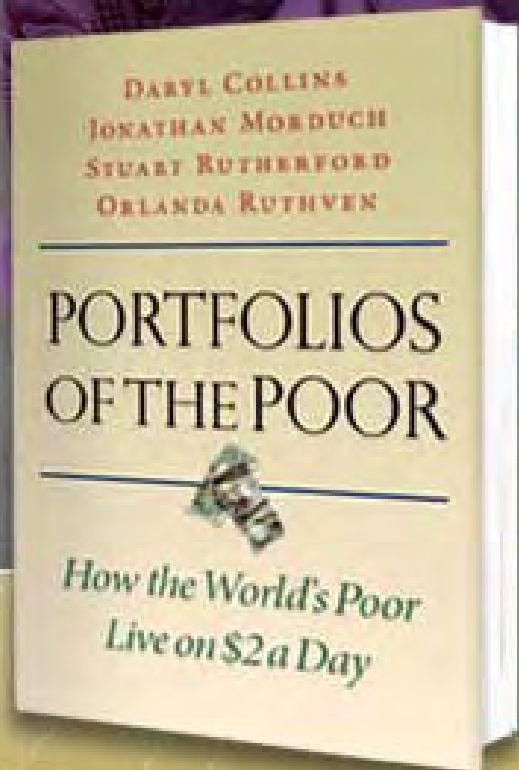


PORTFOLIOS OF THE POOR

How the World's Poor
Live on \$2 a Day



By Daryl Collins, Jonathan Morduch,
Stuart Rutherford and Orlanda Ruthven

I. The Problem

\$2...



40% of the world live on \$2 a day or less

If you earn \$2 a day it's easy to assume...

You live hand-to-mouth

You can't plan for the future

You can't save

You can't have much of a financial life



II. Financial Diaries

What are the Financial Diaries?



Household surveys that track penny by penny how poor households in India, Bangladesh and South Africa manage their money.

How were the Financial Diaries constructed?

Researchers selected roughly 300 poor households

- Urban
- Rural

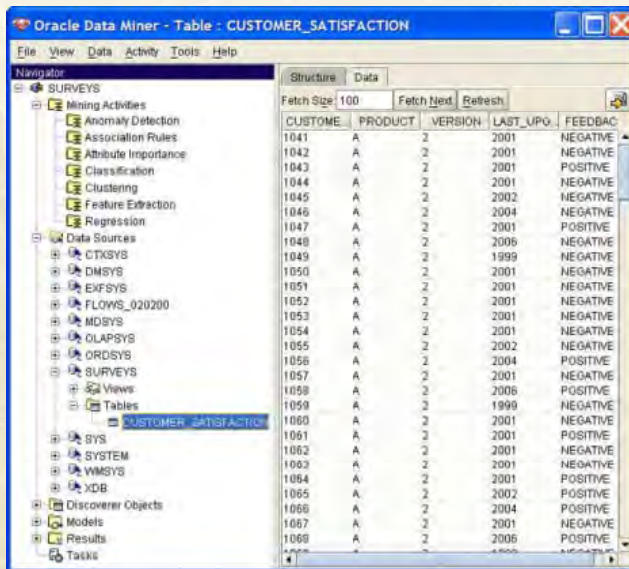
- Biweekly interviews
- Over the course of one year
- Tracked all financial transactions
 - Formal
 - Informal
- Reconstructed cash-flow and income statements

Why Financial Diaries?

Large, one-time surveys

Financial diaries

Small-scale anthropological studies



Oracle Data Miner - Table: CUSTOMER_SATISFACTION

CUSTOMER	PRODUCT	VERSION	LAST_UPO	FEEDBAC
1041	A	2	2001	NEGATIVE
1042	A	2	2001	NEGATIVE
1043	A	2	2001	POSITIVE
1044	A	2	2001	NEGATIVE
1045	A	2	2002	NEGATIVE
1046	A	2	2004	NEGATIVE
1047	A	2	2001	POSITIVE
1048	A	2	2006	NEGATIVE
1049	A	2	1999	NEGATIVE
1050	A	2	2001	NEGATIVE
1051	A	2	2001	NEGATIVE
1052	A	2	2001	NEGATIVE
1053	A	2	2001	NEGATIVE
1054	A	2	2001	NEGATIVE
1055	A	2	2002	NEGATIVE
1056	A	2	2004	POSITIVE
1057	A	2	2001	NEGATIVE
1058	A	2	2006	POSITIVE
1059	A	2	1999	NEGATIVE
1060	A	2	2001	NEGATIVE
1061	A	2	2001	POSITIVE
1062	A	2	2001	NEGATIVE
1063	A	2	2001	NEGATIVE
1064	A	2	2001	POSITIVE
1065	A	2	2002	POSITIVE
1066	A	2	2004	POSITIVE
1067	A	2	2001	NEGATIVE
1068	A	2	2006	POSITIVE

Mixed-research methodology

Captures the complexity of people's lives

Systematic in data collection



Improved data quality

Sources of funds

(Income + other
financial inflows)

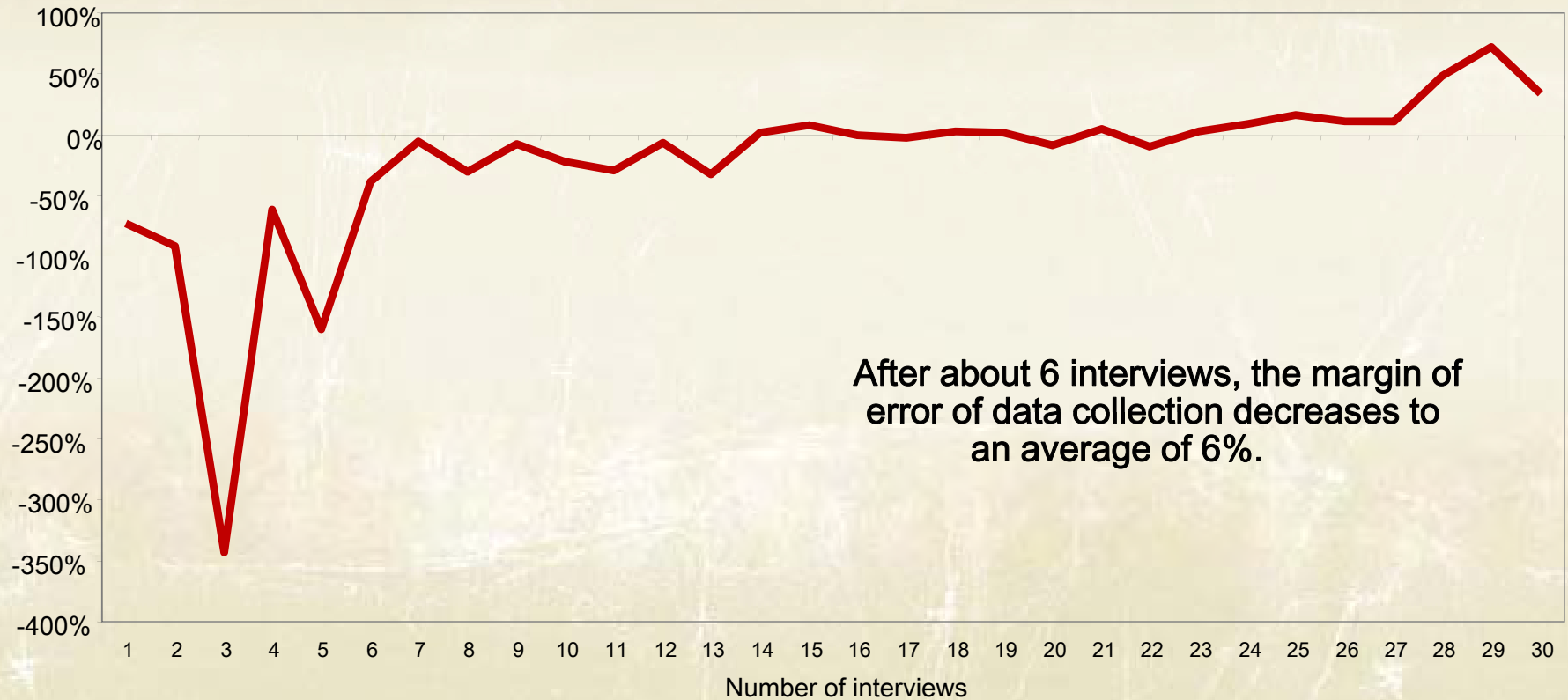


Uses of funds

(Expenditures +
other outflows)

Margin of error

Improved data quality over time



After about 6 interviews, the margin of error of data collection decreases to an average of 6%.

One-time interviews miss a lot.

III. Lessons

1. The poor are active money managers

Respondents **patched together** a wide array of services and devices:

- **Informal**
- **Semi-formal**
- **Formal**

India example

In India, households enter a fresh financial arrangement – with a moneylender, money guard, savings club, or formal provider, among others – on average every **two weeks**.

Small incomes, large flows

Bangladesh example:

- On average the Bangladeshi households push or pull through financial services and devices each year a sum of money (\$839) = $\frac{2}{3}$ of their annual cash income.
- No household used less than 4 financial devices
- $\frac{1}{3}$ of them used more than 10.

Microfinance loan

Microfinance savings account

Life insurance

Interest free loan from neighbor

Shopkeeper credit

Remittance to home village

Savings held for neighbors

Home savings

Rent arrears

Wage advance

Cash in hand

Loans to others

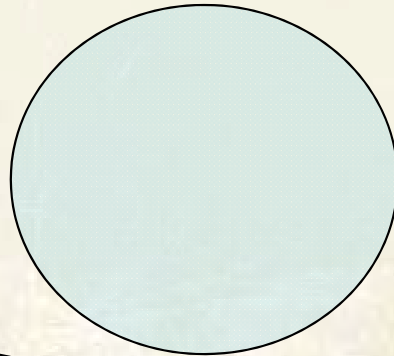
Saving with a moneyguard



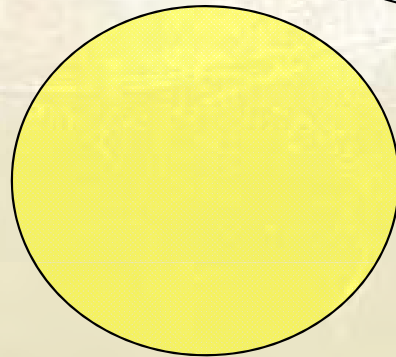
2. Being poor isn't just about low incomes

The poor face a “triple whammy”

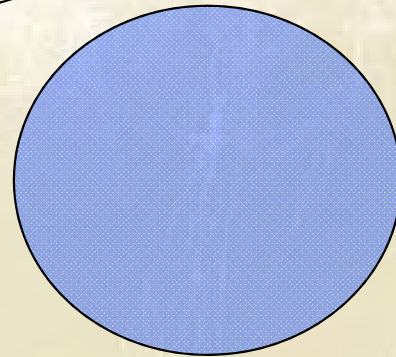
Low incomes



**Lack of
appropriate
financial tools**



**Irregular and
unpredictable
incomes**



\$2 a day is just an average.....

Seasonal variations in monthly income



Pumza, South Africa

- She supports herself and four children as a street food vendor, and with a small government child support grant
- Her average monthly income is \$120
- On slow days, she doesn't earn enough cash to buy fresh stock for the next day
- During lean times she borrows from a moneylender at a monthly interest rate of 30% or uses her savings.

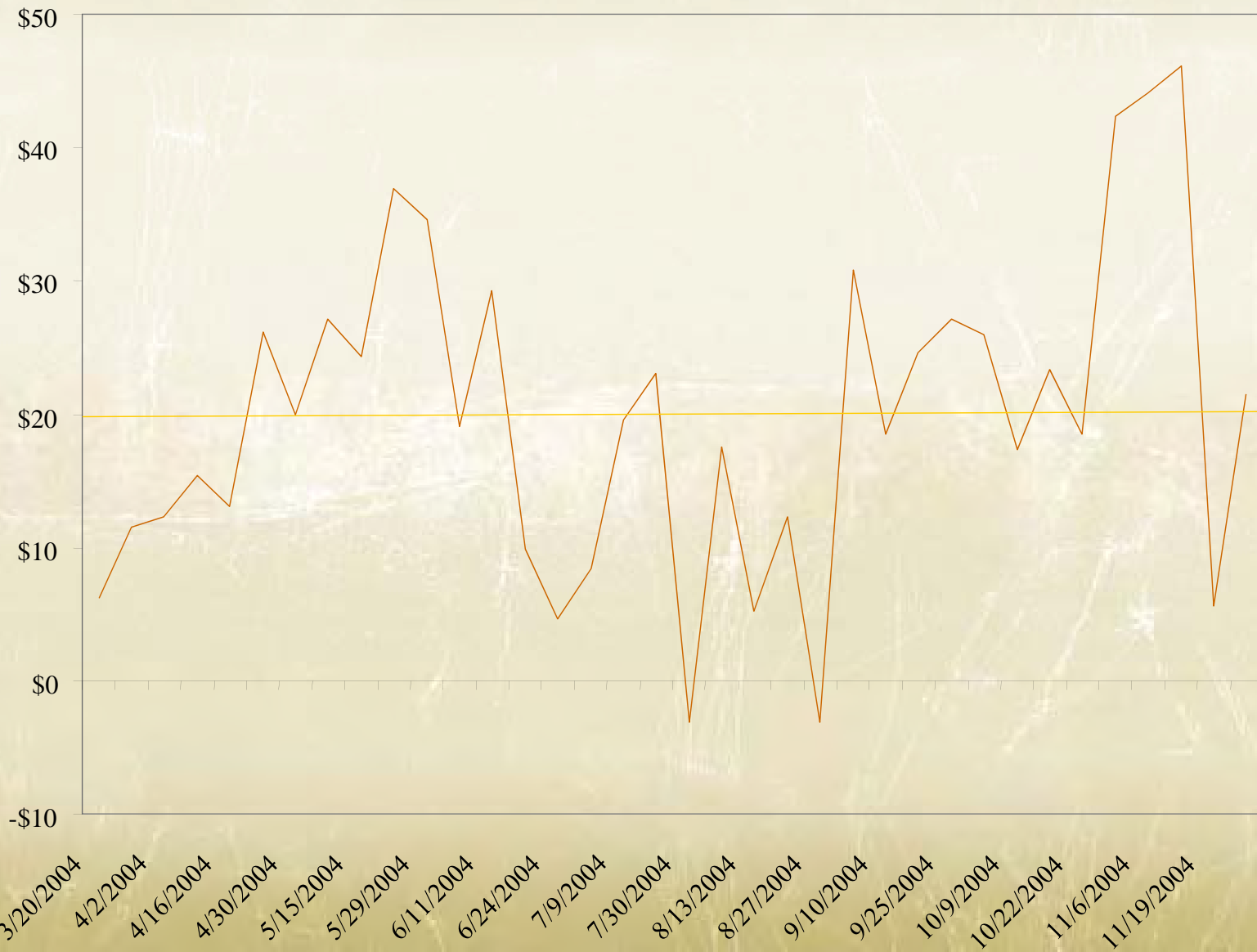
Pumza's greatest challenge is her irregular income.

Pumza, South Africa

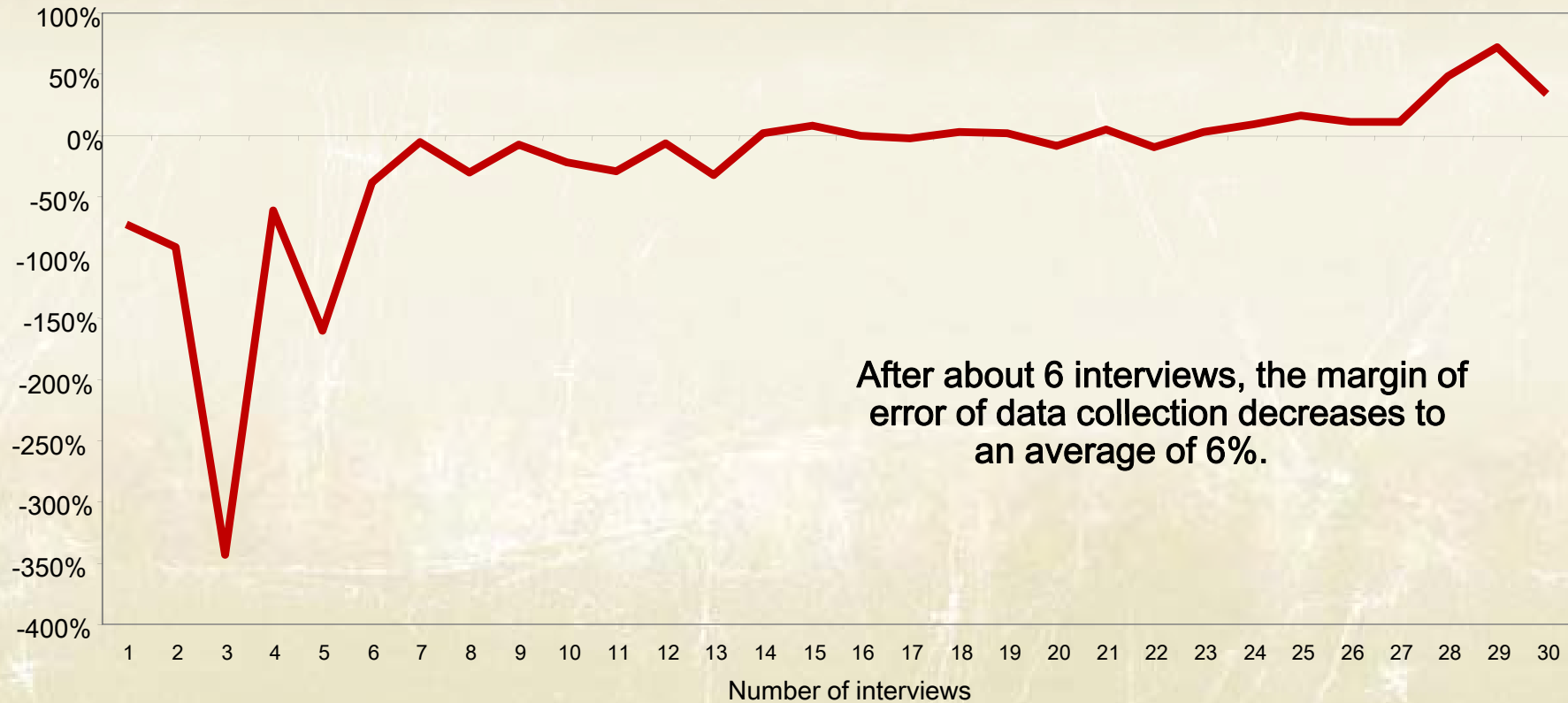
Net cash flows, aggregated weekly, US\$



The challenge of living on \$2 a day is that \$2 a day is just an average



Improved data quality over time



One-time interviews miss a lot.



3. The poor can and do save



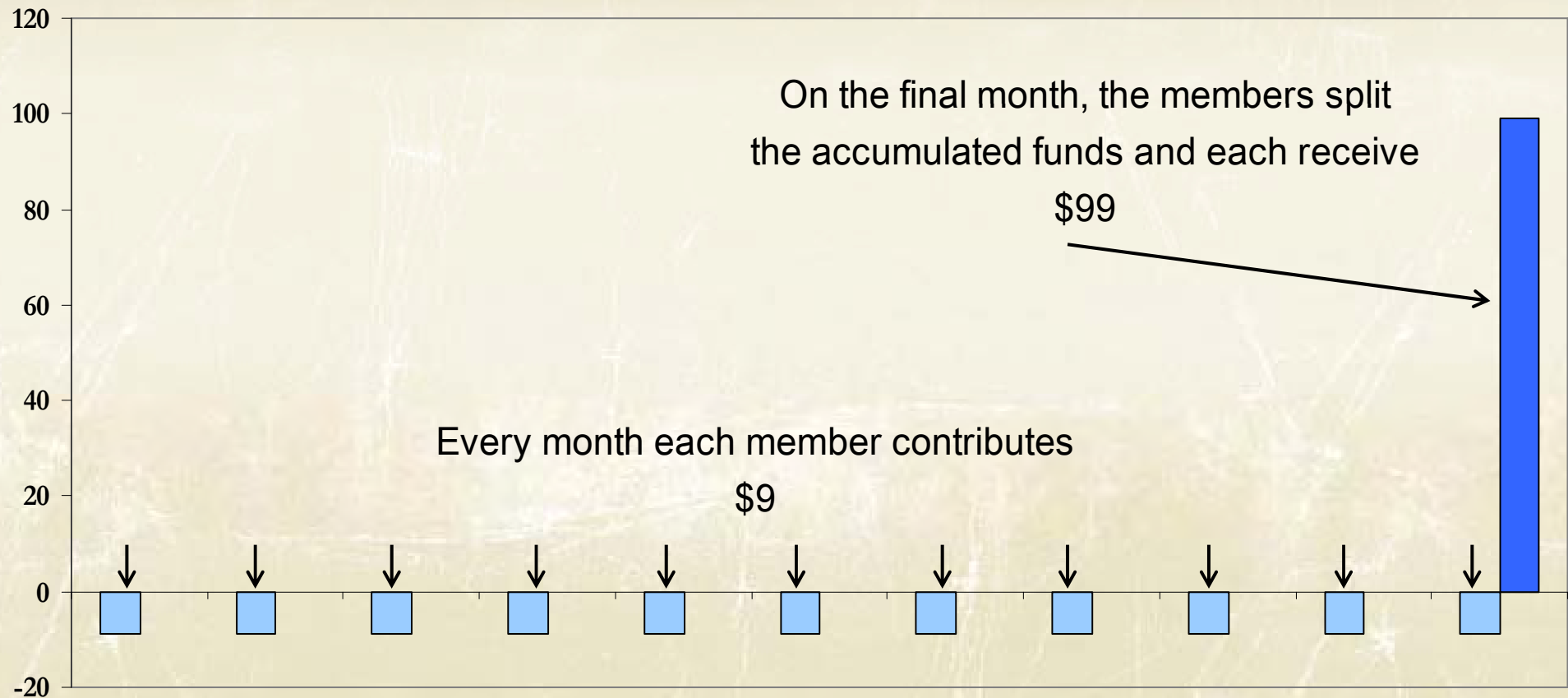
- Saving is often in small amounts week after week
- Formal sector devices often lack:
 - › Convenience
 - › Flexibility
- But informal savings mechanisms can be:
 - › Inflexible
 - › Unreliable

Nomsa, South Africa

- 77 year-old Nomsa supports four grandchildren
- Her average monthly income from a government old age grant is \$115
- Nomsa uses two informal savings clubs to save \$40 per month
- Nomsa likes the clubs because they act as commitment devices, forcing her to save each month

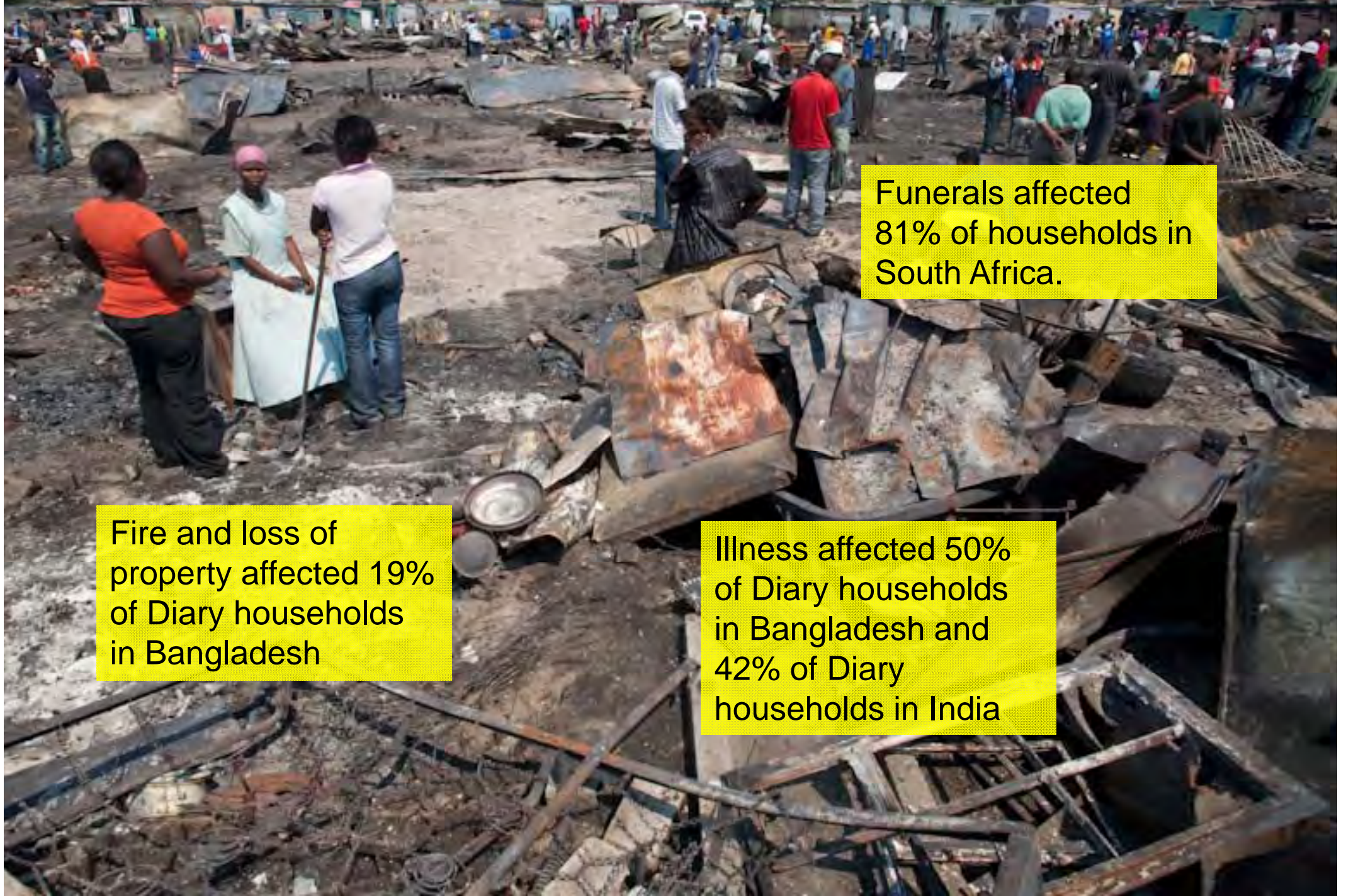
Despite her limited income, Nomsa is able to save.

How Nomsa's savings club works



US\$ converted from South African rand at \$=6.5 rand, market rate

Cape Town, South Africa

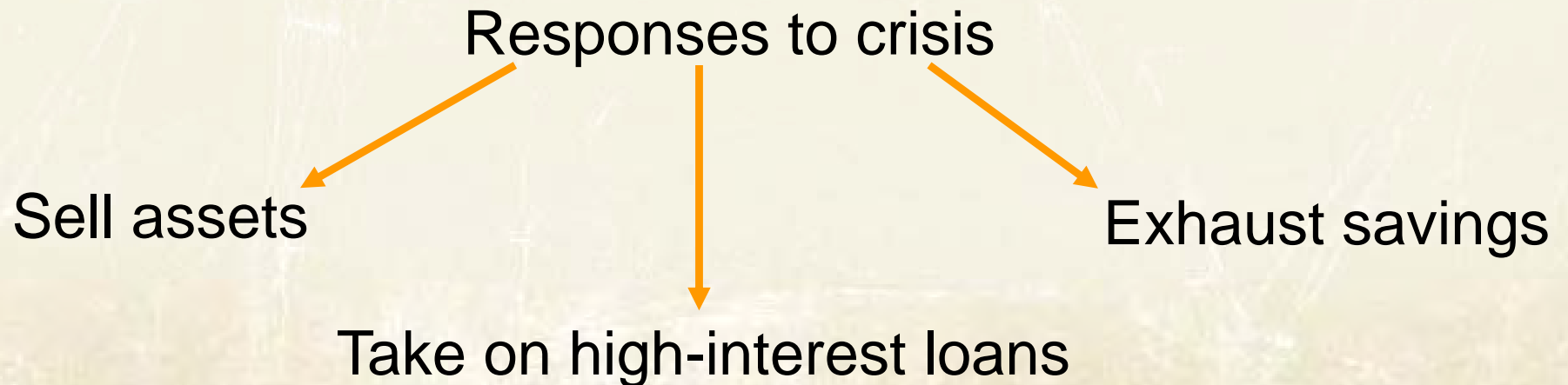


Funerals affected
81% of households in
South Africa.

Fire and loss of
property affected 19%
of Diary households
in Bangladesh

Illness affected 50%
of Diary households
in Bangladesh and
42% of Diary
households in India

4. More risks, but fewer financial tools



Need to pull together
adequate financing at the **right** moment.

Feizal, Uttar Pradesh, India

Household monthly income: \$36

Broke his leg, no insurance

Delayed treatment

Lost 8 months of wages

Total treatment cost:
\$250

Credit

Savings

Son's wage advance

Relatives



Thembi's Brother's Funeral

US\$ converted from South African rand at \$=6.5 rand, market rate

Uses of funds

Undertaker	\$538
Tent	91
Pots	35
Food	649
Sheep	100
Total:	\$1,413

Thembi's Brother's Funeral

US\$ converted from South African rand at \$=6.5 rand, market rate

Sources of funds				
Payout from burial society	\$154		Borrow from aunt's burial society (no interest)	154
Contribution from relative	231		Borrow from cousin's savings club (30%/month)	92
Contribution from relative	154		Borrow from cousin (no interest)	108
Contribution from relative	154		Thembi's grant money	92
Rental of tent by relative	91		Brother's grant money	49
Rental of cooking pots by relative	35			
Purchase of sheep by relatives	100			

Lessons

1. The poor are active money managers
2. Being poor isn't just about low incomes
\$2 a day is just an average.....
3. The poor can and do save
4. More risks, but fewer financial tools
Solving health problems requires
solving financial problems

IV. A New Vision

Mechanisms Matter

- **Big question:** When households don't save in quantity, is it due to:
 - › Lack of desire to save?
 - › Lack of an appropriate vehicle for saving?

How can your better judgment prevail?



British Museum: Odysseus and the Sirens.

Detail from an Attic red-figured stamnos, ca. 480-470 BC. From Vulci.

SEED, The Philippines

Ashraf, Karlan, and Yin, *QJE* 2006

Front



GREEN BANK

You are chosen to avail of our
new commitment savings
product

SEED SAVINGS ACCOUNT



GREEN BANK

*is ready to help you with our
new savings product...*

Back

SEED SAVINGS ACCOUNT



Do you want to finance your own business?
Thinking, where you can secure tuition fee
payments? Do you want a high standard of
living?

MAKE YOUR DREAMS COME TRUE!

SEED is the answer

How to open a SEED account?

- You can choose your own goal for saving
- You decide the amount you choose to transfer to your **SEED** account.
- To start with, buy a **SEED** box for only P/25

Make use of your savings, after you reach your
goal and make your dreams come true.

SEED: Lessons from the study

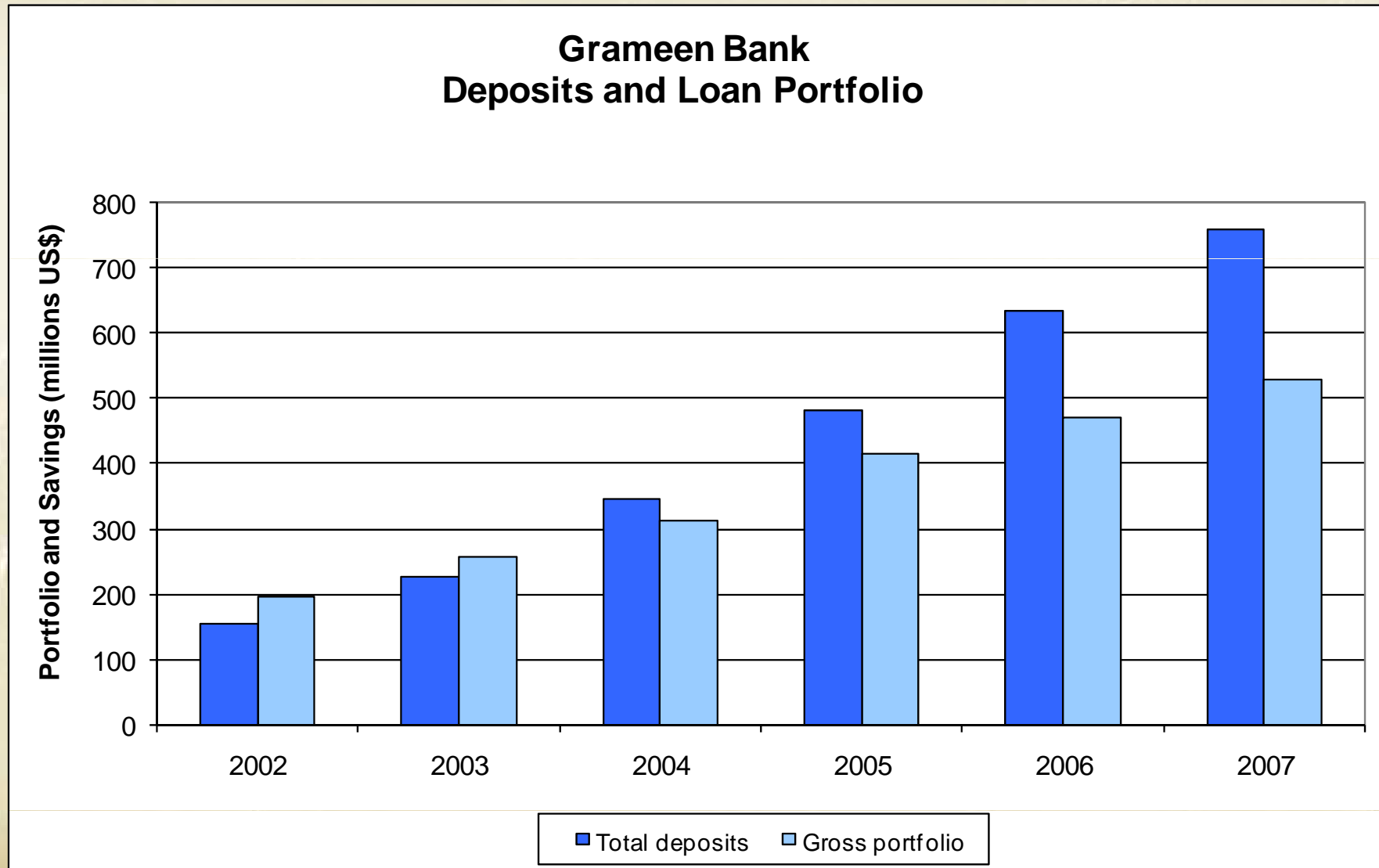
- Average savings increases by 85% for those who took-up.
- ~34% of SEED clients actively using the account.
- More likely to take up product if evidence of self-control problems.

GB II and Savings

Grameen Pension Scheme

- › 5-10 year term
- › Monthly deposit: minimum 50 taka (< \$1)
- › Interest: 12% p.a. (10% for 5 years)
- › Deposits made at weekly village meetings

Grameen II, Bangladesh



GB II and Credit

- › New set of Grameen diaries (2002 – 2005): most clients borrowed mainly for non-business purposes
- › Top-ups popular

Ramna's use of top-ups

Loan #	Date	Amount	Use
1	2002	\$83	Food and stocks
1 st Top up	April 2003	N/A	Grain for coming monsoon season
2 nd Top up	October 2003	\$67	Funeral expenses
3 rd Top up	May 2004	N/A	Pay down private loan
4 th Top up	December 2004	\$75	Stocks of grain, medical treatment
5 th Top up	June 2005	\$65	School fees, restock food

V. Conclusions

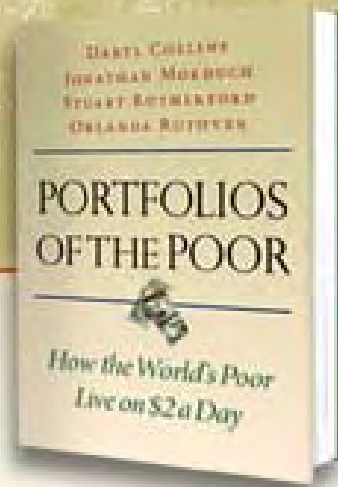
Better portfolios



Poor households maintain financial lives *because* they are poor, not in spite of it.

Hidden tragedy of poverty: the poor lack tools to make the most of what they have.

Next steps: scale-up ideas that are working. Open up to ideas and priorities that the poor have already made central in their lives.



www.portfoliosofthepoor.com

The Ford Foundation

The Financial Access Initiative

The Bill & Melinda Gates Foundation

FinMark Trust

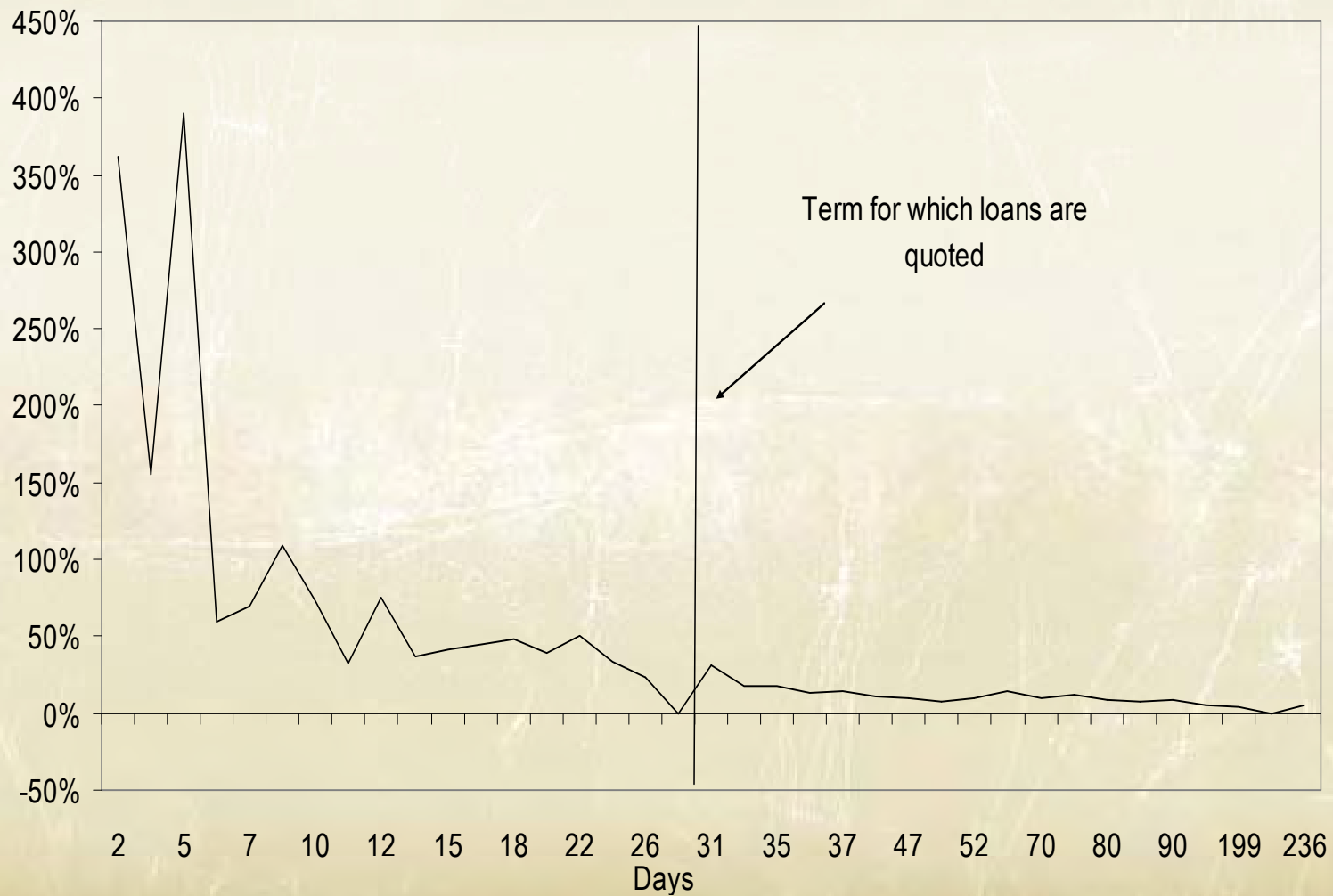
DFID

MicroFinance Regulatory Council

Photos by Robin Saidman,
www.vitaledgeaid.org



5. Beyond APR: Maturity and size matter





\$0.78 per person per day
x 2.67 =
\$PPP
2.08 per person per day

Hamid and Khadeja's closing balance

November 2000, \$US = 50 taka

Financial Assets	\$174.80	Financial liabilities	\$223.34
Microfinance savings account	16.80	Microfinance loan account	153.34
Savings with a moneyguard	8.00	Private interest-free loan	14.00
Home savings	2.00	Wage advance	10.00
Life insurance	76.00	Savings held for others	20.00
Remittances to the home village *	> 30.00	Shopkeeper credit	16.00
Loans out	40.00	Rent arrears	10.00
Cash in hand	2.00		
		Financial net worth	-\$48.54

Most frequent events causing a financial emergency,

By country, with the percent of country sample affected at least once during the study year

Bangladesh 42 households		India 48 households		South Africa 152 households	
Event	%	Event	%	Event	%
Serious injury or illness	50	Serious injury or illness	42	Funeral of family outside the household	81
Did not receive expected income	24	Loss of crop or livestock	38	Serious injury or illness	10
Fire/loss of home or property	19	Loss of regular job	10	Funeral of member of the household	7
Loss of crop or livestock	7	Theft	4	Theft	7
Business failure	7	Abandonment or divorce	4	Violent crime	4
Cheated/cash loss	7	Serious harassment by officials	4	Fire/loss of home or property	3

Small balances but large flows

Year-end financial asset values and annual cash flows through financial instruments for the median household

US\$, converted from local currencies at market rates

	Bangladesh		India		South Africa	
	Asset Value	Turn-over	Asset Value	Turn-over	Asset Value	Turn-over
Rural	57	568	18	590	220	3,447
Urban	74	547	169	810	792	6,264



