The Poor Can Save – Substantially

It's surprising that there is room in the household budgets of those living on small incomes to set aside substantial amounts to save and repay loans. It's hard to imagine that households can maintain the discipline to save regularly and to ensure that loans get repaid on time.

Nomsa's story illustrates the mechanics of saving by the very poor. She is a 77 year old living with her four grandchildren in the rural village of Lugangeni, South Africa. The two youngest grandchildren, ages 7 and 14, whose mother died of AIDS, arrived just before the research started. Before they came, Nomsa might have been considered reasonably well off, but now the five of them struggle on her government old-age grant of $114 a month. She has repeatedly asked social workers for a foster care grant that would more than double her income, but despite being eligible, she has been turned away. She supplements her income by selling vegetables from her garden, but she often has to take loans to make ends meet. All the same, she manages to keep up with monthly payments of $40 into her informal savings clubs (discussed later in the book). You can see the table on our screen (and on page 2) with her monthly budget.

Nomsa may seem extraordinary, saving a third of her monthly budget, but her savings patterns are not much different from most of her neighbors. Nomsa has a bank account into which she receives her government monthly grant, but she withdraws the entire amount every month. Likewise, she has a place in the house where she keeps spare cash, but this rarely amounts to much by the end of the month. Like her neighbors, Nomsa was able to save much of her monthly income through her two informal savings clubs.

We found, in all three countries, that all families, even the poorest, attempted to accumulate lump sums of money over time through building up savings and paying off loans. Take a household like Sultan and Kanon's. This Bangladeshi couple rented a yard where they sorted and sold waste scavenged in their Dhaka slum, but Sultan was in his fifties and ailing, and the income he raised was rarely more than $1.50 a day. Just before the research year their 15-year-old daughter Sweetie had found a job in a garments factory, at $28 a month plus occasional overtime, much of which she saved for her wedding while contributing her bit to the housekeeping: she married and left home just before the end of the year. Kanon was a client of a microcredit provider, and before the year had taken a loan of $110 that they used for a string of needs: drugs for Sultan's health problems, repaying old loans from neighbors, consumption, and paying overdue rent on the waste-sorting yard. In addition, Kanon's older daughter, already married and away from home, gave her microcredit loan to Sultan and Kanon to help fund Sweetie's marriage. Sultan and Kanon gritted their teeth and kept up with the weekly loan payments on both these loans: $3.76 a week, week in, and week out. On top of that, they saved another 75 cents each week with microcredit NGOs. So, for months on end, they managed to squeeze $4.51 out of a weekly income of $20 or less, to repay their loans and save at the microcredit meetings.

Excerpt from *Portfolios of the Poor: How the World's Poor Live on $2 a Day*, by Daryl Collins, Jonathan Morduch, Stuart Rutherford and Orlanda Ruthven, Princeton University Press, 2009

Table 4.1 Nomsa's Typical Monthly Budget

Source of funds	**$120**
Selling vegetables	6
Government old-age grant	114
Uses of funds	**$120**
Church fees	4
Home maintenance	19
Food	22
Transport to shopping	2
Paraffin	9
Household products (soap, etc)	14
Pay back loan	10
Savings clubs	**$40**
Net savings in bank	**$0**
Net savings in house	**$0**

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