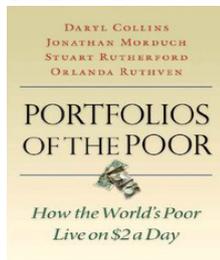


FINANCIAL DIARIES OF THE POOR

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Portfolios of the poor:
How the world's poor live
on \$2 a day

Book Cover:



Authors:

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Review Title:

Financial diaries of the
poor

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Although this book provides fresh insights into the financial lives of poor people, it does not live up to its title. It reports on a three-country study (India, Bangladesh and South Africa) investigating how poor people engage in often complex financial intermediation (savings and withdrawals), using a range of both formal mechanisms (e.g. banking and insurance) and informal channels (*stokvels*, rotating credit associations, friends, family etc). Fascinating though much of this is, *Portfolios of the poor* is something of a misnomer: no systematic sampling of the poor was conducted and there were significant drop-out rates in the Indian and South African samples. The claim that 42 households in Bangladesh, 48 in India and 152 in South Africa – none of them representative in any meaningful sense – can shed light on the world's poor, is thus an overstatement.

The title also detracts from what the book is actually about. It is not about how their respondents live on \$2 a day – many of them live on more, and some on less. Furthermore, the book contains no substantial discussion of global poverty, and the few attempts to discuss development indicators are ill considered (for example they claim that the World Bank's 'under-five mortality rate' measures the percentage of children under five who die each year, when the measure actually estimates the probability of a newborn baby dying before age five, expressed as a number per 1000 live births). The book does, however, contain some well-written and engaging accounts of how poor families manage a bewildering but rational array of financial activities to 'keep food on the table' and insure against risk – and this is its key contribution.

In documenting the financial lives of poor people, the study employed a novel research strategy involving regular visits to households to record their 'financial diaries'. In the process, researchers discovered what is often missed in more standard 'snapshot' household surveys, that income, savings and borrowings fluctuate substantially over time, and that households engage in various financial strategies to smooth consumption and engage in occasional social and economic investments. Their data, limited though it may be, is compelling in showing how poor people often engage in rational, simultaneous borrowing and savings activities, even where this costs them real resources and exposes them to additional risk.

The financial diaries provide a unique and interesting lens on the lives of the poor. They highlight how funerals are extremely costly in South Africa, dominating informal savings and acting as major economic shocks. Poor health, by contrast, appears to be the greatest risk in India and Bangladesh, where income is much more dependent on work. In this respect the book touches on a tantalising difference between South Africa and India/Bangladesh: that casual and informal employment is much lower in South Africa and that those without formal jobs survive on government grants to themselves or their households and can access largely free health care. It is a pity that the authors did not probe the import of this context regarding how poverty itself is replicated differently across the three study areas – or what this might mean for the design of appropriate financial institutions for the poor.

Also noteworthy is the discussion of the pioneering Indian Grameen Bank's evolution over time towards more flexible services and greater sensitivity to the needs of poor people for micro-finance (i.e. borrowing and saving), rather than simply borrowing (micro-credit). The authors approve of this trend, suggesting that other countries adopt similar strategies towards providing financial services for the poor. But in talking up the potential benefits of expanding banking services in more flexible ways to poor people, the book is disappointingly thin on the obstacles to this – and on the ways in which microfinance is likely to benefit some poor people but not others. ■