

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

Findings from a financial diaries study in Magdalena, Colombia

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LIST OF ABBREVIATIONS

| | |
|---------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ASCA: | Accumulating savings and credit association |
| ATM: | Automatic Teller Machine |
| CCT: | Conditional cash transfer |
| CNB: | Corresponsales no bancarios, equivalent to bank agents: third parties hired by a credit institution to provide certain financial services to their customers like carrying out transactions and payments closer to their town or neighborhood (e.g. in supermarkets, drugstores, bakeries, etc.) |
| COP: | Colombian pesos |
| FeA: | Familias en Acción conditional cash transfer government program |
| G2P: | government to person |
| ICETEX: | Colombian education credit institution |
| ID: | identity card |
| IVA: | value added tax charged by the government |
| KYC: | Know Your Client, a financial legal term related to the regulations of financial institutions. To offer financial services to a client, a bank should know who the client is, such as name, ID number, and address |
| MFI: | Microfinance institution |
| MNO: | Mobile Network Operator |
| NGO: | non-governmental organization |
| POS: | Point of service |
| PPP: | Purchasing Power Parity, a United Nations tool to convert price levels of different countries into a global price index |
| ROSCA: | Rotating savings and credit association |
| SIM: | subscriber identity module |
| SMS: | Short Message Service |
| USD: | United States Dollars |
| USSD: | Unstructured Supplementary Service Data |



1. INTRODUCTION

It is our great pleasure to hereby present the report of the financial diaries research that took place in *Departamento del Magdalena* over the course of October 2011 – April 2012.

When reading the book “Portfolios of the Poor – How the World’s Poor live on \$2 a day”, the members of the later research team were fascinated with the presented information and the research methodology. This book reports about financial diaries studies that were conducted in several locations in Asia and Africa. It intrigued to read how sophisticated and diverse financial management strategies these lowest income households pursue. It confirmed again that microfinance was only a very small and quite limited element in a complex financial survival system. And we wondered: Would the financial systems of low income people in Latin America be the same?

Soon it became irresistible to conduct the same type of research in Latin America. During August-October 2011 we developed the research design for the Magdalena Financial Diaries and selected a respondent sample. This report presents the findings from this important and exciting adventure.

Why is this such an important research? Altogether Colombia is firmly a middle income country with a healthy economy that has been growing steadily. Nevertheless, the incidence of poverty is some 47% and regions like the Caribbean coast (where *Departamento del Magdalena* is located) has a higher poverty rate. Within Colombia there is a great willingness within the government institutions to reduce poverty and financial services providers are interested in serving the lower income groups. However, these institutions need more in-depth knowledge about the income group and particularly about their financial behavior. It is our wish and expectation that this report will contribute towards the deeper understanding of the lower income group and we hope it may ultimately make a contribution to reducing poverty.

Some special aspects of this particular financial diaries research we would like to mention. As this research was not conducted under financing from a donor or any specific client, the research approach could be adjusted during its implementation. The first few weeks we implemented the standard financial diaries methodology with each interview consisting of the same standard questions. However, as we learned more and more about people’s reality, also more and more new questions emerged. In quite a natural process we started to focus in-depth on some specific topics during each interview round. In this way we investigated people’s relationship and attitude to moneylenders, people’s technology “literacy”, people’s understanding and strategy to insurance, government subsidies, etc. etc. These focus themes have considerably deepened the depth of this research.

Of course, this research also has its limitations. First of all, it took place in just one *Departamento* of the country and Colombia’s regions differ significantly, so the findings from this research should not be considered applicable to the country. Due to the small sample size it cannot even be regarded as representative for the *Departamento del Magdalena*. The Magdalena financial diaries also took place during only 6 months, which is not a full year’s cycle of seasons and events. This means that the data cannot be representative for the full year, e.g. coffee farmers’ annual income is not simply twice the income recorded here.

In order to provide representative data for the entire country and throughout the seasons, the research team has prepared a proposal for conducting country-wide financial diaries through

the network of an educational institution and financed through contributions from financial institutions that stand to benefit from the data.

We hope you enjoy reading the report and that you will be able to support us in setting up the country-wide financial diaries programme.

[Anne Marie van Swinderen](#)

[Michiel Wolvers](#)

Daniel Borrero Camacho

2. EXECUTIVE SUMMARY

Research location The research was conducted in the northern part of *Departamento del Magdalena*, on the Caribbean coast. Two-thirds of the research took place in rural parts and included a number of respondents who are agricultural producers.

Methodology The main part of the methodology applied is named “financial diaries”. The essence of this methodology is to interview the same respondent repeatedly over a long period of time, which was every other week during six months in our case. The advantage of this methodology is that it provides a time-line of people’s financial behavior and trust is built up over time. The complementary methodology of focus themes was developed during the course of the research, which is an addition to the original methodology. During each interview round the respondents and interviewers focused in detail on one theme related to financial behavior such as financial literacy or credit behavior.

The sample size of 34 respondents was obtained by first defining desired sample profile, pre-selecting a group of around hundred interested persons and then matching this profile as closely as possible through identifying respondents via our personal network and friends and family of already identified respondents. A crucial condition was to ensure all respondents to be motivated and available for the whole interview period.

Findings

Income and expenditure patterns The research demonstrated that the largest challenge for low-income people proves to be that income and expenditure patterns do not match, particularly in terms of timing. Income fluctuates strongly from month to month for most people while they would ideally spread their expenditure quite evenly over the year. A central finding in this research is that people’s financial behavior is to a large extent defined through the frequency that they receive income. The income frequency found was daily, weekly, bi-weekly, monthly and annual patterns (agricultural producers typically have annual income patterns, but also tourist businesses have large peaks during certain times per year, like Christmas). According to how frequently people receive their income, they use different moneylenders, different shops and possibly even different savings options. For example those getting daily pay will take credit from the “*pago diario*” who collects repayment daily, which is the type of moneylender charging the highest effective interest rate. The vast majority of respondents have several sources of income with up to 6 income sources per household. The income sources are often a mix of formal and informal income which means that the majority of the households operate in the formal and informal economy simultaneously.

Use of financial tools Most respondents use a large range of financial tools simultaneously and different credit options, savings forms and payments at the same time. The majority of the respondents have a bank-account. However, these are primarily *obligated savings accounts* which means people were obliged to open these accounts in order to receive a salary, a government payment or payment for agricultural produce. With the *obligated savings accounts*, most people receive a debit-card which consequently is a familiar financial tool. However, debit-cards are primarily used at ATMs to withdraw a payment and are seldom used in shops to pay for purchases. Agricultural federations like the coffee federation operate via formal financial channels resulting in farmers also holding *obligated savings accounts* both for receiving loans from the federation and payments for produce.

Receiving government payment is very widespread amongst lowest income groups, with the *Familias en Acción* the most common type of government payment. This payment is transferred every other month which is an inconvenient frequency since it does not match people's expenditure patterns. The recipients did not know (or understand) when it was paid exactly nor did they know what amount they would get each time. Arrival appeared to be largely a surprise. Nevertheless, people spent this money very carefully and they conscientiously allocate this money to children's school and nutrition, i.e. according to the objectives of this payment.

Savings The vast majority of respondents save with only 12% [⁴/₃₄] of the respondents who did never have any monetary savings during the entire research period. People save typically very small amounts with a time horizon of at most 4 months. They generally do not call this "savings" and refer to this as "setting aside for later". The respondents overwhelmingly prefer to save at home or even in their own wallet (82% [²⁸/₃₄]) as they think that holding savings close-by is safer and because they will have easier access in case of an emergency. Formal savings in a bank-account is rare. A common form of saving is to lend excess money to others (38% [¹³/₃₄]) or deposit it with a trusted person (12% [⁴/₃₄]).

Credit The respondents have a strong credit orientation in their financial management system. There is a whole gamma of credit options that people can access. The most common form of credit is *fiado*, shop credit. The second most common source of credit is "family or friends", which is usually also bearing interest or other significant costs. There is a range of moneylenders focused on different income patterns and types, including even some formal, registered businesses. Moneylenders typically operate under the flag of a different business like architect or jewelers. The system of buy-now/pay-later for household appliances and furniture is the norm, with people not even considering this a debt while they are charged some 60 to 100% annual interest on these even at formal establishments like supermarkets.

Money transfers Despite the large number of *desplazados* in Colombia domestic money transfer incidence was low. Just 10 remittances were recorded amongst 35 respondents over 6 months.

Bill payments Utility bills are often paid in supermarkets, mom & pop stores or *graneros* in case of urban respondents, while rural respondents pay at the electricity or gas company's local representative directly, often for a group of households jointly.

Dealing with emergencies Emergency and other peak expenditures are very common amongst low income people. Despite that 97% [³³/₃₄] of the respondents had health insurance (typically the free government health insurance for the lowest income group) they still incurred substantial health related costs, e.g. for the travel, or having to go private due to inadequate service or long waiting times.

Mobile phone usage Mobile-phones are extremely widespread and all respondents have access to making and receiving mobile-phone calls. While 63% [¹⁹/₃₀] of the respondents own their personal hand-set, all had at least one hand-set owned within the household. Much of mobile-phone communication is done from street stalls through *minutes de la calle* due to these minutes working out cheaper. Most people use predominantly voice on the mobile-phone. SMS is not common, either due to requiring more phone skills, due to people being more verbally oriented than written or possibly due to the relatively high costs of SMSs.

3. IMPLICATIONS FROM THE FINDINGS

From this research important findings have resulted which have significant implications for institutions who work with the low-income population. Below we lift out a few of these findings and analyze their institutional implications.

| Finding | Policy implication |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Frequency of pay determinant in financial behavior</p> <p>People’s financial behavior proves to be strongly determined by the frequency at which they receive their income. Someone who provides casual day labor receives his or her pay mainly daily. This means that they will buy their groceries on a daily basis, which implies shops that sell in small quantities, that they can only access credit from a <i>pago diario</i> money lender who accepts daily repayment, and that they typically save in their own pocket or at home, because the amounts are too small to make them worthwhile to deposit elsewhere.</p> | <p>Different needs segments according to the frequency of pay</p> <p>This has a number of implications. For instance, this means that segmentation of clients of financial institutions should ideally be done along these lines and distinct financial products may need to be developed for those who have a daily income and those who have a weekly income. Providing a loan which can be paid back in tiny, daily installments with ideally the option to miss some days’ payments, is the only credit product these people can assume.</p> |
| <p>Simultaneous use of a number of financial tools</p> <p>People use much more financial tools simultaneously and maintain several loans and several forms of savings, all at the same time. Moreover, virtually all people combine informal and formal financial tools. In fact, low-income households are financial portfolio managers, which are probably more sophisticated with higher risk profiles than wealthier people.</p> | <p>Institutions should recognize portfolio management skills</p> <p>If financial institutions would tap into this sophistication of low-income people and build on this, this may strengthen their product offering. If FIs would engage more actively with low-income people and take their full financial portfolios into account and recognize these as sound and appropriate strategies, they are likely to serve this population more adequately. Moreover, in such an approach, low-income clients may become lower risk and more profitable.</p> |
| <p>Strong credit orientation in financial strategy</p> <p>People have a very strong credit orientation, at least on the Caribbean coast. Households are typically heavily indebted and use credit as the regular strategy to finance normal purchases rather than just emergencies. This results in the low-income groups in effect throwing away a substantial portion of their money. The government and other institutions already recognize this.</p> | <p>Actively discourage credit orientation through combination of approaches</p> <p>How to address this exactly needs to be carefully considered and current strategies evaluated. The research team would propose a combination of:</p> <ul style="list-style-type: none"> a) financial education, particularly focused on demonstrating the costs of credit and that credit is essentially the same tool as saving but a very expensive version b) concrete financial products that assist people to escape indebtedness, like the Jipange Kusave or “borrow-to-save” product that start with a loan and through gradual repayment the person moves from net borrowing to net saving c) further and widespread promotion of self-intermediation, particularly through the VSLA groups (<i>Grupos de Ahorros y Crédito Local</i>) |
| <p>Trust of mobile phone and mistrust of institutions</p> | <p>Financial services via mobile phone is the ideal</p> |

| Finding | Policy implication |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>This research has clearly confirmed that low-income people have a strong relationship with their mobile phone and they feel comfortable and included in the mobile telephony world. On the other hand, there is substantial mistrust from low-income people towards a range of institutions as well as discomfort. As a result, they will continue to use primarily the informal financial services.</p> | <p>channel to include low-income people</p> <p>The obvious channel to successfully capture low-income clients is the mobile phone. The recent development of two major mobile wallets in Colombia Financial institutions is very important and the research team believes that these two facilities will be game-changing. The fact that both mobile wallets are an initiative and owned by formal financial institutions, gives Colombia a unique opportunity for large gains in financial inclusion. The fact that both these mobile-wallets are offering a free service, with neither account fees nor cash-in and cash-out fees, a range of others could channel their services via these mobile-wallets, e.g. SMSs and other companies selling to the public, MFIs disbursing and receiving repayment of loans, insurance companies, leasing companies, etc. etc.</p> |

4. RESEARCH AREA WITHIN THE COUNTRY'S CONTEXT

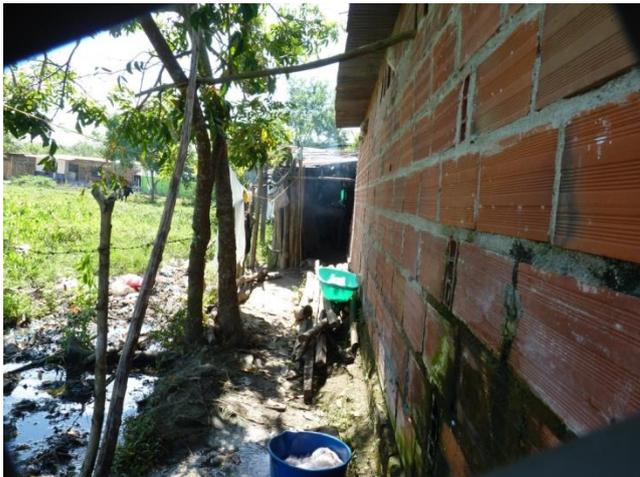
The Magdalena Financial Diaries were conducted within the northern part of *departamento del Magdalena*. The findings are based on a small sample (34) of respondents. Magdalena is a *Departamento* on the Caribbean coast with a relatively low population density and higher rural population percentage.

Colombia has a population of about 46 million, of which close to 50% are poor and 10% of the population is regarded as “very poor”. It is considered the 6th highest poverty percentage in Latin America, after countries like Haiti, Nicaragua and Bolivia. When taking into account the size and average income of the country, Colombia’s contribution to Latin American poverty is substantial. Considering that Colombia is comfortably a middle-income country with an average per capita income of USD 9,000¹ (PPP) the high poverty incidence is unusually high. Indeed, Colombia has worldwide the second highest Gini-coefficient of larger populations (South Africa is highest) which confirms the strongly uneven distribution of income of the country.

Colombia has only about 24% of the population living in rural zones. Nevertheless, agriculture is an important sector in the country with already high export levels of agricultural produce and substantial opportunities to expand high value cash crops. Agriculture is characterized by large producers of cash crops with laborers, rather than small-holder farmers. Coffee production is one of the mayor exceptions, which is for a substantial part produced by small-holder farmers.

Colombia’s history of internal conflict (which some consider to have been ongoing ever since the country’s independence in 1824) has impacted the situation in rural areas in a number of ways. First of all, security issues were and are far more severe in rural zones than in urban zones, leading to people leaving for the cities. Substantial internal migration was caused by (forced) land dispossession of smallholder farmers by the paramilitary. As a result not more than 5-8% of Colombia’s population lives as smallholder farmer in the rural areas nowadays.

¹ Wikipedia, Purchasing Power Parity (PPP), a United Nations tool to convert price levels of different countries into a global price index.



5. METHODOLOGY

We have based our research methodology on the research described in the book *Portfolios of the Poor*², in which some 250 households from three countries (South Africa, India and Bangladesh) were repeatedly interviewed during a period of one year (interviews took place weekly or every other week). This specific research methodology was used to answer a fundamental research question, which could not be answered with traditional research methods, namely: "how do low income households manage their financial lives while living on US \$2 or less a day?". The main finding from the *Portfolios of the Poor* research was that the poor indeed have sophisticated financial lives to manage their scarce finances. In fact, because of their low income, they need more sophisticated finance tools, than when income is higher, more predictable and more stable. The research demonstrated that the low-income households use complex and versatile financial tools and a huge range of combinations of these tools to manage their financial household. Respondents were reported to use on average almost ten different financial tools at the same time.

Our research applied the financial diaries methodology of sequential interviews over an extended period of time, combining benefits of quantitative and qualitative research, as a large number of data is collected with extensive background information. We chose to interview households every other week during a period of six months. Because interviews took place repeatedly over a long period a high level of trust developed between respondents and interviewers. This resulted in more reliable and intricate findings. We were able to reconstruct a timeline of every household's transactions over the research period, taking account of income, expenses, money borrowed from formal and informal intermediaries, money lending, saving methods and insurances or other forms of dealing with emergencies.



The field-researchers actively and continuously analyzed the data they collected. Analyzing the data from the main bi-weekly interviews, the study over time identified important topics that were ignored at first. As well, field-researchers diligently detected unusual or seemingly contradictory responses. Based on these signaled discrepancies, the central research developed

² Collins, Daryl; Morduch, Jonathan; Rutherford, Stuart; Ruthven, Orlanda, 2009. *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*. Princeton University Press.

additional qualitative thematic research tools. These were named "focus themes". Examples of focus themes that have been developed for the research are "risks and insurance", "receiving government subsidies (CCTs)", "financial and mathematical literacy" and "credit from moneylenders".



We interviewed a total of 34 households, 11 from urban settings and 23 from rural areas. They were selected from among the lowest of the 6 official income groups in Colombia: *estratos* 1, 2 and 3. All households in Colombia are divided in a social classification system³, which divides residential zones in so called '*estratos*' based on the cadastral value of the neighbourhood. The higher the *estrato* gets, the more residents in the area will have to pay for public services and taxes. The lowest *estratos* receive government subsidies and have access to social services like public health and education.

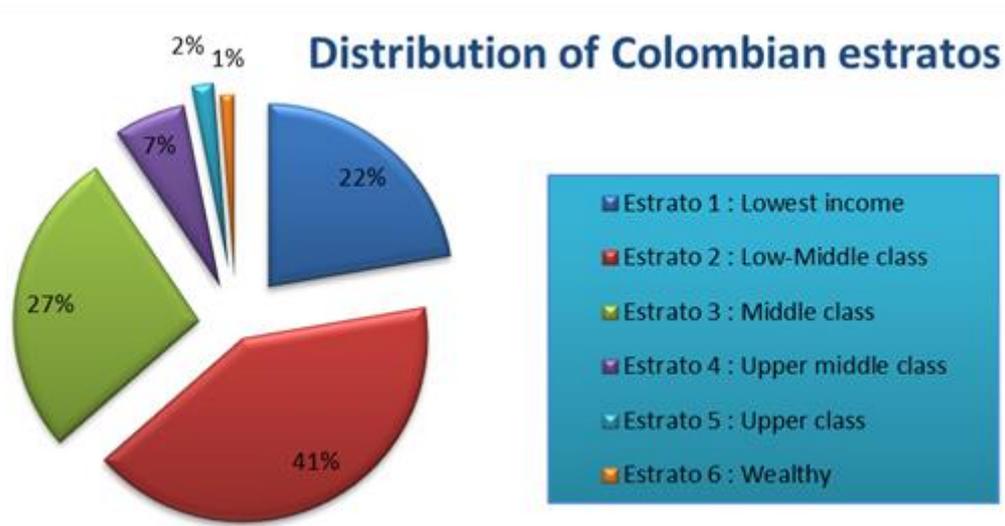


Figure 1: Distribution of Colombian *estrato* levels, on national level.

The researchers first set out to design a sample profile after which they proceeded to select the respondents. They determined the group profile as shown in Figure 3.

³ http://www.dane.gov.co/index.php?option=com_content&view=article&id=354&Itemid=114 Accessed 25-04-2013.

While organizing the research, various safety hazards made it difficult for us to select respondents which were reliable enough to provide us with data over a six month period. Several paramilitary hostile groups were still active in the research area, which meant we had to take precaution in selecting and interviewing respondents.



With this limitation in mind we selected respondents via our own social network and the network of already selected respondents within the targeted research areas. However, only people that fitted the designed sample were selected as respondents. The help from our social network to identify respondents only extended to arranging a meeting with persons living in the preselected area. Those introducing us to potential respondents were not present beyond the introduction; hence our respondents were not influenced by the presence of additional persons. We preselected about one hundred candidate respondents during short intake interviews in which we presented our research, requested their cooperation and asked for some personal information: name, gender, address, *estrato*, and main income source.



Figure 2: Research Area

Initially, from these 100 a group of 45 respondents was prepared to be interviewed, but over time some respondents dropped out of the research for various motives, like mistrusting the researchers, not wanting to give information and frequently being unavailable for the

interviews. In the end, the research was carried out to its final interview with a group of 34 respondents.

While reading the report do take in consideration that due to the small respondent group and because not all questions were answered by all respondents, this data can only give an indication of the situation in the research area. A quantitative follow-up study will be able to provide more reliable data.

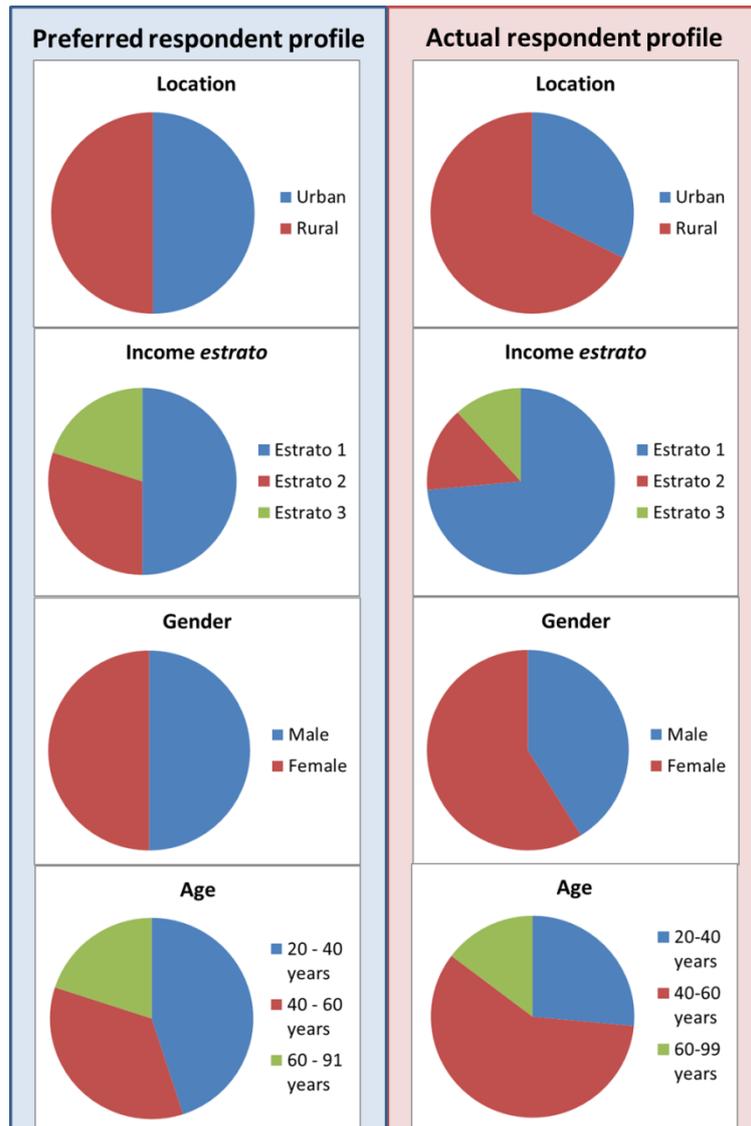


Figure 3 – Designed profile vs. final distribution of the respondents by location, gender, age and income *estrato*

6. INCOME AND EXPENDITURE PATTERNS

6.1 Indication of average income

The formal minimum wage in Colombia was COP 566,700⁴ (USD 320)⁵ per month at the end of our research period. However, the majority of lower income people work in the informal sector and seldom receive a minimum wage. Only those who have formal employment (26% [⁹/₃₄]) of the households) may receive the minimum wage. An average household's income (1 to 3 income earners) in the research group was around COP 900,000 (USD 490) per month, with deviation of COP 1.18 million (USD 640). But this average includes the coffee farmers of our research group who received their one-off annual harvest during the research period, which increases the average. The average household income of our research group excluding these farmers was COP 780,000 (USD 420). Day-workers earn about COP 20,000-30,000 (USD 11-16) per day. About 12% [⁴/₃₄] of households obtained their main income through day labor.

The absolute minimum amount of a family income is about COP 400,000 (USD 218) per month. To make ends meet, the majority of respondents take loans to buy regular items for daily expenses, such as groceries and toiletries (primarily through fiado credit explained in section 11). Sometimes households reduce their expenses on food, to make ends meet. Based on the data we conclude that household expenses increase when income increases.

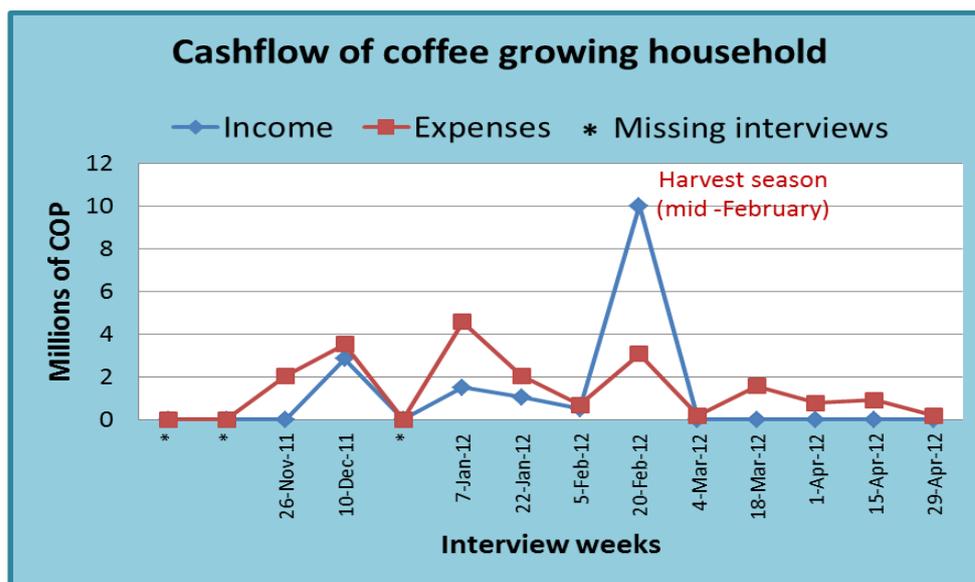


Figure 4: Household's cash flow which includes income and expenses

6.2 Employment and income sources

We divided the respondents according to formal and informal income activities. Formal are the economic activities (jobs or businesses) compliant with government regulations⁶ and informal are the activities that do not comply. The majority of households (94% [³²/₃₄]) receive part or their income from informal activities, the households living solely on a formal income source are

⁴ <http://www.portafolio.co/economia/aumento-del-salario-minimo-2013-3>.

⁵ Exchange rates of 10 May 2013: USD 1 = COP 1,828 (COP 1 = USD 0,544). This exchange rate has been used throughout the report.

⁶ Act No. 410 of 1971 of the Colombian Commercial Code states that every person or establishment dedicated to a commercial activity must be registered in Chamber of Commerce (article 19), comply with the Colombian legal accounting standards (article 19), and pay taxes to the government (articles 26 and 35, Colombian Tax Statute).

pensioned. In total, 38% [¹³/₃₄] depend exclusively on income from informal activities⁷. For 25% of the respondents' households, informal activities are used as additional income source. For households that have a mixed income of formal and informal activities, informal income represents on average only 15% of the total income.

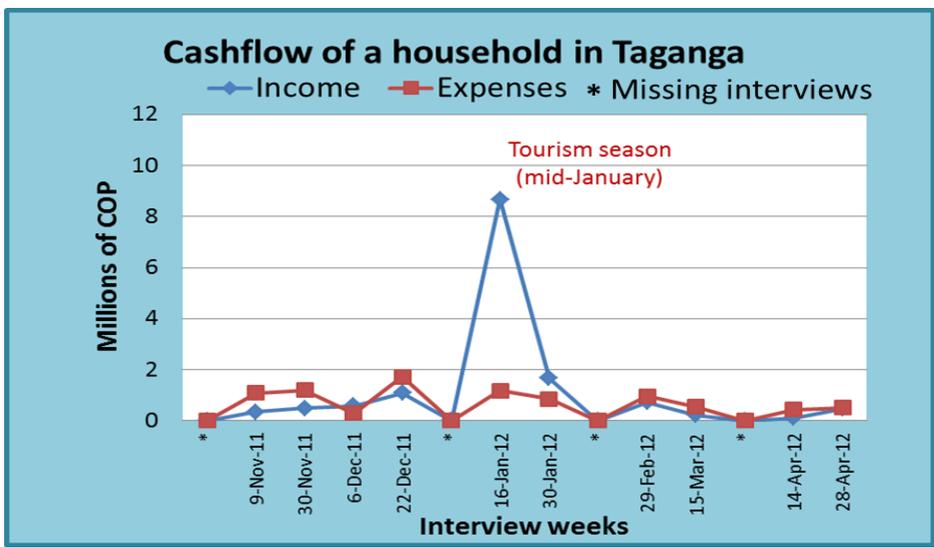


Figure 5: Household’s cash flow which includes income and expenses.

Overall, about 65% [²²/₃₄] of the households have some kind of own informal business, 35% [¹²/₃₄] have informally employed members, 26% [⁹/₃₄] have formally employed members (and thus are paid a formal salary through bank accounts). 38% [¹³/₃₄] of the households have a formal business, of which the 10 coffee farmers out of our sample. 12% [⁴/₃₄] of the households receive some income with daily wage labor.

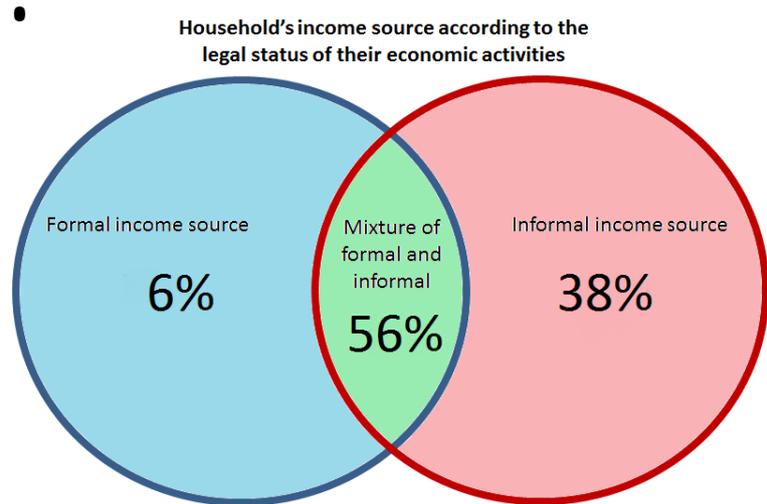


Figure 6 - Households’ income source according to the legal status of their economic activity

⁷ Informal income may be provided by jobs like working at a bicycle workshop, or businesses like selling bundles of cell phone airtime in the streets. Informal jobs or business are not government registered, thus informal workers do are not employed according to law, nor informal business are complying with government regulations and taxes.

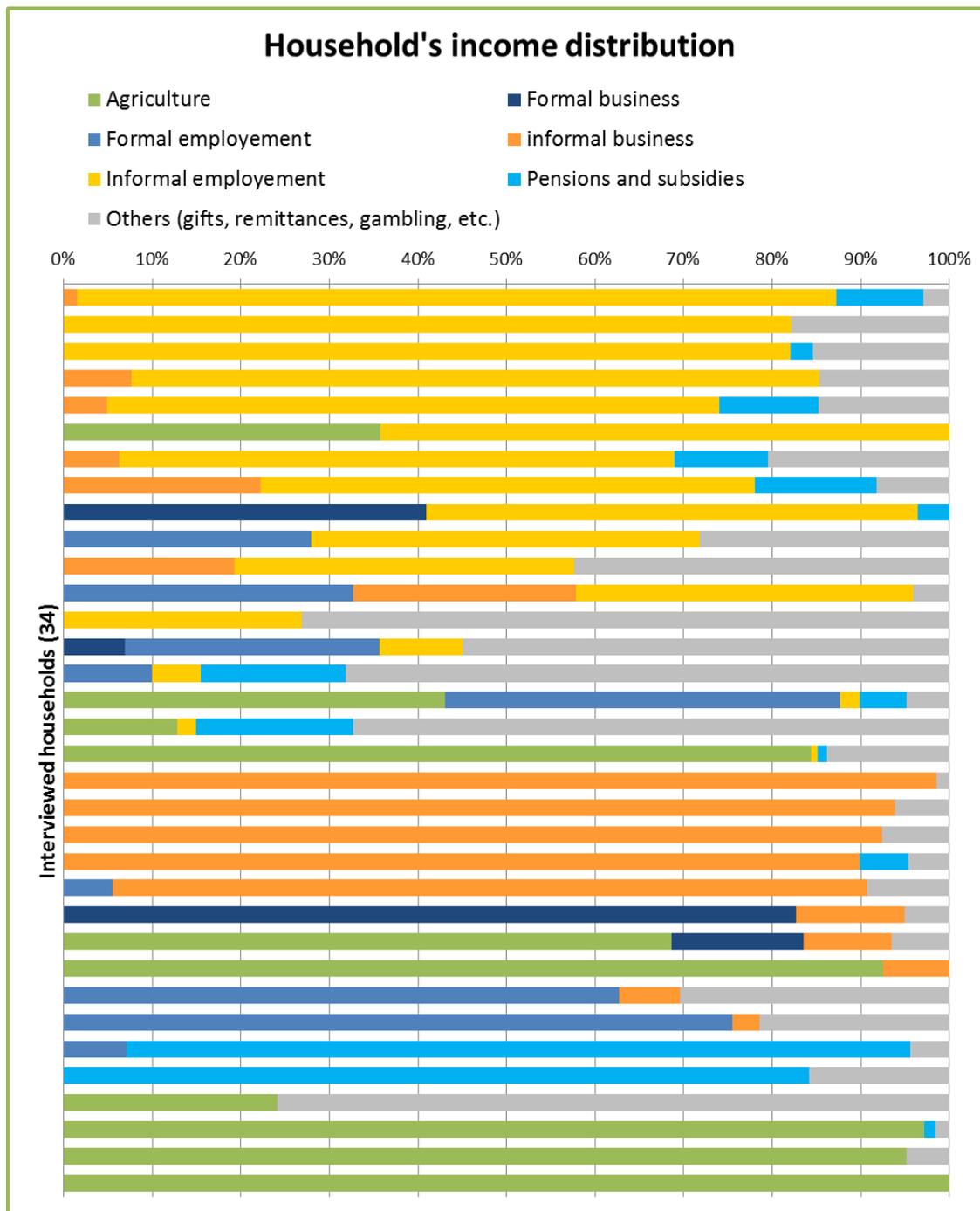


Figure 7 – Households income distribution according to the income sources

It is common for households to have several income sources. 85% [²⁹/₃₄] of the households had more than one economic activity (jobs or businesses), 76% [²⁶/₃₄] of them had a side business. The side-business is usually selling merchandise: the product sold depending on nearby demand, for instance selling phone minutes, snacks, eggs, or flowers. There are few differences between rural and urban communities in respect of the side-businesses. These side-businesses are mostly women led.

In general, more men are working outside the house than women. All women in interviewed households take care of the house, the yard, animals (if any) and the cooking, but they would

themselves not consider this as work. In urban areas women are more independent; more women have a paid job or own a business. In rural areas few women work outside the house.

6.3 Frequency of income

The frequency of receiving income depends on the location, on the kind of business run, or employment.

In urban zones (city of Santa Marta) half of the respondents earn monthly and many complement their income with casual labor and micro-businesses providing income earned daily or spread over the month. Over 91% [¹⁰/₁₁] of urban households have an informal income and for 45% [⁵/₁₁] of them the informal income it was their main income source.



In rural areas it varies depending on the agricultural situation and on the land tenure: in the hill regions where smallholders grow coffee, (like San Pedro) income is earned through yearly harvests. Other rural areas with large land-owners using agricultural labor (like Carintal in the banana region) workers are paid on a weekly or biweekly basis. In other rural regions like Minca it is hard to find a permanent (*formal*) job, so men work day by day, doing any job they can get. Informal businesses are also important and in about 43% [¹⁰/₂₃] of the rural households this provides their main income source.

6.4 Expenditure patterns

Expenditure patterns are largely based on income patterns; those earning monthly salaries buy substantial parts of the groceries monthly, while those primarily depending on daily income tend to buy on a day-by-day basis.

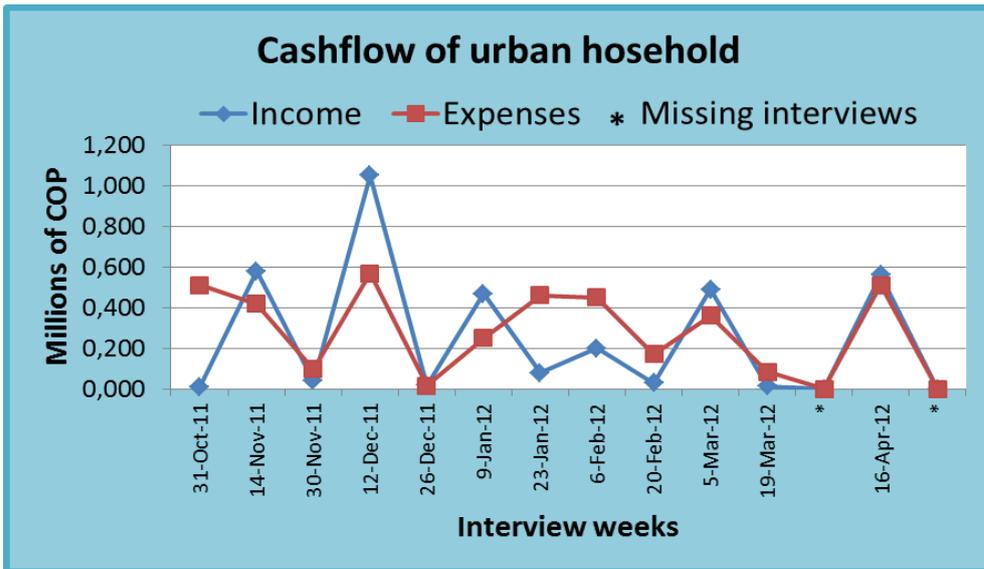


Figure 8: Households tend to spend according to their income pattern.

There are also seasonal variations in expenditures. We did interviews during the Christmas and New Year holidays. These weeks all Colombians have the highest expenditure of the year. The respondents bought clothes in these months, visited family, organized a party, painted their house and/or went on a (holiday) trip. This period generated a lot of income for the Taganga (famous holiday destination) respondent group.

People spend on average 48% of the income on groceries for food at home, 15% of income goes to clothing, 8% is spent on transportation, 6% is spent on toiletries, and 5% on education.

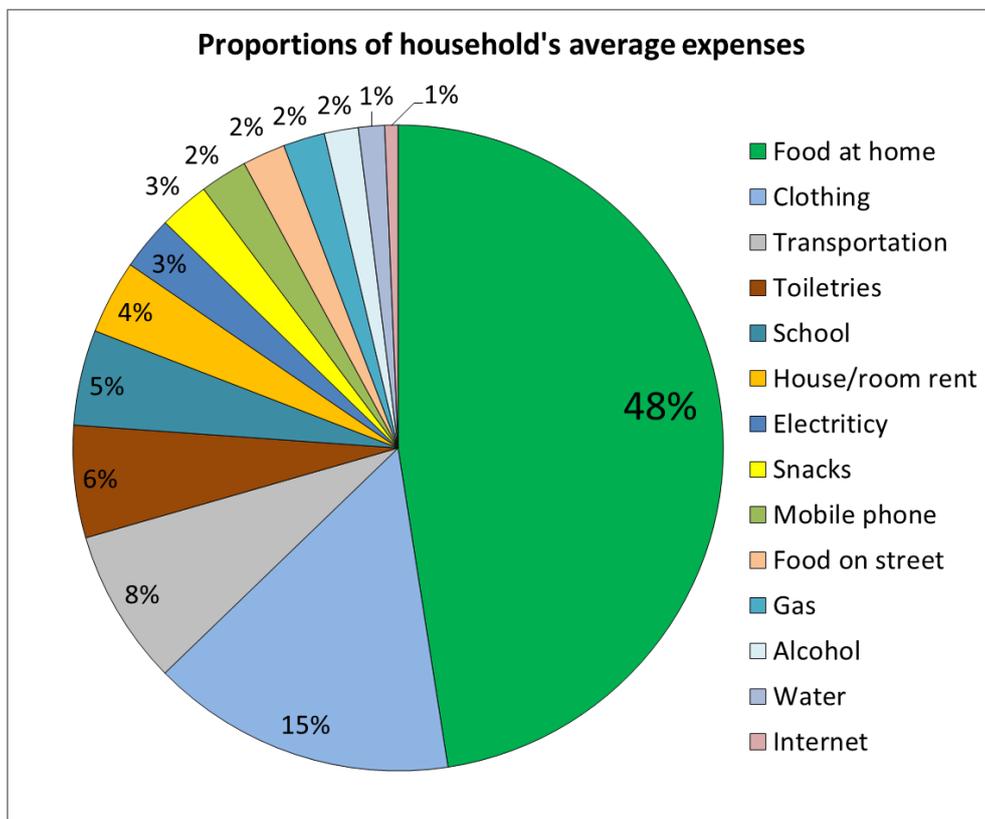


Figure 9 – Proportions of household's average expenses.

Large expenditures i.e. of over COP 70,000 (USD 38) are:

- Sets of clothes: Commonly bought at the end of the year;
- Education: Generally registration fees and supplies. Uniforms and school supplies (books, pencils, bags etc.) could add up to COP 300,000 (USD 160) per school year for each child. University fees are usually paid in monthly installments (due to government loans from the Colombian education credit institution ICETEX). In graduation ceremonies parents need to pay a graduation fee, special clothes need to be bought and generally there will be a party;
- Ceremonies: During Christmas and New Year households spend much more on food and other items than at other times of the year;
- Medical costs: Most of the respondents in our research at least had governmental medical insurance, but this only covers the most basic medical care. Medical costs can easily absorb 20% of the households' monthly income, especially in rural zones when including transportation costs;



- Funerals: Funerals in the studied region usually consist of a nine day wake, where family and friends come together every night. The household of the deceased family member has to pay transportation costs for all those attending the wake, food, drinks, and church (every night), as well as the actual funeral costs like the coffin, etc.



6.5 Windfalls - how people spend larger sums of incidental income

The research paid each respondent an incentive for their participation; in three payments for thirteen interviews (the three payments were respectively COP 40,000, COP 30,000 and again 30,000, or about USD 22, USD 16 and again 16). How these payments were spent was also researched and they were considered “windfalls” for the respondents. The amount of incentive paid by the project was probably not high enough to be really considered windfalls by the recipients, as compared to the high costs of living in Colombia.

People use the windfall typically on regular consumption goods. Some added it to their savings. In some cases respondents used it in combination with their savings to buy an item they needed. Those who have a business typically invested the windfall in their business. Nobody wasted the windfall, in the sense that nobody spent the money on luxury items like alcohol or snacks.

6.6 Possessions

62% [²¹/₃₄] of respondents own a house. All household possesses at least one mobile phone television (82% [²⁸/₃₄]) and radio. Most households own an electric or a gas stove, in rural areas sometimes a wood burning oven was still used to save electricity or gas. Everyone in the research group had at least two sets of clothes. 35% [¹²/₃₄] own a bicycle and 32% [¹¹/₃₄] own a motorbike. 32% [⁹/₂₈] of the households had a computer which is mostly used for school work and games. 21% [⁶/₂₈] of the households have an internet connection.

7. MOBILE PHONE USE

Mobile phones are widely-used in Colombia and are not considered a luxury but a necessity.

7.1 Ownership of SIM cards and hand-sets

Although all households had a cell phone (on average there are three cell phones in a household), only 63% [¹⁹/₃₀] of respondents had their own cell phone⁸.

Colombia has around 110% SIM ownership. However, because many people have more than one SIM and quite a few have three, the real coverage of low-income people is estimated to be 85%⁹ (owning both hand-set and SIM¹⁰ with little difference between rural and urban zones). Of those who have several SIM cards, some keep changing them in one phone, some have several hand-sets, and a few have hand-sets that can take two SIM cards, so use two different phone numbers at the same time. Households own on average two SIM cards.



People who do not have a SIM are still mobile phone users by using “*minutos de la calle*” (phone minutes from small stalls that have multiple hand-sets for different providers). Those not having a phone tend to be women and older people; they say “I don’t need to have a phone”.

7.2 Minutos de la calle (airtime in the street)

Everybody, even those with a “*plan*” (*pospago* mobile-phone subscription), also uses the “*minutos de la calle*” (phone minutes from small stalls that have multiple hand-sets for different providers). People use these *minutos de la calle* because these minutes are cheaper, even for those with a *plan* and this is also the preferred option to phone people who have a different provider, since inter-provider cost per minute is very high. In urban areas, phone minutes at these stalls cost usually from 100 COP/min to 150 or 200 COP/min (i.e. between approximately

⁸ In some cases, although there were other cell phones in the household, the actual selected respondent did not own one him/herself.

⁹ IFC study 2012 "Demand Study for Mobile Financial Services in Colombia"

¹⁰ People only owning a SIM without cell phone was not encountered. Apparently this is quite common in Africa where people have a SIM to have access to mobile-wallet.

USD 0.05 to USD 0.11). In rural areas the prices are substantially higher: for example in San Pedro at three hours from an urban center, *minutos de la calle* are sold at 300-350 COP/min.



The business of selling *minutos* is complex. The street stalls buy bundles of minutes which are usually valid for a month, with separate bundles for the three different providers. It is a gamble for the street stalls to ensure that they have enough minutes available to serve all the customers while not buying too many. If you buy too much for a month you may have minutes unused. In rural areas it is more difficult and costly to go and buy a new bundle when minutes have run out. When someone died in San Pedro, a village in the Sierra Nevada, all phone minutes were sold out in the village because the demand for minutes had been unexpectedly high.



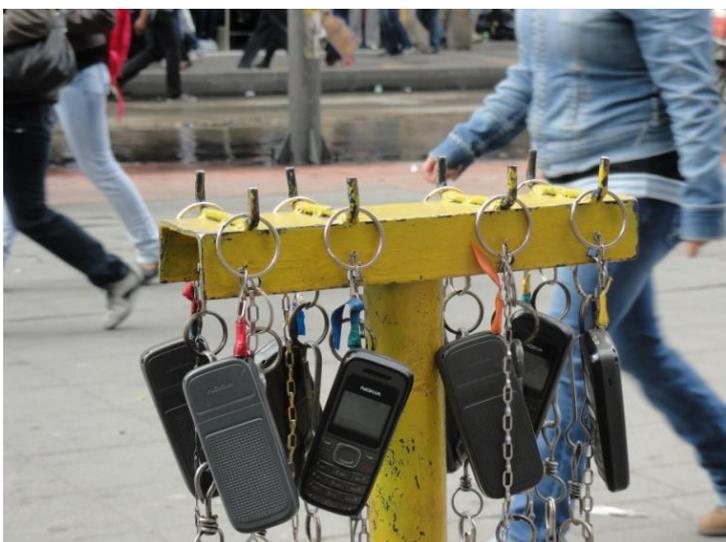
7.3 Ownership of cell phone numbers

Cell phones tend to get stolen quite often in Colombia. However, because the SIM is usually registered in the buyer's name, the SIM is blocked easily and the same phone number can be obtained again on a new handset with a new SIM. Indeed, the process for registering a cell

phone number in one's own name, are quite similar to basic KYC¹¹ procedures, requiring a *cédula* (ID card) and some other personal data.

People who do not have their own handset (about 37% [¹¹/₃₀] of low-income people) tend to give a phone number of a family member or friend as a contact.

People who buy a *plan* (a *postpago* subscription) will need to go through a creditworthiness screening process, where the credit information bureau is consulted. In case a person does not have a credit history, they will be refused the more elaborate *plans*. Many people solve this by asking a friend or family who do have credit history to obtain the cell phone *plan* for them. As a result, some cell phones are registered in the name of another person from their actual users, which may lead to complications when developing mobile wallet accounts linked to the phone number's owner. One of our respondents allowed someone to use their credit-history, but the person using the phone *plan* on his name did not pay the bills. As a result the respondent who had lent his name for the *plan* ended up getting a bad credit history and he cannot take (formal) credit anymore for his business. Now he is forced to take a loan in the informal credit market.



7.4 Use of cell phone features

Only 40% [¹⁰/₂₅] of respondents know how to use SMS. Those who use SMS send an SMS five times a month on average. 19% [⁵/₂₆] know how to use the USSD system, and use it ten times per month on average (e.g., to check phone credit balance). 19% [⁵/₂₆] have access to internet on their phones but it is rarely used (less than once per month).

¹¹ KYC = Know Your Client, a financial legal term related to the regulations of financial institutions. To offer financial services to a client, a bank should know who the client is, such as name, ID number, and address.

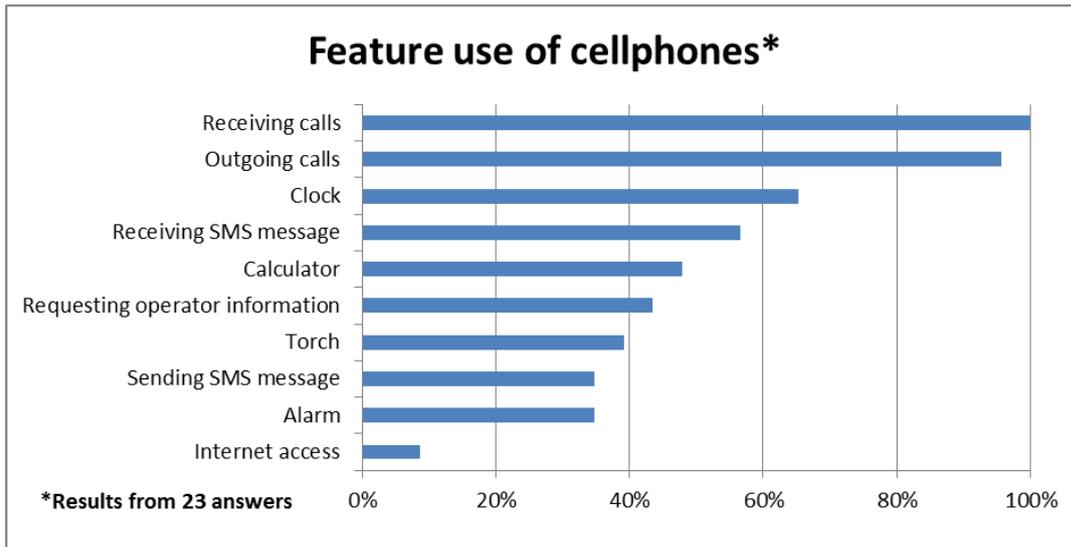


Figure 10 – Use of cell phone features.

All the respondents always had their cell phone near and the bond between the owner and the phone is definitely strong. There are indications that people are more comfortable with using voice than using SMS messaging. There may be several reasons for this: A) cultural: people are more orally oriented, less comfortable with writing; B) costs: SMSs are relatively expensive in Colombia, at least as costly as one minute but mostly more, around COP 300 (USD 0.20); y C) people may not command the SMS technology (which is quite awkward and less “intuitive” in cheaper phones).

Some respondents in Magdalena mentioned to receive messages from the social security company days before their payment is due. The message reminds them the date they should pay, the amount and the locations where they can pay. This was mentioned as a very useful service.

7.5 Type of hand-sets in use

Most people have traditional hand-sets, but here and there you see a smart phone, usually the cheaper Chinese type and it is more likely to find a smart phone in urban areas. Something relatively common in these smart phones is internet over SMS (e.g., Facebook messages are converted to SMS messages and can be answered through phone SMS back into the Facebook site). This is sold in bundles as well and in *plans*. Younger people like to have this service. It is less common in rural areas but not completely unheard of either. Every mobile network operator (MNO) has different options (*plans*, bundles or pay per use). For more information visit: [Tigo SMS MSN Messenger](#) or [Tigo SMS Facebook](#).

7.6 Type of subscription

80% of low-income people use prepaid (*prepago*) and 20% have a *plan* (or *pospago*). *Prepago* is also called “Prepobre” (similar to “pre-poor”). Those with more stable, monthly income may choose for a *plan* because it is a monthly cost and can be synchronized with monthly wage arrival. Those who need their phone for their business are also more likely to take a *plan*. There is an additional option between *Prepago* and *Pospago* in the form of buying “bundles of minutes and SMSs”. The larger the bundle bought at once, the lower the price per minute and price per SMS. The drawback is that these minutes and SMSs need to be used within one month. Primarily those selling minutes buy these bundles but it also useful for people who have a seasonal variation in their phone use needs.

Farmers are unlikely to use a *plan* on their phone. They might consider taking a *plan* for getting agricultural price information or other info for their business/farm. Examples of information needs are: price of crops (farmer could be cultivating several crops at the same time), weather forecast, remedies against disease, and advances in crop technologies. Sometimes farmers call the buying party to find out the price they are willing to pay. Otherwise the prices are found out when passing by, talking to colleagues or from radio messages. The radio is an important information source for farmers.

7.7 Mobile Network Operators used

In Colombia most mobile use is via Comcel, now called Claro (more than 60% market share). The runner-up is Movistar with about 25% and last is Tigo with 20%¹². Claro is the only telephone provider giving coverage in all rural areas. In those areas with only Claro coverage, all people have a Claro SIM.

7.8 Expenses on mobile phone use and communication in general

From our Magdalena data we found that households spend on average COP 5,000 (just under USD 3) per week on communication, primarily on mobile phone use but also some internet use. This is about 3%¹³ of the household income.

The internet costs for low-income people are primarily internet cafés, but a very small percentage also has internet on their hand-set. Often parents give the children money for school, which children then spend on internet time. But the children are not interviewed and the parents do not know about the internet expenditures of their children. Amongst the respondents, the only internet usage was through internet-cafes.

7.9 How people pay for mobile phone airtime

Prepaid top-ups are mainly sold by MNO agents. Typically, a street stall owner enters the phone number to be topped-up into their handset and the money arrives on the phone number, with an SMS (or USSD) to confirm how much was bought. Scratch cards are not used in the research area. Top-up can be bought at:

1. Agents, usually street vendors, who sell top-ups by mobile phone (having bought top-up credit at the MNO);
2. Agents with a portable vending machine, for example [Movilway, Gana, Baloto](#);
3. Local shops, where top-ups are sold as side business and can sell airtime using methods 1 or 2;
4. Supermarkets (Éxito, Olímpica, etc.) sell top-ups in the cashier terminal, and give the clients a receipt.

12 These percentages add up to more than 100% because a number of people own more than one SIM.
<http://www.eluniversal.com.co/cartagena/tecnologia/en-el-2012-tigo-gano-terreno-movistar-perdio-y-claro-se-mantuvo-111159>

13 This percentage could be higher due to under-registered data.

8. USE OF FORMAL FINANCIAL SERVICES

In general in Colombia a surprisingly large number of people have bank accounts, even within the low-income segment. However, the actual use of bank accounts is very low. Therefore, despite the high level of formally “banked” population, in reality the vast majority of financial services used by low-income people are obtained through informal channels. The informal financial services used are virtually only savings and credit.

8.1 Prevalence of bank accounts

Many low-income people have bank accounts, but these generally have been given by the government to receive a specific subsidy (35% [¹²/₃₄] of respondents). Others hold bank accounts that were opened in order to receive a salary or payments for sales of crops. These bank accounts employees (or agricultural producers) are obliged to open as it is the only way to receive their salaries (or crop payments). This type of bank account is called “*cuenta nómina*”. If someone has a *cuenta nómina* in practice this means “they did not necessarily want a bank account but they needed to have it to receive their salary”.

The incidence of people actively deciding and getting a bank account, e.g., to save or otherwise, is low, just 32% [⁸/₂₅] of the low-income households. But even of this group, just around one-third is actively using their bank account.

The *cuentas nóminas* are formally savings accounts. However, saving on a bank account is extremely rare amongst low-income populations. Most people save informally (see chapter 6). In Colombia current accounts (*cuenta corriente*) are primarily for businesses and are difficult to obtain. However, savings accounts offer virtually the same services as current accounts including money-transfers and ATM debit card; hence this is not a limiting factor.

8.2 Use of bank accounts and financial tools

During the interviews only 15% [⁵/₃₄] reported to have formal savings. We confirmed that 44% [¹³/₃₄] of the respondents had a bank account; including the accounts given by the government for the CCT program *Familias en Acción* (received by 12 respondents). Members receiving money from the government or from organizations like the Colombian Coffee Federation always receive this through a personal bank account. Therefore, the use of bank accounts primarily concerns receiving payments from institutions. Typically the received payment is withdrawn by the recipient the same day or the day after, all at once, without leaving a balance in the account. We could identify three reasons which may be the cause of this behavior:

- Several respondents who receive *Familias en Acción* (FeA onward) subsidy say that the money will otherwise “disappear” or will be sent back to the government. In fact, they think they do not have a bank-account, so do not consider the option of storing or saving money there. However, Banco Agrario provided all recipients of FeA at the time of the research with a fully functional bank account which recipients can use like any other savings accounts. The respondents did not realize, understand or trust the service to leave their money in these accounts. It was found in literature¹⁴ that some years before this research took place FeA payments (done without bank accounts back then) indeed were returned to the government agency that paid it, if the payment was not collected from the payment channel on time.

¹⁴ Jorge Higinio Maldonado et al., 2010. *Evaluación de la Gestión y Operación de la Bancarización a través del Programa Familias en Acción*. Centro de Estudios sobre Desarrollo Económico - CEDE, Universidad de los Andes, Bogotá.

- Respondents typically have to travel to take the funds out of the account, which costs money and time. Therefore, it is more economic for FeA recipients to remove it all at once, rather than travelling several times to the bank.
- Respondents face long queues and waiting times to take their money out; even when they take the money out at an ATM (everyone gets paid on the same day and comes to pick up the money on that day so there are long queues at ATMs).
- Some respondents stated they withdrew the money because they needed it as soon as possible.
- Some people fear that leaving a balance on a savings account will give the authorities the impression that you are no longer poor and you may lose your eligibility for the government payment.

As mentioned above, saving in a bank account is extremely rare. Even though the *cuentas nóminas* offer savings services to the account-holder, they do not use this option, either because they do not realize they have this option, do not have a need for it or indeed because they fear to make use of it.

8.3 At which bank holding an account

All rural respondents had their *cuentas nóminas* with Banco Agrario, as well as all the recipients of FeA payments. In urban areas people had their accounts in different banks, but even here Banco Agrario is prevalent, due to *Familias en Acción* being paid through BA in the research area.



8.4 Use of debit cards

Many respondents (50% [¹⁵/₃₀]) have a debit card as a result of having a bank account. The respondents primarily use their debit cards (73% [²²/₃₀]), including the ones given for the FeA subsidy, to withdraw money at an ATM. 13% [⁴/₃₀] of the respondents with bank cards also used them to buy at supermarkets. The added advantage of using a debit (or other card) in a

supermarket or other store is that this results in receiving 2% of the paid money back into the account¹⁵. It may well be that that people are not aware of this 2% rebate, feel uncomfortable using this (at the supermarket one has to use the debit card in an exposed setting and mistyping the pin-code would be seen by everyone) or they may equally be worried that the government will trace that they do not spend the money the way it is supposed to be spent (school costs or nutrition for the children).

G2P payments (primarily FeA) are withdrawn practically immediately. Because everyone is withdrawing instantly at the same time, long queues at the cashiers¹⁶ and even ATMs are common.

8.5 Use of credit cards

In Colombia credit cards are wide-spread. In other research¹⁷ credit card debt was one of the largest portions of people's debt sources. However, it is more a higher-income credit tool, than low-income. In the Magdalena diaries, a small portion (7% [²/₂₉]) of households has a credit card, and these are not linked to their bank account (people often obtain them from their supermarket). This supermarket credit card system is actually the formalization of the '*fiado*'¹⁸ credit concept, where supermarkets even go to the extent of rewarding their client loyalty by giving discounts on goods they pay with their supermarket credit-card or other loyalty rewards.



8.6 Agricultural federation payments

The coffee growers pay the Federación Nacional de Cafeteros a small commission on every kilo of coffee sold through it. All members of this federation get an ATM debit card and a *cuenta nómina* on which they receive payments for the produce sold to the federation as well as disbursement of loans. These linked accounts are held in the rural oriented bank "Banco Agrario", which is the bank that has the most extensive rural branch network of the country.

¹⁵ The government has the policy that 2% of the IVA (value added tax) is returned to those who pay from their bank account at shops. The government intends to formalize the economy through this measure.

¹⁶ Even though all recipients of *Familias en Acción* are entitled to a debit card, not all of them have it or some have trouble working with it. So these people end up collecting the money from the cashier of Banco Agrario.

¹⁷ Market Research for Transformational Mobile Financial Services in Colombia, IFC.

¹⁸ Informal credit tool commonly used in Colombia. Further explained in chapter 7 about credit.

Some of the farmer respondents (20% [²/₁₀] of farmers) mentioned they leave money in this account to have some savings¹⁹.

This payment system has some disadvantages for the farmers. They have to go to withdraw the cash at an ATM, where often the closest ATM is located a few hours away and involves costly travel. Moreover, the payment usually takes a while to come through. There are also other, commercial companies buying the coffee from the farmers. These sales are either paid for on this same account (but immediately), paid with a cheque or in hard cash (depends on the amount). If the farmers need fast cash for their coffee, they will prefer to sell to those buyers who pay in cash or who at least pay into their account immediately.

8.7 Use of bank cheques

Some agricultural producers mentioned to be paid in cheque by coffee-buying companies. Some wealthy locals in rural areas also cash out cheques charging a commission.

8.8 Other banking products

Nobody uses any other banking products, apart from obviously bank loans (these are addressed under section 7 - credit).



¹⁹ We believe savings were under-registered during research. Many respondents were inconsistent providing this information.

9. RECEIVING (GOVERNMENT) PAYMENTS

There is no universal state pension in Colombia. Those who have a pension have this due to formal employment or independent voluntary private contributions. Pension payments depend on what you have contributed monthly to a pension fund (of public or private systems) during your working life. Some people have a government pension, but most pension funds are private. Seniors without a pension have to depend on their family or otherwise continue working somehow.

When households meet the criteria of the Conditional Cash Transfer (CCT) of the “*Familias en Acción*” program, they receive a subsidy every two months for their school-going children and for pre-school age children that follow a nutrition and health check-ups schedule. The mother or other women of the household receive this government payment. 50% [¹²/₂₄] of the families with children in our research group receive such government payment.



The respondents considered this system quite complex. They do not understand how much they should or will receive. This makes this income unpredictable, but possibly also a nice surprise.

In the research area, these CCTs are paid to each beneficiary through a Banco Agrario bank account with a debit card. For the rural respondents of this research, however, Banco Agrario is no closer than another bank, but in other regions Banco Agrario has a significantly more elaborate rural network. So, in our research area Banco Agrario does not mean proximity.

The mothers who receive the CCTs use this payment very carefully in the way it is supposed to be used (on school supplies, transport for school-going children and on food for pre-school children). They mentioned that sometimes the government comes to check how the children look and whether they have indeed all the school equipment they need. In case the control shows that the money was not spent on the school-going children, they expect the government to take the benefits away. There is also fear amongst the respondents that they would no longer be eligible for this payment, if they leave a balance in their account. It is suspected that this is a major cause that CCTs are always withdrawn from the bank account immediately after its

arrival. Leaving it any number of days may signal to the government that the money is not needed, in the opinion of our respondents.



10. SAVINGS

10.1 Savings behavior

There is a great variety in savings behavior amongst respondents. There really is a small percentage of people who never save (12% [⁴/₃₄]). They meet calamities by borrowing or simply suffering through them. An explanation for the absence of savings could be that credit in the informal market is relatively easy to get. The *fiado* (trust) credit, as explained in section 11.1 on credit, was used by practically every household during the research period. The households buy their groceries on credit and pay the shop when they receive their income. This reduces the need of having savings. Moreover, in the Caribbean environment there is a great variety of loans: credit is offered in so many ways.

There appears to be no link between poverty and savings behavior. We did not find a measurable correlation between savings behavior and income levels.

10.2 Forms of savings

Virtually nobody seems to save at a bank. There were only a few instances where coffee farmers save some of their annual income on their "*cuenta nómina*". Many people save in piggy banks ("*alcancía*", mud pot) which are kept for emergencies. Many people save in imperishable groceries; when they have some spare cash or extra income, they buy a bale of sugar or rice for the coming months. To save for the future is for a horizon of 4 months. Beyond that it is impossible for people to prepare or plan.

Some people save with friends or neighbors. Some women have someone they trust to whom they give any surplus cash for safe-keeping. Usually it is another woman they respect because they are careful with money and because they are wise. The added benefit of this system is that when you want to access your money you also have to justify to the safe-keeper what you are going to spend the money on. This form of saving usually neither costs anything nor earns an interest; it is a friend's service.

Some respondents are saving through moneylenders as well. This information is generally derived off the record, so it is not described in the interviews. The advantages of this type of saving are: 1) money is not in sight, so the respondents cannot spend it; 2) the saver receives interest; 3) the money is safer than in the house²⁰.

In the research we came across the practice that respondents lend out excess money or unexpected income individually. This is basically a form of savings, with a view to earn some interest. We have seen this across all respondent income levels, even if the respondent normally barely had enough to pay for daily expenses. This is how some people get started on moneylending as a business. Through lending a sum of money with interest once, the lender usually finds out that this is a specialized business and that they really need to know their clients very well. Several respondents reported to have lost money because their debtors did not repay their loan. Subsequently some start lending their money to other (better organized) moneylenders, on which they receive interest.

²⁰ The researchers have conducted a separate in-depth financial diaries study with moneylenders in the same research area. This will be available in a separate report.

Moneylending start-up

One of the respondents lives with a woman named Rosa in the Zona Bananera of the Departamento del Magdalena. Both partners were running six different businesses simultaneously, from selling airtime to renting out a bull to nearby farmers. Before our research period Rosa had taken a formal loan of COP 2 million (USD 1,090) to renovate her house in the nearby city, Barranquilla, and to start businesses in Carintal. Because she was living in Carintal, she ended up not really needing the money to improve her house in Barranquilla. So she decided to start a moneylender business with the borrowed money. She considered this activity a good option to have a safe place for the money she had left over of her loan and to earn interest to pay off the financial institution.

10.3 Informal savings groups

None of the respondents were part of savings groups. Based on a Colombia nation-wide research²¹, savings groups are extremely rare on the Caribbean coast as compared to other parts of the country, like Medellin and Bogotá, where these are common. On the other hand, we also believe the excess of moneylenders in the area and the availability of credit is a consequence or a cause of the low incidence of savings groups.

10.4 Saving and credit, the two faces of the same coin

Coffee farmers in our research group experience a period of income lasting 3 to 4 months and the rest of the year they have to meet their expenditure on previous (or future) income. The coffee harvest does not all come in at exactly the same time, but gradually from November to March. In these months quite a lot of money comes in. Some of this goes towards paying off debts, and some is saved. Then from April to September coffee farmers start to borrow money again for their expenses of that year. The first payments the coffee farmers receive (November/December) largely go to their debts. The very first (early) harvest of coffee brings in quite a good income per weight but after the first weeks, the price starts to drop very fast. Then it is a challenge to hold on to your crop as long as possible as the prices start rising again. Coffee farmers have an annual farming cycle and they go through all the forms of cash-flow management over the seasons, from saving to borrowing.

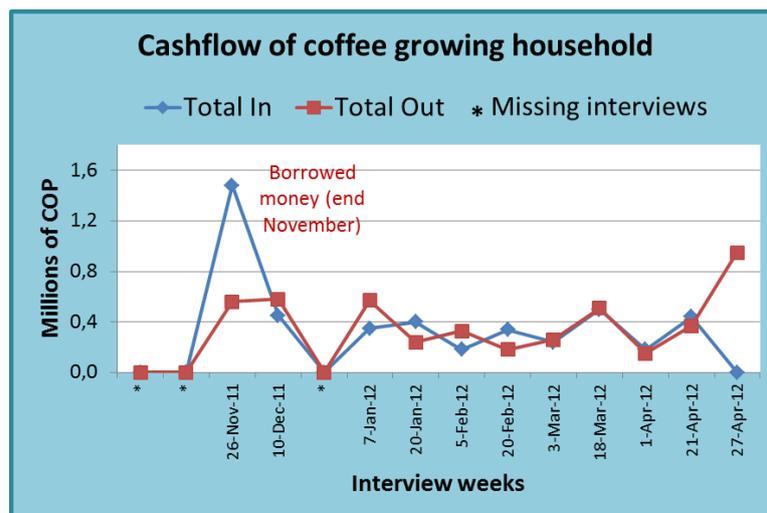


Figure 11 – Cash flow of a coffee growing household which includes income, expenses and loans

²¹ IFC study 2012 "Demand Study for Mobile Financial Services in Colombia"

<http://www1.ifc.org/wps/wcm/connect/d9456f004eef938f937fdb3eac88a2f8/Demand+study+MFS+in+Colombia.pdf?MOD=AJPERES>

10.5 Savings incidence and frequency

Although some respondents repeatedly reported not to have savings, this may be due to their own definition of savings. We discovered almost all households use at least one of the following saving methods, which people prefer to call "keeping for later", and that some use various methods at the same time (some of these methods use non-monetary means):

- 82% - Cash money at home or in the wallet. This serves as easy accessible money for emergencies. People feel money is safer if kept nearby.
- 38% - Moneylending of excess household money, either directly to friends, family, neighbors or indirectly by depositing at a moneylender. The benefits are having the savings out of reach so it is hard to spend them, they are kept relatively safe, and interest is accumulated over time.
- 12% - Pension fund: Commonly, only formally employed contribute to a pension fund. Individuals may also contribute by their own means, but if they are unemployed this is very unlikely.
- 12% - Depositing with a trusted person (friend or neighbor). This method is considered safe and convenient because savings are close and available in moments of need;
- 3% - Investing (e.g., building material, livestock). These serve as less liquid savings when needing a larger sum, i.e., emergencies²²;
- Buying imperishable food for longer duration, e.g., sugar or rice. This serves to buy food for the future times when cash is unavailable;
- Buying consumer goods which can be used in their daily lives, but could also serve as a pledge in a pawn shop. People will buy a television to watch television, whereas this television also serves as a pledge to receive a loan from a pawn shop in case of an emergency.

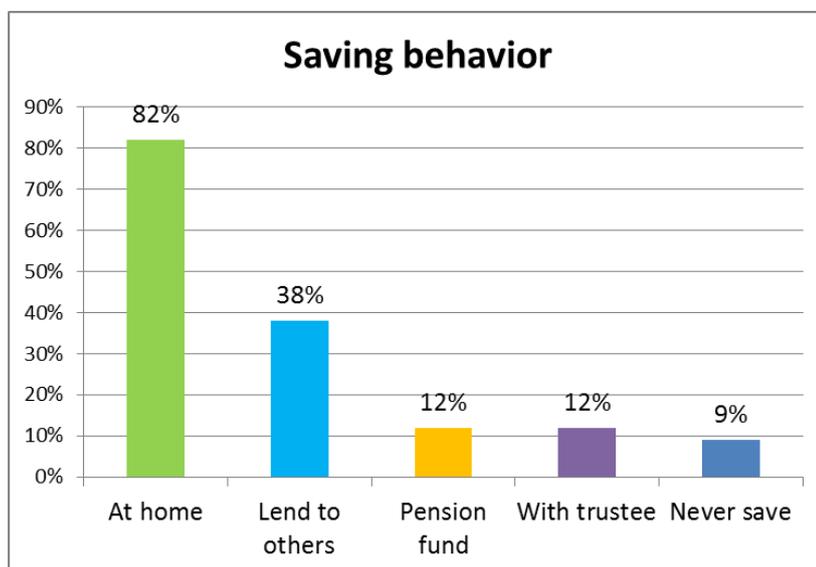


Figure 12 – Registered saving behavior

²² In a follow-up study (not yet published), we found that about 50% of rural households keep livestock and/or construction materials.

11. CREDIT

The following text was extracted from the original *Portfolios of the Poor* book²³, which sets the tone for the rest of the book explaining the complex financial life respondents were having during the research period:

Money management

“The first finding was the most fundamental: no matter where we looked we found that most of the households, even those living on less than one dollar a day per person, rarely consume every penny of income as soon as it is earned. They seek, instead, to manage their money by saving when they can and borrowing when they need to” (Collins et al. 2009, p. 3).

In our research area we found a drastically different situation as compared to what is described in the *Portfolios of the Poor*. Our respondents were credit driven and the majority frequently spent their income *before* it was earned. Respondents even buy small items, like groceries, on credit. On average the households are indebted for 0,54 their income during the research period, moreover some households requested two times their semi-annual income. The level of indebtedness is higher in rural areas (0,62 times their income during the research period).

In our research area credit is offered in a number of ways. The concept of "buy now-pay later" is almost not regarded as credit anymore, just an integral part of life. Also from other sources²⁴, it is evident that Colombians use a range of credit products simultaneously, commonly having a number of loans (or what outsiders consider a loan) at the same time. Having said that, there are, like with savings, large variations between the respondents of the Magdalena Financial Diaries.

11.1 Credit tools

During our research we encountered the following credit tools available to our research group:

- **Fiado**, which means “trusted”, refers to buying groceries or other shop items on credit. *Fiado* is commonly offered by corner shops/mom and pop stores, both in urban and in rural areas. It is particularly common for neighborhood or village shops, where the shopkeeper knows the client from the neighborhood and thus their repayment capacity. Reportedly, *fiado* is now less common than in the past. Usually *fiado* does not include an interest and people repay as soon as they can. *Fiado* is not meant for long-term loans, but as the repayment period is normally undefined, it is a highly flexible loan. A shopkeeper, however, will set a maximum to the *fiado*-credit each individual client could take and this is typically quite low. Shopkeepers give *fiado* because this helps them to tie clients to their business; it ensures clients to come back. We also discovered that some shops are financed by ‘*fiado*’ credits themselves (provided by their suppliers). In the December period it is hard to take a loan or take a ‘*fiado*’ credit, because only few people have money to pay off their debts at that time of the year. Hence in this period, borrowers do not pay their quotas or pay late which means that no new funds are available for others to take a new loan. To explain regional differences of the *fiado* credit tool we describe their usage in two different areas:

²³ Collins, Daryl; Morduch, Jonathan; Rutherford, Stuart; Ruthven, Orlanda, 2009. *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*. Princeton University Press.

²⁴ Market Research for Transformational Mobile Financial Services in Colombia, IFC.

Differences of urban and rural fiado



Urban: Judith lives in a traditional neighbourhood where families know each other well. She regularly buys her daily groceries at the local shops on *fiado*. This system works if the nearby shopkeeper trusts his clients. *Fiado* credit is usually given for a week or two, but sometimes can be for months and for large sums.

Rural: David lives in the coffee producing zone of San Pedro where most of the farmers survive on *fiado* credit to buy groceries when they are out of cash crops. Practically the household's entire annual income is earned during the yearly coffee harvest in December. David's household, like the previous example, does his grocery shopping every week and buys much of this on *fiado*. He has an extended repayment period of up to one year in recognition of the yearly income cycle of coffee producers. His household accumulated a total debt of over COP 2.6 million (USD 1,415), a sum he regarded as normal. Yearly, as soon as the harvest is in, David's household repays this loan.

- **Loans from friends/family.** These are very common. They may or may not carry interest, or this may not be quite defined or expressed in a percentage interest rate, i.e. someone will lend COP 15,000 (USD 8) and the person is expected to pay back COP 18,000 (USD 10). Friends and family typically require the debt to be paid back quite soon after borrowing, usually within just a few weeks with maybe a six months' time horizon as maximum. Often people use this credit to be able to pay for emergency costs or make a repayment on a more formal loan with a strict repayment schedule. Loans from friends/family are generally reciprocal; when the lender has an emergency they will expect that someone who has borrowed from them will give them a loan.
- **Loans from moneylenders.** There is a wide range of moneylenders active in the research area. As it turned out, two of the respondents in the financial diaries did actively lend money as a side-business. These activities are not openly talked about and the respondents did not tell us this information during the first two months' interviews.

Moneylending is still a taboo subject; neither the borrowers nor the lenders are very open about these activities. The way they lend money is illegal, which is why it may not be referred to. In addition people feel ashamed about having to borrow from a moneylender which is why they would avoid mentioning it. The moneylenders are not open about their business in part because they need to offer confidentiality to their clients.

There is a sliding scale in money-lending. On the low end of the spectrum there are very small moneylenders who are effectively lending to friends and family. When moving up this scale, which often happens over time, those lending to family and friends gradually

start lending more frequently and larger sums and the lending stops being reciprocal and starts to carry an interest. On the high end of the spectrum there are registered, legal businesses dedicated to credit. In general, the image of the “loan shark”, as a malicious person exploiting poor people’s emergencies, was not confirmed in the financial diaries. With some exceptions, moneylenders offer a much-needed service to people at clear conditions (some respondents mention that moneylenders’ conditions are easier to understand than banks).

A very popular system is the *pago-diario* system, a form of moneylending, in which a customer takes out a small loan at a relatively high interest rate (around 15% monthly) and makes daily repayments that are usually collected at the borrower's house. *Pago-diario* loans are usually for a span of about one to two months. Approximately 6 years ago this particular form of informal credit started to grow rapidly in the research area. Today this is one of the most common credit services among the urban inhabitants of this Caribbean region of Colombia (we calculate that about 25% of homes are currently having a *pago-diario* credit) because it is a quick, efficient, easy to obtain, and very flexible option.

- **Loans from street peddlers or through sales magazines (catalogues).** These are options that lie between moneylenders and hire-purchase. The street peddlers go through the streets with products that many households would like to have but cannot afford. They offer these products on credit without down-payment, to be repaid in daily or weekly installments. These types of street peddlers in reality have made credit their main business or they work together with moneylenders.

A related practice is the catalogue sales, which is a more upmarket version of street peddling and incorporates the *fiado* system. Many women sell products by catalogue (mostly beauty products and fashion for women) and sell the products on credit. At the end of the month all the customers have to pay what they have bought during the month. For collecting repayment of the loans, the catalogue or street vendor pass the house at the same time each week (or sometimes daily) to collect the payment. Interest rates are typically high (up to 20% monthly), but buyers have no idea how much they are actually paying on interest. They really get tempted into buying from these catalogues and from the street vendors.

- **Loans from pawn-shops:** “Compra-ventas” or “Casas de Empeño” are very common in Colombia. These function like classical pawn-shops: people ‘pawn’ (or pledge) a valuable article to a pawn-shop and get a loan for a portion of its value. Meanwhile the valuable article stays as a guarantee (or pawn) in the pawnshop, until the loan plus interest has been fully repaid. In case the loan is not repaid within the term, the article will be sold and from the proceeds the pawn shop will repay the loan. In principle, the balance between the owed loan and the sales proceed will be returned to the person who pawned the article. A wide range of pledges are accepted, such as jewelry, household electronics such as TVs, washing machines, DVD players.
- **Sale and lease back:** The shops offering this service sell items on credit, whereby the items are paid by an intermediary who receive regular payments of the client (e.g., a financial cooperative where a monthly pension is deposited). These financial cooperatives may receive any regular payment such as salary and pension, and they automatically deduct the monthly payments for the items bought and then pay out the

remainder of the pension or salary to the clients. We have also heard of shops pretending to sell items (e.g., jewelry, motorbikes, furniture, etc.), but what they really do is lend money so selling the displayed items is not actually their main business. Clients even give a receipt of the 'sold' items, but actually no item is sold. Instead, the client receives a loan which she or he will be paying back over time. (Presumably this receipt construction is to cover up for the high interest rates which are against Colombia's anti-usury laws). These shops also collect their payments through the financial cooperatives.

Credit cooperatives

We discovered an underground system of borrowing at the end of the six month interviewing period. While the interviews were on-going there were some doubts about the income of the oldest respondent, María. Monthly she told us that she received a fixed pension at her account at a savings and credit cooperative, but surprisingly she reported to have received a different sum each month. This confusion remained during the course of the research period and also her family members could not come up with a clear explanation.

Then her son, who also received a pension, brought the receipt for his pension to show us. On the receipt almost half of his income was deducted for medical insurance, in his case.

Then the functioning of these cooperatives (*coops*) became clear. In the case of María, the cooperative deducted each month for purchases she had made in anticipation of her pension, like buying furniture and a television. To finance these items, she was offered the possibility to receive the items on credit and the repayments would be deducted directly from her income, her pension.

- **Hire-purchase:** lots of people buy products on credit which may be provided directly at the stores (e.g., furniture stores, electronics stores, or supermarkets). Subsequently they pay the product in installments, usually monthly. The item technically remains property of the store. If repayment is not forthcoming, the item can be seized. Hire-purchase is extremely wide-spread and even offered by very formal businesses, like the largest supermarket chains. In high-street shops the price actually indicated on an item is the monthly quota, instead of the price when purchasing at once. On the electricity and gas-bill everybody can find offers of cameras, computers, flat-screen TVs which are paid off through the bill over a long period (e.g., even up to 24 months for a USD 500 computer). The risk for the company offering this is low. People who would not pay the electricity get cut off from the grid and reconnection costs a lot of money and takes a few weeks to reorganize (and lots of time to visit offices). Hence paying the electricity bill is the first priority in most households. The reported interest rate on hire-purchase is usually reasonable or even zero, but the prices for the products are much higher than the normal price. When the hire-purchase is through the cooperative, the repayment is automatically deducted from the pensions.
- **Loans within the supply chain** can take the form of inputs delivered on credit, or harvest prepaid by buyers. There are farmers who mentioned to have credit from their input suppliers. In the case of shops, the input suppliers are wholesalers or distributors. We did not encounter situations where agricultural produce was bought before harvested, or a loan given to guarantee right of purchase. Nor was this found for manufactured products. In case of agricultural producers, inputs are frequently given on credit by the cooperative or federation. The coffee federation provides loans for coffee farmers, but this is not prepayment for harvest.

- **Credit on credit card:** Colombia is big on credit card debt. Also lower-income people have a credit card but fewer than high-income and this is not necessarily obtained through a bank account. In total 3.4 million Colombians have a credit card debt²⁵, which is almost the same number of people having another formal credit (i.e., bank credit, microfinance and cooperative credits combined). Many people have a credit card from a supermarket or even from a furniture store. Reportedly credit card debt is indeed widespread. However, in our survey sample there were no cases of extreme credit card debt, just smaller sums. In our research sample 6% of the respondents had a credit card. Presumably, credit-cards are more typical for higher income groups but there are exceptions.

Credit card

Carolina's household's income is low (*estrato 1*), but she has a credit card from the Éxito supermarket. This card offers her a number of financial possibilities, such as paying with the card at the supermarket and a number of other shops and to get a cash advance (which is effectively taking credit). Though the family has a low income, she prefers to pay her groceries and large expenditures (e.g., a microwave) with her credit card. However, by using this service, the price of each item is 2% higher (this 2% is in addition to the credit card costs and interest rate).

Her husband has a stable salary, which made the household eligible for a credit card and makes repayment of the credit card debt relatively easy. Thanks to the predictable arrival of income they can plan their cash flow better.

- **Loans from microfinance institutions** (NGOs) reportedly are accessed by around half a million individuals in Colombia²⁶. However, these are predominantly urban and reportedly do not have a strong poverty focus, in line with other Latin American countries. Within our Magdalena sample only four (12%) households had microfinance loans, with Bancamía and Fundación de la Mujer mentioned most often. It is remarkable that our respondents do not distinguish strongly between formal banks and microfinance institutions. To them they are mostly the same and considered off-bound: too high-threshold.
- **Loans from banks:** There were only two cases of bank loans. Most respondents said they lacked guarantees for bank loans, or that they never met the requirements. Other respondents said that banks ask for too many papers, and that their income is insufficient or too unstable to be able to get a bank loan.

There was mention of the relatively sophisticated financial service of factoring or at least an informal form of this. Amongst our respondents we signaled factoring where someone gives his debit card as a guarantee for a loan (we heard this from a moneylender) and others (farmers) who handed over all their receipts for coffee already sold but not paid and took a loan based on these receipts.

²⁵ IFC mobile money scoping - country report: Colombia, 2011.

²⁶ See www.mixmarket.org

Factoring

Several Colombians with a permanent job receive their income on an irregular base. Their income may be monthly in theory but income in practice is not received in this frequency. This makes income planning harder and there could be moments when money is not available when needed. Moneylenders make eager use of this phenomenon by giving salary advances. Because of the high probability of receiving the expected income, we call this method *factoring*. This financial product is not hard to find and many people have access to it. They just need a permanent job with a formal payment. In Colombia most formal wages are wired to a *cuenta nómina* bank account which in most cases is only used to receive salaries. This same account is used by the moneylender as a guarantee for the short term loan. His client gives the bank account's debit card with PIN code to the moneylender, through which the moneylender withdraws the salary of her/his client when received. In the meantime the client receives more frequent and more predictable salary advances, for which he pays interest to the moneylender.



11.2 Level of indebtedness

The average indebtedness level of our respondents during the research period is around USD 800. There is more debt amongst rural (about 60% more debt in average than urban respondents). Some of the smallholder farmers had huge debts about twice the income of their farms during the research period.

11.3 Land laborers indebtedness

It is common in Colombia that farm employees live on the farm of their employers. This accommodation is part of their pay package. Sometimes these landlords sell groceries to their workers on credit. However, this type of locked-in construction did not appear as widespread as in some other countries such as Guatemala and Zimbabwe.

11.4 Specific coffee farmer credit issues

As was mentioned earlier, coffee farmers in our research group (but obviously elsewhere too) experience their income all coming concentrated over a few months, from November to February. This money typically lasts them until April or May. From then on the coffee farmers again start to borrow money for their expenses of that year, both for their household and for their coffee production. The first payments the coffee farmers receive largely go to service their debts.

All but one of the respondents had at least one debt during the research period and about 32% borrowed over COP 1 million (USD 545)²⁷ from both formal and informal lenders.

11.5 Incidental credit

- Practically every household used *fiado* credit at corner shop to buy groceries when not having enough cash at least once during the research period, convenient way of shopping.
- 70% of employed interviewers take advances from their employer. It is a fast way to borrow money without interest.
- Buying catalogue products and items from street peddlers are extremely popular.
- Loans from friends and family are very common, almost everyone uses them. They are borrowed for a short period of time and are usually small sums between COP 5,000 and 50,000. (USD 3 and USD 27).
- Borrowing from neighbors is not common, unless they are moneylenders.
- Loans from moneylenders carry monthly interest of around 15%, but most respondents have had a moneylender loan at some stage in the past. They are loans people seek to repay fast and use in case of an emergency.
- Very few respondents obtained formal loans, e.g., from institutions like Bancamía, Fundación de la Mujer. The respondents said to have almost no interest in banks or borrowing from banks. Nevertheless, there were a couple of bank loans.

| CREDIT SOURCE AND USE | Local shop (Fiado) | Family or friends | Moneylender | Work/employer | Bank or MFI | Other | Percentage |
|---------------------------------------|--------------------|-------------------|-------------|---------------|-------------|-------|------------|
| Groceries or daily consumption | 65 | 3 | | 3 | | 1 | 51% |
| Business or investment | 2 | 8 | 5 | | 6 | | 15% |
| Health or medicines | | 7 | 2 | 1 | | | 7% |
| Home appliances | | 1 | 4 | 1 | | 2 | 6% |
| House improvements | | 2 | 1 | | 1 | | 3% |
| Education | 1 | 1 | | 1 | | 1 | 3% |
| Clothes | | 2 | | 2 | | | 3% |
| Other (pay debts, utility bills, etc) | | 5 | 1 | 5 | 1 | 5 | 12% |
| Percentage | 49% | 21% | 9% | 9% | 6% | 6% | |

Figure 13 – Source of individual credits in relation to the use given to the money (bank loans include government coffee loans).

11.6 Special agricultural credit related features

There is more variety in conditions and modalities for borrowing money in rural areas. Here the respondents usually borrow for a longer period of time and pay according to their income. For example in the Zona Bananera repayments are biweekly and in San Pedro repayments are annual. Because so called *paramilitarism*²⁸ recently (3-4 years ago) left the area of San Pedro, all the businesses and farms are just starting up again. This is one of the reasons there is currently a very high demand for credit in this village.

²⁷ The average amount of indebtedness was USD 800, which is due to a few of the respondents having very high debts. The majority of the respondents have debts but these are manageable sizes.

²⁸ This word refers to groups of people who have assigned themselves the task to keep peace and order in the area, but who in practice extort rural people, charge fees for people to use a road or pass a river and charge businesses like farms. Some of these militias are hired by landlords to protect their territories. Some grew into very powerful clans dedicated to usurp lands from farmers and drug traffic.



The government also lends money to the farmers, with annual repayments and the farm as collateral. These are subsidized loans, as they are without interest and they only have to repay 60% (so 40% is a grant) and the first years is without repayment (grace-period). Coffee producers are receiving this loan in stages; every so many months part of the capital becomes available synchronous with coffee farming input costs. Reportedly, this staggered disbursement of the loan was introduced recently. At first the farmers who received the loans in one payment had used the money for other things than agriculture itself, including some of our respondents. Some respondents said they had used the money from the loan for daily needs (groceries, medicines, transportation costs, etc.)

Coffee farmers typically can settle their '*fiado*' loans on a yearly basis, when they have their coffee sales income. This informal service is matching the needs of farmers in these areas that have an annual finance cycle.

11.7 Moneylenders

The number and range of moneylenders in the research area was extremely high, both in the rural and urban areas. They range from being very informal and incidental to highly formal moneylenders who offer a broad range of services. An interesting finding is that moneylenders usually have a cover up business to run the money lending business. In this way, some of the respondents of this research turned out to be moneylenders without the researchers realizing at first.

In Santa Marta there is a special street with lots of moneylending offices. In general, the variety of facades moneylenders use is really wide, it may be done from a lawyers' office, an architect's office or even a jewelry shop. Some moneylenders are fully licensed to lend money (but can definitely not take deposits). The lowest interest rate is around 8% monthly and the highest is about 40%. The more formal moneylenders with the lower interest rates serve the lowest risk clients, like salaried or retired people or those who receive another form of secure monthly pay. Often moneylenders demand to hold the client's debit card of the account where the salary is paid into. More formal moneylenders may lend for durations of up to 36 months. Less formal ones lend for shorter periods.

A very popular form of moneylending is the "*paga-diarario*" system (translated as "paid-daily")²⁹. In this system a customer borrows a small sum (rarely above USD 200) and makes daily installments usually for a period of one or two months. The clients of these loans are mainly low

²⁹ We have deeply studied this system in another investigation.

income individuals operating in the informal economy (normally street vendors, owners of small street stalls, artisans, mechanics, drivers, housewives, etc.). On average, the interest rate is 15% monthly. It is not only a quick and efficient option, but also easy to access and has repayment flexibility.

Some lending goes on around the place where day laborers for construction are hired. The moneylender operates at the location where the weekly pay is paid out. On pay-day they provide loans and repayments must be done each week. This is also relatively lower risk, because it is easy for the moneylender to ensure repayment. As a precaution the moneylender will find out from those hiring construction workers how consistent they have been in getting work and pay.

Colombia has laws on usury, which apply to anyone, but these are only observed by licensed financial institutions and it is very difficult for the authorities to clamp down on the informal market.

Moneylenders

Beatriz lives with her family in a remote village in the banana producing zone of *Departamento del Magdalena*. During the research period she and her granddaughter had a terrible motorbike accident. They had to be rushed to a medical clinic to seek care for their severe injuries. Just previously her husband had lost his job as a farm-labourer. As they were living on the farm of his work, besides losing the job, they also had to find new accommodation. Just before the accident they had moved to a friend's smallholder farm as a temporary solution. Moving had cost them all of their savings. Beatriz borrowed from a nephew to pay for the trip to the medical post and additional medical expenses. The loan was not without interest, but on the contrary, she had to pay 30% interest and pay back in just two weeks³⁰.

11.8 Urban vs. rural lending

The credit amount demanded in rural areas is much higher than in urban areas. In urban areas 36% of the respondents would like a relatively modest credit of up to COP one million (USD 544) while only 26% of the rural respondents require such smaller loans of up to COP one million. Of the rural respondents 40% would like a credit of COP ten million (USD 5,440) and above. The maximum loan size desired in urban areas was ten million versus thirty million in rural areas.

Besides the demanded credit amount, the purpose of the credit is also very different between urban and rural areas. As can be seen in figure 15, respondents in rural areas were far more focused on their business, while urban respondents were more housing and consumption credit oriented.

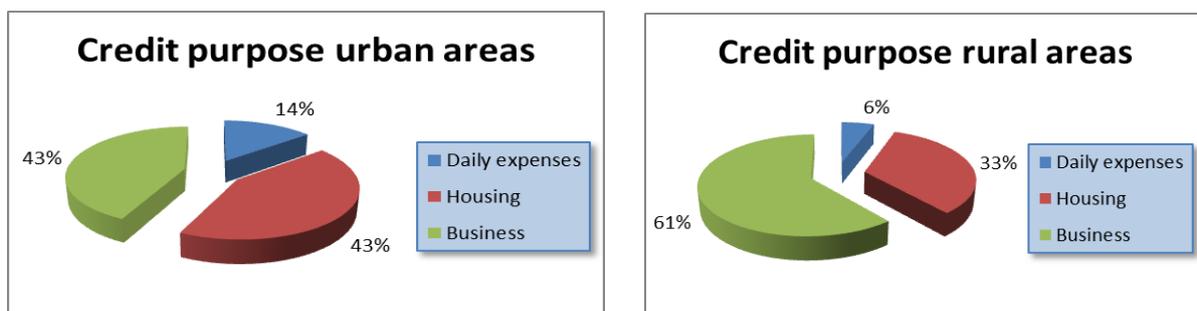


Figure 14: Credit (excluding fiado credit) purpose differences: urban vs. rural.

³⁰ This means a monthly interest rate of 60% and an annual interest rate equivalent of 720%

12. MONEY TRANSFERS

Sending money within Colombia to other family members, like parents, is very common. Most money transfers are from urban to rural areas but this is by no means always the case. The flow is simply determined by where the parents and/or where the earning sons and daughters live. In rural areas money transfers are sent according to seasonal income patterns related to the harvesting season.

In Magdalena respondents commonly use *Servientrega* for sending money (which is a DHL type package delivery company). Costs can be 10% of the amount sent, disregarding location where it is sent to. Someone sent money from Río Frío to Barranquilla which is just 50 km. distance and paid a 10% commission which they would also have paid to send it to the other extreme of the country. However, the sending costs of the money from Río Frío were still cheaper than the costs of the bus would have been. For international money sending to Venezuela people use *Brasilia* (a bus company). This service also costs 10%.

In our research area the companies most used for sending money are *Servientrega* and *Brasilia*. Even though *paramilitarism* is much less than before, these groups still control whether *Servientrega* or *Gana* or another company is allowed to operate. It may well be that paramilitary also charge a percentage to these companies so the high 10% for sending money may well go for a substantial part to the local thugs.

After sending money the sender usually sends a message through mobile phone to the recipient to inform him/her that the money was sent. When informed, the receiving party has to go to a branch office of the company with his/her identity card to withdraw the money.

Respondents in our research also told that most national remittances are done by giving the money to a trustee. This could be family or a close friend travelling to the area where the money needs to be sent. Constraints of this option are that it could take time for the money to arrive. It is only useful for relatively short distance remittances and there is a risk of losing money.

Registered values of the amounts sent in our research group are between COP 80,000 up to COP 300,000 (USD 45-160). The amounts of international remittances were higher, but the sample is too small to identify any correlations because we did not record many instances of remittances (just ten). This indicates that remittances are not that frequent (10 remittances sent by 35 respondents throughout six months).

In the target group people do not use the bank system to make money transfers (wire transfer or bank transfer).

13. MAKING (BILL) PAYMENTS

In general the respondents made the following payments:

- Groceries
- pharmacy
- utility bills (electricity, gas and water)
- telephone (*plan*, prepay or bundles)
- transport
- healthcare (treatment)
- insurances

Those who go to supermarkets typically pay their bills there, particularly utility bills. Quite a number of low-income respondents shop at the supermarket despite somewhat higher prices as they perceive that the goods in supermarkets are more reliable and better quality.

However, those with less income will generally go to “*graneros*” (larger local shops selling items in bulk - sugar, flour, etc.). There is also the public market (open air market). In rural areas people pay their bills (such as electricity) at the office of electricity companies, in towns. Sometimes when the payment point is far away someone else will be asked to pay the bills. This could be a family member or close friend doing the payments for several people at the same time.

Utility companies contract locals in rural villages to distribute the bills and collect payment.

Cuenta de Cobro No.

SEÑOR: Riky Anieta

DIR: _____ RESID. OFICINA

TEL: 2009 PAGO-CHEQUE EFECTIVO

VALOR \$

| FECHA | ABONO | SALDO | FECHA | ABONO | SALDO |
|--------------|--------|-------|---------------|-------|-------|
| enero-feb | 10.000 | | 25 oct 09 | | |
| Marzo | 5000 | | enero 10 10 | | |
| Abril mayo | 10.000 | | marzo 28 10 | | |
| Junio | 5000 | | mayo 27 10 | | |
| Julio | 5000 | | Agosto 29 10 | | |
| Agosto | 5000 | | oct 30 10 | | |
| SEPT | 5000 | | Nov 20 10 | | |
| OCT | 5000 | | enero 15 11 | | |
| Novi | 5000 | | | | |
| Diciembre | 5000 | | marzo 13 2011 | | |
| enero-feb | 10.000 | | junio 11 | | |
| Marzo | 5000 | | agosto 14 11 | | |
| Abril - mayo | 10.000 | | nov 20 11 | | |
| Junio | 5000 | | feb 11 12 | | |
| Julio | 10.000 | | Abri 14 12 | | |

14. DEALING WITH EMERGENCIES, UNEXPECTED, AND PEAK EXPENSES

14.1 Causes of unexpected and peak expenses

Unexpected expense peaks occur in a household on average approximately once per month. Typical causes we identified were:

- **Unexpected expenses for opportunities** (e.g., buying land, investing in business). These were very rare but they represent the biggest expenses of all;
- **Illness, medical issues, and medicines.** These were the most frequent unexpected expenditures. On average, households had nearly three unexpected medical expenses during the research period of six months. However, it represented smaller expenses in comparison to other unexpected expenses. For rural respondents, medical costs are more substantial as their transportation costs were very high when having to travel urgently to a hospital in the nearest city;



- **Consumption** (like buying new shoes). This was the second most expensive kind of unexpected expense amongst the respondents. At the same time it was a very frequent kind of expense;
- Transportation, especially for rural respondents, was the second most frequent unexpected expense in their financial lives, but in relation to other shocks, it was not as significant;
- **Death of family members.** There were four cases amongst the respondents of loss of family member(s) and although they were quite infrequent, they represent on average USD 115 on coffins and other funeral and burial expenses;
- The Christmas and New Year's Eve period is a very expensive one, on average USD 245 are spent on these celebrations, which include mainly buying new clothes and sometimes elevated transportation costs for families having to travel to their hometowns to meet with their families (In general for poor households spend on these items once a year). Wealthier families spent on expensive Christmas dinners and spend on average relatively large amounts on these celebrations. For rural respondents these costs are even higher because of transportation costs;

- Seasonal, harvest/climate related: December and January are the most costly months in our research area. November and December is also the rain season. This means that there is less work, the prices of groceries rise and people spend more on healthcare. At the same time period people buy new clothes for Christmas. For coffee farmers, Christmas is also just before the harvest;

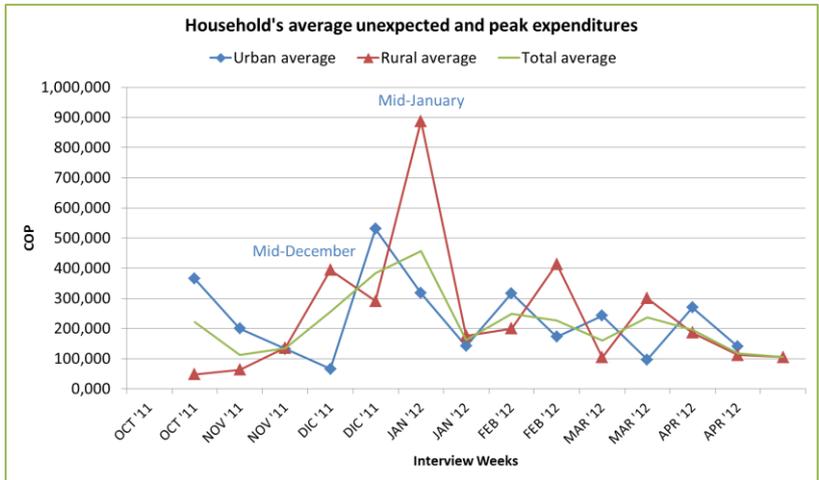


Figure 15 - Household's chronogram of average unexpected and peak expenditures.

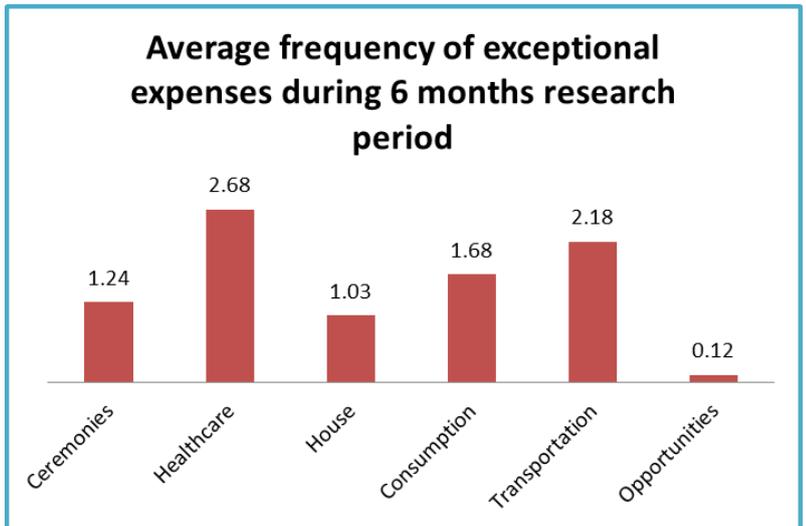


Figure 16 - Frequency of exceptional expenses during research (6 months)

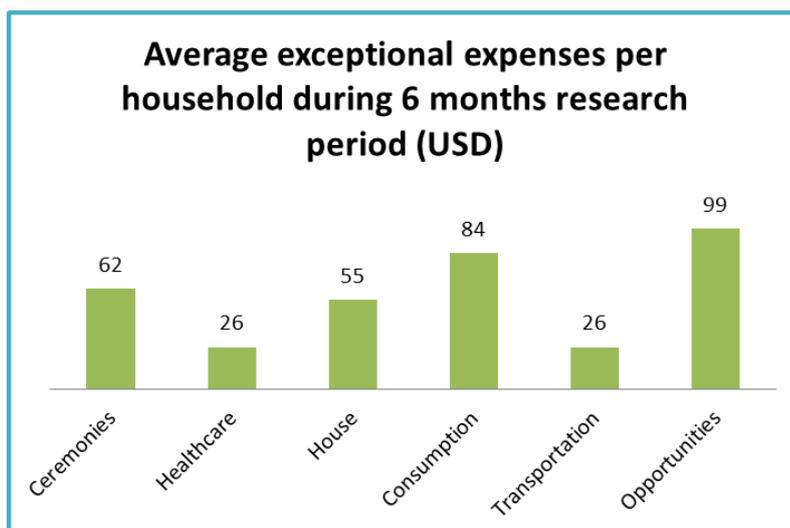


Figure 17 – Average amount spent on exceptional expenses

14.2 How people cope with unexpected expenses

To cope with these situations the respondents borrow money from family, take '*fiado*' credits or take salary advances at their workplace. Other options are to sell items, like harvested goods, animals or gold. But these options are only used when the other options fail. This is an indication that credit is considered a more appropriate form to cope with unexpected expenses than savings or reserves. In December/January the need for additional income is high. So this is also where some household invest and set up temporary businesses like selling gifts, clothes, beverages or food on the street. In our research group in Taganga (a small fishing village and touristic destination) a big part of the annual income is made in these months (see figure 5 on page 12).

14.3 Insurance for coping with unexpected expenses

Almost all of the respondents (90%) in our research have health insurance. However, about 65% of those in our research group have non-contributory government health insurance which is provided for free to *estrato* 1. This health insurance cannot prevent all financial consequences of illness and these people still experience high shocks because of poor coverage of medical costs. Some respondents, who were covered in the free health insurance, informed the researchers that they started a paid insurance where fees need to be paid monthly to get better or more convenient coverage. However, because of the fluctuation in income they did not have the money when some payment(s) were due. As a consequence of non-payment, they then lost their coverage on this paid insurance. The Colombian health care system is rather complex. There is for example also an insurance called *copago*, where the insured pays part of the insurance costs with a mark-up in used insurance. Usually the whole household is covered by the same insurance policy.

An interesting initiative has been set up by the coffee cooperatives. The income of the coffee farmers in the "Sierra Nevada" is annual, so one coffee cooperative set up packages including healthcare, life and funeral insurance. These packages are paid just after the harvesting season, all at once in a single annual installment.

26% of the respondents have funeral insurance. We did not record any reports about crop/livestock insurances during our research.

15. INSTITUTIONS AND HOW THEY ARE REGARDED

In general, financial institutions are not considered accessible for low-income people and the microfinance institutions have almost the same image as banks. People regard these as inaccessible because they ask for too many papers; the requirements are difficult to meet. Also, people lack the guarantees and the financial stability to be eligible for big bank loans.

Savings products of banks are also seen as very expensive and sometimes inaccessible; they are far away. Some rural respondents commented “Saving in a bank takes money and time”. Some respondents also said they had very little savings, not enough to open a bank account. We found that 24% of respondents lack trust in banks and in their services (e.g., accounts, bank cards). Some believe it is safer to save at home.

Those agricultural producers belonging to a federation are likely to trust the federation and have a range of relationships with the federation, from purely a selling relationship to a credit/advance, knowledge exchange and obtaining special variety inputs.

Beyond churches, our respondents were seldom members of a club or association and indeed informal savings groups were completely absent.

The research respondents overall trusted supermarkets. Customer service is regarded as the best and quality of the products sold is also considered superior to the alternatives, and people accept paying a higher price for the better quality.



16. LOGISTICS AND INFRASTRUCTURE

Statistically, the spread of bank-branches and ATMs and since some six years, agents (*Corresponsales No Bancarios*, CNBs), is quite high in Colombia. However, the rural zones in our research area are un-served by all of these. The closest place to find any formal financial services is Ciénaga, which is a town of around 100,000 inhabitants at about three hours by bus from San Pedro and an hour and a half from the *Zona Bananera*. The requirements for being eligible to become a bank agent (formally registered business, proper accounts, equipment for safe cash management, electricity, printed receipts) makes it very hard to start bank agents in the villages where we have interviewed and even POS may be a long time to come.



17. RURAL VERSUS URBAN

The difference between rural and urban respondents was found in almost all aspects researched. One of the striking findings is that there is a net flow of loans from urban to rural areas, possibly due to farms being rebuilt currently, after having been dormant in the years of violence.

Households in rural areas can survive on a lower monthly income than urban households because they can produce their own food, barter trade crops and housing costs are lower (constructing, buying and renting a house). Rural households do face higher transportation costs.

Rural areas clearly are dominated by much stronger seasonality in their income and expenditures, due to agriculture. However, this is not true for all zones. Plantation workers have continuous income flows because they can harvest every two weeks. Rural zones have considerably lower income and face considerably lower costs, particularly for housing and food.

Households in urban areas often have better living standards than those in rural areas. Houses in urban areas are mostly made of bricks, concrete, having several rooms, gas, water and electricity, kitchen inside and a toilet. Households in rural areas are often made of bamboo, mud (low-cost locally found materials), not having gas, no toilets and an outside kitchen. People often have self-managed running water by leading water from a river through large tubes and storing this in a tank connected by tubes to the house.

Transportation costs are a significant expense in rural zones, which also reduces their opportunities to make use of main stream financial infrastructure which is only available in towns.

18. GENDER

This aspect will still need considerable more study. Women have certain control of the household's finances. Women are always the recipients of the CCT transfers. In some households the male income earner gave their partner money to pay for the household's expenses, but sometimes the women only receive just enough money to buy groceries. A lot of men spend money on alcoholic drinks. These expenses generally were not mentioned during the interviews.



19. KEEPING RECORDS AND FINANCIAL LITERACY

Nobody keeps any records, neither on their income nor on expenses. There were some respondents keeping a few receipts which made us think they knew how much they were spending. However, much of the information we gathered later proved wrong when we verified it with the receipts. At the beginning of the Magdalena Financial Diaries, some households said they were prepared to keep track of their expenses. But despite careful explanation on how to do so and pre-printed easy-to-use sheets, nobody actually was able to keep their promise. Almost no records were kept.

Respondents do not keep records about price fluctuations. Prices certainly tend to change during the seasons, particularly for agricultural raw products. For agricultural produce logically prices vary according to production cycles. But for other products, prices also fluctuate according to seasons. For example in the rainy season and the harvesting season prices of standard consumer goods could rise by 20% in rural locations. It seems that the prices are mostly affected by the condition of the roads.

Through the interviews the respondents became more financially aware. After the first few interviews, the respondents started to prepare their information for when the researcher came. They often already identified and calculated their expenses (in their head) and were eager to report these. During the first interviews they forgot some of the expenses (and indeed held back others for feeling uncomfortable about sharing them). This was much less the case during later interviews, where the respondents became more aware of their financial options and their uses and some of the respondents started savings, insurances, bank accounts, which they would not have done in that time otherwise (according to them).



20. KEY CONCLUSIONS AND IMPLICATIONS FOR MOBILE FINANCIAL SERVICES

1. Mobile phones are extremely wide-spread and everybody in fact makes use of mobile phones. People feel close to their mobile phone and consider it a trusted tool.
2. The majority of low-income people make calls from “*minutos de la calle*”. All households have their own handset, but many just have this to receive calls. Nobody was found who has never made a mobile phone call.
3. Low-income people have access to a wide range of credit and appear relatively credit oriented.
4. Savings behavior appears to be relatively limited and here there are fewer saving tools available than in other locations in Colombia. Notably there are no ROSCAs and ASCAs.
5. Many low-income people are impacted by Colombia’s internal migration, whether due to displacement (*desplazados*) or voluntarily. This results in high use of phones and a need for sending money. However, relatively few money transfers were made in our research sample and most money is still sent through friends and relatives or taken personally to the destination. Cost may be the main factor here (reliable channels cost about 10% of the amount sent).
6. Bill payment is taking place through a range of channels with the supermarket being well-represented. In rural areas the payments are even collected by agents of the bill companies.
7. The majority of our respondents does not receive a monthly salary, instead they have irregular or daily, weekly, bi-weekly, bi-monthly or annually/seasonal income. Only formal salaries are predominantly paid on a monthly basis.
8. On mobile-phones, voice is used much more than SMS. This may possibly be due to cultural preference but may also be related to the high SMS costs.
9. A significant portion of households (35% [¹²/₃₄]) receive government subsidies, primarily *Familias en Acción* (71% [²⁴/₃₄] of households have school-going children, and 50% [¹²/₂₄] of these households receive the CCT).
10. Many people have a bank account with a debit card to withdraw the money (some 80%) due to CCTs and receiving payments for agricultural produce. ATM cards are well-known and familiar and sometimes serve as collateral for a loan. However, almost nobody uses their bank account actively.
11. Many goods are sold by catalogues or magazines, which are distribution franchises of mostly women selling goods door to door, sometimes at credit. Reportedly, there are 300,000 of such ambulant points of sale which the low - and middle- income segment is comfortable and familiar with.
12. Trust is a crucial issue and low-income people will only engage with companies they think they can trust. Trust may be a more decisive factor than price when selecting a provider.

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