almost as painful. This isn't something that affects only the poorest. Gani (household 37, rural near-poor and probably the richest man in our sample) told us a story dating back to 1995, the year he made his momentous decision to pull down the old family house (where he'd been born) and put up a new one. He had budgeted, and had $1,300 on hand, which he thought would be enough. But he was wrong – he needed at least another $400 to secure the building with doors and windows. He had already mortgaged his land to the local agricultural bank, so he couldn't tap bank funds. He said 'I would have felt ashamed to go round asking for *howlats*, so I didn't'. Asked about the MFIs, he said 'it is a matter prestige not to take a loan from an MFI – you have to attend those weekly meetings and sit idle with all the other members, and if you don't pay on time the members may come to your house in a group and embarrass you'. In the end, he second-mortgaged a third of an acre of land privately to an acquaintance from another village, then share-cropped the land in so as to on be seen to be farming it.

Sleepless nights

Most of our respondents are illiterate. Given the intensity and complexity of their financial relationships, we wondered how they kept track of them. This led to more insights into the psychology of their financial behaviour. Saman and his wife Hazara (household 12, rural poor) are both wholly unschooled, and their twelve-year-old son Ezazul has only reached grade three. They have an averagely complex financial life, with savings and loans at an MFI, savings in an ASCA, and several sets of interest-free and interest bearing assets and liabilities, as well as debts to the shopkeeper and cash with a money guard – and all this apart from their mud-bank. They keep track of all this, says Saman, 'by discussing it together – that way it gets fixed in our memory'. But on another occasion the couple told us, 'actually, when we borrow we don't sleep at night, for thinking of it'. Kajoli (whose story about her son is told above) agrees: we asked her how she keeps track of her deals and she said 'by memory: since debts are a liability on us, they stay in the mind only too easily'. Salam and Anwara (household 26, rural upper poor), another illiterate couple, put a practical gloss on the matter. They say, 'you *have* to remember it all – otherwise you'll face losses'. Several remarks of this kind suggested strongly to us that financial activity looms large in the minds of the people in our study. Other studies have confirmed this. Matin (1998), for example, describes the incessant chatter about debts and credits that built to a crescendo on the day before the weekly meetings of MFIs in the village where he did his doctoral research (this reminded us of what Hakim, rural poor household 13 said, 'giving and taking of loans of all sort isn't good – they cause a lot of chatter'). This is a matter that very few people take lightly. Although a handful of our respondents told us they feel proud when they give interest-free loans, no-one ever said that financial dealings are *fun*.

Reliability matters

The previous section raised the matter of the relative reliability of financial services and devices. This was something that our respondents often spontaneously commented on. We heard enough such comments to attempt a working definition of reliability in the context of financial services. It's principal component is 'keeping one's word': most complaints were about promises that hadn't been kept, or not kept in full. Promised loans may or may not be forthcoming, and when they do arrive they may not come in the promised value, with the promised terms or at the promised time. Borrowers are equally unreliable: they may pay or they may not, and even if they do they may pay late or less than due. Hosen Ali (rural upper poor household 35), always looking for a safe place to save, has learnt to be wary of lending *howlats* – 'it's hard to get the money back when you need it'. As we have already mentioned, *howlats* to family are the least likely to be repaid in full and on time: Banesa (wife of Quddus, rural poor household 2) told us

she won't lend to relatives if she thinks they might not pay – but then she doesn’t always repay loans from her own family.

Several respondents have had contradictory and sometimes painful experiences with unreliable ASCAs and ROSCAs. Manzil (household 30, urban upper poor) was in a high-value ROSCA when we first met him, contributing $30 each month. It matured and he got his $200 back, enough to build a new room. Pleased, he immediately entered another one, only to hear that the ROSCA ‘manager’ had run off with the money. He thinks he has lost his investment. Hosen Ali (also urban upper poor, household 35) also lost money in a ROSCA and says he won't enter one again.

Money guards are popular, especially in town, but they too don’t always keep their word. Jalil, our jack-of-all-trades ex-postman (household 25, rural upper-poor) has some money with a guard, but reports he’s having trouble retrieving it.

And so on. No single instrument is wholly reliable. Banks are bothersome – an opinion volunteered by nine respondents for a mix of reasons – bribes, delays, distance, refusal to accept small deposits. The pro-poor insurer is misbehaving: staff don’t come, and there’s no sign of those loans they promised. MFIs, as we saw in the previous section, are a mixed bunch, and we heard complaints about them too (complaints which we were sometimes able to verify independently). Do-it-yourself is unreliable in another sense: the money can get lost or stolen and the temptation to spend money that’s too close to hand is irresistible.

Poor people *have* to find some way of turning their savings into lump sums. What a pity there’s no reliable way of doing it. If there were, much mental stress and social conflict, as well as financial pain, could be avoided.

8 Conclusions

This paper ends with some remarks addressed directly to those involved in the search for ways of bringing better financial services to poor people – to microfinance practitioners, regulators, donors, and academics. This is not a review of microfinance best practice, however – we merely describe three of the clearer implications of the study's findings.

Understanding demand…

Our conversations with poor households suggest that their needs for financial services are not dissimilar to those for other groups, and may in some respects be even more intense. Like the rest of us, they need (first) to find safe places where money can be stored, especially while it builds up into a lump sum, or into a repayment on a borrowed lump sum, and (second) they need quick access to overdraft facilities or other forms of small-scale household credit. Indeed, they may need these basic banking services even more intensively than other groups of people, since their small and irregular incomes lead to a need for instruments to build even very modest sums for everyday purchases other than the absolute basics of food and fuel (and sometimes even for them). The microfinance industry is beginning to understand this demand (that is, the industry acknowledges ever more frequently than that microfinance is not exclusively about loans for microenterprises run by poor women), but much work needs to be done by practitioners (on product and delivery design) and regulators (on enabling and encouraging microfinance operators to offer current and savings accounts). Donors and academics may be able to help push forward both agendas.

…and potential demand

A striking finding is the almost total lack of long-term asset and debt management services. Formal banks offer these services in theory but are unable to attract poor clients. The semi-formal sector (the MFIs) has largely ignored it[10]. The informal sector is so ill-equipped to offer it that when it occurs it does so by default – long term debt is often the result of long-term failure to repay, and long-term assets may be money that has got stuck up in a bad loan or with an unreliable money guard. Consequently, we found almost no examples of major household financial assets nor liabilities: for almost all households annual flows into and out of money management instruments exceeded the end-of year values of their financial assets and liabilities by a big margin (section 4). Instead, on the one hand our respondents quickly transferred cash

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[10] None of our respondents had taken nor mentioned the Grameen Bank housing loan scheme.

into other kinds of asset (livestock, machinery, precious metals, real estate), and on the other managed their livelihoods so as to make do without long-term debt.

They may be wise to do so – this is not the place to enter into that discussion – but it must surely be the case that they would be better off if they at least had the *option* to construct longer-term financial relationships with reliable institutions. Here again we are in need of a lot of thoughtful product-design and sensitive regulation.

Reliability, reliability, reliability

Finally, we need to repeat the startlingly clear conclusion that we came to in sections 6 and 7. Quite aside from the inadequacies of product *design* is the overwhelmingly important issue of product *reliability.* Reliability is the quality that, above all others, is conspicuously missing in the world of money management of the poor – and the poor themselves know it, as we saw in the previous section. It is a fact of life that informal services tend to be unreliable – they are for the most part in the hands of individuals who lack the institutional means to control quality – and we have all learned, unfortunately, to expect government-owned banks to perform unreliably. But a finding of our study is that many MFIs (and their backers) have yet to understand that this leaves them with a golden opportunity to steal a march on the competition. With honourable exceptions (ASA and Shakti stand out as such in this study) MFIs turn out to be less reliable than their clients deserve and the microfinance community should demand. Some abuse their position of power over their poor clients by arbitrarily manipulating their rules – changing them without notice, keeping them ambiguous, or ignoring them. Book-keeping is often sloppy, so that clients can loose a proportion of their savings when they close accounts. Above all, it seems that MFIs too often fail to keep their word, promising loans to keep clients happy and then making excuses.

Change will no doubt finally arrive as a by-product of competition between MFIs. But we need to be more impatient. Doing something here and now requires a change of heart from the MFIs: they need to become more self critical, more aware of the opportunities before them and more determined to find ways of exploiting those opportunities. Donors can help by shifting the focus of their evaluations to issues of quality, and academics by conducting studies that include assessments of performance using criteria which go beyond measurements of outreach and sustainability.

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Appendix 1: Summary of research objectives and methods

The following text is taken from the website (www.devinit.org/findev) where raw data from the 'diaries' study can be found along with the following introduction:

The IDPM 'Financial Diaries' from Bangladesh

We begin with a half-page Overview which summarises the contents of this entry. This is followed by a five-page Introduction which explains the study, and finally by the Diary Summaries themselves (approx 180pages).

***Overview*:**

The **Institute for Development Policy and Management** (IDPM) at the University of Manchester is currently conducting research into '**Finance for the Poor and Poorest**' as part of the '**Finance and Development**' project supported by **DFID**. The project runs for the three years **1999 to 2001**. The 'Finance for the Poor and Poorest' component is managed by Professor David Hulme in Manchester, Stuart Rutherford in Bangladesh, and Orlanda Ruthven in India.

One element of the work is the construction of '**Financial Diaries**' for a number of carefully selected poor and near-poor households in **rural** and **urban India** and **Bangladesh**. Each 'diary' consists of **twenty-four entries** at **fortnightly intervals** for a full **year**. Each entry in the diaries is based on a lengthy interview conducted and written up by **experienced local researchers** based in the areas where the respondents live. It seeks to record as fully as possible the **household's involvement in the use of financial services and devices** of all kinds (formal, semi-formal and informal).

The **objective** of the research is to shed more light on **how poor households manage their finances** over a full year, and in particular, **how and why they make use of financial services** and devices.

We believe that this is the **first time** such an exercise has been attempted. We anticipate therefore that the **results will be of interest** to a wide range of readers. These include **microfinance practitioners** and their supporters (such as **international donors**), **policy makers** in developing countries and in aid agencies, and **academics** interested in studying how poor households cope with their poverty.

The **Bangladesh diaries** were **completed** at the end of **October 2000**. What we present below is a first view of **some of the basic data**, set out in the form of **tabulated summaries of all 42 diaries**. An **introduction** sets out the **context**, the **research questions**, and an outline of the **methodology**.

***Introduction*:**

Background: The research into 'Finance for the Poor and Poorest' comprises work in two countries (India and Bangladesh) using three research instruments, of which the 'Financial Diaries' are one. The other two are a 'Snapshot' study and an 'Innovative Institutions' study. The three instruments relate as follows. The 'diaries' and the 'snapshot' provide two views of how the poor, very poor and near-poor use financial services and devices. Whereas the diaries look at a small number of households (42 in each country) over an extended period of one year, the snapshots look at all the households in one village or one slum at one moment in time. Thus while the diaries illuminate how households use financial services over time, the snapshot gives us an idea of the quantum and variety of financial services and devices in use at a particular time in a particular environment. Both instruments are designed to study both the 'how' and the 'why' of financial services use. The Institutional Study is quite different. It takes a small number of

innovative microfinance providers and reviews their services to see to what extent they address the financial services preferences of poor households as revealed by the diaries and snapshots, and how they do it.

The research questions: For the diaries, the key research question was:

Why and how do poor households use financial services and devices over an annual cycle? In particular:

- how do financial services and devices help poor households manage their finances? (For example, do they help them accumulate lump sums to meet expenditure needs and opportunities, do they help them accumulate assets, or cope with unexpected needs for funds?)
- what is the range of financial services and devices used by poor, very poor and near-poor households?
- how and why do different households vary in their use of financial services and devices?
- does access to financial services and devices vary with the degree of poverty of the household? If so, in what way and why?
- what is the part played by the new 'microfinance' providers?

The research environment: The research was carried out in three rural and three urban neighbourhoods, for a total of six neighbourhoods from each of which seven respondent households were selected. (Note: To respect confidentiality the names of the research areas, but not of the respondent households, have been changed).

The rural neighbourhoods are in a village area (which we have named 'Grampur') in north central Bangladesh. 'Grampur' is dominated by rice cultivation but with several other vegetable, fruit and tree crops. There are few non-agricultural employment opportunities other than local services such as transport, and the retailers in the markets, though there are two government-financed agricultural research stations with extensive landholdings which offer modest salaried employment to a few. There is a busy local market, and more important markets can be reached along a paved main highway. The capital, Dhaka, is about four hours away by bus. The area escaped serious flooding in the national floods of 1988 and 1998. There is a formal bank in the local market, several MFIs (both national and local), and a branch of an insurance company that offers basic low-cost life cover. Most homes in all three neighbourhoods are mud-walled and roofed with tin sheet. Better off households have more than one room, while the poor may have woven-bamboo instead of mud walls, and thinly-thatched roofs. Many but not all homesteads have a drinking water hand-pump. All households are Muslim. Of the three neighbourhoods, one, 'Rastapur' lies alongside the main road and has good quality irrigable paddy land. The second, 'Nichepur', lies three kilometres back from the roadside to which it is linked by a paved secondary road. It too is an irrigated rice growing area and as in Rastapur its inhabitants farm, either as owner-operators, or as sharecroppers or lessees, or as land-poor or landless labourers. 'Uporpur' lies further back from the main road, and paved-road access arrived only very recently, during the research year. Here the land is mixed, with some paddy land and other higher land on which pineapples and trees can be grown. Trading in timber is a popular occupation for both landed and landless households.

The three *urban neighbourhoods* are all on the western side of Dhaka. However, they are separated by several kilometres and have sharp differences of environment. The neighbourhood referred to as the 'Beri Bad' is a stretch of flood-protection embankment constructed after the catastrophic 1988 floods, on which many landless immigrants, above all from the very poor southern districts of Bangladesh, have squatted. During the research year the area underwent drastic change, as the government demolished all the dwellings and rebuilt the embankment in order to construct a paved highway on it. Some households

received cash compensation for the disruption. Occupations and income sources vary widely. Some well-established households have built extra rooms which they let out to more recent arrivals. Some men are rickshaw or auto-rickshaw or private car or truck drivers. Men women and children day labour in brickfields (dry season only) or as brick breakers (paid by the piece). Some women work as maidservants. Other households get by with hawking clothing or other goods, recycling waste, or as construction workers, both skilled and unskilled. Some keep livestock on the embankment slopes or on the nearby land outside the embankment. A few make their way each day to garments factory jobs. There are no formal banks in the immediate area, and relatively few MFIs serve the population. There are NGO- and government-run primary schools. Water and sanitation services are extremely primitive.

We call the second urban neighbourhood 'Manushpur'. This a clearly-demarked urban slum of about 25,000 people, settled partly on government and partly on private land. It is extremely dense, consisting of very narrow lanes of about one metre width (now mainly paved by NGOs) giving access to homes one-room deep and back-to-back, made of woven bamboo walls and tin sheet roofs. Public infrastructure has developed over the twenty years or so that the slum has existed, despite several devastating fires caused by open-flame cooking. There is a scattering of water-points and public latrines, mostly provided by NGOs, and there are mosques, primary schools and simple clinics (again mainly NGO-run). Occupations are as varied as in Beri Bad, but with no brick-breaking, much less livestock rearing, and with more people taking garments factory jobs or working as domestic servants in middle-class areas close by. There are far more MFIs serving the slum, including several major national ones. Banks are available nearby though not in the sum itself. There are many small shops in the slum, and some are now converting to '*pucca'* (masonry) construction.

The third area is 'Sonaro Mohalla' (also the site for the urban 'snapshot' study where a full description of the neighbourhood can be found). Sonaro is closer to central Dhaka and is surrounded by poor and middle-class residential and market areas. It is much more established than the other two neighbourhoods: a third of the inhabitants have been there more than 30 years, and almost none less than five years. Occupancy rights are jealousy guarded. We worked in three adjacent 'pockets'. Of these, one is a collection of about 50 households squatting on public land in conditions not dissimilar to those described for Manushpur. This area is referred to as 'City Corporation Slum' in the diary summaries. Another is a very small poor slum ('Alam slum') on private land consisting of just 12 households in bamboo-and-tin rooms constructed by the landlord and let out at 950 taka each per month (US$19). The third ('Safiq Colony') is a better-quality version of the second, with masonry walls and cement floors, where each room costs 1,250 taka a month ($25). For Sonaro as a whole, the most common occupations are in transport (car, rickshaw and auto-rickshaw driving) and in the construction trades (masons, carpenters, labourers). There are also many garment workers and some other low-paid salaried jobs, some shopkeepers, and some hawkers.

Methodology:

The *research team* was drawn from people with considerable experience in poverty or microfinance studies in Bangladesh. Stuart Rutherford, who managed the research, lived in Bangladesh from 1984 to 1999. His Research Assistant, S K Sinha, teamed up with two former Assistants of Dr Imran Matin (now of CGAP at the World Bank) whose PhD thesis was written on microfinance in Bangladesh, his home country, and who authored the Innovative Institutions study. These two, Saiful Islam and Mohammad Eakub, were responsible for diary collection in the rural area (where Eakub is a native and where Saiful had worked previously), while Sinha and Saiful handled all the urban interviews.

The *research areas* were selected according to a number of criteria. Of these the first was to ensure than the selected neighbourhoods were not untypical – economically, socially and culturally – of Bangladesh

generally. The second was familiarity: all six neighbourhoods are areas where one or more of the research team had some knowledge either of the local economy, or of local microfinance, or of the local households, and about which we could draw on previous studies. Access was our third criterion: fortnightly interviews demanded that the team be based locally, so we decided that the rural neighbourhoods should be grouped in one area, and that the urban ones be within 20 minutes travel time of Sinha's Dhaka home. Next, we sought variety: in both the rural and urban context we looked for a mix of environments among the three neighbourhoods (see the notes on 'the research environment' above). Finally, we wanted at least one of the diary neighbourhoods to be covered by the 'snapshot' study: this was achieved in Sonaro Mohalla, where Dr Maniruzzaman carried out the snapshot study.

The diary *respondents* (the households whose financial activities we diarised) were selected to provide an unbiased selection of poor, upper poor and 'near-poor' households. In most cases this was achieved by careful wealth ranking of all the households in the area and then by random selection of *one* near-poor, *two* upper-poor and *four* poor households from the ranked lists. In some areas in the urban neighbourhoods this technique was not suitable because householders didn't know each other well enough to allow for good wealth ranking. In those cases respondents were selected by a totally random pulling of household names from a hat. (Each *diary summary*, below, bears a note showing the technique used). In all cases drop-outs (of whom there were very few) were replaced by pre-selected names drawn at random from the respective wealth ranks.

After the close of the diaries, the Teams re-ranked the respondent households into 'near-poor', 'upper poor' and 'poor' categories based on written criteria that they had evolved during the course of their work. In a few cases these rankings differ from the initial 'wealth ranks': for this reason both systems of ranking are shown at the head of each *diary summary*.

The *frequency* of the diary visits was determined largely by our resources. We would have preferred a weekly visit, to reduce reliance on respondents' recall. However, this would have proved too costly in terms of manpower and data-processing, and would have lost the unity that came from each respondent being dealt with exclusively by a team of just two researchers. It would also have caused more disruption to the respondents, without whose cooperation we would not have been able to proceed. It should be noted that most respondents are illiterate, so we couldn't rely on their keeping actual written diaries. In the event a fortnightly (twice-monthly) visit proved practicable and satisfactory.

Gaining *entry to the sites* was easy in the rural areas where the Team was already known and had a good reputation. In the urban neighbourhoods a number of preliminary visits were made and conversations were held with key inhabitants. The purpose and outcome of the interviews were explained in simple, truthful terms – these interviews were being done for a University research project that sought a better understanding of how poor people use financial services, and would not lead to direct action or benefits aside from a small present to be given at the end of the process as a 'thank-you' for cooperation.

The *interviews* followed a set pattern. The first full interview was designed to establish a friendly relationship. Basic demographic data was collected and notes made on current involvement in financial services. This led to a 'Initial Questionnaire' format being completed. From then on the twice-monthly interviews reviewed and recorded the half of the calendar month preceding the interview. As much detail as possible was taken about transactions involving financial services and devices (acts of saving, drawing down savings, borrowing, lending, repaying, paying insurance policies, and so on) and as much detail about general income and expenditure and the household's situation as was required to make sense of the financial services transactions. Interviews were recorded in Bengali on the spot, and then copied into hard-bound notebooks (one per respondent household). Between interviews notes were made to facilitate the next session – transaction series to be followed up, contradictions to be resolved, implications to be

explored, and so on. Where useful, data was checked with third parties – MFI records, managers of savings clubs, Bank Managers, neighbouring creditors or debtors, and so on. The bound books were typed up and returned to the Team for checking, then sent to a translator. The Manager (Stuart Rutherford) developed a running 'transaction summary' for each household and on the basis of this sent notes on the translated text back to the researchers for follow-up. After the last interview, a review was carried out for each case, and a 'Final Interview Document' prepared which collated all the data available and highlighted any remaining contradictions or ambiguities. This was used for a final, extended, interview in which the full two-person Team (or sometimes more) were involved. The *diary summaries*, below, are based on the corrected 'Final Interview Documents'.

Quality control of data was approached in several ways. Primarily we relied on high quality experienced native-language interviewers. We reinforced that with regular training and feed-back sessions: Stuart Rutherford worked with the team for a total of six weeks, and both David Hulme and Imran Matin made two visits to the team in Bangladesh. We didn't overload our researchers: they had the time to follow up the diaries between visits. We kept the number of respondents small enough so that the researcher could hold details of each household in his memory. We used 'triangulation' – checks with third parties, as reported above – wherever possible. Incoming data was transcribed and tabulated regularly and speedily so that inconsistencies could be picked up quickly.

Problems and constraints. Despite the precautions noted above, there were problems. A very small number of selected households proved uncooperative and were dropped and replaced (these cases are noted in the *diary summaries*). One urban household (code DBB06) left Dhaka altogether but we were able to follow them to their village home and complete a summary interview there. Five respondents were in some way unreliable – they told us untruths or were so ambiguous or so contradictory as to undermine our confidence (three cases), while one was so deaf and another so old and inarticulate that it was hard to make sense of their reports. In these cases the only remedy was to spend even more time with them. More generally, the sheer density and frequency of financial service relationships meant that different debtors or creditors got confused in the minds of the respondents, researchers, or both. For example, one Dhaka respondent with membership of multiple MFIs doesn't know each MFI by name, calling them the 'ten taka a week' or the 'fifty taka a month' MFI. Since she didn't hold her own passbooks it was often extremely difficult to disentangle them. Not unexpectedly, some respondents grew to trust us only slowly, so that cautious versions of the truth told in the early weeks were contradicted by more frank versions later: interest-free family loans became interest-bearing ones, 'illness' was gradually revealed as drug addiction, 'losses in the timber trade' were finally seen as gambling losses, and transactions that had been hidden at first were suddenly revealed months later, when memories were fading. Transaction types that the researchers did not anticipate but in the end proved common were hard to catch at first – this is particularly true of the use of 'money guards' for saving, for example.

Appendix 2: Common and uncommon characteristics of respondent households

A: Rural poor (thirteen cases)

	Characteristic	**Commonality**
Common:	Local place of birth	Five household heads were born in the village, and all the others are from nearby villages.
	Landless or near landless	Nine own no farm land at all, and the remaining four have very little. Only a handful share-crop or lease in land.
	Own home on own homestead land	All but two live on homestead land owned by them or their parents. One of the exceptions lives on land that he claims is his but was seized by others; the other lives on land owned by an aunt.
	Small one-room house made of mud, with some tin sheets on the roof	Only three houses are fully thatched (i.e. with no tin at all). Most have a rudimentary outside shelter for cooking.
	No household furniture	Ten out of thirteen have no furniture of any sort in their homes: only one (a timber trader) has a full 'set' of timber furniture – bed, cupboard, two tables, clothes rack, two chairs (and a tape recorder), and some of that may be stock in trade.
	At least one gold nose-stud, but no other jewellery	Nine households own one or more gold nose-studs (worth about $10 each). Four have nothing.
	Small household size of four person	Ten out of thirteen households comprise four people. Of the others, one has five people, one is an elderly couple, and the other a widow and her son. Average is therefore 3.8.
	No public entitlements	Only one household gets some public wheat as part of a programme of school meals for girls. One other household had a 'ration card' at one time but lost it when there was a change of local Chairman.
	Low cash expenditure on food of around 20 cents US per day per person	Nearly all households, regardless of size (most households are of the same 4-person size), reported cash outlays for food plus fuel of around 80 cents US a day for the whole household.
	Two or three rice and vegetable meals a day	Most have fish once in two days per week or less often, and meat (mainly poultry) rarely.
	Low health and education budgets	Only one household reported spending more than $12 in the whole year on health (the exception spent $33; two households spent less than $2). A majority of seven households spent nothing at all on education, and none of the others more than $10 in the year.
	Zero or low levels of formal education among adults	A majority of adults in the households had received no formal education whatsoever; of the rest, none had passed beyond primary school.
	Good school enrolment among children	Twelve out of thirteen children of school-age (between 5 and 15) attended formal (including NGO-run) school at some point in the year.
	Home housework as the main livelihood activity among adult women	Most adult women reported their main activity as home housework: a majority of households reported it as the only female occupation. Only one household reported something else as the woman's main activity – paddy husking and boiling for sale (although another would have reported her main occupation as begging were it not shameful). Secondary activities included sewing, handicrafts, day labour (and begging).
	Main male occupations earn around $1 a day	Ten out of thirteen households reported that the principal male livelihood activity earned them about $1 a day (range from 40 to 70 taka). However, some of these activities are intermittent or seasonal or both – hence the need for secondary occupations. The exceptions include the two timber traders who report considerably higher income in the high season.
Uncommon:	Varied livestock holdings	One household owns three cows, and two others have a cow each. Another owns a goat. Of the remaining nine, eight have at least one chicken. One household has nothing at all.
	Varied livelihood activities among men	Main male livelihood activities included rickshaw driving (3 cases), farm labour (3), milk sales from owned livestock (2), trading in timber (2), peddling, casual fishing, off-farm labour, and farming (through sharecropped-in and mortgaged-in land) Secondary male activities included off-farm day labour (4 cases), farm labouring (3), farming (through sharecropping-in land) (2), gambling (2), and rickshaw driving

B: Rural upper-poor (five cases)

	Characteristic	**Commonality**
Common:	Local, or long-term resident	The household heads were either born in the village, or were born nearby and have lived in the village for more than twenty years
	Small holdings of farm land	Four of these five have around half an acre of farm land. The fifth has no land – he makes his living from timber trading.
	Own home on own homestead land	All five live on homestead land owned by them or their parents.
	Basic household furniture	All five have one or more basic timber beds, tables and chairs.
	At least one gold nose-stud or a silver chain	All five households have gold nose-studs or silver chains as jewellery
	No public entitlements	No household receives any kind of entitlement.
	Slightly higher cash expenditure on food of around 30 cents US per day per person	These households reported cash outlays for food plus fuel of around $1.10 a day for the whole household.
	Fish with meals most days	The households have fish four to five days a week.
	Home housework as the main livelihood activity among adult women	Four out of five adult women reported their main and only activity as home housework. The fifth (a household head) reported it as her main activity.
Uncommon:	Varied housing conditions	Three of the five have mud-walled tin-sheet roofed homes similar to those of the poor but rather bigger and in better condition. But one household has a four-room home whereas another has a very dilapidated mud hut.
	Varied household size	Household size varies from seven (couple with five children) to two (a widow and her son): average size is however, 4.
	Varied livestock holdings	One household (a shop-keeper) has no livestock at all. A second has only chickens, a third has a goat but they are share-rearing it. Two households have cows and chickens – one of these has two cows.
	Higher and more varied cash expenditure patterns	Compared with the poor category, these five households show higher and more varied overall expenditure. Health costs for the year range from very low (less than $10 for three cases) to high (around $80 to $100 for two cases). Of the two cases where there are school-age children, one household spends $20 a month on education, and the other nothing. All spent cash on house maintenance, but in widely varying amounts ranging from $6 to $30 for the year. Expenditure on clothes ranged from $10 to $20 per person for the year. Outlays on visiting and giving presents to relatives varied but was generally higher than for the poor. Finally, since several of these are farming or business households, there was a variety of expenditure types and values for farm inputs, employees, etc.
	Varied levels of education among male adults	Of the five households, the heads of two had high school passes, another two had had no schooling at all, and one had reached 4th grade.
	Very varied livelihood activities among household heads	No two households exhibited the same pattern. Of the four male household heads, one is a shop keeper (betel and biri); one is a employed skilled mason; one is a timber trader; one has a mixed portfolio of causal labour as a night guard, farming, contract farming, fishing, and farm labour. The one women household head does housework but also grows vegetables, and her son farms their land and fishes.
	Varied income levels for principal activities	Farm incomes vary with the type of product, size of landholding, and seasonal success. Casual employment (night-guarding, for example) nets about $1 a day, whereas the skilled mason can command $2.25 a day when he gets work. Returns to the timber trader vary with season and with his capital holdings: in one half month he claimed ‘profits’ of $80. Returns to the betel shop-keeper also vary by the month – ranging from + $100 to - $40.

C: Rural near-poor (three cases)

	Characteristic	**Commonality**
Common:	Local	All three household heads were born in the homesteads they now own
	Landed	All three have at least three acres of irrigable paddy land
	Own home, large and well-furnished	Homes are of mud walls and tin roofs, but larger and more comfortable, and well-furnished with simple timber beds, tables, chairs and cupboards
	Larger household size	The three households between them have nine children at home: average size is 5
	No public entitlements	No household receives any kind of entitlement.
	Modest cash expenditure on food and fuel	These households do not spend substantially more cash on food and fuel than upper-poor households, largely because they consume their own rice year-round
	Three meals a day, usually with fish and/or meat	All three households eat thrice daily year-round, with fish or meat at most meals
	Higher levels of expenditure on education and health	The two households with high-school age children spend heavily on education, and all three spend in excess of $100 a year on health
	School-age children in school	All six school-age children in the three households are attending school
	Home housework as the only activity of adult women	This is true of the wives of all three household heads: note though that in these farm households women's home housework involves a lot of post-harvest food processing and may involve stock and financial management
	Main livelihood based on farming, with additional enterprises	All three households depend mainly on their irrigated rice production, but all three have additional activities – transport, trading (mainly fruit) and supplying irrigation services
	Substantial physical assets	All three households own mechanical assets such as bicycles, pumps, etc: all have timber on their homestead plots
Uncommon:	Varied holdings of precious metals	One household holds no gold or silver: another holds an assortment of jewellery and the third five ounces of gold.
	Varied levels of formal education among adults	Of the seven adults in the three households, two never went to school, two have five years of schooling, one seven years, and two have nine years or more.

D: Urban poor (ten cases)

	Characteristic	**Commonality**
Common:	Household head immigrated to Dhaka from the countryside	Only one of the ten household heads – a woman in her late forties – was born in Dhaka (she was born in the slum where she still lives). The remaining nine heads came to Dhaka – two in the last five years, the others all more than twelve years ago.
	Landless or near-landless	Of the ten, eight have no farm land. Two have some land back the village (one is a very small amount, the other is mortgaged out).
	One room home, with woven bamboo walls, and tin-sheet roof	This description is true of nine of the ten in the sample: the last lives in a masonry walled tin sheet roofed private development. Note however that size and condition vary markedly.
	No public entitlements	No household gets regular public food or other entitlements: one household got some relief for a while when they were temporarily back in their village, and another got clothes at the Eid festival from an unknown charitable source
	Three rice meals a day, often with some fish	Only one of the ten reported eating only twice daily: mostly families ate rice with vegetables and chilli, with fish several times a week and meat rarely: some however eat less well in hard times
	Low levels of education among adults	With only two exceptions, the adults in the sample have had no formal education (the exceptions had ten and five years).
	No mechanical assets besides rickshaws	Three households own their own old rickshaws: there are no other mechanical assets in the sample.
	No livestock	One household keeps chickens, no other has any kind of livestock.
	At least one gold nose-stud	All ten households have one or more gold nose-studs: two have additional small jewellery pieces.
	Main male income sources earn $1.30 - $2.50 a day	Every household reported daily income in this range, whatever the occupation: note, however, that most of these jobs are seasonal or intermittent or both: households thus earn between 25 and 50 cents per capita per day from these sources.

	Cash spending on food and cooking fuel of between 30 and 40 cents US per day per head	A majority of 7 households reported cash spending on food in a narrow range of 30 to 40 cents a day per capita. The outriders can be explained as follows: the one female-headed household reported as little as 20 cents daily per head but at least one male may have being eating lunch outside; the biggest household also reported 20 cents per head but has four children aged ten or less. The last household was back in their village home for most of the year, where they reported spending 20 cents per day per head.
	Moderately high spending on clothing (compared to the rural poor)	Eight of ten households spend in the range of $21 – 50 in the year: two outliers spent much less but there may have been underreporting.
Uncommon:	Varied tenure types	Among the ten, home tenure types vary as follows: own hut built on squatted government land (no land rent paid) (4); hut rented from a landlord, built on squatted government land (4); tenant in a private slum development (2).
	Varied housing expenditure	This generally follows tenure type, but there are big variations. The households who own their own huts paid between zero and $10 in repairs in the year. Those who paid rent varied from $5 a month (for a bamboo-and-tin room on the embankment) to $22 a month (for the masonry-walled room in the privately developed block). Interestingly, in these two extreme cases, the household went frequently into rent arrears.
	Varied household size and composition	Household size varied from three (one case) to seven (two cases). The average was 5.5 (considerably larger than in the rural areas). Household composition varied, with some parents living in, and some paying-guests (the last were not included in the formal household size count).
	Varied levels of home furnishings	Of the ten households, the three on the embankment had no furniture whatsoever, and this was true of one other household. The remaining six had varying amounts: from just a bed to a compete suite of furniture including bed, table, chairs, cupboard and fan.
	Varied school attendance by children	The majority of school-age children attended school (including several in NGO-run schools) for at least part of the research year. However, the school-age children of four of the ten households have never had any schooling.
	Varied occupations	Main occupations of male household heads were as follows: rickshaw driving (4) (two later switched to factory jobs); vegetable trading; construction metal worker; combined rag-picking and sweet-making (!); assistant mason. The one female household head described herself as doing only home housework – her nephew and son were the income earners. Main occupations of other adult males were: rickshaw driving (2); day labour; brickfield labour; building site labour; garment factory job (2); other factory labour; helping in a fish shop; begging. Their secondary occupations included: pickle-selling; farm labour; letting out rooms. Main occupations of other adult females were: house-maid (2); garments factory job; trading poultry scraps; day labour; caring for paying-guests. Their secondary occupations included taking-in sewing; and garments factory job.
	Varied expenditure on education	Four households (including two that have school-age children) spent nothing on education in the year. Others spent between $4 (two children in government school) and $40 (two children in an NGO school)
	Very varied expenditure on health	One household spent $400 in the year – used to treat a paralysis. Another spent $120 for hospitalisation and to treat a broken hand and another almost as much for constant treatment of communicable diseases among several household members. The lowest reported spending is $20 ($7 a head), most are in the range $30 to 50 ($5 to $10 a head). Health care is expensive in town.

E: Urban upper-poor (eight cases)

	Characteristic	**Commonality**
Common:	Household head immigrated to Dhaka from the countryside	True of all eight households
	Landless or near-landless	Six are totally without farm land. One has leased-in and then share-cropped-out a third of an acre in his village. One has his own half acre in the village and farms it by proxy – he eats the rice in Dhaka.
	No public entitlements	No household gets regular public food or other entitlement.
	Three rice meals a day, often with fish, sometimes with meat	There are two outliers – one household eats only twice a day in hard times, and another takes bread rather than rice for one meal: in general the standard of food is only marginally higher than for the urban poor group
	No livestock	One household, on the embankment, keeps chickens: none of the others hold livestock
	Cash spending on food and cooking fuel of between 30 and 50 cents US per head	This is a little above the urban poor group.
	Children in school	All but one of the school-age children in this group are attending school (the exception is only 7, and may attend later).
Uncommon:	Some variation in household size and composition	Average household size was 4.4 (lower than the urban poor). Six households are composed of parents with children, but one is made up of siblings and their mother, and another has a female head plus her mother and children.
	Some variation in housing type	Although most live in one-roomed woven-bamboo-walled, tin roofed huts, one rents a plastered masonry room, and one has an extra room that is let out.
	Variation in home furnishings	One household has no furniture whatsoever. Another two have a full set of timber furnishing (table, bed, chairs, cupboard). The remaining five have very little – perhaps a bed and a fan (many homes have an electric supply).
	Some variation in education level of adults	Although many adults are illiterate and unschooled, two household heads completed high school (and another attended school for a year)
	Some variation in ownership of mechanical assets	Most households in the sample own none: one has his own rickshaw, and one outlier runs a rickshaw repair shop and has several rickshaws and a bicycle
	Varied holdings of precious metals, jewellery	As in other groups, several of these households hold gold nose-studs as their only assets of this type. However, of these eight, two report they don't have nose studs (nor anything else), while others report silver chains, or holdings of silver.
	Varied source, value and composition of income	There is variety in a number of dimensions. Main income sources vary, including small businesses (renting our rooms, selling firewood, rickshaw repair shop, hiring our rickshaws, vegetable stall), waged employment (driver, garments factory), and casual work (baby-taxi driving (2), building repairs, rickshaw driving). Value and frequency of income vary. There are those who earn monthly in the factory jobs (ranging from \$20 to \$50 a month – say 75cents to \$1.85 a day – depending on skill, but often supplemented by overtime work), or as a driver (\$80 a month). Others earn daily (or irregularly): baby-taxi drivers net between \$1.50 and \$4 a day, but don't always get work; rickshaw drivers \$1.50 to \$2 a day. The self-employed include the owner of a rickshaw repair shop who earned about \$3 a day, an elderly vegetable stallholder who earned little more than \$1a day, and a woman with a firewood business earning small amounts intermittently. Compared with some other groups, in this group the whole family –women and older children – contribute strongly to cash income. Out of eight households, five have women bringing in cash regularly. One household has plumped wholeheartedly for garment factory employment: the head is a young man who has a garments job, as do his sister and two brothers who share the household with him: his mother stays at home to cook and mind the house.
	Varied expenditure on clothing	The range was from \$16 to \$60 per household, though there may be under-reporting. This range is wider than that for the poor group, but the mean values are similar, confirming the impression that the upper-poor dress similarly to the poor.

	Varied expenditure on education	Only one household spent nothing on education in the year (though they had a daughter in school for part of the year). Others spent between $6 and $72 – a little more than in the urban poor group.
	Varied expenditure on health	The average expenditure per head in the year was $8. Most households spent between $3 and $8 a head, but two spent around $13 a head. Note that both the extreme and the mean are lower than for the urban poor group.

F: Urban near-poor (three cases)

	Characteristic	**Commonality**
Common:	Household head immigrated to Dhaka from the countryside	True of all three households
	Totally landless	None of the three has any farm land
	No public entitlements	No household gets regular public food or other entitlement.
	Three rice meals a day, often with fish, sometimes with meat	True of all three households
	Cash spending on food and cooking fuel of between 30 and 40 cents US per head	This is a little above the urban poor group but below the top end of the upper-poor group..
	Health expenditure of about $7 per head per year	The range was very narrow (from $6.50 to $8 per head reported). Note that this is lower than for both the poor and the upper poor in the urban area. It seems that the poorer you are the harder, and costlier, it is to keep well.
	Similar household size (but different composition)	One household has five members (parents and children); two have six (parents and children in one case, widow with son and daughter-in-law and grandchildren in the other). Average is thus 5.7
	Basic home furnishings	Two homes have a full set of simple furnishings – bed, table, chairs, cupboard, fan – and the third has two big beds and a clothes rack.
	No mechanical assets	True of all three households
	Low-value precious metals and jewellery	These households have only a gold nose-stud, or a nose-stud plus a silver chain, or cheap gold earrings. All low value, say $10 or less.
Uncommon:	Some variation in housing type	All three live in tin-sheet roofed homes, two with tin walls and one with woven-bamboo. In each case the there is one relatively large room where the family lives. In one case there is another room that is let out, and in another the family lived in three small rooms when we first met them, then shifted to one room later.
	Differing education level of adults	One household head is unschooled (the widow), one has 5 years and one 10. Of the two wives, one is unschooled, the other has 5 years.
	Varied source, value and composition of income	The well-educated household head has a salaried driving job ($80 per month), his wife runs a solid sari retail business (up to $60 in a month in the high festival seasons) and their son has a private waged job ($60). The widow's son and daughter-in-law have garment factory jobs ($54 a month between them but they get overtime too) while she keeps paying guests ($10 a month). The other household has a mixed income which changes over time – there is earth-moving contracts, milk sales, income from letting out rooms (one to an NGO for use as a schoolroom): it was not possible to estimate income reliably.
	Varied expenditure on clothing	The range was from $7 to $16 per capita, though there may be over-reporting in the $16 case. This range is wider than that for the poor group, but the mean values are not much larger, confirming the impression that the near-poor as well as the upper-poor dress similarly to the poor.
	Varied expenditure on education	Only two households have children of school age. One spent $10 per child in school in the year, the other less than $2 for one 7-year old.

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