



**MICROFINANCE
POVERTY OUTREACH IN
PSIG STATES**

10th November, 2015



Based on a study carried out by
GRAMEEN FOUNDATION INDIA
Under "PSIG" program funded by
DFID UK and SIDBI India

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Background to the study

Scope of the study

- 1 PSIG focus states to be adequately represented- Bihar, Madhya Pradesh, Odisha and Uttar Pradesh
- 2 Baseline to develop understanding of MFI outreach to the poor
- 3 Contextualized understanding of outreach: Evaluate MFI portfolio against base population poverty profile
- 4 Build understanding of microfinance clients by drawing parallels between poverty data and other socio-economic indicators
- 5 Supplement efforts in documenting microfinance poverty outreach- second of its kind following Karnataka Poverty Outreach Report

MFI participation

20 of 30 MFIs participated

Districts covered

112 of 189

MFI client base covered

1.5 million MFI clients

Sample size

11,044

What the study says and does not say?

The study answers

- 1 What is the poverty profile of new clients recruited by MFIs in a given state?
- 2 How does this poverty profile compare against the underlying individual state poverty profiles?
- 3 What are the differences in MFI outreach between different regions of a given state?
- 4 What are the differences in MFI outreach between rural and urban areas of a given state?

The study is NOT

- 1 Representative of the outreach of all MFIs across all PSIG states
- 2 Representative of the outreach of any one particular MFI
- 3 Representative of the outreach of MFI sector in any one state (except UP) or any particular group of districts within a state

Significance of the study to DFID/SIDBI

- Create a baseline for MFI outreach in PSIG states
- Create a knowledge base for MFIs to improve their poverty outreach over the PSIG program period
- Use the observations and data from the study to design incentive schemes to encourage MFIs to operate in under-penetrated districts
- Provide capacity building/soft loan offers for MFIs who want to serve in districts that are poorer than others
- Share outreach information with other apex institutions such as RBI and Mudra bank for policy discussions

UNDERSTANDING POVERTY METRICS USED IN THE STUDY

Dimensions of Poverty

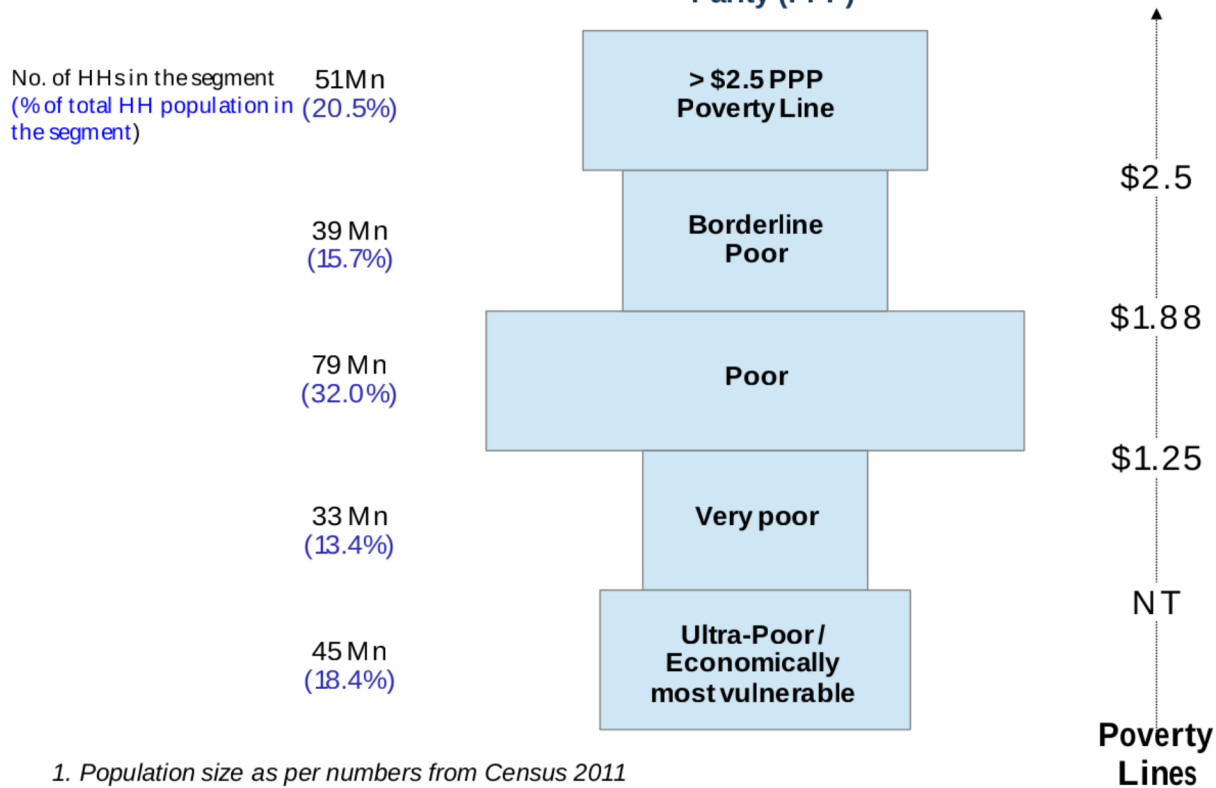
Grameen Foundation has evolved **Four** Dimensions of Poverty Outreach namely....

Portfolio Poverty Rate, Penetration, Scale and Regional/Geographical poverty rate

The current study **extensively uses the Portfolio Poverty Rate and Regional Poverty Rate** for the purposes of analysis and data application

Segmented understanding of poverty

Illustrative Example of Poverty Profile Of Indian Households¹ based on 2005 Purchasing Power Parity (PPP)



MFI CLIENT PROFILE IN INDIA

What is the construct of a typical Indian MFI client?

- 1 Grameen Foundation's experience, especially in collecting and analysing client level insights through PORs and other such studies, has yielded empirical data around the construct of a MFI client.

WHAT ARE THE CHIEF CHARACTERISTICS OF A TYPICAL MICROFINANCE CLIENT IN INDIA ?

- 2 The client is most likely to fall in the "Poor" or "Borderline Poor" category
- 3 The client household has irregular streams of income albeit involved in livelihoods with a running cash flow that can service microfinance loans
- 4 While the client is most likely to be a woman, most financial decisions rest with the male members of the household. In a majority of cases, loans are also being sought for enterprises run by male members of the household
- 5 The client household is most likely to also have overall low financial resilience with minimum to no access to formal credit+ financial products

KEY FINDINGS

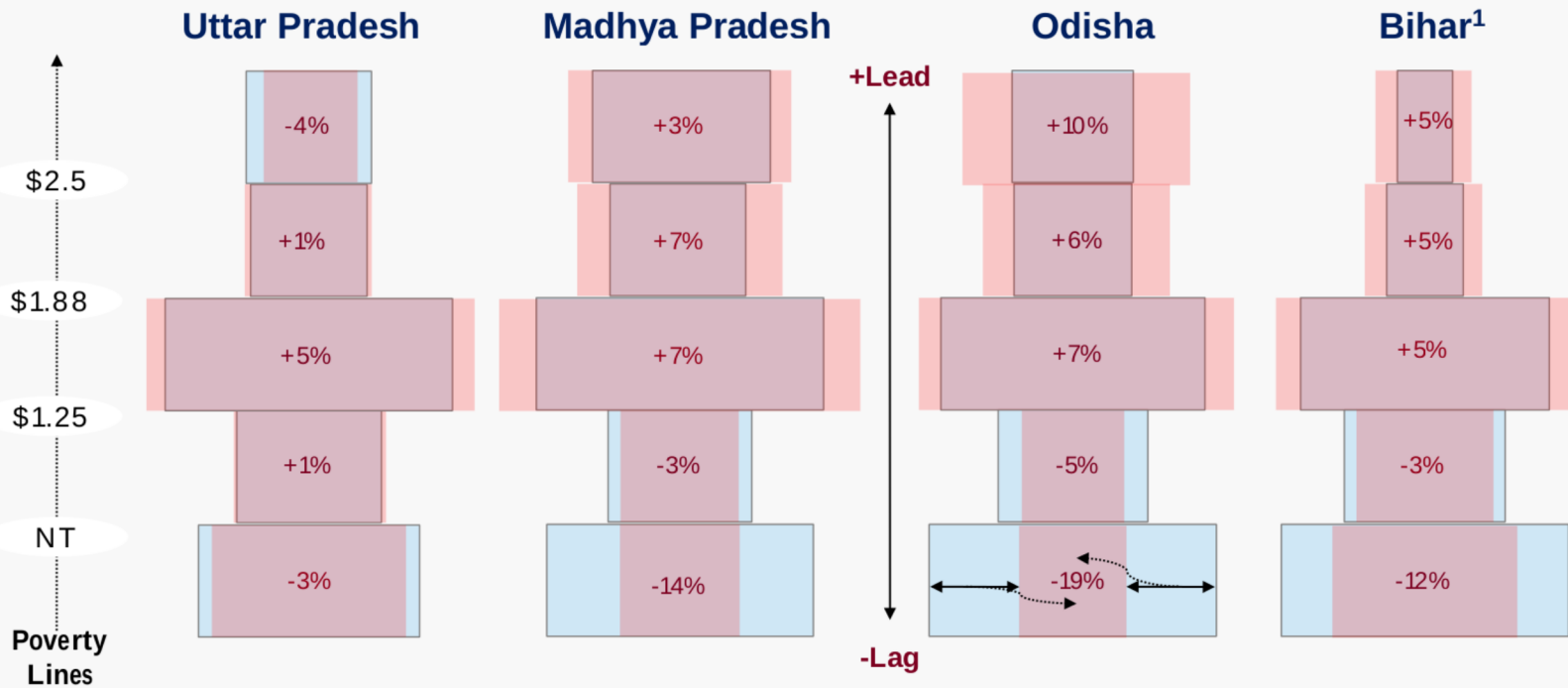
The PSIG state level PORs tell us...

- 1 Except for in a few regions in the PSIG states, MFIs' poverty outreach is below the state level poverty rates- especially in rural areas
- 2 50% of MFI clients lie in the "Poor" and "Borderline Poor" segments because of higher debt servicing capacity of clients in these segments
- 3 Ultra poor segment is highly underserved by microfinance institutions and deserves to be addressed through a more enabling ecosystem- both for MFIs and end clients
- 4 PSIG focus states are marked by highly under-developed regions with a significant ultra poor population and politically conflicted areas that deter microfinance activity
- 5 PSIG focus states are largely rural yet 60% of microfinance activity lies in urban areas
- 6 50% of the microfinance client base has irregular streams of income making them a highly vulnerable segment in need of services like microfinance. This segment is also poorer than other livelihoods serviced by MFIs
- 7 State of financial inclusion is highly dismal in PSIG states with a dire need to provide credit+ financial products that are critical for increasing the financial resilience of target households
- 8 MFI clients are also characterized by lack of access to non financial lifecycle needs such as drinking water and sanitation facilities

Data delve 1: Very few regions across the 4 states reflect base population poverty rate

... with a lag below the “Poor” segment and a lead above it.

The MFI poverty profile is super-imposed on the state poverty profile



(+/-) N% Figure in red equal simple arithmetic difference of the share of a poverty segment in the MFI portfolio and State population.

5/24/2016

POVERTY OUTREACH IN PSIG STATES

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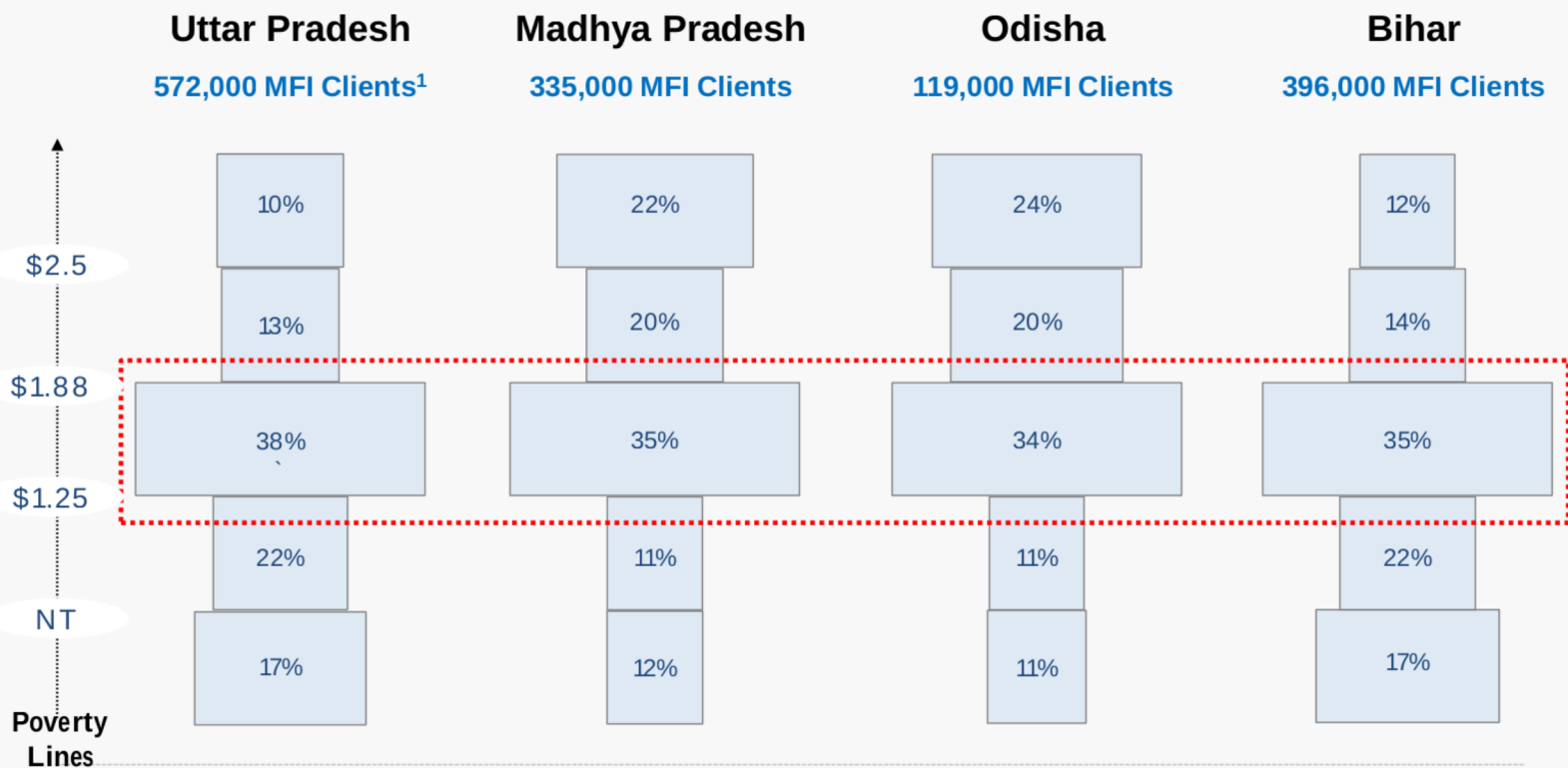
1. Except for Bihar all clients are first-loan-cycle clients

Interpretation: Very few regions across the 4 states mirrored underlying State Populations

- MFIs do not reflect the base population poverty rates for the relevant segments except for the state of Uttar Pradesh . 'Choice' for or 'targeting' of a particular poverty segment where concentration is seen by 'design' is seen only for a couple of segments
- Segments Ultra Poor and between Very Poor are not a natural outreach choice for microfinance institutions
 - *MFIs admit that these segments do not show very steady cash flows/credit handling capabilities and may not be able to service debt sizes that are desired by MF operations.*
 - *However, in the face of stiff competition from MFI peers, organizations are driven to seek out this second tier of 'desirables'*
- There are noticeable regional differences in how the sector 'selects' its clients:
 - *UP MFIs have the deepest outreach for the lowest poverty segments with other states like MP, Odisha and Bihar lagging by large margins. Differences in targeting strategies of participating MFIs could be one of the reasons for such a stark difference*
 - *Odisha MFIs have a high concentration in the upper poverty segments. These are households characterized by strong enterprises and have fewer members migrating to other regions for work thereby lending stability to the MFI- client relationship*
 - *MFIs tend to prefer setting up operations first in areas that have better infrastructure and an enabling ecosystem. Areas with poorest populations- often lacking in infrastructure remain underserved.*

Data Delve 2: MFIs favour the “Poor” segment with all the 4 states

... and every second client was in the “Poor” and “Borderline Poor” categories



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POVERTY OUTREACH IN PSIG STATES

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1. Except for Bihar all clients are first-loan-cycle clients

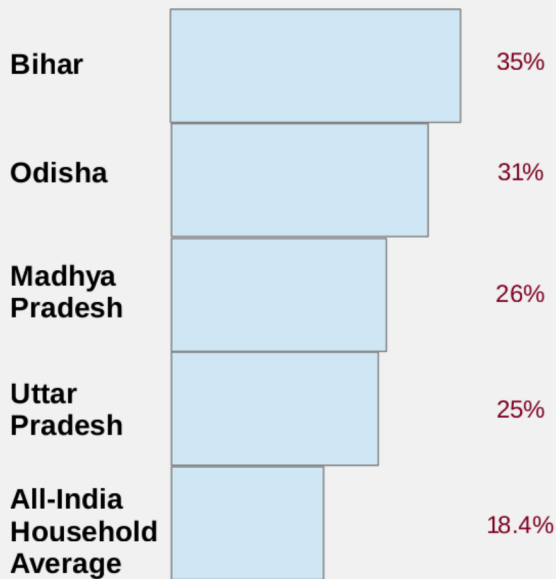
Interpretation: Favouring the “Poor” and “Borderline Poor” segments by MFIs

- Over a third of the MFI portfolio lies in the “Poor” and half between the “Poor” and “Borderline Poor” segments because:
 - The “natural” selection of these poverty segments is because of the higher debt servicing *capacity of clients therein when compared to lower segments given the trade-off between poverty outreach and competitive loan sizes that MFIs seek to establish*
 - *There is also a natural concentration of such clients in geographical areas with better access to infrastructure making it easier for MFIs to reach out to them.*
 - It is more expensive to reach out to remote areas with poorer populations (“Very Poor” and “Ultra Poor” segments) given the higher operating costs involved. Such segments “may” be *reached in due course once competition pushes MFIs to go into deeper territories*
- In states like Bihar, Madhya Pradesh and Odisha nearly a quarter of the portfolio is above the \$2.5 poverty segment.
 - *These are clients that are characterized by sound cash flows, sound enterprises that promise steady returns and a higher credit worthiness. Moreover, this segment can digest higher loan amounts- often a desirable operational pre-requisite for many MFIs*
 - These are also clients that “may” have access to other formal financial institutions such as *mainstream banks but seem to prefer channels afforded by microfinance institutions.*

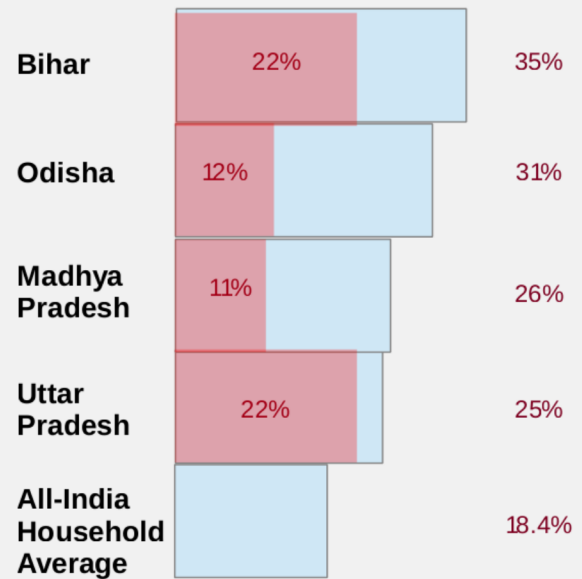
Data Delve 3: PSIG states have high % of population in the “Ultra Poor” segment but remain underserved by MFIs...

... at best, 20%+ of clients of participating MFIs recruited are ultra-poor.
Is Credit the best ice-breaker to introduce financial services to this segment?

**Share of Ultra-Poor
in PSIG States**



**MFI Portfolios against
State Populations**

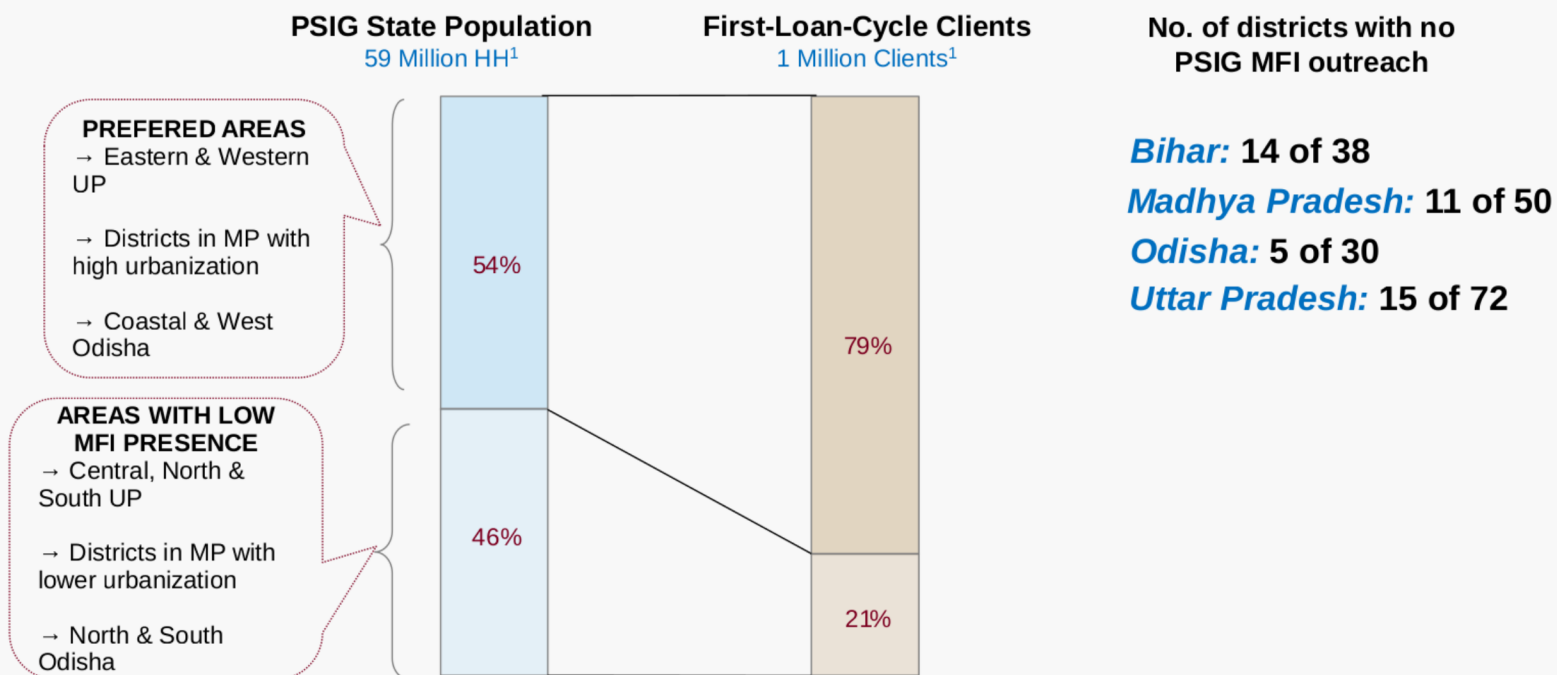


Interpretation: Ultra Poor clients have high incidence in the population but figure low in the MFI concentration

- The key insight is to really recognize the high levels of poverty in the PSIG states that are not being served by sectors such as microfinance.
- Each of the PSIG states exceeds the national average for the “Ultra Poor” segment by at least 10 percentage points in the minimum and almost doubling the average in case of Bihar
- In spite of high levels of extreme poverty in the PSIG states, the partner MFIs do not favour the “Ultra Poor” segment with Odisha and Madhya Pradesh significantly lagging for this segment
- *MFIs do not see this segment as high on the credit-worthiness scale. While they definitely can be serviced through microfinance, the selection process has to be very stringent and requires time investment to ensure a default free engagement*
- *Even within a Joint Liability Group (JLG), there is evident self selection of “better off” members by Group Leaders and other members to ensure a low risk peer liability environment*
- *Programs like the BRAC powered Ultra Poor Program models are best suited for this segment to help such households establish an enterprise before they can start accessing microfinance loans*
- *In states like Odisha and Bihar, extreme poverty also brings with it a difficult terrain, unique community dynamics (tribal areas) and political instability (naxal affected areas). Such territories require unique regulatory treatment and need to be viewed through a different lens*

Data Delve 4: Under-developed and conflicted regions deter MFI activity

... which is reflected in the response of MFIs. For every 1 client recruited from such districts, MFIs recruited 4 clients from better developed districts

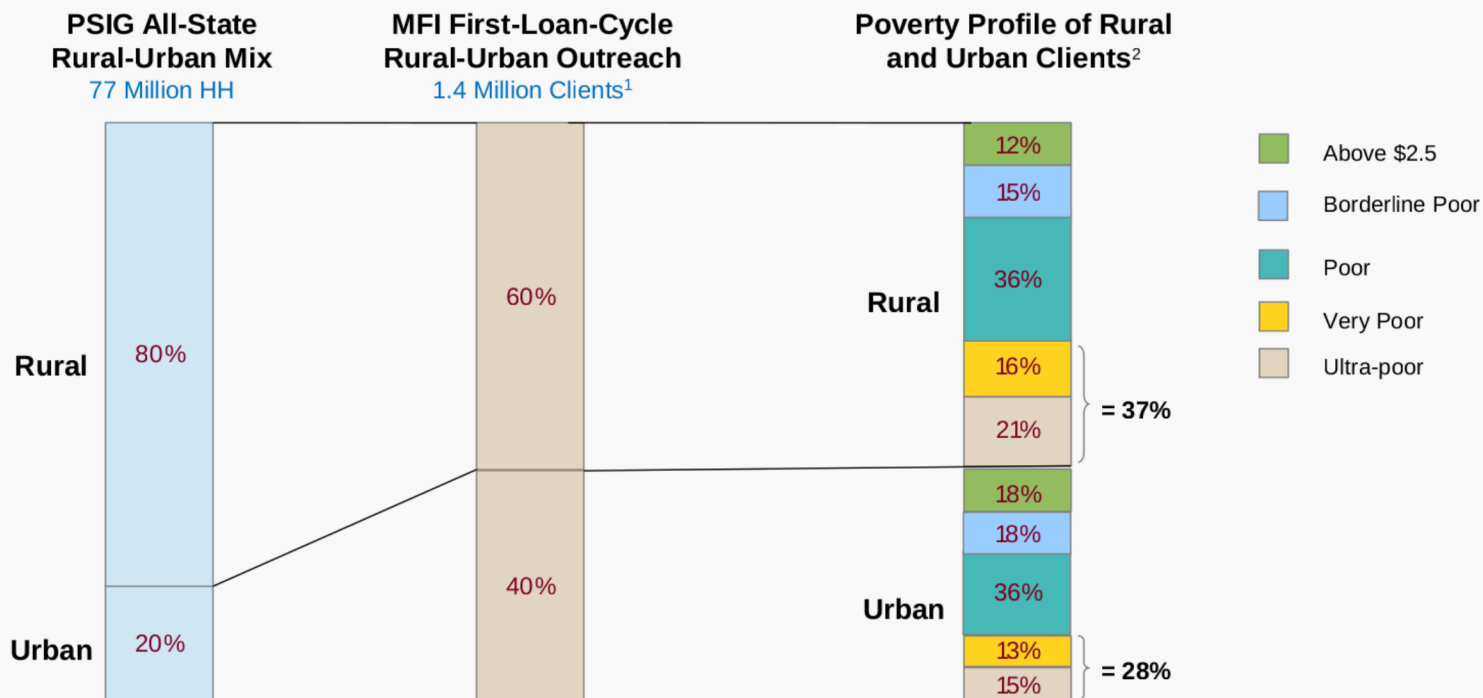


1. Excludes data for Bihar as only one region was considered for sampling in Bihar.

Interpretation: Under-developed and conflicted regions do not attract MFI activity

- Nearly half of PSIG state population lives in under developed or conflict ridden districts- however a similar pattern is not observed for MFI outreach
- MFIs state reasons such as terrain related difficulties, lack of key infrastructure, negative client level credit history, lack of credit culture and political instability as challenges that prohibit them from expanding operations in districts with zero MF presence
 - Such areas are seen as 'high investment' zones where MFIs will experience longer periods to *achieve break even*
 - While such areas "may" be considered as part of long term expansion plans, they are not the *natural choice for the point of entry into a new geography*
 - *It takes at least one/two examples of sustained long term operations in a new area before others follow suit. However, the one to take the first step is mostly always an organization that has a long term presence in the area*
- Margin caps mandated by the regulator pushes MFIs to operate in established "comfort zones"
 - *MFIs need financial incentives and a more flexible regulatory room especially in difficult geographies such as tribal belts in Odisha/ Madhya Pradesh, Naxal affected areas in Bihar/Odisha, districts with political instability in Uttar Pradesh and so on.*

Data Delve 5: MFI activity is more concentrated in urban areas than rural in PSIG states



1. Except for Bihar all clients are first-loan-cycle clients

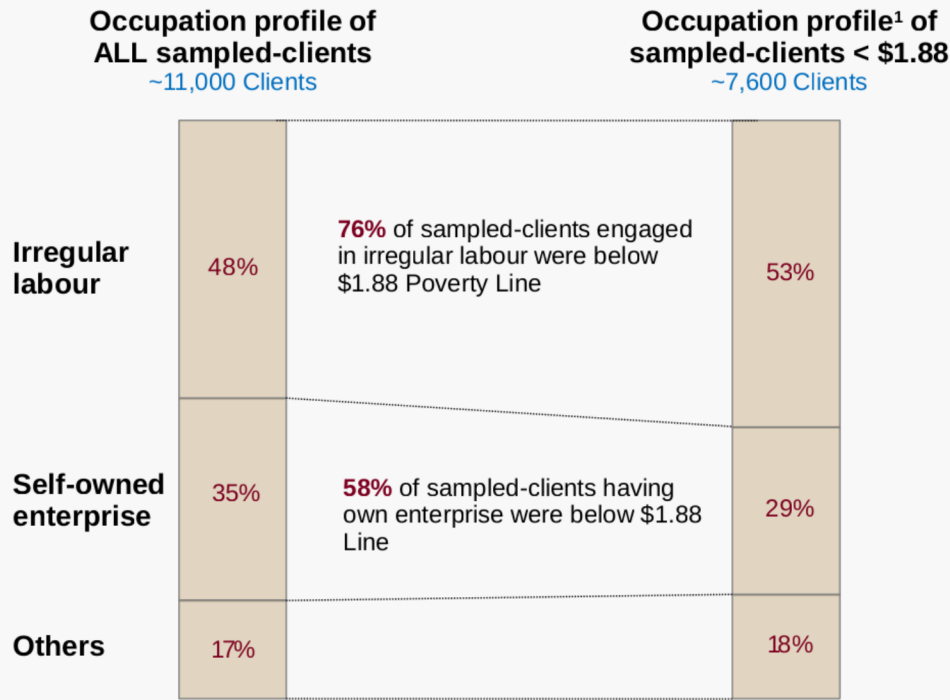
2. Results should be strictly treated as indicative as sampling process of the study does not permit of an aggregated analysis across multiple states.

Interpretation: High MFI penetration in Urban areas vs. the rural

- Proportion of Urban:Rural is much higher for MFIs when compared to base population due to a preference for urban/peri urban centers for MF operations
 - *However, even within these urban pockets, MFIs are driven to recruit more poor only when they experience high saturation levels marked by competition and often high levels of indebtedness among clients*
- When seen in isolation, rural MF operations in PSIG states have a higher outreach to the ultra poor and very poor segments when compared to its urban counterpart
 - *There is a higher concentration of the ultra and very poor in rural areas that affects outreach even if MFIs are not aiming to reach out by design.*

Data Delve 6: Every second client recruited by MFIs self-declared herself as engaged in “irregular labour”

... compared to a third that reported owning their own enterprise.

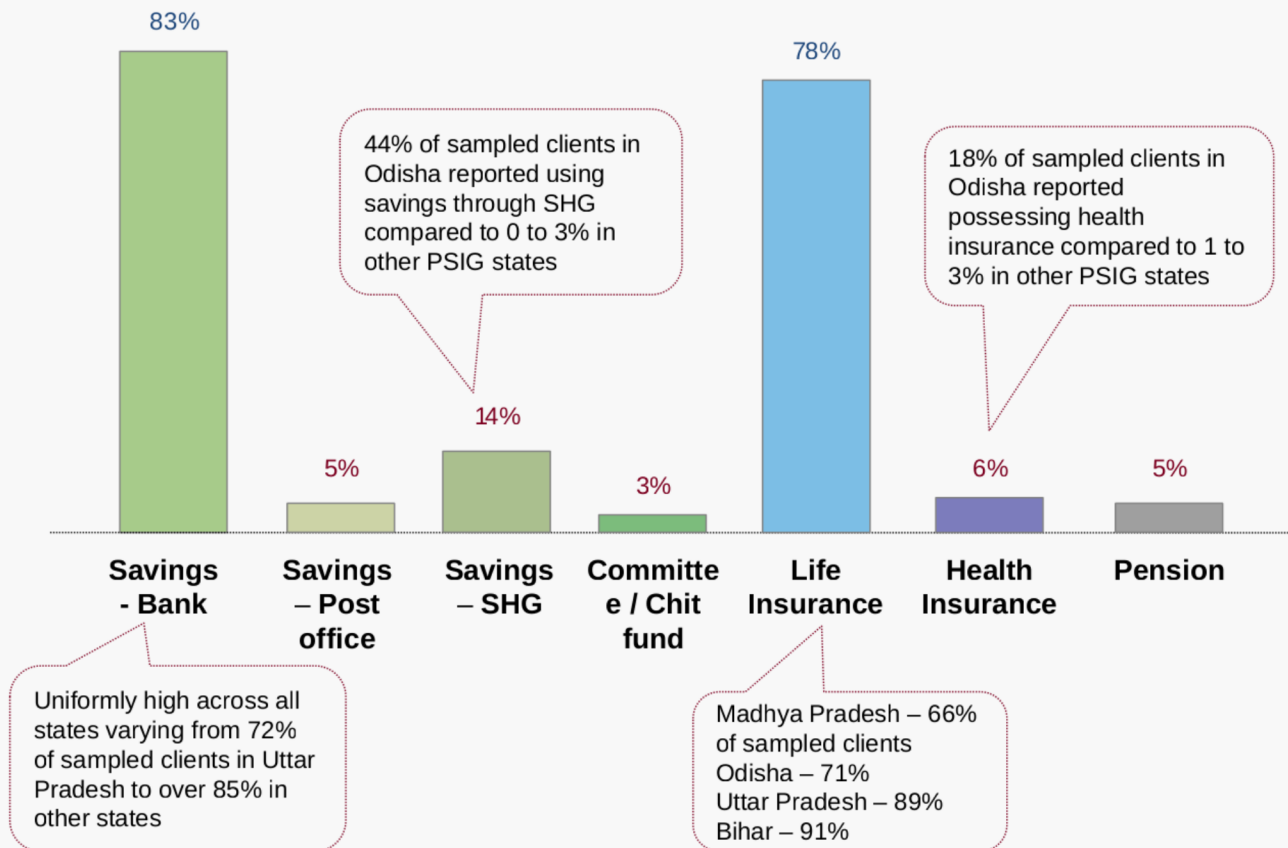


1. Results should be strictly treated as indicative as sampling process of the study does not permit of an aggregated analysis across multiple states.

Interpretation: Demystifying the “Irregular labour” segment through a poverty lens

- The MFI portfolio consists of very key economic work segments in India- informal labour force and micro/small business owners. 75% of India’s workforce belongs to these segments¹
 - *These sections lack access to formal credit sources and are a focus group for the priority lending mandate of the central bank*
 - *They are characterized by micro-enterprises, small traders, have multiple income sources marked by seasonality, extremely fluid cash flows and more often than not highly vulnerable to external shocks*
- When seen in isolation, the poverty levels of the client segment performing irregular labour is higher than overall MFI average- thereby validating the sector’s efforts to focus on this occupation group
 - *With nearly half of the partner MFIs’ client portfolio engaged in irregular labour, the sector has successfully showcased a business model that not only works for this segment, but is a definite characteristic of the desired client type*
 - *However, the higher poverty levels of this segment just incidental. This segment seems to service smaller loans much better and has running cash flows. However, the fickle nature of such livelihoods make it difficult for a sustained financial growth for households.*
- The not so poor client segment defined by “self owned enterprises” is a significant portfolio for the microfinance sector defined by cottage industries, Kirana shop owners and enterprises that have a higher capacity to service loans and are seen to have a better repayment capacity

Data Delve 7: MFI client are high on access to credit but low on financial resilience

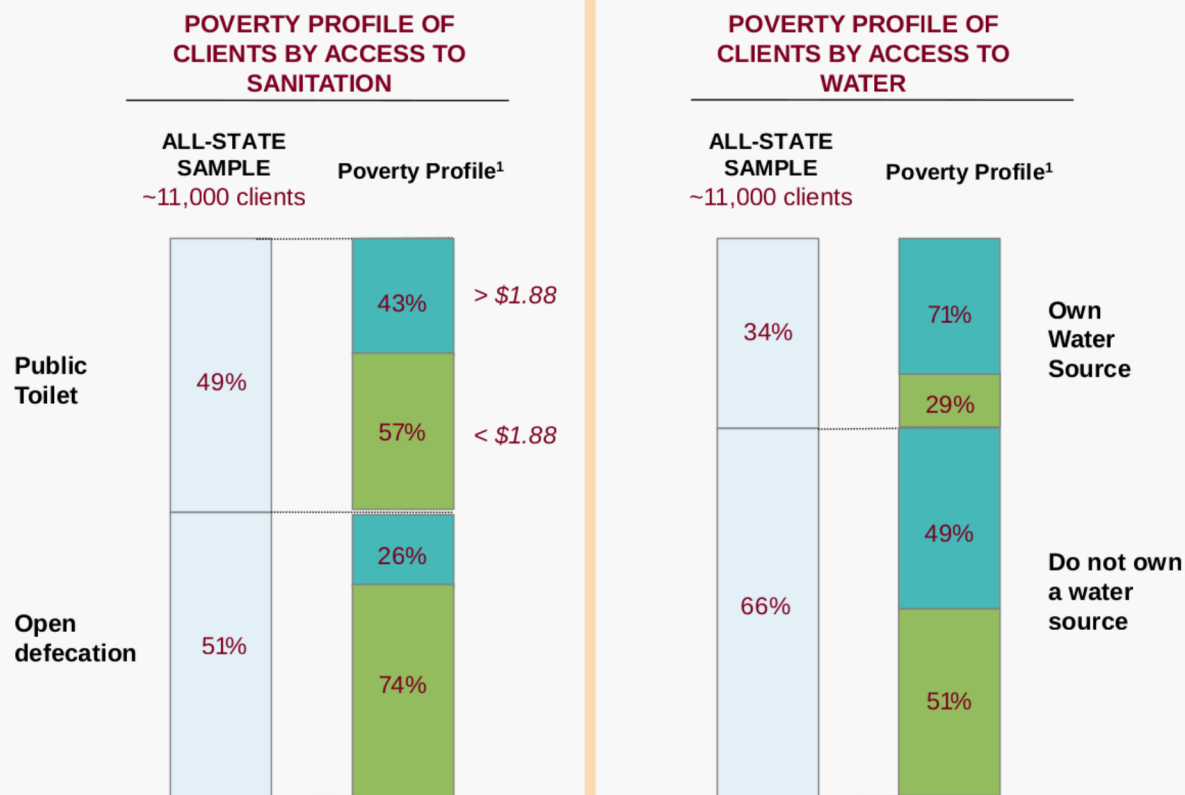


Interpretation: Low coverage of MFI clients by credit + financial products

- MFI clients mostly have access to credit and credit linked insurance. Other key financial products do not figure prominently in their financial lives
 - *Households lack access to key financial products such as insurance, savings and pension thereby making the financial inclusion story for PSIG states a very weak one*
 - *The fact that MFIs, in spite of having a larger footprint than other financial institutions, are able to offer mostly microcredit leaves a large financial inclusion gap waiting to be addressed*
- There is a glaring need for key stakeholders to innovate new financial products and channels for their delivery in a sustained manner.
 - *The only reason we see a higher access to savings is due to the PMJDY (Prime Minister Jan Dhan Yojna) scheme of ruling government of India. It is widely believed that in spite of high incidence of bank account opening, the volume of transactions in these accounts is quite low*
 - *Channels such as Business Correspondence, mobile phones, need to be strengthened to bridge the rural-urban divide/underserved- well-served divides that clearly exist in the PSIG states.*

1. Closing the gap for formal and informal MSMEs, IFC

Data Delve 8: MFI clients are characterized by gaps in non-financial life needs such as water and sanitation



1. Results should be strictly treated as indicative as sampling process of the study does not permit of an aggregated analysis across multiple states.

Interpretation: Poverty levels are correlated with access to non-financial life needs

- It is important to profile MFI clients by other life needs. Financial lives of MFI clients are directly impacted by their access to key lifecycle needs such as potable drinking water, sanitation facilities etc.
 - *Data from PSIG states show that while none of the sampled households have their own toilet facilities, 51% defecate in the open. Of these, 74% fall in the “poor”, “poorest” and “ultra poor” categories. An equally significant 49% have access to shared/public spaces for their toilet needs leading to key concerns around health, hygiene, dignity of such households especially for women and girls*
 - *Similarly, the segment of the sample without ownership of drinking water source are poorer than those who have direct ownership. About 51% of non owners fall in the “poor”, “poorest” and “ultra poor” categories as opposed to 29% of direct owners*
- Providing access to non financial needs of MFI clients is a big market gap and poses a significant market opportunity to be tapped
 - *There is enough evidence to show that inadequate sanitation and water facilities have a direct impact on education and economic productivity of the population. Initiatives around WASH (Water, Sanitation and Hygiene) – especially financing in the form of credit and other innovative solutions is a need waiting to be addressed. Can the vast footprint of the microfinance sector be leveraged to address this gap?*

QUESTIONS FOR DECISION MAKERS

Does the mainstream MFI model display an unhealthy 'selection bias'?

- 1 MFI portfolios in PSIG states clearly shows 'selectivity' for “Poor” and “Borderline Poor” client segments and geographies with infrastructure, financial literacy, existing credit culture and secure cash-flows. *Is this selectivity in line with what would be expected of MFI model?*
- 2 This 'selectivity' has led to portfolio over-concentration in specific pockets and in future could lead to self-destructive instances of multiple lending.
- 3 On the other hand large regions like Central UP, Northern & Southern Odisha, half of Madhya Pradesh and Northern & Eastern Bihar have limited to negligible MFI presence.
- 4 What measures should the *regulator* take to further sharpen content and adoption of its existing regulatory framework to incentivize MFIs to enter such areas?
- 5 What measures should an *investor or funder* into MFI take to ensure that a substantial share of their next round of investments are deployed in under-penetrated areas?
- 6 How can POR data be leveraged by pro-poor investors for benchmarking investee performance?

Is there a need to push for pro-poor 'targeting-by-design'?

- 1 A key observation from the study that, on average, the microfinance outreach is unlikely to have more poor clients than their share in the population. Is this performance adequate? Is this equivalent to random (or lack of) targeting by MFIs?
- 2 In Uttar Pradesh MFIs recruited 20% of their new clients from those considered ultra-poor (below National Tendulkar line) while in Odisha and Madhya Pradesh this ratio dropped to 10%. Why would MFIs have a greater share of ultra-poor clients in one PSIG state compared to another?
- 3 Do MFIs need to adopt conscious pro-poor targeting? If yes, what concrete measures can ensure that this is given a strategic business priority?
- 4 Does a lower share of poor in MFI portfolios means that there may not be adequate incentives for MFIs to innovate on product, pricing and processes?

Should reporting segmented poverty outreach be an industry practice?

- 1 Should investors and funders in general demand more detailed measures on poverty outreach with the same rigour as they expect for operating and financial metrics?
- 2 How can DFID use this study as a benchmark to track the progress of MFI outreach over the course of its program duration?
- 3 Should DFID consider alternative poverty benchmarks like those of Social Performance Benchmarks/Truelift where the focus is on the bottom two quintiles of population (<40%) and a different set of poverty measures for rural and urban areas?

GLOBAL EXPERIENCE

How does PSIG compare with other parts of India and the globe?

- Grameen Foundation has executed the Poverty Outreach measurement exercise for different parts of the globe- Philippines, India (5 states including PSIG) and South America (6 countries)

WHAT ARE SOME OF THE COMMON THEMES THAT EMERGE?

- Desire for higher financial stability of the implementing institution is the major driving force that determines which geographies should MFIs first enter and what clients should they first recruit
- It is only after saturation is achieved in the desired markets, when MFIs are pushed to recruit poorer clients in more remote and challenging geographies
- At least in Philippines and in the 5 states of India, Grameen Foundation finds that MFIs' poverty outreach does not show any conscious poverty targeting
- While there are factors such as infrastructure, law and order, community level dynamics that may affect the ecosystem for MFIs to operate, there are two key factors that MFIs can control to increase outreach to the poor- eligibility requirements for entry into the program AND product design

ANNEXURE

Significance of the PSIG block

	UP	MP	Odisha	Bihar
Households (Millions)	34	15	9.6	19
% Rural	77	73	83	88
% Ultra-Poor	25	26	31	35
Crisil Inclusix Score	33.5	27.5	40.6	30.2

Higher score implies better formal financial inclusion

- Includes the four states of Uttar Pradesh, Madhya Pradesh, Odisha and Bihar
- Home to 77.6 million households (31 % of India's population)
- 80% of households in rural areas (68 % for all India)
- Over 28% of population considered ultra-poor (below National Tendulkar line) as opposed to 18% All India
- Rank in bottom third in respect to financial inclusion. 40% of 50 districts in Crisil Inclusix are from PSIG states.
- Have exhibited high (double-digit) GDP growth rate in the recent past

DFID'S intervention in PSIG block

- In general, low Income States account for 50% of population but only 20% of domestic investments and 2.4% of FDI
- Through Poorest States Inclusive Growth (PSIG) program in India DFID in collaboration with Small Industries Development Bank of India (SIDBI) aims to address the economic gap in the four states of Uttar Pradesh, Madhya Pradesh, Odisha and Bihar.
- PSIG program has multiple components of intervention of which financial inclusion is a key one as these states lag behind considerably in terms of financial inclusion and account for less than 20% of MFI clients in India.
- Given PSIG are high growth states with relatively poor MFI outreach, PSIG program aims to expand penetration of financial services by supporting MFIs and collectives of women

STUDY SAMPLE

Capturing a regional perspective

Uttar Pradesh

34 Mn HH / 3,341

Western

(21 districts)

10 Mn / 1,504

Central

(32 districts but very
poor MF outreach)

16 Mn / 409

Eastern

(18 districts)

8 Mn / 1,536

Madhya Pradesh

15 Mn HH / 3,007

Region 1

(22 districts)

7.4 Mn / 1,504

Region 2

(28 districts)

7.6 Mn / 1,483

Odisha

9.6 Mn HH / 3,040

Coastal and West Odisha

(19 districts)

6.5 Mn / 1,524

North and South Odisha

(11 districts)

3.1 Mn / 1,516

Bihar

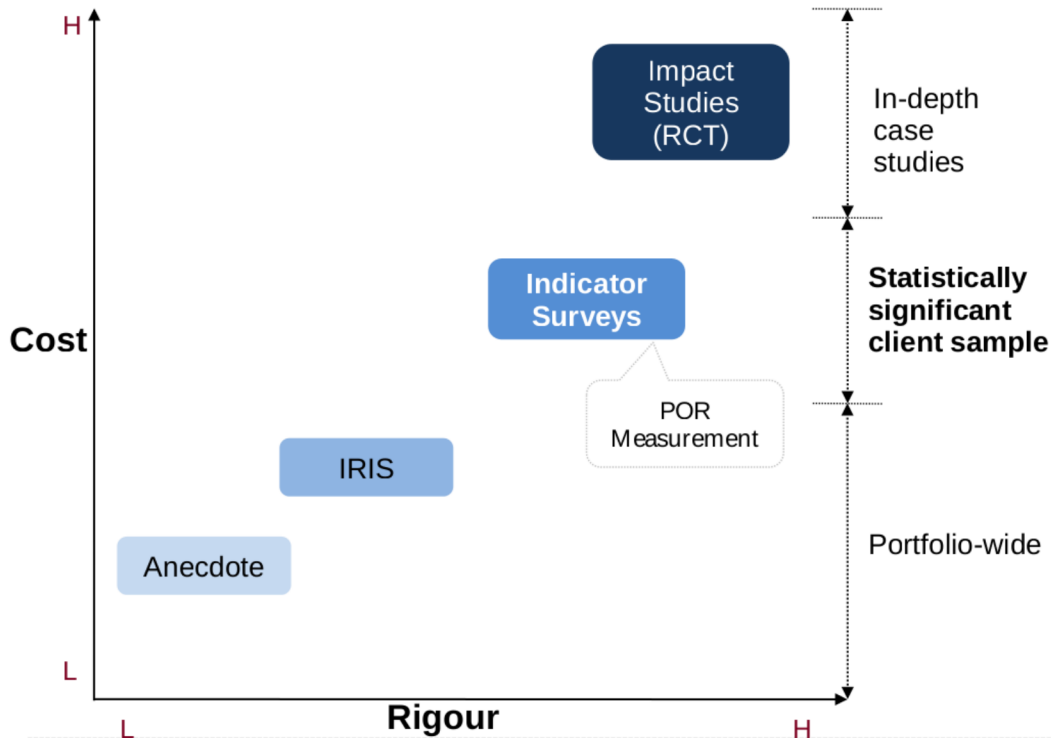
18.9 Mn HH / 1,505

15 districts
considered for
the study

PRIMER ON POVERTY OUTREACH

Methods of Poverty Outreach

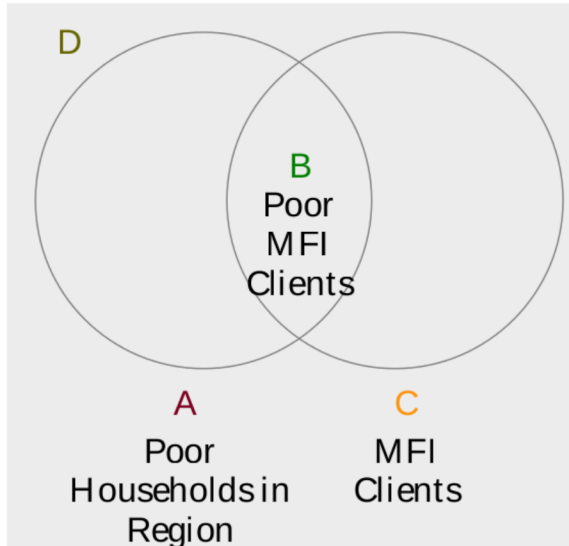
“Every measurement system is buffeted between critics who consider it too superficial to ensure social impact and those who consider it too onerous to implement”—*Bugg-Levine and Emerson*.



- Methodologies do exist to collect information at an household level on a periodic basis
- A large sample is not needed—statistical techniques robust enough for conclusions can be extended to the overall base population
- Applicable to portfolios at an organizational, cluster and branch level

What are the measures of poverty?

Grameen Foundation has evolved **Four Dimensions of Poverty Outreach**



1 Concentration = $\frac{B}{C}$

2 Scale = B

3 Penetration = $\frac{B}{A}$

4 Regional Poverty Rate = $\frac{D}{A}$

These dimensions help understand more nuanced insights from PPI generated data. For example- How does poverty concentration compare with absolute number of poor reached (scale)?

Poverty Outreach Adoption in India

Grameen's own PPI tool used across over 100 MFIs, international NGOs, social audit & rating institutions among others

Microfinance Institutions

- Cashpor Micro Credit
- Grameen Koota Financial Services Pvt. Ltd.
- Sonata Finance Pvt. Ltd.
- ESAF Microfinance & Investment Pvt. Ltd.
- *More than 19 MFIs using and many more piloting*

Social Investors

- Michael and Susan Dell Foundation
- Dia-Vikas
- Manaveeya Holdings
- DFID UK

Technical Service Provider

- MicroSave
- EDA Rural Systems
- M2i Prime Consulting Services

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