Money Talks

Conversations with Poor Households in Bangladesh about Managing Money

Stuart Rutherford

Abstract This paper describes the money management behavior of 42 low-income Bangladeshi households, half of them rural and half living in urban slums. They were found to be active managers of their financial resources. Thirty-three varieties of financial instrument were found to be in use by the sample households during the research year. As well as using a wide variety of instruments, most households engaged in multiple uses of the instruments: 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[1] in the year—a sum equal to about three-fifths of their annual income. The total value of the microfinance market for poor people in Bangladesh probably exceeds $10 billion. 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. These sums were overwhelmingly formed in the informal sector. The role of the MFIs is thus somewhat contradictory. Their outreach into these households is excellent but their share of the total money management activities of the households is small. 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.

In October 1999, 42 low-income households in Bangladesh agreed to cooperate with IDPM researchers[2] to write year-long "financial management diaries." Twice a month for the full year the researcher and adult members of each household held a lengthy interview during which they recorded the household's *money management transactions*. This did not mean just income and expenditure flows. By money management transactions we meant the various ways in which the household's cash flow was manipulated—how, where, in what amount, and for how long money was saved or otherwise stored; how and when loans were obtained and repaid; how debts were deferred or advance payments received; details of all the institutions, people, and devices involved; and commentary on why the household got involved in these transactions and what they felt about them. The ambition was to paint a picture of the financial preferences and behavior of poor people that would be unusually detailed and accurate. We wanted to understand the financial portfolios that poor households manage. This approach 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 is an abbreviated account of what we learned. A fuller version of this paper can be read on the Finance and Development web site (http://idpm.man.ac.uk/publications/archive/fd/fd_wp45.shtml).

The Households

Forty-two households participated in the study. Half of them were rural, from three neighborhoods at varying distances from a main road and market in north-central Bangladesh. The other half were urban—though most had migrated into the city during the lifetime of the households' oldest members. The

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urban respondents lived in three different slums at varying distances from markets and other facilities.

Using wealth ranking and other techniques, we arrived at a broad three-fold classification of our 42 households. Twenty-three households were poor or very poor, and 13 were *upper poor*. Upper poor households differed from the poor and very poor by having some useable assets or endowments such as a little land, a regular job, or an abundance of labor power. Finally there were six *near poor* households. These near poor lived alongside the poor and upper poor but did much better by virtue of larger landholdings and better education, employment, or social contacts.

Such a small number of households obviously cannot statistically represent low-income households in general in Bangladesh, but we are confident 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 that we valued. The study of the behavior of these households can lead to insights of wide general applicability.

A glimpse into their lives and livelihoods is given in the following sketches.

Rural poor

Saman and Hazara head a poor rural household. Born locally and resident in his village throughout his life, Saman, who is unschooled, married an uneducated woman, Hazara, but they are trying to put their two youngest children through school. Their other children have grown up and left home. Saman earns about $1 to $1.20 a day doing farm labor when he can get it, or he goes fishing in the marsh, and Hazara helps with egg sales from their handful of chickens. They own no farm land of their own but live in their own one-room mud hut on the patch of homestead land that Saman inherited. The hut is furnitureless: the whole family of four sleep on the earth. Cooking is done under a thatched shelter, and they calculate that they spend about $0.80 a day or a little more on food and

fuel. They eat twice a day, rice colored with lentils and chilli, or on days when Saman gets good work, they eat three times a day and add a little fish. In good times they eat meat once a week. They get no food supplements or other form of public entitlement. Hazara has a gold nose piece 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.

They are in their fifties and subject to aches and pains: they spent $12 during the research year on medical costs. They also 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. A drama occurred during the research year. 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 a "seasonal loan" from Grameen Bank 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.

Urban poor

Abdul Barek and Peara are a wholly illiterate couple who arrived in Dhaka from a poor village in the south in 1998. They are finding out the hard way how to cope with urban life. Abdul, now 42, is a mason's helper—an unskilled and insecure job. 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 met them they were 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 moved into a one-room, woven bamboo-walled lean-to with a tin roof, for which they pay $6 a month (though they're often in arrears). Abdul's health is not good: he has jaundice and 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 was born during the research year.

Diverse livelihood strategies

Virtually all households have developed more than one way to earn income, and there is much diversity in the strategies that are pursued to earn those incomes. 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 modern sectors such as motorized transport. The rural poor are no longer just farm workers—only 5 of the 13 households in that group get by with farming or farm labor alone; the others use a mix of farm and nonfarm day laboring or self-employment sources. Among the 8 rural upper poor households, no two were pursuing the same livelihood strategy. In the town, too, diversity of livelihoods is the rule, among all three wealth groups.

The Instruments

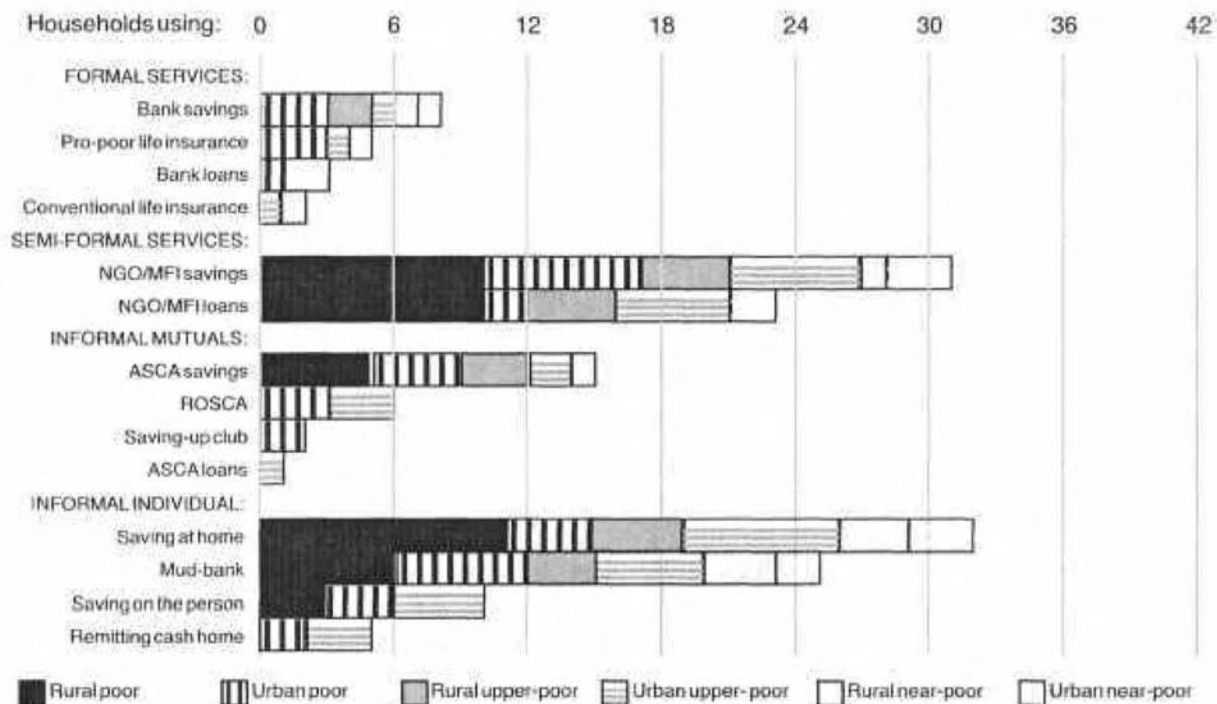
Hand to Mouth—or Are There Intermediate Steps?

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 they earn as soon as it comes in?

Figure 1 provides a list of the 33 most noteworthy ways in which cash is managed and shows how many households in each of our six wealth groups were involved in using each method during the research year. Clearly, a great deal of money management goes on.

The 33 services and devices[3] that compose those instruments are divided here into categories. *Formal* refers to formal bank and insurance company services, and *semiformal* to NGO/MFI services. *Informal* systems are subdivided into

Figure 1. Instruments used, by numbers of household, grouped by wealth



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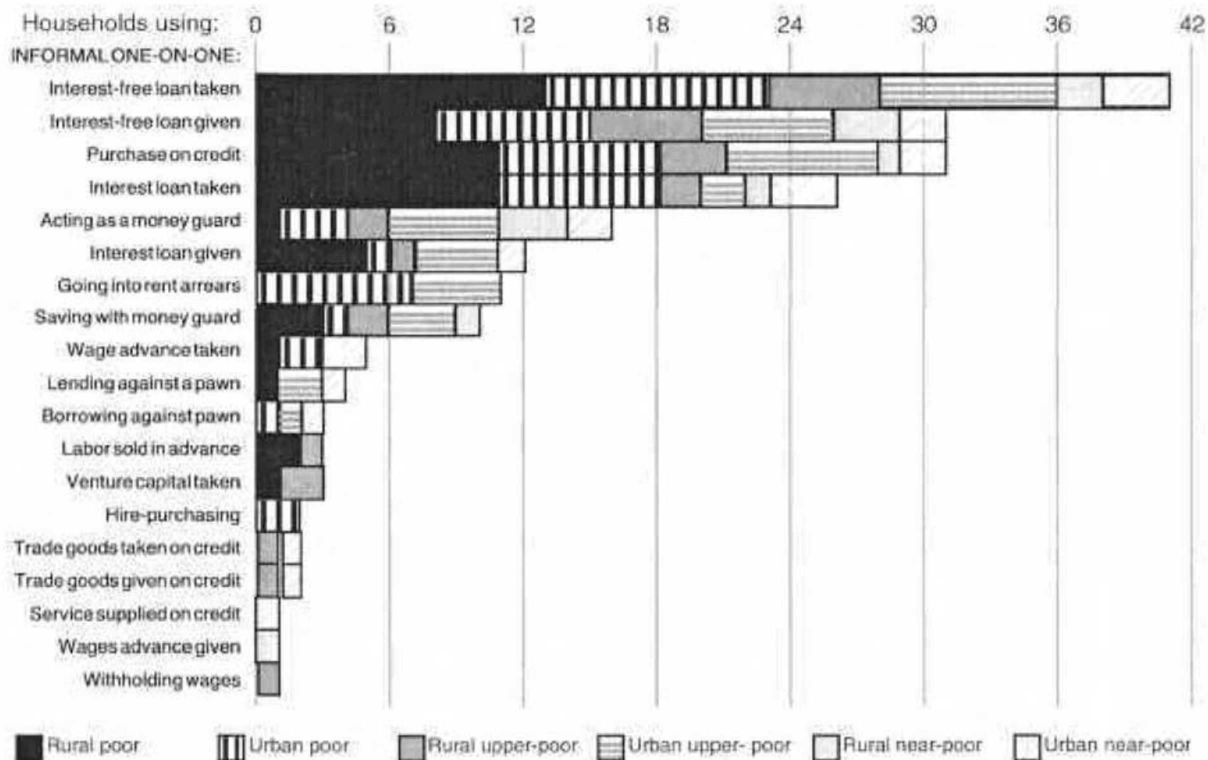


three classes, based on how many parties are involved. The mutuals are savings clubs, like Rotating Savings and Credit Associations (ROSCAs) and Accumulating Savings and Credit Associations (ASCAs), that require a number of people to come together to manage them. They are thus quite different from one-on-one services and devices that are handled by two parties—usually a provider and a receiver of services. This class includes private lending and deposit-taking services as well as behavior 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.

Figure 1 shows how many of the 42 households used each of these instruments during the research year. Many households may have used an instrument more than once. The bars showing the households are themselves broken down to show the groups of households described in the previous section (rural poor, urban poor, rural upper poor, urban upper poor, rural near poor, and urban near poor).

The informal one-on-one services are clearly the biggest group of instruments. There are more instruments (19) in this class than in any other and more instances of household use (203 out of a total of 371 instances recorded), and this class includes the most widely used device, the taking of interest-free loans, in which all but 1 of our 42 households were involved during the year (31 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. Almost all of these instruments mentioned so far were used by households from all six of our household classes.

Who Does What?

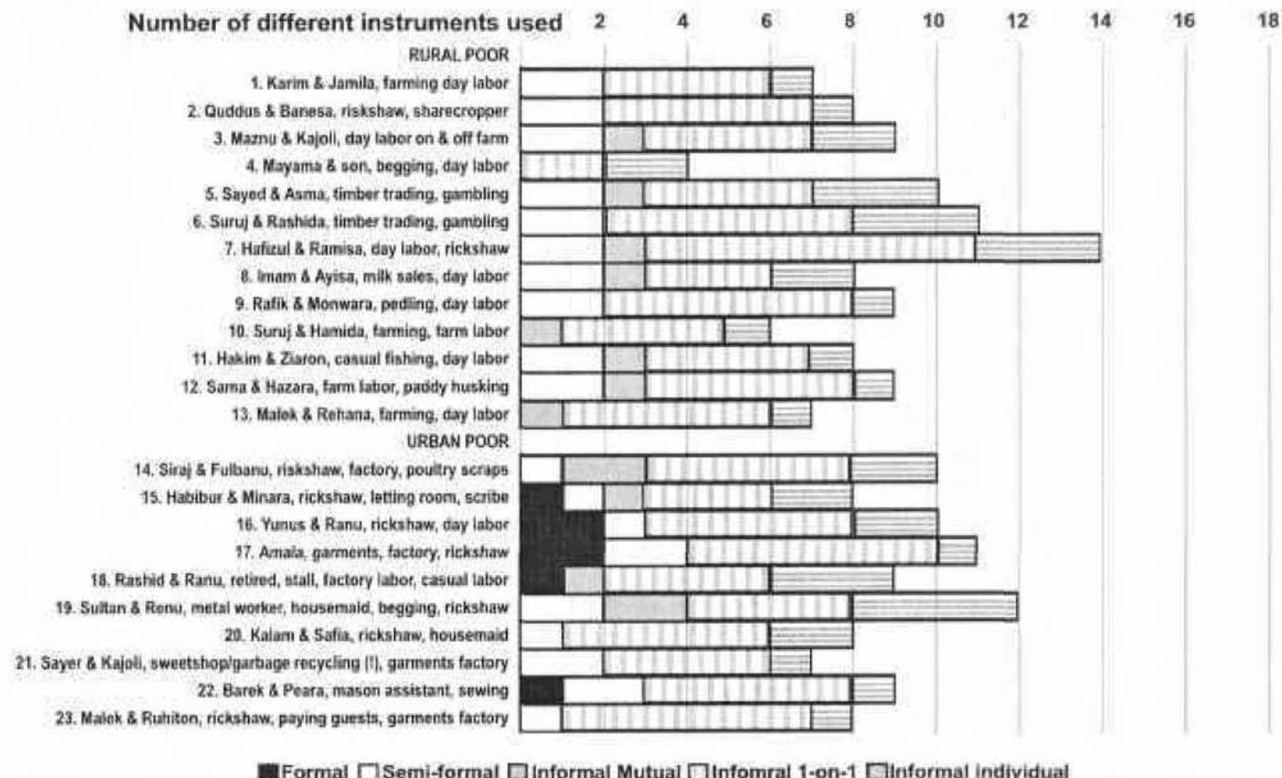
But exactly which households were using which class of instruments? Figure 2 lists the households, showing how many instruments of what type they used during the year. Figure 2 shows the dominance of the informal sector for all households. It also shows quite clearly that the wealth and location differences 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, a near-poor household in Dhaka, used more instruments than any other (household number 42 in Figure 2). Among formal services they used bank savings, and life insurance from a pro-poor insurer. 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 is a small long-term reserve.

The life insurance is offered by a formal company that 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 gave testimony to that: he stopped paying because he says he never got a promised loan.

Sultan's wife, Kuruna, and their daughter also use MFIs, both for saving and for loans. Indeed, between them they had 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 they pursue them energetically—walking out of this one in a huff at not getting a loan, for example, or avoiding that one because they are in arrears with loan

Figure 2. Numbers of instruments used, by household



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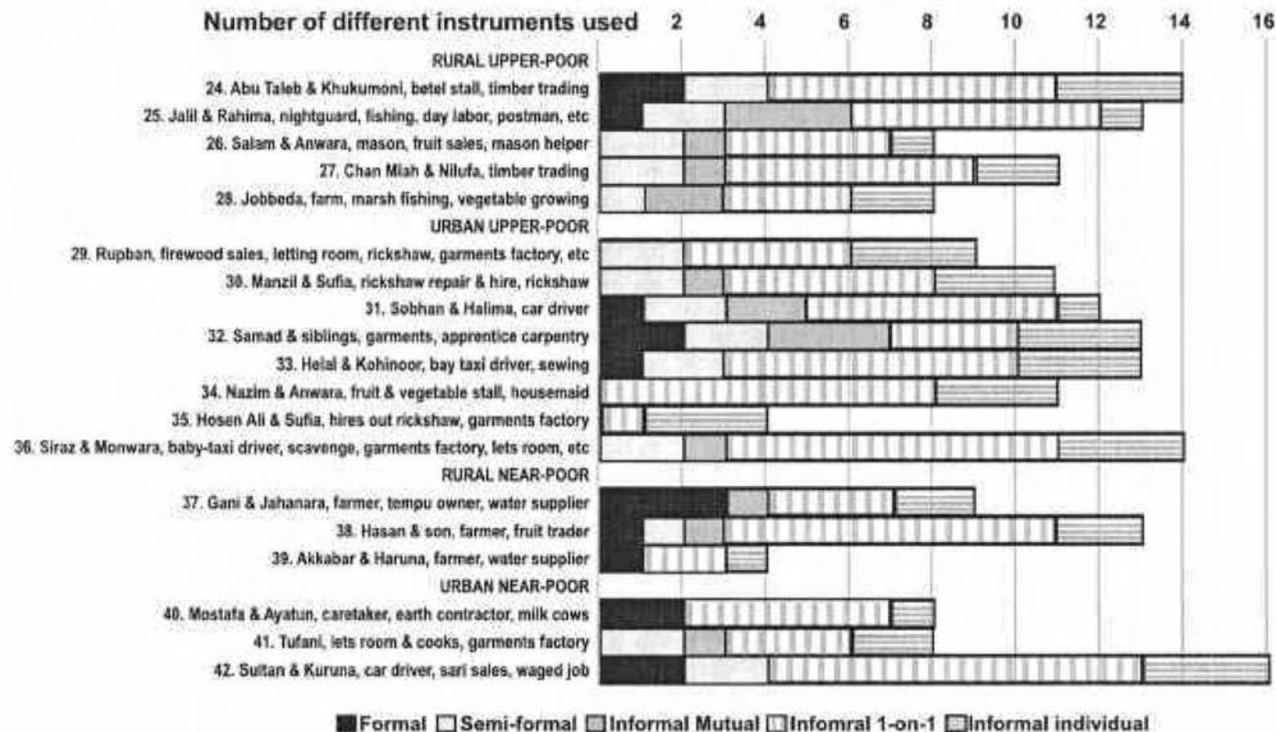


repayments. The loans they take are quite substantial—$100, $200, $50, and $120. Much of this goes straight into Kuruna's sari business—she hawks saris around the neighborhood—but some money is used for general household expenses.

The household is not involved with informal mutuals at all but frequently uses 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 $10—and to show it to us. This is Kuruna's "liquid" reserve for household costs and for her sari business, and it is also the store for private lending. Their eleven-year old son drops odd pennies into a mud-bank and is astute about the way he uses it—he broke the bank when it reached about $1.50 and lent 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 42 households, Sultan and Kuruna exchange interest-free loans with family and neighbors. 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 behavior varies with gender. We find Kuruna giving many small *howlats* (as they are called) to women neighbors, but taking only one—rather larger—loan in return. She gave six *howlats* to neighbors, 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 neighbors 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 holding it for many months.

Kuruna was able to make these small loans because of the cash she always has on 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 female 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 she lent $10 against a gold earring and demanded—and received—$1 interest per month for the loan. On another occasion she lent $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 had a temporary cash shortage, having sold rather too many saris on credit. She had to approach three people before she got the money she wanted, $100, and had 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 took $40, half of his salary, as a salary advance from his employer. Meanwhile they constantly take goods on credit from their neighborhood shopkeeper.

Thus the household's 16 money-management instruments are multiply used: 7 sets of savings accounts and 4 sets of loans in MFIs, 4 lots of saving at home (the daughter has a mud-bank, too), 2 *howlats* taken and 7 given, money guarding for at least 2 relatives, 2 loans secured by pawns, at least 3 wage advances taken, at least 5 shopping sprees on credit, and then just 1 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 behavior of the 3 households who used only 4 instruments each? Not poverty, apparently, since household 39 is classified as rural near poor. Household 4 is poor: it consists of Maymana, a very poor rural widow who has a son with a growth on his spine. Their instruments are all informal: saving at home (Maymana), 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 breadwinner, and he keeps a mud-bank secretly, without telling his mother. He was able to break it and produce $3 to keep them in food during a bad period of zero income when the sawmill 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 took six howlats during the year, she also lent to at least five neighbors in the year, in tiny sums of 20 or 50 cents each.

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 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.

Our 42 respondents reported 290 uses of interest-free borrowing, confirming that instrument's overwhelming popularity. That is an average of about 7 uses for each household. One household took 24 such loans, and 5 others took 13 or more. An interesting aspect of interest-free borrowing and lending is that there are only 40% as many reports of interest-free lending as 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 neighbors and family of similar economic standing. The case of informal interest-bearing loans is not dissimilar.

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. The total transaction value, or flow, 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: 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 it 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, average annual income per household for all Bangladesh might be $1,850 and 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. If 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.

There are expected differences in transaction totals between the three wealth classes. The annual average, as we

saw, was $839. For both the upper poor and the near poor group, it was above $1,250, but for the poor it was just $420. Figure 3 gives the transaction totals of all 42 households, broken down by the main instrument types. The table uses the same format as Figure 2, allowing direct comparison with that data.

Chan Miah (household 27), a cash-strapped timber trader in the rural upper poor group, is remarkable for two things: he has by far the biggest transaction total, a little under $5,000, and he conducted virtually all of it in the informal one-on-one sector, in an effort to keep his business alive. His nearest competitor in terms of transaction values is Abu Taleb (household 24), a shop-keeper, but Abu used MFIs for a good part of his finances. Both he and his wife Khukumoni are members (clients) of the Association for Social Advancement (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. 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? 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.

A near poor farmer, Hasan (household 38), at first told us that he 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 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.

Just 5 of the urban households had transaction totals of $1,000 or more: Rupban with a 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, a 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.

Small Balances

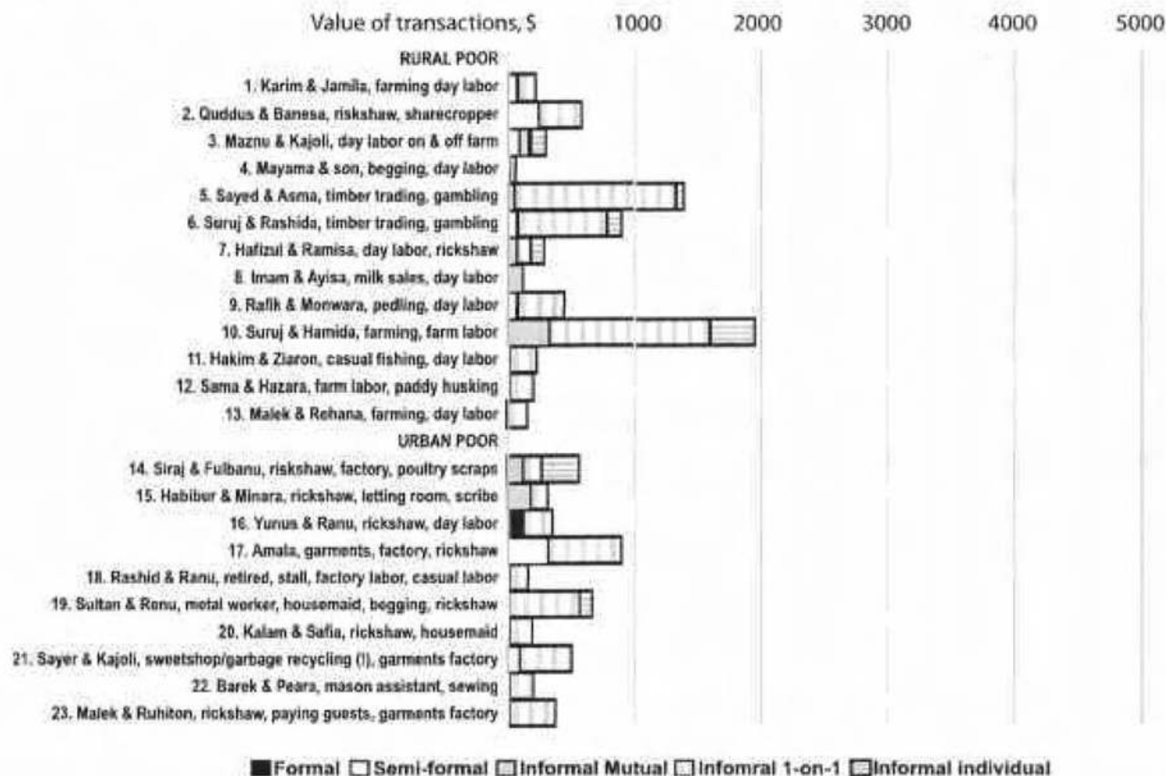
Our data on household monetary balance sheets are imperfect but reveal the general pattern that balances are small relative to annual flows. Indeed, many households executed, during the research year, single transactions of a value larger than total year-end balances.

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. 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, these findings suggest that financial debt is not very deep, and again this is substantiated by the narratives. Loans were either repaid quickly, or were forgiven, or were on the way to being forgiven—especially when the debt is to family. MFI loans were repaid in a year (or were supposed to be), and when they were not, it sometimes meant that the MFI had, de facto, written the loan off.

Our sample households, then, were using deposit and loan opportunities mainly to create small-to-medium value lump sums for immediate use, neither for long-term investment nor for long-term debt. This pattern distinguishes these households

Figure 3. Transaction totals, by household and instrument type, US$



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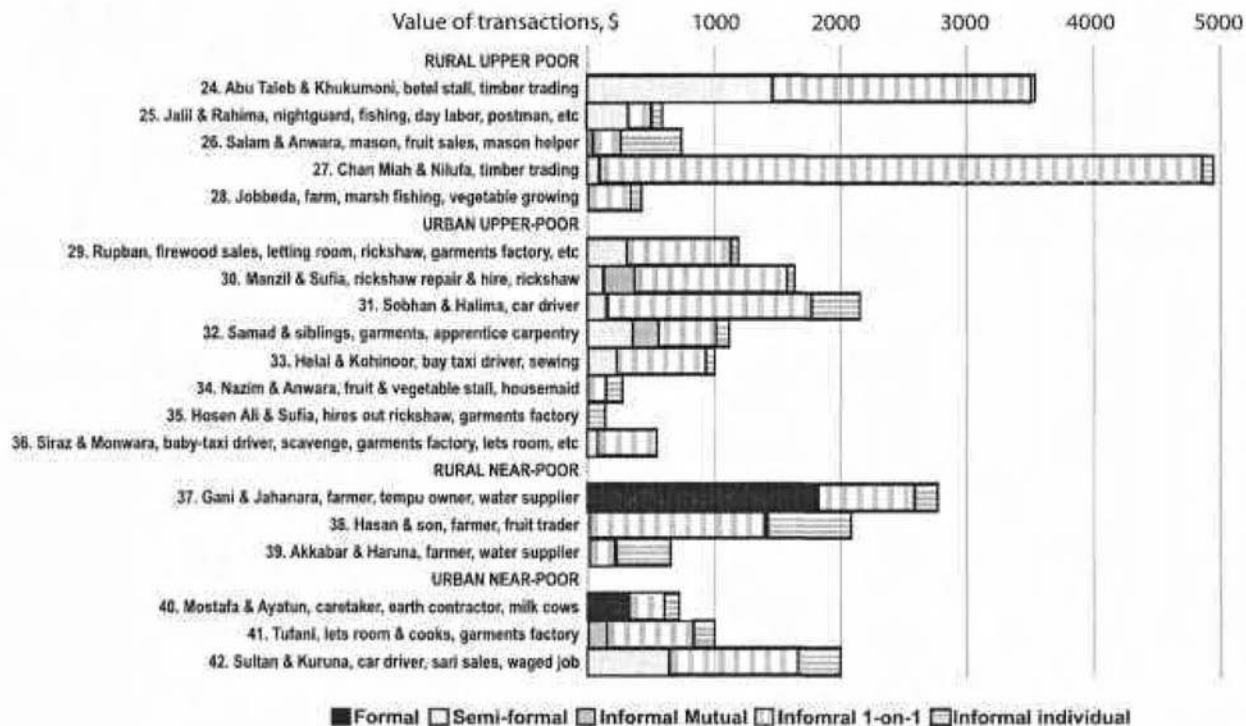


from those in developed economies, where a modest household is likely to have at least one large financial liability—a mortgage on a home—and at least one large financial asset—some kind of store for old age in a pension scheme, or a savings or share account, for example.

Transaction Costs and Loan Forgiving

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. Behavior with regard to interest charges varied greatly with instrument type. For example, 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 study shone some light on 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.

Siraz and his sister-in-law

Siraz is a 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 skeptical—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 to 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 even though repayment was a little delayed. Siraz paid his sister-in-law $4, and then told our

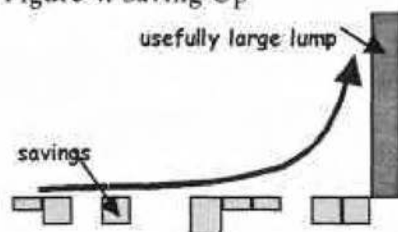
researchers "she's rich—she won't mind if we don't pay the interest; you'll see." A month later he was proved right: the sister-in-law said, "OK, don't pay the interest—but be sure to repay the principal." Over the next months Siraz repaid intermittently, until all but $4 of the principal had been returned. Then he told us "that's it—I'm not paying any more." But a few weeks later he meekly repaid the final $4. This pattern may also apply sometimes to loans from well-to-do to poorer households. Malek, a day laborer (household 13, rural poor) told us that "rich people don't put much pressure on very poor people to repay loans."

The Uses

Usefully Large Lump Sums

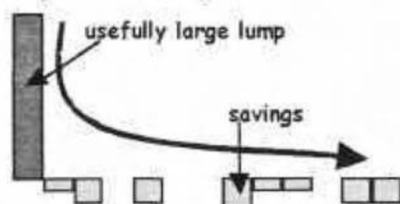
The previous section has shown that in the main our households do not use financial instruments to hold long-term financial assets nor to acquire long-term debt. Rather, they use them to build lump sums big enough to meet spending needs. Such "large lump sums" as I have called them elsewhere (Rutherford, 2000) 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*; see Figure 4), or by taking an advance against a future regime of saving, an advance normally acquired as a loan of some form (*saving down*; see Figure 5). 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.

Figure 4. Saving Up



Therefore, they need to engage in saving up and

Figure 5. Saving Down



saving down regimes very frequently for even modest sums of money—a fact that may account for the high incidence of the use of financial instruments and the often modest values of the lump sums thus produced. But what, exactly, are the uses that required our households to form these usefully large lump sums?

515 Ways to Spend Money

We analyzed 515 accounts of how lump sums were formed and used. Although this is only a selection of data, based on cases that we believe to be very accurate, all 42 sample households are represented.

First, we broke the sums down into three broad use categories, depending on whether they were used 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 categorized 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. 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 and its use. This is shown in Table 1.

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 large majority were used for opportunities, but that majority itself accounted for only 34 sums—7% of all 515 sums: clearly microfinance as it is practiced in the villages and slums

Table 1. 515 sums by value and use category

	Sums analyzed		Sums under $10		Sums between $10 and $100		Sums over $100	
	Number	%	Number	%	Number	%	Number	%
All sums	515	100%	290	56%	177	34%	48	9%
used for life cycle	322	63%	232	45%	83	16%	8	1.5%
used for emergencies	59	11%	24	5%	29	6%	6	1%
used for opportunities	134	26%	34	7%	65	13%	34	7%

of Bangladesh is only marginally about large investments in microenterprises. Still, there is a clear relationship between value and use—bigger sums get used mainly for opportunities, tiny sums are used 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.

There are also differences between the three wealth classes (not shown in the table). 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 much smaller. It is the upper poor who are most likely to build large sums and 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, but 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, 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, 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?

Of the 515 sums in our sample, only 1 in 5 were formed through saving up. The dominance of borrowing is true for all subsectors of the analysis. All three wealth classes form lump sums through borrowing much more often than through saving, though the near poor group has the greatest 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 that cannot be planned for.

The only subsector in which saving competed seriously with borrowing as a means to form lump sums was among the small near poor group who used lump sums 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, because in some cases the sum we report is a loan 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.

The Providers

This section takes a brief look at the role of one of the key players involved in the provision of financial services and devices—the semiformal MFI sector. We begin with a table that analyzes our 515 lump sums by their origin in the three main classes of instrument: formal, semiformal, and informal (see Table 2).

Here we see again the dominance of the informal sector. Of the 515 sums we carefully tracked, almost 9 out of 10 were formed by informal means. MFIs accounted for 1 in 10 of all sums, and the formal sector a miserable 1 in 50.

Table 2. 515 sums by class of instrument and use category

	Sums analyzed		Sums in formal services		Sums in semiformal services		Sums in informal services	
	Number	%	Number	%	Number	%	Number	%
All sums	515	100%	12	2%	51	10%	451	88%
used for life cycle	322	63%	1	0%	19	4%	302	59%
used for emergencies	59	11%	1	0%	2	0.5%	56	11%
used for opportunities	134	26%	10	2%	30	6%	93	18%

Where Are the MFIs?

By MFI 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 program of development. Nearly all use a variant of Grameen Bank's group-based lending scheme with compulsory saving as part of the packet of services. There are 26 MFIs providing saving services to our 42 households, and 15 of them are also providing loans. They include some of the well-known names of Bangladeshi microfinance.

There are several reasons why there are more households saving in MFIs than borrowing from them. Some are technical, having to do with the way that these MFIs require compulsory savings. Also, 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. That was Anwara's case.

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 was 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 could not make repayments on their loans. The rules are that other members must pay for them and that savings can be confiscated to this end. Anwara had $28 saved in the MFI. So, she decided to stop repaying while her debt to the MFI was still larger than her savings with them. So did most of the other members. Meetings failed to happen. When MFI staff came to the village, the members tried to avoid them. Stalemate.

Good Outreach

Despite problems like these, it is clear that MFIs have been very successful in outreach. They are present in some form in 17 of the 23 poor households, and in 11 out of 13 upper poor households. They have even reached a majority of the near poor, with a presence in 4 out of 6 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, why is it that MFIs have a rather small share of the money management business of those

households? 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. Their share of transaction-flow values is less than 15% of the total, 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 analyzed. Nor can they claim that they specialize 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 was just 21%. Clearly, they are not the main money managers for their clientele.

Then are they a specialized service? Are they still pursuing the ambitions they had when they started out 25 years ago—to provide credit only to owners of microenterprises? In a literal sense this isn't the case, since only 30 (59%) of the 51 MFI-formed lump sums that we analyzed were used for opportunities—and the opportunities class contains many other subcategories besides microenterprises. Our households went to the informal sector for loans for opportunity uses three times as often as they went to the MFIs.

Conclusions

Our conclusions seek to understand why MFIs have such a small share of the microfinance market, and to speculate on how they might gain a bigger one. We comment on three broad areas—on understanding the microfinance market, on product flexibility, and on reliability.

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 these). The microfinance industry is beginning to understand this demand (that is, the industry acknowledges ever more frequently 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. 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 gotten stuck in a bad loan or with an unreliable money guard. Consequently, we found almost no examples of household financial assets or 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. Instead, on the one hand our respondents quickly transferred cash 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.

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 further designed to minimize 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 that 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 amortize the introduced capital at the very high rate that weekly repayment installments and no 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) and 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 clients 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; 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. Inflexibility means that diversity of need cannot be satisfied.

Therefore it is not surprising that users' comments on the MFI product are often contradictory. Here is a small selection of views:

> "The weekly repayment system is bad—it simply isn't possible to find the money like that" (Kalam, household 20), and "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), and "ASA is very good—they give a loan when you ask for it (as soon as you've repaid your old one)" (Karuna, household 42).
>
> "Proshika is the best—they are not strict and let you pay late if you want" (Halima, household 31), and "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. It seems that many of the MFIs featured in our study have not sufficiently understood that reliability is one of their natural advantages.

MFIs, emerging from the NGO tradition in Bangladesh, enjoy systems and personnel who have not suffered institutionalized corruption in the way that state providers have, and they have the resources—money, systems, educated staff, powerful backers—that should allow them to deliver services that are much more reliable than those found in the informal sector. But too many don't, at least according to the testimony of our respondents.

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," said 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).

In his book *The Evolution of Cooperation* Axelrod (1984) shows how trust builds on simple behavior 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 honored 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 may struggle to repay loans to reliable MFIs even when they are in financial difficulty, like Amala.

Amala (household 17, urban poor), a sickly 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 honor the repayment schedule to which 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 to ASA she got a new, larger one.

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. 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 some MFIs have yet to understand that this leaves them with a golden opportunity to steal a march on the competition. With honorable exceptions, 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. Bookkeeping can be sloppy, so that clients can lose 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. The MFIs need to be more determined to find ways of exploiting the opportunities they have. Donors and academics can help by shifting the focus of their evaluations to issues of quality and conducting studies that include assessments of performance using criteria that go beyond crude measurements of outreach and sustainability.

Notes

1. Money values are given throughout in U.S. dollars at 2000 prices: $1 = 50 Bangladesh taka.

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.

3. 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 noncommercial way of managing money—at home by yourself, with one other person privately, or in a group.

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