

# Doing development:

Going beyond black and white understandings

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Computing for Socioeconomic Development

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# **WHAT CHARACTERISES POVERTY?**

Discussion on: Collins, D., Morduch, J., Rutherford, S. and O. Ruthven. (2009) "Portfolios of the Poor: How the World's Poor Live on \$2 a Day", Princeton University Press.

# Portfolios of the Poor

- What is the exercise?
- What is the goal?
- What is the manner of measurement?
- Trade-offs in methodologies

# Commonalities

## (from discussion)

- Borrowing money from friends and relatives when in need
  - interest free
- Cycles in income stream
  - Multiple income sources. One person having a stable source and another having a variable source
  - Risk diversification, insurance mechanism
- Focus on savings / money management
- Importance of marriages and festivals
- Borrowing and savings happening simultaneously
- Stigma associated with borrowing
  - Do not want to depend on others
- Shortsightedness versus long term (financial) goals
- Having electricity
- Borrowing and saving from multiple sources / using different instruments
- Migrating to land of opportunity

# Differences (1)

## (from discussion)

### **Subir and Mumtaz**

- Children go to work at early age
- Married young, more children ( 5 by 30)
  - Became mother at the age of 15
- Refugees, house / land was washed away
- Income levels are much lower (dollar per day)
- Employed in informal sector
- Lack of basic amenities – bathroom , water is outside the house
- Uncertain , irregular income
- Limited access to gadgets / electricity
- Low spent on rent , utilities – ownership of house / land is uncertain, non existent
- Propensity to consume is high and savings are low (net negative balance)

### **Your household**

- Go to work at later stage
- Smaller family, later marriage
- Little or no experience of assets lost
- Income levels much higher
- All or most are employed in formal / organized sector
- Basic utilities (water / bathroom) are integral to houses
- Regular income
- Greater access to utilities
- Greater spent on rent , utilities, rent
- Propensity to save is higher
- Frequency of meals is similar

# Differences (2)

## (from discussion)

### **Subir and Mumtaz**

- Frequency of meals different, consumption similar (rice & dal)
- Power dynamics confronted (with authority, government) is different
- Physical exhaustion happening because of the employment
- Role of weather – key determinant of income, livelihood and life

# Constraints

(from discussion)

- Accessibility to financial resources . Variable income, difficult to finance purchase of expensive assets (such as houses)
  - Fluctuations, irregular
- Dependencies on government grants ( S Africa) acts as a constraints when it is not available
  - Risks of overdependence
- Instability of jobs / sources of income
  - Contrasts between India, Bangladesh and S Africa (Impact of policy)
- Cultural constraints / seasonal fluctuations in income
  - Variations because of the kind of work that they do, lumpy inflows during harvest and festival seasons
- Concerns over security of assets / safety of property

# Characteristics

- Demography
  - Large family size
  - High dependency ratios
- Consumption
  - Food constitutes a large share of household expenditure (50-78%)
  - A significant portion of remaining budget spent on social occasions (festivals, ceremonies)
- Low ownership of durables and productive assets
  - (Except many among the poor own their own house or a small plot of land)
- Ambiguous property rights
- Health
  - Household members have poor health and nutrition (malnutrition, anaemia, high infant and material mortality, stress)
- Earnings
  - Self-employed, casual workers or run small farm and non-farm enterprises
  - Low, variable and unpredictable income streams
  - Pursue multiple occupations simultaneously



# Characteristics

- Migration
  - Engage in temporary migration for work
- Finance
  - Use informal instruments
  - Face high prices for external credit
  - Small savings; difficult to save
  - Rely on informal social insurance mechanisms
- Infrastructure/public goods
  - Substantial inferior access to high quality infrastructure like water, sanitation, roads, electricity, education and healthcare
- ‘Critical voice’
  - Low levels of formal education
  - “Lack of voice, power, independence, which subjects them to exploitation”

# Quandaries

- Chronic poverty (vs. transient poverty)
- Why so little specialisation?
- Why so many entrepreneurs?
- Why don't the poor eat more?
- Why don't the poor save more?
- Why don't the poor invest more in education?
- Beyond market failures, self-control problems
  - Approaches to the future; discount rates
- Why don't the poor migrate for longer?

# INTERVENING

Discussion on: Welch, K. A., Rodrik, D. and K. Horn. (2002) "Liberalization of the Mozambican Cashew Industry." Kennedy School of Government Case Study.

# Stakeholders

(from discussion)

- Primary intervention by
  - World Bank
  - Government of Mozambique
- Others involved
  - People who own the processing factories
  - Producers of raw cashews
  - Consumers of cashew nuts
  - Traders
  - Exporters

# Intervention

## (from discussion)

- What was the intervention?
  - Reduce the export tax
- What was the theory motivating the intervention? (what was prioritised/ considered important?)
  - Producers are not getting price of world market
  - Help cashew industry recover; better life for producers
  - Improve efficiency of industry (remove subsidy for inefficient local processing industries)
  - (Other consumers wanting to get the goods at cheap prices)

# History/ legacy

(from discussion)

- What had happened before this intervention that influenced it?
  - Cashews not native to Mozambique (brought by Portuguese)
  - Cashew industry was government regulated
    - Driven by Portuguese owners
  - Independence; Portuguese leave with resources
  - Followed by civil war and political strife

# Outcomes & Impact

## (from discussion)

- What outcomes were measured?
  - Target outcomes (the effects that were predicted by theory)
    - Rise in price; higher share going to the raw cashew producer
    - Income of raw cashew producer
    - Streamlining of cashew industry in response to global competition
  - Unanticipated effects
    - Increase in variability in income (exposed to global variability)
    - Those not using fully-automated processes were the one who remained competitive
    - Political opposition (everyone thought it was a bad idea)
    - Loss of jobs, money, shares (except for raw cashew producers)
    - Not clear if increase in revenue re-invested in industry

# Complexity

- People make policy/plan interventions; people have values; people are imperfect
- Theory necessarily leaves out dependencies for implementation
- Short-term vs. longer-term outcomes
- Anticipated and unanticipated effects
  - Point estimates vs. ranges under different assumptions
- Appropriate technology?
- Effects may be positive and negative; for whom, how much
- The political process determines the weights given to varying effects/voices across individuals/groups
- I'd recommend: humility, honesty, openness, perseverance, iteration (extended commitment)



# References/ Resources

- Chapter 2: “The Daily Grind” in Collins, D., Morduch, J., Rutherford, S. and O. Ruthven. (2009) *Portfolios of the Poor: How the World’s Poor Live on \$2 a Day*, Princeton University Press.
- Welch, K. A., Rodrik, D. and K. Horn. (2002) “Liberalization of the Mozambican Cashew Industry.” Kennedy School of Government Case Study.
- Banerjee, A. and E. Duflo. (2006) “The Economic Lives of the Poor”. *Journal of Economic Perspectives*, 21 (1): 141-167. <http://econ-www.mit.edu/files/530>
- Chapter 4: “Poverty as Capability Deprivation” in Sen, A. K. (1999) “Development as Freedom”, New York: Random House, 87-110.