FT .com FINANCIAL TIMES

'S

Close

Does nobody want to take money from the poor?

Print

By Tim Harford
Published: February 14 2009 00:40 | Last updated: February 14 2009 00:40

The credit crisis has provided a series of unpleasant lessons about the importance of financial services. The first lesson was about credit: we began to realise that it would not always be possible to extend our overdrafts or refinance our mortgages cheaply. The second lesson, as queues formed outside Northern Rock, was about savings: there is no iron law of economics that says that the money in your savings account is 100 per cent safe. Last September, those of us still peeping through our fingers at the financial news learnt a third lesson, about the payment system itself: it began to be conceivable that you might write a cheque and the cheque would bounce, not because you lacked the funds to honour it but because your bank did.

The same lessons are being learnt in a different context, that of financial services for the very poor. In the 1970s, pioneers in Latin America and Bangladesh – most famously Muhammad Yunus of Grameen Bank – demonstrated the importance of affordable credit for the poor, and discovered that poor borrowers could reliably repay loans. The early experiments grew into a worldwide microcredit movement.

But just as we were rudely reminded that there is more to our banking system than cheap mortgages, so microcredit experts have been realising that there is more to microfinance than loans for the poor: savings, insurance and payment systems matter too.

The trouble with living on two dollars a day is that you don't actually get two dollars a day. One day you might get five, then nothing for the next three days. Income is unpredictable. Outgoings, too, are irregular. Emergencies crop up. Under the circumstances, the most basic financial product, such as an easy-access savings account, would be invaluable.

We know about this thanks to a new study by Daryl Collins, Jonathan Morduch, Stuart Rutherford and Orlanda Ruthven, detailed in their forthcoming book, *Portfolios of the Poor*. These researchers compiled financial diaries for more than 250 families in Bangladesh, India and South Africa, tracking the tangle of transactions over the course of a year. They discovered that poor families are intensive users of financial products.

Take the case of Hamid, an occasional rickshaw driver, and his wife Khadeja. The couple live in the slums of Dhaka with one child. The researchers found that Khadeja and Hamid use a bewildering array of financial instruments. They have a small life insurance savings policy; Hamid deposits money with his boss at zero interest, patiently accumulating a lump sum large enough to send back to his home village for safekeeping; Khadeja takes care of money for two neighbours with spendthrift husbands; the couple have borrowed money from friends, from a microcredit bank, from Hamid's boss and from a local shopkeeper. Khadeja even took out a pricey loan to fund her saving: she bought gold, an asset she could use if Hamid died or divorced her.

Hamid and Khadeja need this patchwork portfolio in order to manage the daily gap between income and spending. They would benefit a great deal from access to a cheap savings account. Pent-up demand for such accounts is so great that in some areas deposit-collectors are able to charge for the privilege, collecting a hefty negative interest rate of 3 per cent a month.

Still, there is progress. In the Philippines and Kenya, payment systems are emerging on the back of mobile phone networks, with phone companies turning into deposit-taking banks. That is a promising development, but it requires a deft touch from regulators. Another hard lesson from the credit crunch is that deftly regulating banks is easier said than done.

Tim Harford's 'The Logic of Life' is published in paperback on March 5

Copyright The Financial Times Limited 2009

"FT" and "Financial Times" are trademarks of the Financial Times. Privacy policy | Terms
© Copyright The Financial Times Ltd 2009.