Microfinance in India: A Primer on the Financial Diaries Methodology

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Introduction

The Microfinance Group of the Indian Institute of Management, Bangalore has been involved in a year-long project involving the study of the cash usage patterns of microfinance clients. This ongoing study began in September 2008 and it was preceded by a three month pilot study conducted from September 2007 to December 2007 in the same area[2]. The study follows the methodology of asking the participants to keep financial diaries. Based on our interaction with the participants, this is a note detailing the dos and don'ts of such a methodology. It would be of aid to NGO's and other research groups wanting to implement such a methodology, either for purposes of research or as a tool towards financial literacy of its participants. We realize that there has to be some amount of fine-tuning to be done, depending on the area where such a methodology is being implemented – but nonetheless, we provide some basic guidelines, based on our study and observations. (Financial Diaries as an instrument for study of the financial practices of the poor and very poor was first carried out in Bangladesh by Stuart Rutherford and India by Orlanda Ruthven, as a part of the Institute of Development Policy and Research 's study on 'Finance for the Poor and Poorest '; this has been extended by Daryl Collins in South Africa. Details of this study are given in http://www.iimb.ernet.in/iimb/microfinance/prog3_ram-fin-diaries.htm.)

Ramanagaram Financial Diaries

The methodology of keeping a track of the financial inflows and outflows of people through financial diaries is not new. It has been done by Stuart Rutherford in Bangladesh, and by the Department for International Development (DFID) group led by Orlanda Ruthven in Delhi and Allahabad. A major study of this kind is also being implemented in South Africa[3]. We conducted our pilot in two urban slums of Hajinagar and Ambedkarnagar of Ramanagaram[4]. The basic reason for conducting this pilot was to get a grip on this methodology, before implementing a year-long study we had in mind. Another reason for the pilot was that unlike the previous studies quoted, we were intending to have our participants log-in the diary entries themselves; instead of having field workers write the diaries for them. To our knowledge, this was something that was being tried out for the first time, especially among the urban poor and therefore, a pilot was necessary for us to assess it adequately.

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Any study conducted using the methodology of financial diaries requires a fairly intensive contact with the participants. It is essential that they are able to freely access the study team members. This was the reason for choosing Ramanagaram to be our study area. Our primary field assistant lives very close to both these areas – Hajinagar and Ambedkarnagar. She also has several years of experience of community mobilization which helped in participant recruitment. During the pilot study, she was able to easily access the participants, and the participants also were freely visiting her home for clarifications of any kind.

Recruitment of Participants

Where the study team is entirely new and unknown to the participants, it helps if it (the team) is introduced to potential participants by someone known to them. In our case, team members were introduced to members of a particular MFI by staff of the MFI known to us. Since the MFI members had already established a relationship with the group members, it was easy for is to first approach them. However, after the first approach, it took visits to several groups and individuals before enough participants could be recruited.

It is essential that recruitment of participants be made in groups; therefore, SHG group meetings are the right place to introduce this methodology. One of the reasons is that unlike training modules involving topics like health, hygiene, skills-enhancement, or livelihoods – the benefits of keeping financial diaries are less obvious and apparent. Therefore, debates and discussions about the very "need" to have such a study are essential. In our interactions with the women, some women were immediately able to grasp the benefits of keeping such diaries; while some other women wanted to know the more "tangible" benefits in it for them. While we can explain the need for such a study at length, it is best if the women were able to discuss it amongst themselves. We did ponder over the reason why some women are able to grasp this need, while others are not. It did not have anything to do with literacy levels. More often than not, women who handled the finances of their houses and had some stake in taking decisions involving finances of their households were the ones who readily understood the study. While we explained the possible benefits from keeping the diary, we also made it clear to them it was primarily for data collection and that by keeping diaries they would in fact be helping the research team gather data that could be of use to organisations/institutions providing financial services to poor households.

Another factor was the time involved; and this factor has to be made clear at the onset. While some women were willing, many had genuine difficulties in committing the time that is needed. We also ascertained if the households intended to stay on in the same place for the duration of the study – which in this case was for three months. At no point should an unwilling participant be coerced into the study. The success of such a study crucially depends upon the willingness and active co-operation of the participants.

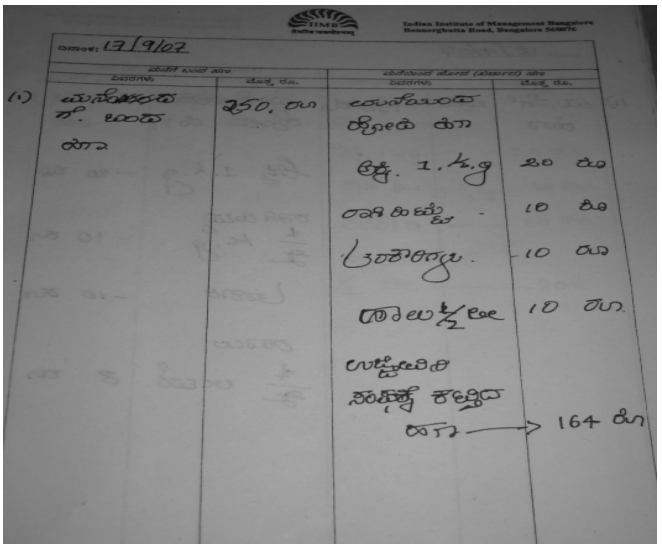
After the women have shown an interest in keeping these diaries; it is essential for the study team to visit her home and meet her individually along with her family (husband and in-laws, if she is living with them). Writing these diaries requires an active co-operation from all the members of the household. A lot of women we interacted with, while interested, could not participate because they were not sure of their husband's co-operation. Some of them said that while they could give a detailed account of what they did with their money, they had no clue of how much their husbands earned or how they spent the money. Some women could also be making savings or earnings without the knowledge of their husbands and would not want these issues to be made open. Family finances, we realized was a sensitive issue in familial relationships – and we took pains to explain that we would not want any problems/discord to crop up in the family because of this study. Talking to the wife in the presence of the husband also helped, because the husbands are sometimes better able to grasp the need for keeping track of money flows. The confidentiality of the information shared is to be explained thoroughly. Though a formality, it helps explaining all of this and taking a written consent from the participant before the start of the study. Though we did not take written consent from participants, we had a written statement explaining the purpose of the study, its process, benefits to participants (possibly a better understanding of family finances), potential risks (possibility of conflicts if finances are discussed among family members – potential participants were informed of this so they could consider this possibility before agreeing to participate in the study), issue of confidentiality. This statement was given to all participants and also read out to them to ensure that they had fully understood the study objectives.

It also, therefore, helps if participants are staying in a cluster or very near each other; often the "demonstration effect" works wonders. However, the initial visits to the participants' households by the study team once or sometimes more than once to talk about the study cannot be emphasized more.

Writing Diaries

Diaries, pens and other stationary were provided to the participants by the study group. The diaries we gave to the participants were 8 by 5 inch spiral bound notebook of around 100 pages photocopied locally. Each page corresponded to a day's entry where the date had to be entered in by the participant. Each page was divided into two columns titled (a) money which came into the house (b) money which left the house. Each column was later subdivided into two additional columns one for the description of the entry and the other for the rupee amount.

Figure 1: An entry from one of the diaries



A half a day's training module was given to the participants on writing these diary entries. The field assistant instructed the participants on how to write the diaries when she distributed the diaries to them. We wondered if we should have the participants write entries in categories such as food, loan repayments, however we realized that it might be difficult for the participants to make these distinctions (on what category a particular item goes into) hence its best for participants to keep their diaries unstructured and simple. In the year-long study, however, we have made a distinction between household flows and business flows of those households where someone in the family is also running an informal business. Participants will have doubts about the level of detail to be kept; whether to write details of the items they bought everyday or whether to club them as one entry (sambhar, snacks, et.al). The study team had not imposed any rigorous rules in such situations; it is best left to the participants and their comfort in writing these entries. In our pilot study, we found a fascinating variety in the details kept by the participants. There were some households who indeed gave details of the vegetables and spices they bought, while others coupled everything under a common heading of "vegetables" or "spices". Cumulatively, for the three month period, we observed more than 1 lakh transactions in our sample of 20 households.

As is obvious, some amount of "literacy" among the participants is necessary for such a study. Ideally, it would help if the participant has passed class X. But we did not find this to be a big barrier in our study. A lot of the women while illiterate themselves, had school going children to whom they were willing to narrate the diary entries. Some of the diaries in our study are being written by the school going girls of our participants.

Baseline Surveys and Data Collection

Before the process of collating data from the diaries, it is useful to conduct a baseline survey of the participants by the field assistants to get all the demographic, socio-economic, education, health and other status. Typically, in this initial baseline survey, we did not ask any questions directly relating to finances (incomes, expenditures, assets, borrowings) – but we asked our field investigator to keep copious notes indicating (a) the socio economic status of the household, depending on the condition of the house she is living in, the assets she has and (b) her willingness to write these diaries. Some of the initial comments made by our field assistant about our participants are:

"Respondent was interested in sharing information. Also expressed anger and frustration at her condition and worry about how to cope in future. She had to leave for work mid-way through the interview but promised to complete the interview later in the evening and did so."

"Respondent is very weak; however she goes out to work, else cannot manage to survive, is eager to participate in study. Respondent was very weak after childbirth and continues to be weak and has started taking treatment only of late. Newborn child died as family could not afford treatment costs."

Once the participants began writing the diaries, the field assistant visited the participants once a week in their homes and transferred information on to specific sheets.

Figure 2: Sample of Sheet filled in by Field Assistant

Expenses						**Household Code:**	
Particulars	**12/11/07**	**13/11/07**	**14/11/07**	**15/11/07**	**16/11/07**	**17/11/07**	**18/11/07**
Rice	20	20	20	20	20	20	20
Vegetable	10	15	20	10	20	15	
Wheat flour	20						
MFI loan repayment	144						
Maggi		15					
Milk		10	10	10	10	10	10
Sugar		5	5	5	5	5	5
Oil		5					
Firewood			20				
Bangles			10	10			
Egg				10			
Bucket				70			
Income							
Coolie	250	250	150	250	250	250	250

Categorization of expenses (food, loan repayments, utility bills, cosmetics, clothes, health, etc.) was done by the study team. The field assistant was encouraged to make notes of every interaction she had with the household. The field assistant has to be very cautious in taking down the data from the diaries; Most doubts and questions have to be clarificatory in nature. The field assistant should also not pass any judgment on the kinds of expenses stated, or the amount of expenses stated for some items since these are decisions made by respondents and study staff cannot question these decisions. Besides, if participants feel that they are being judged it will affect the relationship between them and the study team and they might not want to disclose certain expenses. However, the field assistant also has to be vigilant in getting all the information, which could have slipped the diary-writer's mind. Expenses like loan repayments, fuel are fairly regular and the field assistant can get a sense of the frequency of such expenses. For example, if regular payments such as rent, loan repayments are missing on certain days, the field assistant can probe if it is because the payment hasn't been made or if the writer has forgotten to record that particular transaction in the diary.

Sometime well into a month or two of the study, another baseline survey collating all the financial information of the participants (assets, incomes, expenditures, borrowings, savings, and loan repayments for the preceding year) can be conducted.

Veracity of Information

Often the study team may have doubts whether complete information about the household is getting recorded in the diaries. As per our experience, we have, however, realized that the whole purpose of the study is obviated when we get into an "accountant's" role of verifying entries. Given time and constant interaction with the field assistant, and an increasing measure of trust – participants are less chary about giving complete information. Thus, if veracity of the data is an issue, then it would help having a trial period or a pilot of 2-3 months where both the participants and the field assistants get used to the idea of the study. The keeping of diaries has implicit learning for the participants in understanding their own expenditure flows. Once this learning is understood, flow of information is less of a problem. But this understanding takes time and it requires giving them that time and patience.

Often a group debriefing session helps. We had a de-briefing after 3 months, where a meeting of all the participants was held. In this meeting, we had analyzed some of the information from the diaries for our participants in fairly easy to understand terms. We had pie-charts explaining their spending on food and loan repayments (the two big expenditure items for our participants); we had emphasized the importance of savings for some predictable expenditure items; we had the manager of a public sector bank speak to them about bank accounts. This de-briefing in fact accelerated their learning process. Out of 1 rupee, when they were told that they spend more than 30 paise on

repaying loans – it did come as a shock to many of the participants.

Remuneration

Regarding the remuneration to be given to the participants, in our pilot study we had not given any remuneration. At the end the study, during the de-briefing session we did give all of them some token gifts in kind. However, keeping these diaries and getting them recorded by the field assistant does impinge on the time of the participants, and for the yearlong study we have kept a monthly remuneration. However, we had left it to the participants whether they wanted this monthly, or whether they wanted this as a lumpsum at the end of the year – almost all participants stated that they wanted it at the end of the year. This was made clear in the written statement that was given to all participants at the time of recruitment.

Remunerating participants for participation can be seen by some researchers as a way of motivating them to remain in the study; it is also sometimes regarded as unduly influencing them which might affect the quality of data. As mentioned earlier, we did not offer any remuneration during the pilot. We felt that participants were motivated to continue in the study because they were genuinely interested in writing the diaries and also valued their interactions with the field assistant. Many of them said that they would wait for the field assistant's weekly visits so that they could share their experiences with her. There were drop-outs but these were due to personal reasons such as ill health and the respondent leaving town unexpectedly for some length of time. Such drop-outs are to be expected whether or not participants are remunerated. We however strongly feel that in studies of such nature, which require participants to spare time consistently over some period (both for writing the diaries as well as spending time with investigators for clarifications), it is only fair to remunerate them for their time. We have found that offering remuneration does not in any way affect quality of data.

Role of Field Assistants

The study and this methodology of keeping financial diaries revolve crucially around the role played by the field assistants. They have to be sensitive and empathetic to the participants, and they have to give them time. Money or the lack of it in poor households is an emotionally fraught issue. Often, in the process of collecting the information, we faced instances where the participants broke down narrating their experiences. Since this study also requires a constant interaction between the field assistant and the participant – the issue of trust is crucial. The field assistant will be seen as not just be the person collecting data, but also someone who visits their house regularly and with whom they can share things. Our field assistant was also very proactive in giving them information about several government schemes, opening of bank accounts, information related to their health problems, or any other information she thought would be of use to them. A short training module for the field assistants by trained social workers and researchers adept at qualitative studies, at the beginning would be of help.

Conclusion

The methodology of financial diaries is a tool that serves several purposes. For researchers, it is an excellent tool for qualitative analysis, where every occasion of recording the diary entries of the participants is an occasion of understanding how the participants live and deal with their specific situations. For the participants, it is a tool for financial literacy – where keeping track of their daily cash inflows and outflows helps them understand and conduct their own finances better. Self Help Promoting Institutions and other organisations working with poor households can use it as a training tool to track daily inflows/outflows, devise methods for savings, help build linkages between formal financial institutions such as banks and insurance providers.

Whatever be the uses made of this technique, the level of disclosure of data depends on the degree of trust between the participants and the study team. Adequate care, therefore, has to be taken in building relationships between the participants and the study team.

Professor Rajalaxshmi Kamath presented the findings, from a financial diary study she conducted in Ramanagaram in the Conference of Micro Finance held at CAB, Pune in January 2009. Through the study, Professor Kamath found that many of the 20 borrowers that participated received credit from multiple sources, both formal and informal. Some borrowers were members of more than three MFIs and there was evidence of debt recycling, in which a new loan was used to pay off an old loan. Professor Kamath concluded by stating that multiple borrowing will continue to happen if loan sizes are too small to meet client needs and if coordination between MFIs to limit multiple borrowing does not improve. (The proceedings of the conference are presented elsewhere in this issue)