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【Commentary】

"Portfolios of the Poor"

～Records of wise and complex financial lives of the world's poor～

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The Millennium Development Goals (MDGs), a current major international developmental initiative which aims at achieving poverty reduction, state at the top of the list the goal of halving, between 1990 and 2015, the proportion of people whose income is less than $1 a day. Such people now amount to one-fifth of the world's population, and those who earn less than $2 a day constitute nearly half the world's population. Given such stunning figures, poverty reduction measures under the MDGs are being actively planned and implemented internationally. Nevertheless, it was not made elucidated how the poor manage to get by on such a small amount of income. This may be a testimony to the fact that people in the developed world, including aid officials, simply do not know what poverty actually entails. To fill this gap, a recent work by Daryl Collins and her coauthors[1] titled "*Portfolios of the Poor: How the World's Poor Live on $2 a Day*" (Princeton University Press 2009) looks deeply into the family finances of the poor in developing countries.

[1] Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven

The team conducted a field survey in the poor areas of India, Bangladesh, and South Africa, visiting nearly 300 poor families every two weeks over the course of one year. The survey focused on the inflow and outflow of money in poor households. It must have been a very difficult job extracting the necessary information from the interviewees, for nobody, rich or poor, wants to reveal personal information on how they earn and use their money, and so the team steadily carried out interviews by building confidence with the interviewees. They discovered, contrary to our common notions, that poor families are intensive users of financial products, and they are leading quite complex financial lives 'because' they are poor, not 'in spite of' it.

One may justifiably wonder why such a basic fact was not fully recognized; the reason may well be that people in developed countries take it for granted that the poor live from hand to mouth. It is true that many poor cannot read and write, and this means they cannot keep household accounts. In spite of this, the survey team found that the poor maintained an accurate grasp of their financial affairs. It is not 'in spite of' but 'because' they are poor that everything about money is so vital to them, and they accurately remember their financial figures by heart because husbands and wives discuss their money every evening.

What this survey exposes is the vitality of the poor: Clenching their teeth, racking their brains, searching for all means to maintain their family life. As such, one does not observe the misery of spiritlessness and laziness in them. Two dollars a day does not mean that the poor get $2 regularly. It may be $2 today, $1 the next day, and $5 after a several day interval with no income. Under such an irregular and unpredictable income pattern, they manage to put modest food on the table at every meal, pay school fees for their children, deposit their share in the community for weddings and funeral ceremonies, etc., and furthermore, save up for a rainy day. Because they are under such financial stress, they are leading their lives in responsible and self-helping manner.

If such a picture depicts the daily life of the poor, one wonders about the fundamental question of why and what we should aid. However well-intentioned, would not aid undermine this strong sense of self-help of the poor? Aid should not be extended to the poor haphazardly.

The survey discovered several financial activities engaged in by the poor on a daily basis, as shown below. Some are carried out simultaneously, making transactions appear quite complex.

1. Mutual borrowing with relatives, friends, and colleagues at workplaces, and borrowing from moneylenders
2. Mutual depositing with neighbors
3. Depositing with employers, landlords, and ‘money guards’
4. Depositing with RoSCAs (rotating saving and credit associations)
5. Borrowing from microfinance institutions
6. Using pawnshops
7. Purchasing precious metals and jewelry

Item 1, borrowing should not be difficult to anticipate. The terms of borrowing: interest, repayment period, and treatment of debt reduction, etc., differ case by case, but most of the loans are for small amounts and short terms. Items 2 and 3 are types of self-imposed measures that the poor use to avoid the strong temptation to spend whenever they acquire small sums of money. A ‘money guard’ takes deposits for a fee, in a sense effectively imposing a negative interest rate. Such measures suggest that the poor have a very strong desire to save, because they are poor. RoSCAs in Item 4 are each composed of a group of people who deposit a certain amount periodically, with each member receiving his or her deposited amount in turn. RoSCAs may be formed for specific objectives, such as funerals and weddings which require large expenditures. In any case, RoSCA provides the poor with an opportunity to obtain a relatively large amount of money at one time. Item 5, microfinance, has come into wide use, but it is still not widespread enough. Whenever there is a rare opportunity to borrow from a microfinance institution, the poor will seize it. Pawnshops in Item 6 were used as the order of the day until the recent past even in Japan. Item 7, occasional purchasing of jewelry and precious metals such as gold, is widely used to prepare for a rainy day.

The survey shows that poor families are doing their best to protect their lives by skillfully devising informal social safety net mechanisms, as described above, because formal mechanisms are not commonly available to them. Such informal mechanisms demonstrate resilience since they are based on personal bonds. However, they also contain the risk of thefts and accidents.

Based on these findings, Collins and her coauthors distinguished the following three key services that are greatly in demand but often inadequately provided, and they suggest that microfinance providers consider the need for these services as three large opportunities.

1. Allow small deposits and withdrawals at any time
2. Provide long-term savings products which ease the effects of large expenditures
3. Provide general-purpose loans

Item 1 would enable better day-to-day cash-flow management by the poor. Item 2 would provide a means of coping with expensive events like weddings and funerals or emergencies. Item 3 would be a departure from the current trend of limiting lending to setting up businesses, and not everybody has a good business sense.

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Recently, BOP business is drawing the world's attention. The definition of BOP (bottom of the pyramid) is not firmly established, but it generally covers low-income people of the world whose incomes are less than $3,000 per year; this amounts to 4 billion people, or 70% of the world's population, and represents a market size of $5 trillion, which is almost the same size as Japan's GDP. Coinciding with the worldwide economic downturn which was triggered by the global financial crisis that started in Autumn 2008 and the saturation of consumer markets in developed countries, BOP has suddenly been brought to the world's attention as a potentially huge market. BOP, which was formerly treated as a target of foreign assistance, is now being seen as an area of great business opportunity. Within that, BOP business seeks to pursue sustainable for-profit activities, not CSR, and at the same time, to pursue the upgrading of the standard of living of the poor. For that, public and private sector partnership initiatives are being explored in developed countries.

The poor segment of the population in developing countries was not seriously viewed as a consumer market in the past. However, if one is entering BOP business, the survey method used by Collins and her coauthors would be very helpful for market research. Furthermore, it is hoped that the BOP business initiatives being launched by the private business sector will favorably impact the way traditional aid operates. In any event, whether one calls the poor of the developing countries 'BOP' or 'the bottom billions', one should have the capacity to be able to see them as a mass of individuals, with flesh and blood, struggling to lead better lives, not as lifeless abbreviated alphabets and numbers.

As for the governments of developing countries, there are certain things they have to do on their part. They need to facilitate formal financial mechanisms which suit the real needs of the poor so that the poor are provided with opportunities to rise to the middle class. Moreover, if the poor have a potentially high propensity to save as demonstrated in the survey, the governments should not overlook that and should harness the savings of the poor as a source of investment funds, something which the governments have chronically lacked for promoting growth. This should be recognized as a reason why the governments of developing countries should be inclusive of the poor.

Paradoxical as it may sound, the key to exiting from poverty and aid dependency may be found within the poor themselves.

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