FINANCIAL INCLUSION AND THE ULTRA POOR: A PATHWAY OUT OF POVERTY?

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March 25, 2019
The Challenge of Ultra Poverty

- 800 million worldwide live in extreme poverty ($1.90 per day or less)
- Of these 400 million are ultra poor living on a fraction of this amount
- The challenge – develop effective, replicable, massively scalable methodologies.
- If under certain conditions profitable microfinance could help end ultra poverty this would be a breakthrough
- Alternatives subsidized up to $1,200 per person.
Women’s Empowerment Program 1999 -2000

- 130,000 women, 6,265 groups, 21 districts
- Literacy and empowerment
- 97% of group fund on loan
- Established groups trained an additional 878 groups at no cost
- Over 1,000 campaigns on spousal abuse, child marriages, girl trafficking
2000 Study Compared the Very Poorest with Better Off

Poorest 20%
- Had four household items vs. 14 for better off
- Rent, live with relatives.
- Dalit and Indigenous tribes
- Widows/ heads of household
- Never gone to school
- Almost or completely landless
- Agricultural laborers
- Hungry part of the year
Change but much less and more uncertain than the better off in one year:

- One third diet improved (14% worsened)
- Increase in household decision making
- Increased literacy
- Save and borrow – but at half the rate
- Start businesses – but progress uncertain
- Invested in survival – food, clothing, medicine, school fees - better off housing, business, private school
Would these changes for the very poorest continue or even increase years later?
RESEARCH QUANTITATIVE AND QUALITATIVE

- Nawa Prativa – credit union – 2000 50 stand alone groups now 1,100 groups linked to credit and long term savings 5.5 million in loans

- Quantitative: 14 enumerators, 6 days
  - 2010 PPI (Progress out of Poverty Index)
  - 10 questions likelihood of living at $1.25 per day level – when joined/now

- Qualitative interviews
  - Members
  - Non members
  - Groups and leaders
AFTER 9 YEARS
OF THE 214 WITH A 65% OR HIGHER CHANCE OF LIVING AT THE $1.25 PER DAY LEVEL ONLY 18 ARE AT THE $1.25 LEVEL TODAY

OF THE 60 WHO HAD A 100% CHANCE OF LIVING AT THE $1.25 LEVEL ONLY 4 REMAIN

135 (63%) HAVE A ONLY A 7% CHANCE OF LIVING AT THE $1.25 LEVEL

PPI SCORE 15 TO 54 -
PROGRESS OF THE ULTRA POOR

Of the 214 who were ultra poor nine years earlier:

- Agricultural labor as primary income 51% to 7%
- Owning businesses 16% to 44%
- 24% purchased land
- 90% of children 5 to 18 are in school
- Remittance income 51% to 59%
- 88% eating better
- Housing index 5 to 14 now – more rooms, kitchen latrine, better construction
IS LIFE BETTER NOW? 200 SAY BETTER 14 SAME

- EASY ACCESS TO CREDIT
- NOT DEPENDENT ON MONEYLENDER
- SAVINGS HABIT
- EMPOWERED
- CAN SPEAK BEFORE OTHERS
- CAN SIGN THEIR NAME
- CONVENIENT
- CHILDREN’S EDUCATION
- BUSINESS SUPPORT
- SELF RELIANT
Why did we see this impressive change”

Nawa Prativa is committed to poorest
• Members more motivated and socially connected than those who did not join 9 years earlier
• They save and borrow in groups that meet monthly linked to financial institution

In addition:
• Remittances bring income and skills
• Economy thriving
• Government supports jobs for the poor
• NGO/government programs
• New roads/electrification/education/health
HOW TO REACH THE VERY POOREST IN REMOTE AREAS
Microfinance not profitable in remote Hilly Regions

- Access difficult
- Demand for loans smaller
- Savings rate lower
- More time to form a group
- Literacy lower
- Little experience in organizing into financial groups.
What Would Work?

- Groups with a focus savings for a year before linking to mainstream credit – extra training and support
- Established groups mentor ultra poor groups
- Greatly simplified record keeping system
- Training videos installed on phones
- Picture manuals
- Staff live in region of 30 to 40 villages
- Staff recruit/train and support community volunteers
SfC Savings Groups in Mali*

June 2010: "Middle-aged" groups (3-4 Years Old)

Legend
- Region Boundary
- Circle Boundary
- Commune Boundary
- Groups Aged 3-4 Years

* Dots are randomly distributed within communes and do not represent actual group location.
SfC Savings Groups in Mali*

June 2010: Youngest groups (1-2 Years Old)

Legend
- Region Boundary
- Circle Boundary
- Commune Boundary
- Groups Aged 1-2 Years

*Dots are randomly distributed within communes and do not represent actual group location.
More Research Needed

- Study documents change under the best case – an excellent financial institution, growing markets, expanding services, positive government policies.

- Need to carry out similar research in the poorest difficult to access regions to better understand change

- Conclusion: Profitable microfinance can help end extreme poverty under favorable conditions.