conclusions

- Financial education is required to raise awareness of the costs and risks of high indebtedness and teaching about tools to leave indebtedness
- Mobile phones are appropriate and trusted channels for reaching low-income people.
- Institutions could more explicitly recognize low-income people's sophisticated financial management strategies and adjust their financial service offering to fit these strategies.

Benefits from financial diaries research approach

- It provides detailed, profound information that is often missed in 'snapshot' surveys. Surveys focus on one moment and miss out on the time dimension of financial behavior.
- Due to the repeated interviews, trust builds up between the respondents and the interviewer. With time a lot of additional information is obtained as people become more open and less ashamed about some of their financial behavior.
- Because of the repeated interviews, additional questions can be added during the course of the research. After analyzing the first data, themes that are insufficiently clear can be investigated in special focus themes and more qualitative issues explored.
- Those people conducting the field interviews learn fast about people's financial behavior and financial strategies. In a mere half-year these interviewers become experts on demand for financial services. Potentially these interviewers become valuable staff for financial institutions that want to serve lowest income groups.

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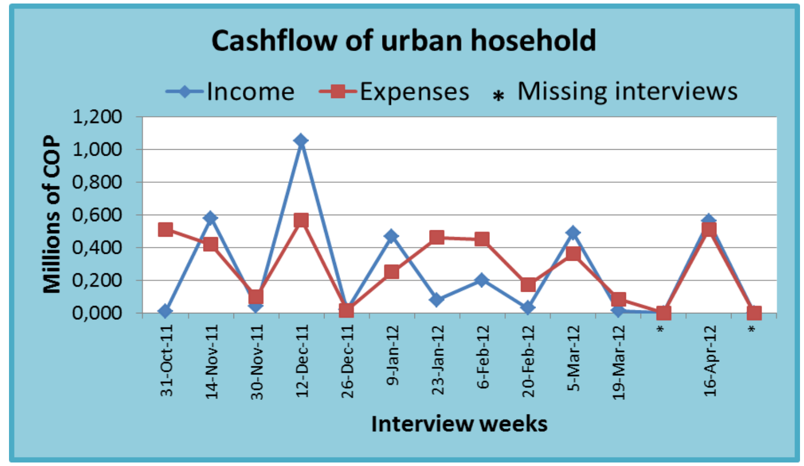
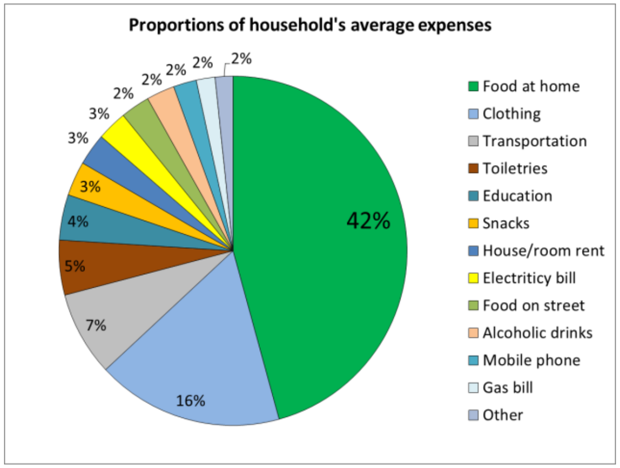
Financial behavior and potential demand for Mobile Financial Services of low income households

Findings from a financial diaries study in Magdalena, Colombia



How the research came about

When reading the book "Portfolios of the Poor – How the World's Poor live on $2 a day", the research authors were fascinated with the presented information and the research methodology. Soon the urge to conduct the same type of study in Latin America became irresistible and the Magdalena Financial Diaries were born. From October '11 till April '12 the field work took place in this Caribbean coastal *Departamento*.



The methodology that was used: financial diaries plus complementary focus themes

In Magdalena the standard Financial Diaries methodology was applied, with respondents answering every two weeks the same questions about their finances: how much did you earn and how, what did you spend, what did you borrow, what did you save, any other income, lending money, insurance payment…. The research also developed a new complementary methodology in which each interview cycle focused on a specific theme such as insurance and emergencies, government payments, mobile-phone technology… In total 34 households were interviewed throughout the research period. The combination of methodologies provides a rich tapestry of insights into the reality of financial management strategy of the low-income Magdalena people.

Findings are rich and surprising

A wealth of findings has resulted from the research. Below is a selection of them. Some findings were surprises, some reconfirmed expectations and some were inconsistent with earlier research.

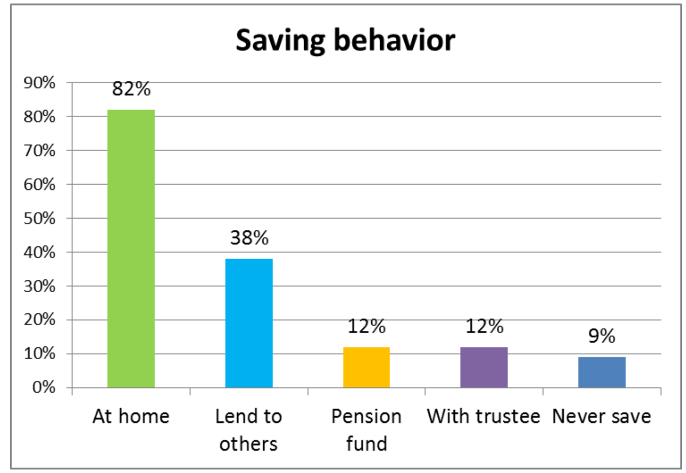
The biggest challenge is that income fluctuates strongly and its arrival is unpredictable The modest total income of low-income people would not be as difficult to manage if it would arrive regularly and if it was known when what income would arrive. People have just as much difficulty to overcome sudden shortage of income as wisely allocate unexpected excess of income.

Financial behavior strongly influenced by frequency of income Only some people receive their pay monthly each month. Most receive their income according to different frequencies, e.g. daily, weekly or two-weekly. Those who have a daily income will operate in a different financial system and have access to different financial tools, e.g. the moneylender for them is the *pago-diario* who collects repayment at home on a daily basis and charges the highest interest rates.

Informal financial tools are used most Even those who have access to formal financial tools, e.g. a bank-account for saving, will still primarily make use of informal forms, like saving at home or lending to friends. People use various credit and various savings tools simultaneously.

High percentage have a bank-account but rarely actively use the bank-account Some 44% of the households have a bank-account giving them access to formal saving, sending money transfers and receiving payments. However, the majority does not use this account other than immediately withdrawing any payment received. Most bank-accounts are *cuentas nóminas*.

Saving is practiced by most but these are small amounts kept at home for the short-term



The second most common form of saving is to lend money to others, often with interest.

Strong credit focus: primary financial management strategy is borrowing All households but one took loans during the 6-months research period. Most people have different loans simultaneously and repaying a loan with another loan is common. On average people have 1.44 mln COP loans (800 USD). Buying household appliances and furniture on loan is the norm and people would not mention the repayment obligations amongst their outstanding loans.

Mobile phones are trusted and familiar while financial institutions are mistrusted and unknown People are very comfortable with their mobile phone, particularly voice. SMS is relatively little used, but features like calculator are used, indication reasonable mobile-phone literacy.

Much mobile phone traffic happens via public phones *minutos de la calle*.