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PORTFOLIOS OF THE POOR

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

PRINCETON UNIVERSITY PRESS

PRINCETON AND OXFORD

Appendix 2

A SELECTION OF PORTFOLIOS

Each portfolio in this appendix is a dense collection of qualitative and quantitative information. We begin with a description of the household, where its members may have come from, what livelihoods they pursue, and what physical assets they own. On the page facing this information is a table of the household financial net worth, divided into assets and liabilities and categorized by the formality of each financial instrument. We show the balance in each financial instrument at the start and end of the year. In order to show how important each instrument is in the overall portfolio, the next column shows the percentage of overall end assets or liabilities. As chapter 2 suggested, turnover in some instruments may differ dramatically from the balance, so we next show turnover. Again, we wanted to portray the importance of each instrument by showing the weight in overall turnover in assets or liabilities. We include notes next to each instrument that provide the reader with details about how the instrument is used.

We end each portfolio with a brief description of how the portfolio changed over the course of the year. We highlight which instruments seemed to serve the purposes of cash-flow management, building lump sums and managing risk, as well as noting whether financial net worth increased or decreased, and why.

Two points of caution are needed when interpreting the portfolios. First, the financial diaries allowed us to uncover or reinterpret financial instruments that we did not initially realize that households were using. Although the latter, database-driven version of the diaries in South Africa allowed us to backfill these missing balances and transactions, earlier versions of the diaries in Bangladesh and India were not able to take this into account. This is why readers may note a number of zero starting balances in the portfolios of these two countries. Second, readers must keep in mind that the beginning and ending balances are taken at the beginning and end of each month, but a month's worth of transactions do not begin and end exactly with the calendar month. So, for example, some households in South Africa are paid wages monthly directly into their bank accounts. If our ending balance happened to fall just after the wages were deposited but before they were withdrawn, then we may erroneously conclude that the household had saved substantially over the period. Despite these potential pitfalls, we hope that readers will find these examples and others found on www.portfoliosofthepoor.com useful.

APPENDIX 2

A Driver's Household in Dhaka, Bangladesh

When he was young, Jaded attended school for 10 years in his village, came to Dhaka to look for a job, and managed to learn to drive—not yet a common accomplishment for poor Bangladeshis. He is now in his fifties, and lives in a tin-roofed hut illegally built on a flood embankment, with his second wife and their three children, and an older son from his first marriage. He drove for a middle-class widow for $80 a month, a small sum, but she paid regularly and let him take wage advances. They had few assets besides the hut and its furnishings—a fan, a TV, a timber bedstead, a table, and some chairs, worth altogether about $450. His wife Shirin was a very active personality, and ran her own business selling saris around the neighborhood: often she earned more than he in a month. It was she who was in charge of most of their financial transactions, though by local convention Jaded was regarded by all in the household as its head.

As in many of the Bangladesh portfolios, debt was small relative to cash flow. In this case, assets easily exceeded liabilities although this positive net worth declined through the study year, largely through reductions in their MFI (microfinance institution) savings as Shirin withdrew cash for her sari selling and for household needs. The couple was active in many forms of finance, including the semiformal MFIs (where Shirin and her daughter between them had managed to get accounts at no less than seven MFIs and borrowed from four of them) and the informal sector. They managed their money day to day through loans from her husband's employer, credit from shopkeepers, and a few loans from neighbors, both for interest and interest-free. She was a good saver and was usually able to finance private loans and loans against pawns for others, which she found profitable. The MFIs supplied some finance for her sari-selling business. But she complained about having to spend so much time sorting out her money affairs.

Table A2.1 Financial Net Worth at the Start and End of the Research Year (US$ at market rate)

		Start amount	End amount	Share of portfolio balances[a]	Turnover[b]	Share of portfolio turnover	Notes
Assets							
Formal	Bank savings	8.00	8.00	2%	0.00	0%	Dormant throughout the year
	Pro-poor life insurance	180.00	190.00	49%	10.00	1%	Didn't make the deposits regularly
Semiformal	MFI savings	216.40	136.70	36%	176.30	20%	Weekly deposits and some withdrawals, several MFIs
Informal	Interest-free loans out	0.00	26.00	7%	72.80	8%	At least 7 small loans to neighbors
	Interest-bearing loan out	0.00	1.60	<1%	1.60	<1%	She charged $1.60 interest on a $1.60 loan.
	Lending against a pawn	0.00	0.00	0%	60.00	7%	2 small loans given against gold jewelry
	Goods supplied on credit	0.00	0.00	0%	258.00	30%	She managed to get all her trade debt repaid.
	Saved at home	100.00	20.00	5%	280.00	32%	She revolved a lot of cash through her steel cupboard.
	Saved in a mud-bank	0.00	0.30	<1%	6.54	<1%	She made feeble attempts to keep a mud-bank.
	Saved on the person	**1.00**	**1.00**	**<1%**	**4.00**	**<1%**	**Kept by him while working**
Total		505.40	383.60	100%	869.24	100%	
Liabilities							
Semiformal	MFI loan	212.00	98.00	94%	454.00	41%	Loans from several MFIs, used mainly in sari selling
Informal	Interest-free loan taken	0.00	6.00	6%	26.00	2%	2 loans from neighbors, one by the older son
	Interest-bearing loan taken	0.00	0.00	0%	200.00	18%	1 loan, and it was hard to get
	Shop credit	0.00	0.00	0%	80.00	7%	Regular small credit from the grocers
	Wage advance	0.00	0.00	0%	240.00	22%	His employer lent him money every few months against his salary
	Moneyguarding	0.00	0.00	0%	100.00	9%	2 neighbors often stored cash with her.
Total		212.00	104.00	100%	1100.00	100%	
Financial net worth		293.40	279.60	Total flows	1969.24		

[a] End-year value of assets or liabilities divided by the total; similarly in the same column in the tables A2.2–A2.15.
[b] Inflows into instruments plus outflows out of them; similarly in the same column in the tables A2.2–A2.15.

A Household of Garment Workers, Dhaka, Bangladesh

We met this household in chapter 4. It consists of Surjo, an eldest son (high-school educated) who, three years before, had brought his mother, a sister, and three brothers to Dhaka from their village home because they couldn't get work there. Once in Dhaka, they set up a joint home in a single rented plastered-brick room. Surjo then set about getting everyone except the youngest brother a job in Dhaka's expanding garments industry, with wages ranging from $20 to $45 a month. The youngest brother, 12, was in school.

They are ambitious and, with the exception of the mother, in good health. They bought goods for the home—a fan and a TV. They were backed up by the security of land they had back in the village, worth around $1,200, and they sustained their links with the village by borrowing from an MFI to mortgage-in more land and have it share-cropped, providing them with some staples each harvest.

They are also shrewd and quickly understood the opportunities offered by MFIs, RoSCAs, and ASCAs, even though the eldest son's RoSCA failed and it looked as if he would loose his investment there. The sister joined a garments-factory-based ASCA that worked well for both saving and borrowing. Despite being new to the slum, they quickly got to know their neighbors (many of whom come from the same rural district), and they were able to get interest-free loans that, though small, often helped with cash-flow problems in their household management.

They quickly involved themselves in a wide range of devices ranging from a formal bank savings account (though the eldest son rarely kept his vow to save a little each month there), through the semiformal MFI, to several informal devices. This helped improve the value of their financial assets. Liabilities increased as well, but that was due to the additional debt financing they achieved through MFI loans to buy more land.

Table A2.2 Financial Net Worth at the Start and End of the Research Year (US$ at market rate)

		Start amount	End amount	Share of portfolio balances	Turnover	Share of portfolio turnover	Notes
Assets							
Formal	Bank savings	84.00	94.00	50%	10.00	4%	Tried to save a little each month but most often failed
	Pro-poor life insurance	20.00	36.00	19%	16.00	6%	Stopped depositing when agent visited irregularly
Semiformal	MFI savings	12.00	24.50	13%	12.50	5%	The sister had the membership and saved weekly.
Informal	RoSCA savings	20.00	14.00	7%	6.00	2%	This RoSCA collapsed and the son got part of his money back.
	ASCA savings	8.00	4.00	2%	108.00	42%	Sister joined an ASCA run by workers at her factory.
	Interest-free loans out	0.00	0.00	0%	20.00	8%	A loan to a brother-in-law that was very quickly repaid
	Saved at home	14.00	14.00	7%	40.00	16%	The family held some savings in a trunk.
	Saved on the person	1.00	1.00	< 1%	4.00	2%	Kept by the household head
	Remitting cash home	0.00	0.00	0%	40.00	15%	Sent to a brother who stayed in the village to repair the roof of the family house
	Total	159.00	187.50	100%	256.50	100%	
Liabilities							
Semiformal	MFI loan	26.84	50.24	84%	336.60	40%	The mother was the MFI member: two loans, one used for mortgaging land in the village, from which they got some produce.
Informal	Interest-free loan taken	0.00	0.00	0%	156.00	18%	At least 10 small loans quickly repaid
	ASCA loans	0.00	0.00	0%	80.00	9%	2 loans taken by the sister for household use
	Buying goods on credit	10.00	10.00	16%	254.16	30%	Common and frequent, mostly groceries
	Rent arrears	0.00	0.00	0%	24.00	3%	Infrequent
	Total	36.84	60.24	100%	850.76	100%	
	Financial net worth	122.16	127.26	Total flows	1107.26		

A Woman Household Head in Dhaka, Bangladesh

Born and brought up in the Dhaka slums, Amba is illiterate and was about 48 years old when we met her. She was physically very thin and looked in poor health. Her husband abandoned her for another woman some 14 years ago. Since then, she'd shrewdly managed on her own with the help of a teenage son, who occasionally drove a rickshaw, and a nephew who paid for his keep. She also had a young daughter to care for.

Her situation wasn't easy to understand: her one-room home is bigger and better furnished than many of her neighbors, with a fan, a TV, and a big audio set perched on a good timber sideboard. When we first met her the nephew was staying with her, paying rent and paying for food, and we assessed her as being fairly well-off. But the nephew soon left, and her fortunes declined during the rest of the year. She coped by screening off part of her room and taking in paying guests, for whom she would cook. When she could get capital she hawked saris around the slum, where she was well known, or lent the money out against pawns. But during the year her son became addicted to heroin and turned into a drain on the household's resources. She got poorly paid jobs as a housemaid, and had to send her 12-year-old daughter off as a housemaid, too.

Her biggest financial flows were associated with her MFI loans and her lending against pawns: the two are connected because the MFI loans sometimes finance the lending. She borrowed informally, sometimes paying interest, sometimes not.

Because she tried (though with only partial success) to keep up with her premiums paid to the pro-poor insurance scheme, refrained from withdrawing MFI savings (which she persuaded one of her debtors to pay for her), and paid her MFI loans more or less on time, she ended up with an improved financial position, despite financial difficulties with her son. Her biggest liability was a pair of interest-free loans.

Table A2.5 Financial Net Worth at the Start and End of the Research Year (US$ at market rate)

		Start amount	End amount	Share of portfolio balances	Turnover	Share of portfolio turnover	Notes
Assets							
Formal	Bank savings	8.00	16.00	5%	8.00	3%	We think this balance may have belonged to the nephew.
	Pro-poor life insurance	76.00	100.96	30%	24.96	10%	The policy was in the name of the daughter.
Semiformal	MFI savings	24.00	41.60	13%	17.60	7%	From midyear the savings were deposited by the person to whom she on-lent her MFI loan.
Informal	Interest-free loans out	40.00	40.00	12%	0.00	0%	An old loan, dormant
	Interest-bearing loan out	0.00	135.60	40%	184.40	77%	She lent her MFI loan locally, against pawns, and got some of it back.
	Saved on the person	2.00	2.00	<1%	4.00	2%	Kept it in a purse tucked in her sari
	Total	150.00	336.16	100%	238.96	100%	
Liabilities							
Semiformal	MFI loan	42.40	95.00	43%	267.50	42%	She paid off one loan and took another.
Informal	Interest-free loan taken	0.00	100.00	46%	120.00	19%	She took three loans and repaid the smaller one quickly.
	Interest-bearing loan taken	0.00	0.00	0%	120.00	19%	She took two loans, at 10%, for consumption and debt repayment.
	Borrowing against a pawn	0.00	2.00	1%	40.00	6%	Borrowed to pay for treatment for her addicted son
	Rent arrears	22.00	22.00	10%	88.00	14%	Repeatedly fell behind with the rent
	Total	64.40	219.00	100%	635.50	100%	
	Financial net worth	85.60	117.16	Total flows	874.46		

A Widow Caring for AIDS Orphans in Rural Lugangeni, South Africa

Nomsa (from chapter 4) was a 77-year-old woman looking after four of her grandchildren, two of whom had come to live with her a year earlier after her daughter died of AIDS. The family lived at the bottom of a track that wound down a steep hill. The homestead was made up of two buildings, both worn and slightly falling down. Before they came, Nomsa might have been considered reasonably well off, but the five of them now found themselves struggling to live off her government old-age grant of $114 per month. She had tried repeatedly to apply for a foster care grant from social workers but was turned away. She was hit doubly hard by her daughter's funeral because she had already gotten into debt with a local store trying to rebuild her *rondaval* (round traditional hut). She managed to pay for the funeral but was unable to service the credit she had taken for it for a year. She got by with the produce from her garden and by taking loans from moneylenders, but she also got very confused about what and to whom she owed.

The portfolio consists largely of debt instruments from various creditors, which explains her year-end negative financial net worth. Notice that she used a combination of interest-bearing and interest-free borrowing, both from moneylenders and savings clubs. She borrowed from the moneylender when she'd already tapped out her other sources. However, she did manage to remain current on her loans, paying back when her grant money came. Her financial position was essentially unchanged from when we met her to when we completed the study. Despite her weak financial position, however, her financial turnover was strikingly high—she pushed and pulled just over $5,300 through her portfolio of financial instruments over a 14-month period.

Table A2.11 Financial Net Worth at the Start and End of the Research Year (US$ at market rate)

		Start amount	*End amount*	*Share of portfolio balances*	*Turnover*	*Share of portfolio turnover*	*Notes*
Assets							
Formal	Bank savings	0.00	23.08	24%	3581.46	73%	Her grant was paid into the bank account and promptly withdrawn.
Informal	Saving-up club savings	0.00	71.54	75%	133.08	3%	She belonged to two saving-up clubs.
	Saved at home	0.00	0.23	< 1%	1141.92	23%	She withdrew her grant money from the bank, bought basic goods, then kept the remainder in the house for daily needs.
	Burial society				68.91	1%	She belonged to two burial societies.
	Total	0.00	94.85	100%	4925.37	100%	
Liabilities							
Informal	Interest-free loan taken	0.00	58.46	32%	19.77	5%	Four loans from neighbors and family
	Moneylender loan	20.00	100.00	55%	84.88	20%	Four loans, at between 25% and 30% interest per month
	Shop credit	76.92	23.38	13%	193.35	46%	She consistently took credit from two different shops in the village.
	Loan from savings club	0.00	0.00	0%	124.45	29%	Four loans from a different savings clubs; paid 30% per month
	Total	96.92	181.84	100%	422.45	100%	
	Financial net worth	− 96.92	− 86.99	Total flows	5347.82		

A Superior Money Manager in Diepsloot, South Africa

Sylvia (from chapter 4) was a very disciplined 39-year-old woman living in a shack in Diepsloot, South Africa, outside of Johannesburg. Her neat shack hugs two others in the tightly packed shack area, but one wall has an impressive number of windows, so she could let in the dusty sunlight. She earned about $370 per month as a house cleaner for two separate clients. One of the most interesting financial instruments in her portfolio is an ASCA she had belonged to since June 2003. There were 33 members each of whom paid in $30 per month and lent out the money at an interest rate of 30 percent per month. Members were obliged to take some money to lend out every month. Sylvia kept up a very busy lending schedule. From July 2004 to November 2004 alone, she lent to a total of 16 people an average of $60 each. Unfortunately, Sylvia did not earn as much as she expected from the payout of this ASCA. First, because some of the people who borrowed from her did not pay back, she had to pay back the ASCA from her own pocket, which decreased the net amount she earned. Second, just before the proceeds of the ASCA were paid out, the treasurer was robbed and killed as she was coming with the money from the bank. She was only carrying part of the ASCA money, so Sylvia received a partial payout of $246. She would have received twice as much if the borrowers hadn't defaulted and the robbery hadn't happened.

The ASCA wasn't the only way that Sylvia managed to save money. Every month she had her employers pay her wage into two different bank accounts. One she used for all her expenses and the other she tried not to touch. Keeping two different bank accounts is more expensive in terms of bank fees, but it gave her a mechanism with which to save half her salary every month. She also contributed to a formal savings plan, which will come due when her daughter is 16 and needing money for university. She also tried to keep aside money in the house, a mechanism that requires an extremely disciplined budget: She also concentrated on paying off her two credit cards that she had used the previous Christmas. Sylvia is a good example of a portfolio manager that looks to save across many different financial instruments, and the result paid off in that she more than doubled her financial net worth over the year.

Table A2.14 Financial Net Worth at the Start and End of the Research Year (US$ at market rate)

		Start amount	*End amount*	*Share of portfolio balances*	*Turnover*	*Share of portfolio turnover*	*Notes*
Assets							
Formal	Bank account	1373.38	2086.28	62%	10353.54	54%	She had four different bank accounts, including a long-term deposit account.
	Savings annuity	153.85	369.23	11%	182.71	1%	She had a savings plan for her daughter's education.
	Funeral plan				68.95	< 1%	She used one formal funeral plan.
Informal	Saved at home	84.62	483.08	15%	4875.23	25%	She received her grant in cash, bought the basics, and kept the money in the house for daily needs.
	ASCA savings	0.00	246.00	7%	1206.88	6%	She belonged to five different savings clubs with different formats.
	Saving with a moneyguard	0.00	153.85	5%	153.85	1%	She left some money with an aunt in the rural areas.
	Burial society	—	—	—	68.95	< 1%	She belonged to five burial societies.
	Interest-bearing loan given	0.00	0.00	0%	2404.38	12%	She lent a total of 42 times during the year.
	Total	1611.85	3338.44	100%	19314.49	100%	
Liabilities							
Formal	Credit card	214.46	0.00	100%	248.17	99%	She had two credit cards, which she steadily paid off over the year.
Informal	Shop credit	0.00	0.00	0%	1.33	1%	She took credit at the local shop once because she didn't have cash and paid back right away.
	Total	214.46	0.00	100%	249.50	100%	
	Financial net worth	1397.39	3338.44	Total flows	19563.99		

A Couple Living in a Shack in Langa, South Africa

Thabo, a 26-year-old man, lived with his wife Zukiswa and two children in a shack in the urban area of Langa, South Africa, outside of Cape Town. Langa itself is made up of many different types of dwellings: blocks of apartments, single-family, two-roomed houses, squalid hostels, and a seemingly endless expanse of tightly packed shacks. When we went to visit Thabo, we had first to find the entrance to the shack area and then pick our way between the shacks, which are pressed tightly together. Thabo's shack was in a sort of a yard, adjoining several of his neighbors. His shack, as they go, was fairly up-market, with two rooms. A nearby bank of removable toilets and a water pipe serviced the area around him.

Thabo earned about $107.69 per week as a construction laborer, and his salary was directly deposited into his savings account. He saved money using a stop order that automatically transferred $23 of his wages into a fixed deposit account every week (this is the same mechanism that Joseph of chapter 4 had). He managed to save $923 this way during the previous year, from which he spent $553.85 and saved $370. By the end of the study year, he had expected to accumulate another $923 or more. He and his friends considered this a savings clubs of sorts. Although each saved individually in his own bank account, they had shared information about how to set it up and encouraged each other. He wanted to put this money toward buying a house. It is interesting that he had spent over $770 on a store credit card last December for clothes for his children, and he planned to spend more the next December. He didn't want to use his savings to pay off this debt. He said that it was more important to have the money in case of any problem.

We noticed an interesting attribute of Thabo's portfolio. He had $931.63 sitting in his bank account from the previous year's saving exercise with his stop order. Yet he accumulated a sizable debt of $686.77 on his credit card paying for Christmas. When we asked him why he didn't settle his credit card with the money in the bank, he said that the money in the bank was for emergencies, and he didn't want to risk not having it. He'd rather continue to pay the debt off little by little. Note as well that where other households would save money in their homes, Thabo didn't. He said that he worried about theft and about fire, both of which are rife in Thabo's area. With his savings, he ultimately hoped to buy a house, but he was concerned that it would take a long time to save enough money. His simple and conservative life-style, and this new way of saving, was helping him accumulate wealth, albeit at a slower rate than Sylvia.

Table A2.15 Financial Net Worth at the Start and End of the Research Year (US$ at market rate)

		Start amount	*End amount*	*Share of portfolio balances*	*Turnover*	*Share of portfolio turnover*	*Notes*
Assets							
Formal	Bank savings	931.63	2165.71	94%	11297.40	99%	He used one bank account to receive his salary, then had a stop order to transfer savings to another account with a different bank.
	Provident fund	106.73	147.84	6%	44.84	< 1%	He had a provident fund provided by his employer.
Informal	Interest-free loan given	61.38	0.00	0%	61.38	1%	He gave one loan to a neighbor and was paid back eventually.
	Total	1099.74	2313.55	100%	11403.62	100%	
Liabilities							
Formal	Credit card	1.54	686.77	100%	14999.00	100%	He had one credit card with a leading retailer.
	Total	1.54	686.77	100%	14999.00	100%	
	Financial net worth	1098.2	1626.78	Total flows	26402.62		