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Sa-Dhan
The Association of Community Development Finance Institutions

Poverty Outreach of Microfinance in India's Poorest States

Launched in 2012, SIDBI's Poorest States Inclusive Growth Programme (PSIG)[I] focuses on financial inclusion and women empowerment in the states of Uttar Pradesh, Madhya Pradesh, Bihar and Odisha. This policy brief elucidates findings from a recent study"[II] carried out by Grameen Foundation India on the poverty outreach of microfinance institutions (MFIs) in poorest states. The study provides insights into the poverty profile"[III] of microfinance clients, in comparison with the respective state poverty profiles.

The study constructs poverty profile of households based on 2005 Purchasing Power Parity (PPP) prices, using India's national Tendulkar poverty line (Tendulkar Methodology"[IV]) and international poverty lines of USD 1.25, USD 1.88 and USD 2.5 per day. Thus, households in the four poorest states are classified into one of these five segments:

- 'Ultra-Poor': living below India's national poverty line
- 'Very Poor': living between national poverty line and USD 1.25 per day
- 'Poor': living between USD 1.25 – USD 1.88 per day
- 'Borderline Poor': living between USD 1.88- USD 2.5 per day
- Households living above USD2.5 per day

A Snapshot of Poorest states

- Home to 77.6 million households ~ 31 percent of India's population
- 80 percent of households live in rural areas, as compared to 68 percent for All-India
- Over 28 percent of population considered ultra-poor (below National Tendulkar line) as opposed to 18 percent for All-India
- Rank in bottom third of states in India with respect to financial inclusion.
- Have exhibited high (double-digit) GDP growth rate in the recent past

Highlights

- Poverty concentration in these poorest states are largely rural, yet 60% of microfinance activity in these states are concentrated urban areas.
- 50 percent of the microfinance client base has irregular streams of income, making them a highly vulnerable segment in need of services like microfinance.
- 50 percent of MFI clients lie in the 'Poor' (USD 1.25 – USD 1.88 per day) and 'Borderline Poor' (USD 1.88-USD 2.5 per day) segments because of higher debt servicing capacity of clients in these segments. The 'Ultra poor' (below National poverty line) segment is largely undeserved.
- Apart from a few regions in these states, the poverty outreach of MFIs is below the state-level poverty rates, especially in rural areas.

Key Findings

Ultra Poor forms a significant part of the population of these states. Over a third of MFI portfolios lie in the Poor segment, and half between the Poor and Borderline Poor segments. There is also a concentration of such clients in geographical areas with better access to infrastructure.

Nearly half of these states' population lives in underdeveloped or conflict-ridden districts. MFI outreach to such population is lesser due to terrain related difficulties, lack of infrastructure, negative credit history of clients, lack of credit culture, political sensitivity etc.

MFI activity is more concentrated in urban areas than rural areas, in spite of the largely rural profile of PSIG states. Even within these urban pockets, newer and poorer clients are reached out after saturation levels among existing clients are made. However, rural microfinance operations in these states have a higher outreach to the ultra-poor and very poor segments when compared to their urban counterpart.

Every second client recruited by MFIs is engaged as irregular labour. MFI portfolio consists of key economic work segments in India, the informal labour force and micro/small business owners. These sections lack access to formal credit sources and are a focus group for the priority-lending mandate of the banking sector. With nearly half of the MFIs' client portfolio engaged in irregular labour, the sector has successfully displayed a business model that not only works for this segment, but also is a definite characteristic of the desired client type.

MFIS are still a long way to provide universal financial inclusion. While Credit and credit linked insurance products are made available through MFIs, other insurance products, savings and pension etc are hardly offered.

MFI clients face gaps in access to basic non-financial life services such as drinking water and sanitation. Data from these states shows that while none of the sampled households have their own toilet facilities, 51 percent defecate in the open. Similarly, the segment of the sample without ownership of drinking water source is poorer than those who have direct ownership. About 51 percent of non-owners fall in the poor, poorest and ultra-poor categories as opposed to 29 percent of direct owners.

I http://sidbi.in/?q=poorest-states-inclusive-growth-programme-psig-financial-inclusion-and-women-empower

II The Study was conducted with a sample size of 11,044 households, spanning 112 districts of the four PSIG states- Uttar Pradesh (3,341 households), Madhya Pradesh (3,007 households), Bihar (1,505 households) and Odisha (3,040 households). It covered a client base of 1.5 million, across 20 microfinance institutions operating in these states.

III A Poverty Profile shows how poverty varies across sub-groups of a population. A profile shows the poverty rate for each sub-group and helps answer questions such as who are the poor, where do they live, which sub-group is the largest, and so on.

IV Report of the Expert Group to Review the Methodology for Estimation of Poverty, 2009

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