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PoP Briefing Note # 1

The "Triple-Whammy" of Poverty

Lessons from *Portfolios of the Poor: How the World's Poor Live on $2 a Day*

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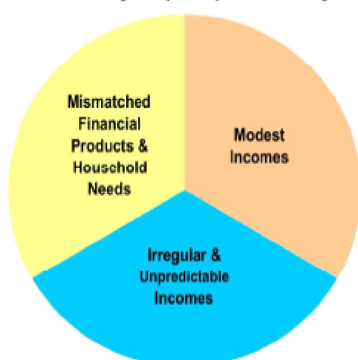
Portfolios of the Poor: How the World's Poor Live on $2 a Day reveals that extreme poverty is more complex than surviving on limited earnings. Reporting on yearlong "financial diaries" of villagers and slum dwellers in Bangladesh, India, and South Africa, the researchers observe that households wrestle with three distinct problems: incomes are small, cash flows are irregular and unpredictable, and existing financial instruments are unreliable and not suited to the erratic cash flow patterns. The researchers refer to this pattern as the "triple whammy" poverty trap and examine why this pattern holds, how households manage, and what can be done to help households cope with their most basic, daily challenges. This brief explores this phenomenon through the experiences of three diary households.



Small Incomes

Subir and Mumtaz, a Bangladeshi husband and wife, patched together small, inconsistent sums from various sources to support their family. They were active money managers—not despite being poor, but *because* of it. The family fell into the poorer half of the Bangladesh sample. Subir earned most of his income pedalling a hired rickshaw but the physical demands of the labor meant that he could only work four days a week. On occasion he had the opportunity to drive a motorized rickshaw, where he earned $2.50 a day. Subir's earnings fluctuated with weather conditions, political strife, and police harassment. His income was supplemented with rent from a temporary boarder, Mumtaz's income as a maid, and two of their sons' wages. During the research year, household income peaked at $.45 per person per day, and fell as low as $.27 per person per day. Despite meagre earnings, their balance statement showed microfinance savings, loans, home savings, money-guarding, and shop credit. Managing and stretching uncertain income flows to put food on the table every day was a constant preoccupation for the couple. Their highest priority was simply to feed their family every day.

Table 1: Portfolio Summary for Subir and Mumtaz over the Research Year

	Closing Balance	Turnover
Financial Assets		
Semiformal Informal		
Microfinance savings	$10.20	$49.40
Private Loans out	30.00	117.00
Home Savings	5.00	18.00
Sub-total	**45.20**	**184.40**
Financial Liabilities		
Semiformal Informal		
Microfinance loan	30.00	47.00
Interest free loan	14.00	84.00
Private loan	15.00	105.00
Pawn loan	0	10.00
Moneyguarding	2.00	66.00
Shop credit	4.00	50.00
Sub-total	**$65.00**	**$362.00**
Financial net worth:	**-19.80**	
Total Turnover		**$546.40**

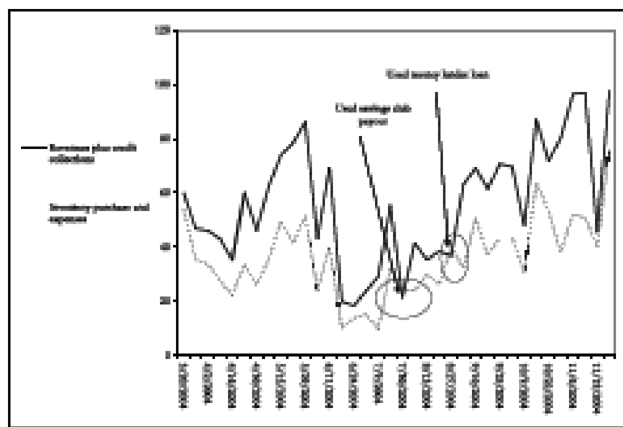
Note: US$ converted from Bangladesh takas at $=50 takas, market rate.

Irregular and Unpredictable Incomes

Pumza worked as a sheep intestine vendor to support herself and her four children. She purchased $5 worth of intestines everyday, and cooked and sold them to passersby. Her daily revenues averaged about $6-$15. From this amount she had to cover the cost of her supplies, as well as feed her family. Her average monthly profit was $95, and was supplemented with a government child support grant of $25. When business suffered, Pumza's revenues weren't enough to buy fresh stock for the next day. On occasion, these lean times coincided with the receipt of her child grant, which helped to tide her over. Otherwise she was forced to borrow from a moneylender at a monthly interest rate of 30%.

Pumza used informal savings clubs to help smooth the erratic cash flows from her business and to accumulate large sums needed to pay for year-end expenses, like school fees and uniforms. She belonged to eight different clubs and had moderate success with them. One club involved three other intestine sellers. From Monday to Thursday, each deposited $7.50 a day and they took turns getting the entire pot of $30. But when one partner failed to pay, Pumza was forced to turn once again to the moneylender. The club eventually disbanded.

Figure 1: Pumza's Cash Flows (Aggregated Fortnightly)



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

Later in the year, Pumza joined another savings club where contributions were $30 a week. Pumza received a monthly payout of $120. During July, when inclement weather dissuaded potential customers from venturing outside, a payout from this club helped Pumza bridge her business cash flow. Although Pumza has had some success with the informal clubs, she would have benefitted from access to a reliable, convenient savings account with the same commitment feature her clubs offered her but with an ability to help her save over the longer-term.

Irregularity, and above all unpredictability, of incomes exacerbates challenges in cash-flow management, often forcing households to deploy financial tools in ways they were not originally intended. Such shifting arrangements are often expensive and unrewarding. Figure 1 helps to illustrate this scenario. Pumza's cash flows from her business fell into negative territory twice during the research year. To keep her business alive, she drew down reserves from her savings club in the first instance, and took out a moneylender loan in the second.

Mismatched Financial Products and Household Needs

Sita earned an inconsistent income as a farm labourer in rural India. A widow, Sita lived with two of her sons and a daughter-in-law. Her financial history included a microfinance loan, though it was an unproductive venture. Upon the advice of her loan officer, she used her $43 microfinance loan to establish a grocery store. When the store folded five months later, Sita sold off the stock in the grocery store, and purchased a cow with the remaining funds. She continued to repay the loan from her farm labour earnings. When the local microfinance operation closed due to insufficient demand, Sita paid the final two instalments with her compulsory savings. This unfortunate chain of events left Sita convinced she had no need for such loans.

Sita had some bank savings, originating from a three-year-old government grant of $426 for the construction of a new house. After covering some of her expenses, Sita opened a fixed deposit savings account with the remaining $45, due to mature at $53 after five years. However, toward the end of the research year, Sita was confronted with two financially crippling emergencies: the death of her daughter-in-law, and the deteriorating health of her son Udal, who needed treatment for tuberculosis. Unable to borrow enough from her neighbours, Sita requested the release of her fixed deposit bank savings six months before its due date. The bank refused, forcing Sita to use $43 of savings she had been collecting at home for the purpose of releasing her only fertile land from mortgage. As a result, her family couldn't farm this land the following season. Sita's fixed deposit at the bank remained intact, but at a considerable cost.

Creating New Options

The inflexible structure of the products available to Sita was incompatible with her irregular, unpredictable needs, and prevented her from making the most of her meagre earnings. Throughout the diary year, Sita was able to save and repay loans; however, because of the mismatch between the products she used and her needs, her saving efforts were in constant jeopardy. For individuals like Sita, having alternative sources of reliable, convenient, and reasonably priced financial tools that are better suited to their unpredictable cash flows would make a big difference. (See Creating Better Portfolios Briefing Note)

The lessons of the financial diaries give greater dimension to the financial challenges of the world's poor. The real tragedy of poverty is not solely defined by limited resources-rather it is the convergence of small incomes; irregular, unpredictable cash flows; and imperfect financial instruments. Innovators that are bringing financial access to the poor are beginning to break the triple whammy and help families make the most of what they have.

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