MICROFINANCE OUTREACH IN PSIG STATES: SUMMARY OF FINDINGS ACROSS FOUR STATES OF UTTAR PRADESH, MADHYA PRADESH, ODISHA AND BIHAR

An examination of the portfolio of microfinance institutions across the four PSIG states revealed that nearly half of new MFI client recruitments are happening between the $1.25 to $2.5 2005 PPP Poverty Line segment, with a third between $1.25 and $1.88 2005 PPP Poverty Line segment. Against this encouraging sign it is to be noted that there is ample scope to expand the access of microfinance in the PSIG states below the $1.25 2005 PPP Poverty Line, especially to the poorest of the poor, as well as a need to spread its outreach to specific pockets hitherto highly under-penetrated.

THE PSIG PROGRAM

The Department for International Development (DFID) leads the UK's work to end extreme poverty. Through its **Poorest States Inclusive Growth (PSIG)** program in India, DFID, in collaboration with Small Industries Development Bank of India (SIDBI) aims to address the uneven gains from India's economic growth across states.

To this end, the PSIG program is working on expanding microfinance services across four states – Bihar, Madhya Pradesh, Orissa and Uttar Pradesh, by providing grants and capital to build and expand community-based and microfinance institutions, promoting the delivery of a cost-effective, diverse array of financial services to clients, ensuring commercial sustainability of partner organizations and supporting policies and mechanisms to deliver services responsibly to clients. Women are at the core of PSIG's initiatives – the program is also supporting collectives of women organized for microfinance in these states with training in finance and business; and promoting improved household health and nutrition practices.

GRAMEEN FOUNDATION

Grameen Foundation USA (GFUSA) helps the world's poorest, especially women, improve their lives and escape poverty by providing them with access to small loans, essential information, and viable business opportunities. Its flagship Social Performance Management Product - the **Progress out of Poverty Index® (PPI®)** is a country-specific, statistically sound and simple to use poverty tool -the answers to 10 questions about a household's characteristics and asset ownership are scored to compute the likelihood that the household is living above or below any of a number of national and international poverty lines.

Grameen Foundation India (GFI) is a Social Business set up to provide technical expertise and consulting services to organizations working with the poor in the country. It is a wholly owned subsidiary of Grameen Foundation, USA. GFI focuses on developing and replicating new business models, with a specific focus on innovations in mobile financial and information services. The organization continuously innovates to deliver customized, client-centric and field-tested solutions; and drives and leverages partnerships to ensure that they scale. For more information, please visit www.grameenfoundation.in

As part of its efforts to institutionalize a rigorous, data-driven approach to decision-making by stakeholders in the microfinance sector, GFUSA has developed a framework that uses PPI data from a statistically significant sample of clients, to objectively provide an assessment of poverty outreach and set directions for improvement at the level of an institution, state or even country. This framework was first used by GFUSA to measure the poverty outreach of 10 microfinance institutions in the Philippines in 2011. GFI further built on this framework to develop a larger poverty outreach report for the state of Karnataka in India, and present a case for the sector to integrate poverty measurement into the very fabric of its decision-making.

In this report, GFI presents the state of poverty outreach of the microfinance sector in Uttar Pradesh. Results from this report will inform the PSIG program's strategy for strengthening the microfinance sector in the state. It is also intended for use by practitioners, networks, funders and the regulator in making evidence-based policy decisions.

Acknowledgement

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KEY SUMMARY AND FINDINGS

SCALE OF THE STUDY

The study measured the poverty outreach of microfinance institutions to first-loan-cycle clients[1] in each of the four PSIG state. The central idea was to understand how microfinance institutions act 'at the margin'——with regard to acquisition of new clients——except in the case of Bihar where the sample included clients at later cycles as well. The results of the study represent the *group* profile of microfinance institutions that participated in the sampling exercise for a given state. The quantitative metrics should be interpreted *only* at the level of an individual state and *not* for all 4 states taken together as a block. Within a given state, the results should not be taken to represent the client profile of the entire microfinance sector (except in Uttar Pradesh where the participating MFIs represented 80% of the share of first-loan-cycle clients for the entire sector), or be used to draw definite inferences regarding a given microfinance institution's outreach in a specific state.

Table 01: State-wise size of population and absolute outreach of MFIs

Sr #	Poverty segment	Uttar Pradesh	Madhya Pradesh	Odisha	Bihar *(All loan cycle clients)*
1.	State Population *(in million Households)*	34	15	9.6	19
2.	How many MFIs participated?	11	10	05	09
3.	What was their share among first-loan-cycle client in the state?	80%	40%	25%	34%
4.	In absolute figures, how many first-loan-cycle clients does that represent? *(in Thousands)*	572	335	119	508 *(all loan cycle)*
5.	To cover this first-loan-cycle client base, what was the sample-size for stratified sampling?	3,448	3,007	3,040	1,505
6.	Was the sample statistically representative of the group profile of participating MFIs?	Yes	Yes	Yes	Yes
7.	Can the findings be extrapolated at a **sectoral** level in the state?	Yes	No	No	No

1 Please note the distinction between first 'loan-cycle' as opposed to 'first-time user of microfinance services'. First-loan-cycle client is defined as a client that is recruited by a given microfinance institution for the first time. It DOES NOT MEAN that the client is using microfinance services for the first time. It is likely that the client may have used or may be currently using services of other MFIs.

POVERTY LINES USED IN THE REPORT

Poverty lines are cut-off points separating the poor from the non-poor. They can be monetary (e.g. a certain level of consumption) or non-monetary (e.g. a certain level of literacy). The use of multiple lines can help in distinguishing different levels of poverty. The poverty measurement exercise has used a set of internationally recognized and standard absolute measures of poverty linked to estimates of the cost of basic food needs to which a provision is added for non-food needs.

To give the reader a clear overview and understanding for them, the table below uses the poverty lines used in the report to create distinct poverty segments and relates these segments to the overall Indian poverty context. In addition, a set of qualitative labels are assigned to each segment to give a sense of what a poverty segment *could* imply about the living condition of the household.

Table 02: Definition of Poverty Segments (Monetary / Expenditure) used in the report

Client classification	**Definition — based on household PPI score**	**% of Population within a Poverty segment**		
		All India	**All India – Rural**	**All India - Urban**
Ultra poor / economically most vulnerable	Households that are below the National Tendulkar Poverty Line.	18.4%	21.3%	11.6%
Very poor	Households that are between the National Tendulkar and $1.25 2005 PPP Poverty Line.	13.4%	15.6%	8.0%
Poor	Households that are between the $1.25 and $1.88 2005 PPP Poverty Line.	32.0%	35.2%	23.3%
Borderline Poor	Households that are between the $1.88 and $2.5 2005 PPP Poverty Line.	15.7%	15.3%	17.9%
> $2.5 Poverty Line	Households that are above the $2.5 2005 PPP Poverty Line.	20.5%	12.6%	39.2%

***PPP** is an acronym for Purchasing Power Parity.*

***PPI** is an acronym for The Progress Out of Poverty Index® (PPI®) measurement tool used to provide a poverty probability score (for different poverty lines) for an individual household or a group of households. For more information please refer to http://www.progressoutofpoverty.org*

KEY FINDINGS

Table 03: State-wise break-up of population and MFI clients (first-loan-cycle excepting Bihar) by poverty segments

Poverty segments	Uttar Pradesh	Madhya Pradesh	Odisha	Bihar *(All loan cycle)*
< $1.25	41% *(39%)*	40% *(23%)*	46% *(23%)*	54% *(39%)*
$1.25 and $1.88	32% *(37%)*	28% *(35%)*	28% *(34%)*	30% *(35%)*
$1.88 and $2.5	13% *(14%)*	13% *(20%)*	13% *(20%)*	9% *(14%)*
> $2.5	14% *(10%)*	19% *(22%)*	*13% (23%)*	7% *(12%)*

*Figures without brackets represent share of **population** within / below a given poverty line. Figures within brackets (italicised) represent the same metric for the **MFI portfolio**.*

In general, the poverty profile of the MFI portfolios lags, or at best mirrors, underlying State Populations. In the state of Uttar Pradesh the poverty profile of the clients recruited by MFIs mirrored that of the underlying state population across different poverty segments. For the state of Bihar, the poverty profile of the clients in MFI portfolio clearly bettered the state profile in the two key poverty segments: below $1.25 2005 PPP Poverty Line and between $1.25 and $2.5 2005 PPP Poverty Lines. On the other hand, for Madhya Pradesh and Odisha the results were more uneven across these two segments.

Without exception, MFIs showed a greater disposition to recruit households between $1.25 and $1.88 2005 PPP Poverty Line segment, and more broadly, between $1.25 and $2.5 2005 PPP Poverty Line segment. On average, every second client recruited by participating MFIs fell within the broader segment of $1.25 to $2.5 2005 PPP Poverty Line. Looking within this segment, it was the $1.25 to $1.88 segment where the MFI recruitment was consistently concentrated across all the four states. Thus, as a result, every third client recruited by participating MFIs came from this segment. Partially this portfolio concentration is explained by the fact that in each of the four states between 40% and 50% of the state population also falls within the $1.25 to $2.5 2005 PPP Poverty Lines segment.

In states like Madhya Pradesh, Bihar and Odisha the proclivity of MFIs for the $1.25 to $2.5 2005 PPP Poverty Line segment was pronounced. For instance, both in Madhya Pradesh and Odisha this segment comprised 40% of the population while it comprised 55% of the MFI portfolio. Similarly in Bihar, while 40% of the population was from this segment, the MFIs recruited 49% from it.

The case of Odisha is a case in point. The two regions in Odisha that were considered for the study have vastly different poverty characteristics. In one region, 61% of the households are below the $1.25 2005 PPP Poverty Line while in the second region the figure stands at 38%. However, the compositions of the portfolios of the participating MFIs in these two regions fail to capture this material and measurable difference in poverty dynamics across the two 'markets'. Instead he MFI portfolios in the two regions were comparable in their poverty make-up — MFIs sourced more than half of their new clients from the sweet spot of $1.25 and $2.5 2005 PPP Poverty Lines segment. Despite the clearly measurable differences across the two regions with regard to the $1.25 2005 PPP Poverty Line segment, in both the regions, MFIs originated roughly a fifth of their clients from this segment.

There remains sufficient scope to expand outreach to the poorer sections of the state populations, i.e., those falling below $1.25 2005 PPP Poverty Line, and especially those deemed 'poorest of the poor'. In all the four PSIG states, a critical mass of the population – well over third of the population (40%) – fell below the $1.25 2005 PPP Poverty Line. In contrast, in the states of Madhya Pradesh and Odisha the participating MFIs displayed a relatively poor tendency to recruit clients from this segment with this segment comprising 22% of their portfolio. On the other hand, Uttar Pradesh, at 40%, and Bihar, at 39%, fared significantly better on this count as shown in Table 03 above.

This is not surprising as, in general, the segment below $1.25 2005 PPP Poverty Line is deemed to have lower debt servicing capability, costlier to reach, requires the MFI to be prepared to make a higher provision for NPA, and, more importantly, requires a different product.

Looking more closely at the 'poorest of the poor' segment, i.e., the one falling below the National Tendulkar Poverty Line, this client acquisition pattern of MFIs as a group— of a noticeable lag in outreach to households in this segment in proportion to their overall share in the population — is very distinctly visible.

Table 04: State-wise share of population / (first-loan-cycle clients) falling under the National Tendulkar Poverty Line

< National Tendulkar Poverty Line	**Uttar Pradesh**	**Madhya Pradesh**	**Odisha**	**Bihar** *(All loan cycle)*
Figures in %	25% *(22%)*	26% *(11%)*	*31% (12%)*	*35% (22%)*
Figures in million *(thousand)* households	8.3Mn *(124K)*	3.9Mn *(39K)*	2.9Mn *(14K)*	6.6Mn *(89K)*

Figures without brackets represent share of ***population*** *within / below a given poverty line. Figures within brackets (italicised) represent the same metric for the* ***MFI portfolio****.*

Of course the underlying causes are state and region specific. But it is interesting to observe that in PSIG states one out of every third *(Odisha and Bihar)* or fourth *(Uttar Pradesh and Madhya Pradesh)* household is likely to be deemed 'poorest of the poor'. When compared to the All India average level of 18.4%, the PSIG states display a materially higher poverty incidence in this segment.

In general, with the exception of Uttar Pradesh, outreach of MFIs in this segment lags the share of the segment in the overall state population and shows no definite relationship with the underlying size of this segment in the base population. Thus, both Madhya Pradesh and Odisha show a relatively poor but similar outreach of 10%+ in this segment despite the vastly differing share of this segment in the base populations of the two states.

The portfolio of the participating MFIs, though dominantly rural, deviated sharply from the underlying state rural-urban mix — only 60% of the MFI client-base was rural against 80% of all households in PSIG states classified as rural. Apart from this aspect, the rural and urban MFI portfolio displayed surprising resemblance in some of the key characteristics. In particular, the respective poverty profiles of both rural and urban portfolios mirrored the underlying state population profile, showed concentration within the $1.25 and $2.5 2005 PPP Poverty Lines segment.

If anything, the emphasis on recruitment from the $1.25 to $1.88 2005 PPP Poverty Lines segment was quite pronounced in urban areas as compared to rural areas. As the table 05 below shows, despite the fact that relatively lower proportion of urban households were likely to be found within these segments, MFIs showed a much higher probability to recruit from this segment compared to rural areas. In some sense, this outreach pattern of MFI would seem to qualify '$1.25 to $1.88 2005 PPP Poverty Lines segment' as the sweet spot of operation of the participating MFIs in urban areas.

Table 05: State-wise urban and rural share of population / (first-loan-cycle clients) between $1.25 and $1.88 2005 PPP Poverty Lines

Poverty segment	**Uttar Pradesh**	**Madhya Pradesh**	**Odisha**	**Bihar** *(All loan cycle)*
% in Rural areas	77% *(67%)*	73% *(56%)*	84% *(74%)*	89% *(53%)*
Urban – $1.25 to $1.88	25% *(38%)*	22% *(35%)*	*26% (32%)*	*25% (35%)*
Rural – $1.25 to $1.88	34% *(37%)*	30% *(35%)*	34% *(34%)*	31% *(36%)*

Figures without brackets represent share of ***population*** *within/below a given poverty line. Figures within brackets (italicised) represent the same metric for the* ***MFI portfolio****.*

The above observation does beg a question: Invariably all the rural pockets in PSIG states showed a much higher concentration of very poor and ultra-poor segments than their urban counterparts. Further urban areas offer higher population densities, better infrastructure and hence lower operating costs. Was a combination of these two factors responsible for this tilt towards urban areas as opposed to rural areas?

Table 06: State-wise urban and rural share of population below $1.25 2005 PPP Poverty Line

% below $1.25 2005 PPP Poverty Line	**Uttar Pradesh**	**Madhya Pradesh**	**Odisha**	**Bihar** *(All loan cycle)*
Rural areas	45%	45%	51%	56%
Urban areas	28%	26%	25%	39%

Within each PSIG state, the results categorically showed that the outreach of MFIs to the poorer sections of the population was uneven across different regions. Some regions, and in particular some districts, were preferred over others for varied, and from a practitioner's perspective, probably justifiable reasons. For example, in Uttar Pradesh, it was the region of Eastern UP comprising of 18 districts and 30% share of population that had 50% share of microfinance outreach of the state. In Madhya Pradesh, the two districts of Indore and Bhopal contributed 25% of new client recruitments and 7 other districts contributed 50% of new client recruitments. In Odisha, over 77% of new client originations took place in the more populous districts lying on the eastern coastal belt and the western border while the the districts lying in the northern and southern regions, deemed politically volatile, remained clearly under-served. In Bihar, where the study sample covered just 50% of total districts and was drawn from the entire group of microfinance clients irrespective of loan cycles, more than a quarter of the portfolio (27%) was found to be concentrated in the more urbanized districts of Patna and Saran.

The table below clearly shows this sharp regional differentiation in MFI outreach at an overall state level. On the left are statistics related to group of regions that have high MFI activity and on the right are statistics related to group of regions that have relatively lower MFI activity. Thus, the group of 'high-MFI-activity' regions saw 814 client originations by MFIs during the period of the sampling. The corresponding figure for the 'low-MFI-activity' regions was 212 — 26% of the former. This figure acquires weight when we consider that the populations of both the regions are very nearly identical — 32 million households for the former against 27 million households for the latter.

Table 07: State-wise share of population and MFI outreach by region

PSIG State	**High Outreach Region**			**Low MFI Outreach Region**		
	Name / Characteristic	**Population** *(Million households)*	**MFI Outreach** *(Thousand clients)*	**Name / Characteristic**	**Population** *(Million households)*	**MFI Outreach** *(Thousand clients)*
Uttar Pradesh	West & East UP	18	472	Central, North & Southern UP	16	100
Madhya Pradesh	Districts with higher urbanization	7	251	Districts with lower urbanization	8	84
Odisha	Coastal & Western Odisha	7	91	North & South Odisha	3	28
Total		**32**	**814**		**27**	**212**

Conversations with practitioners pointed to the fact that, in general, MFIs preferred to operate and expand in areas with good access to physical infrastructure, reasonable density of credit demand and where the culture of microfinance was fairly established.

The reasons cited by most practitioners for this unevenness fell into four categories:

1. *Difficulty of the terrain*. For example, the hilly and flood-prone terrain of Northern Uttar

Pradesh (bordering Nepal & Uttarakhand) was pointed out for its difficult operating conditions.

2. *Preference for locations with secure sources of livelihood*. For example, many districts of Madhya Pradesh and the Bundelkhand region of Uttar Pradesh which are drought-prone and rain-fed were, on average, deemed unsuitable for a sustained and strategic presence of microfinance operations.
3. *Preference for areas with a previous exposure to microfinance*. MFIs admitted that there is a propensity to aim for scaling up operations where clients already have exposure to microfinance activities and therefore expenses around capacity building, pre-recruitment training (popularly known as Compulsory Group Training (CGTs)) is materially curtailed.
4. *Political instabilit*y in regions like Central Uttar Pradesh, Northern and Southern Odisha and the districts around the porous Bihar – Nepal border.

Points 1 to 3 are commonly cited by practitioners in states outside the PSIG block. For example, in a 2012-13 study done by Grameen Foundation India for the microfinance sector in the state of Karnataka, the same issues were highlighted. However, point 4 seems uniformly consistent across the PSIG states. It is deemed to significantly impact the perceived credit risk of the MFI portfolio. Associated with this peculiar socio-political facet is also the underlying and unstated apprehension of the MFIs regarding unexpected and sudden state-level reactions similar to what happened during the Andhra Pradesh crisis.

As a counter to manage this 'credit and concentration risk' as well as to search for new avenues of growth, the established MFIs stressed the need for geographic diversification. The preferred strategic approach was to expand to other states (either through contiguous or green-field expansion) instead of to other more significantly under-penetrated and un-served regions and districts within the same state.

Across the PSIG block, nearly half (47%) of the sampled households were found to be involved in performing irregular labour or activities generating inconsistent streams of revenue. These households were primarily involved in small trades and services, and may or may not own an enterprise. In general, their trade and employment pattern is intermittent and unpredictable, and these households are poorer than those who borrow credit for self-owned enterprises.

Over three-fourths of the sampled households from this group fell below the $1.88 2005 PPP

Poverty Line consisting 53% share of all the sampled households below $1.88 2005 PPP Poverty Line across all four PSIG states. In states like Odisha, the corresponding was figure was 75% – significantly higher than the average of 53%.

The next highest occupation category reported by sampled households was 'self-owned enterprises'. 35% of sampled households reported owning enterprises and 58% of them fell below the $1.88 2005 PPP Poverty Line. As a result, this group of sampled households contributed to 29% share of all MFI households below $1.88 2005 PPP Poverty Line across all four PSIG states. The table below summarizes the data for these two occupation profiles.

Table 08: Composition of sampled households by highest two reported occupation profiles

Sr #	Particulars	Households performing Irregular labour	Households owning their own enterprise
1.	% of sampled households	48%	35%
2.	How many of the sampled households in this group were below $1.88 2005 PPP Poverty Line?	76%	*57%*
3.	That translated to what share of total sampled households below $1.88 2005 PPP Poverty Line?	53%	*29%*

Household reported negligible access to non-credit products except life-insurance that was compulsorily linked to the microfinance loan products availed by households for the tenure of the loan. A significantly high number of sampled clients reported ownership of a savings bank account. This could be due to the universal financial inclusion scheme – PMJDY, recently launched by the Government of India. Access to other financial services such as health insurance and pension remains very low. On the whole, while the sampled households did show greater awareness of 'life-insurance' product, access and utilization of real insurance, savings and pension by sampled houses was lower compared to credit products.

MFIs in PSIG states are reaching out to clients with very restricted ownership of sources of potable water and toilet facilities. As would be expected, poorer the MFI clients greater the likelihood of lack of ownership of such facilities.

The PPI questionnaire that was administered to sampled households had specific questions related to drinking water and toilet facilities availed of by households. This data, however, is indicative and it is difficult to establish a correlation between poverty and lack of access to such basic household facilities based on it. However, it (this data does) provide a more hands-on-feel of the kind of clients that microfinance institutions are reaching out to in PSIG states.

Table 09: Composition of sampled microfinance households by ownership of potable water and toilet facilities

Particular	Uttar Pradesh	Madhya Pradesh	Odisha	Bihar
Ownership of source of potable / drinking water	51%	31%	24%	24%
Ownership of toilet facilities	0%	0%	0%	0%

Across all the PSIG bloc, barring Uttar Pradesh, only a fourth to a third of sampled microfinance clients sampled owned a source of drinking water be it a tap, hand-pump, bore-well or open-well. The remainder of the households relied on one of these but provided by the government or shared at a community level.

The picture as reported by the sampled microfinance clients on ownership of toilet facilities was shockingly dismal, i.e., no client reported ownership of a private toilet facility and nearly as many clients reported resorting to open defecation as those who reported using a shared / public toilet.

Table 10: Composition of sampled households below $1.88 by ownership of potable water and toilet facilities

Particular	Owning a source of potable water	Not-owning a source of potable water	Usage of public toilets	Open defecation
Households below $1.88 2005 PPP Poverty Line	34%	66%	51%	71%

Across the entire sample, as the table above shows the poorer the client the likelihood of lack of access to potable water and reliance on open defecation would be higher. For instance, while only a third (34%) of sampled households that reported owing a drinking water source were below the $1.88 2005 PPP Poverty Line, the corresponding figure was reversed (two-thirds or 66%) for sampled households that reported not owning any source of potable water. Similarly, 71% of households that reported resorting open-defecation were below the $1.88 2005 PPP Poverty Line as opposed to 51% for those using public toilets.

QUESTIONS FOR STAKEHOLDERS

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

An analysis of the state-wise portfolios of participating MFIs reveals 'selectivity' of microfinance operations for some market segments more than others, i.e., households between \$1.25 and \$2.5 2005 PPP Poverty Line, urban over rural pockets, and districts / regions with relatively better infrastructural amenities, a base level of financial literacy among the target population, an established credit culture, and security of cash-flows.

Like any financing business, the product and operating model of microfinance would better fit some market types than others. The key question is whether the fit that is seen in the context of the PSIG states is more or less than what would be *expected* of the microfinance model in these states?

It is easy to see that this selectivity has led to an over-concentration of microfinance operations in specific geographic pockets and can result in avoidable instances of multiple lending. It has also led to large geographic belts (like Central, North and Southern region in Uttar Pradesh, North & Southern Odisha, nearly half of Madhya Pradesh and northern and eastern Bihar) either severely under-penetrated or un-served.

For the regulator, the question then is what tweaks does it need to make to its existing policy framework to incentivize the current model of microfinance to look at such areas in a more sustained and strategic manner? And if these tweaks already are in place, then what can be the mechanisms to incentivize MFIs to action them?

For the investor in microfinance, the question is how to ensure that a greater share of their 'investments at the margin' (i.e., next round of funding and investments) lead to deployment of funds in such critically needy areas?

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

One of the most important observation across all the four PSIG states is that the 'concentration' of microfinance portfolios trailed, or just about mirrored, the underlying concentration of the state populations. This means that, at best, even at the entry level, the microfinance portfolio was unlikely to have more poor clients than their corresponding share in the state population.

What should be the expectation at a sectoral level for the poverty outreach of microfinance institutions below the $1.25 2005 PPP Poverty Line? Is the performance seen in this study an adequate measure or is there material scope for improved outreach? When answering this question, it is especially important to consider the segment below the National Tendulkar Poverty Line. This segment comprises a consistently lower share of microfinance portfolios across each of the four states than what is found in the respective state poverty profiles.

To gauge the importance of the National Tendulkar Poverty Line in studying the composition of MFI portfolios, consider the following as a point of reference: 18.4% of India's population falls below the Tendulkar line. This implies that the Tendulkar line is an effective proxy for the quantum of those deemed 'socially and economically most vulnerable', i.e., the bottom 20% of India's population.

When talking in context of the National Tendulkar Poverty Line it is important to also consider the differences between microfinance outreach across the different PSIG states. MFIs in the states of Uttar Pradesh and Bihar for instance had little over 20% of their client base (first-loan-cycle in case of Uttar Pradesh and all-loan-cycle clients in case of Bihar) below the National Tendulkar line. On the other hand, in the states of Madhya Pradesh and Odisha the figure dropped to 10%. This is significant when all the four states had at least 25% of the households in their population living below the National Tendulkar Poverty Line with a higher proportion (over 30%) in Odisha and Bihar.

Why would MFIs have a higher concentration of 'poorer' clients in one group of states and not in another as well as in urban areas over rural areas? Are there learnings here to gather on what causes higher participation of the poor in the MFI portfolios? This question deserves serious attention and action from all stakeholders provided the stakeholders agree that the microfinance portfolio in PSIG states needs to have a larger representation of the very poor and ultra-poor segments.

A follow-up joint question to both the *regulator as well as investor community* is: What concrete measures will ensure that microfinance as a sector consistently adopts pro-poor conscious targeting as a strategic driver of its operations?

An additional consideration for the *investor* would be: when the poor, and especially those deemed the most vulnerable, comprise a lower share of the microfinance portfolio, is there sufficient incentive for the sector to invest in innovations on product, pricing and processes?

Should reporting segmented poverty outreach be a standard industry practice?

It is the first time in India that substantial sample data on microfinance poverty outreach across multiple states has been collected and presented in the public domain. It supports, and in some cases even enables, the key decision-makers in policy and investment community to take a more 'clinical' and dispassionate view of microfinance in PSIG states.

In addition, it also provides a reliable baseline to track how the outreach (to new clients) may change over time and possibly link these changes to specific interventions in the PSIG states. The poverty measurement approach deployed for the study is relatively less resource intensive, actionable by MFIs themselves, and hence allows for integrating it as systemic tool for periodic tracking of poverty outreach of the portfolio both at an aggregate level as well as individual MFI level within sample districts.

The question in this regard for all stakeholders (practitioners, regulators and investors) is: should poverty measurement of clients, particularly at entry, be a permanent part of the basic tool-kit of every microfinance institution? And a follow up question to this would be: should investors demand more detailed measures on poverty outreach with the same level of rigour and analysis that they demand of financial and operating data?

In addition, in future, DFID / SIDBI could consider a case for separate poverty line benchmarks for microfinance outreach in rural and urban areas. Globally, the Social Performance Task Force / Truelift reached a consensus to focus on the bottom two quintiles in both rural and urban areas when studying microfinance from a poverty lens is considered. Translated in the Indian context it means that the $1.25 and $1.88 2005 PPP Poverty Line define the bottom two quartiles for rural and urban areas respectively.

IN CONCLUSION,

All of the above needs to be put in context of the larger question: what is the significance of microfinance in accomplishing specific developmental aims? There can be contending opinions on the role and importance of microfinance in context of meeting near and long-term development goals. Innovative studies such as those by the Poverty Action Lab while adopting a cautious stand on pin-pointing the exact impact of microfinance, have nonetheless acknowledged its relevance and significance. For example, a February 2015 bulletin by Poverty Action Lab based on extensive Randomized Control Trials (RCTs) across 7 countries over the period of 2003 to 2012 had an over-arching categorical comment that bears quotation: “Seven randomized evaluations from around the world show that microcredit did not have a transformative impact on poverty, but it can give low-income households more freedom in optimizing the ways they make money, consume, and invest.”

DFID, SIDBI and Grameen Foundation (GF) agree that it is bold to state that microfinance (or more generally, access to financial services) can achieve a transformative impact on poverty reduction in low-income states without changing other factors of the operative environment. But by providing greater freedom of economic choice to poorer households, microfinance can be both an enabler of and a permanent participant in such a change.

The remainder of this report presents in somewhat greater detail the context behind the study, an overview of the sampling methodology as well as caveats on the data, and a summary of the microfinance portfolios across each of the states accompanied by a set of key observations. Those interested in more details than that presented in the report, For more details on the data for each of the state the reader is requested to email Grameen Foundation at *spm@grameenfoundation.org* or alternately, direct her query to Ragini Chaudhary from DFID at r-chaudhary@dfid.gov.uk.

OBJECTIVE OF THE STUDY

The Department for International Development (DFID) leads the UK's work to end extreme poverty. Through its Poorest States Inclusive Growth (PSIG) program in India, DFID, in collaboration with Small Industries Development Bank of India (SIDBI) aims to address the uneven gains from India's economic growth across states.

In India today the low income states account for 50% of the population but only only 20% of domestic investment and 2.4% of FDI. That is, the investment gap for the development of the states is very stark and real. The four states of Bihar, Madhya Pradesh, Odisha and Uttar Pradesh that is the focus of this report reported Human Development Index (HDI) ranking of 19, 20, 22 and 18 respectively in a survey of HDI of 23 states reported in the Human Development Report, 2011 – Towards Social Inclusion conducted by IAMR for the Planning Commission, Government of India.

It is in this context that DFID conceptualized and launched the Poorest States Inclusive Growth (PSIG) program in 2012 comprising of these four states with an aim to improve and enhance flow of development-related investments to these states. These investments are particularly targeted at initiatives that aim to impact the poor and vulnerable groups, especially women.

While the case for improvement of physical infrastructure, effective delivery of basic services and generation of new economic skills and opportunities through sustained investment strongly holds, it is equally imperative to also look at making better use of opportunities available the present circumstances too. And for this, the role of improvement in access to cost-effective and reliable instruments of credit, savings and insurance is critical.

Accordingly, the PSIG program has multiple components to meet both the long-term development goals as well as to unlock the near-term untapped potential in these states. Financial inclusion has been clearly identified and defined as an important component to accomplish both aims. To put the significance of this component in perspective: The four PSIG states, with the exception of Odisha, rank in the bottom 3rd of financial inclusion among all states with CRISIL Inclusix scores that are significantly below national average. These states also account for 40% of the 50 districts in the Inclusix Index that have shown the least gain in their financial inclusion scores since 2010. Overall, these four states account for less than 10% of total bank credit.

Of course the above figures capture a measure of formal financial inclusion which excludes microfinance activity. Looking at the MFI activity, the four PSIG states account for less than 20% of total microfinance clients in India. Given that PSIG states are high growth states, and likely to remain so, there is ample room for both the sector and the states to benefit from each other. This would seem to imply that there is sufficient head-room available for microfinance to really gain a foothold in these states.

To this end, the PSIG program is working on expanding microfinance services across four states – Bihar, Madhya Pradesh, Odisha and Uttar Pradesh, by providing grants and capital to build and expand community-based and microfinance institutions, promoting the delivery of a cost-effective, diverse array of financial services to clients, ensuring commercial sustainability of partner organizations and supporting policies and mechanisms to deliver services responsibly to clients. Women are at the core of PSIG program's initiatives – the program is also supporting collectives of women organized for microfinance in these states with training in finance and business; and promoting improved household health and nutrition practices.

In this context, it becomes important to understand where the microfinance outreach stands today. For this DFID and SIDBI requested Grameen Foundation India to conduct an extensive exercise to map the microfinance outreach across the four PSIG states of Uttar Pradesh, Madhya Pradesh, Bihar and Odisha in a manner that makes it possible to compare that outreach against the underlying poverty context of the individual states.

MEASURING THE MICROFINANCE POVERTY OUTREACH IN PSIG STATES

This report is an outcome of an 18 month exercise to map the poverty outreach across four PSIG states. It is based on the now established methodology of Poverty Outreach (POR) studies that Grameen Foundation (GF) has deployed in studying MFI outreach across large contiguous areas of MFI operations. Some of the past studies include that conducted in Philippines, and more recently, for the state of Karnataka in India in 2012-13.

This study covers 20 microfinance institutions across 112 districts. The study has been conducted in consensus, collaboration and with active participation of the concerned MFIs. Of the total of 30 MFIs operating in these four states 20 participated in the study. The resultant sample size of **11,044** clients represents a statistically significant underlying pool of **approximately 1.5 million** microfinance clients of which 1 million are exclusively *first-loan-cycle* clients across Uttar Pradesh, Madhya Pradesh and Odisha. The remaining half a million are *all-loan-cycle* clients from Bihar.

There are various ways to understand and study the term poverty. The stakeholders behind this study accept that poverty is multi-dimensional. It acknowledges that income and material well-being are not fully representative of poverty. But, at the same time, these are important indicators in and of themselves. The MFIs are essentially catering to income poverty. These indicators give a hint to how practitioners profile clients and make decisions on portfolio growth and profitability. Further, these are also the indicators that are monitored by Government and regulatory agencies. As a result, while they are certainly not exhaustive, they still deserve on-going attention till such time that a more practical alternative gains widespread understanding and acceptance.

Today poverty lines are a preferred tool to gauge income and material conditions. The study, however, does not hold or insist on a singular definition of poverty. Instead it uses a method, devised by Grameen Foundation, of segmenting the underlying population and microfinance client-base into multiple poverty line segments. The poverty lines used are the ones frequently referred to and relied upon in strategic conversations of policy-makers, practitioners and investors / funders, both domestic and international. These lines are the National Tendulkar Line (NT), \$1.25, \$1.88[2] and \$2.5 2005 PPP Poverty Lines.

Once you have segmented a MFI client base what do you really focus on? There are two parameters that usually get frequent attention. One is 'scale' and the other is 'penetration'. By asking questions on scale, an interested stakeholder will know how many clients is the sector reaching out to and how many are falling below or between given poverty lines. When scale is juxtaposed against the underlying base population (e.g. the entire population of a state) one gets penetration. Understanding penetration helps one understand what fraction of the poor households — for specific poverty segments — do the MFIs reach out to. Penetration is many a times, rightly or wrongly, seen as a litmus test of how deep and wide is the reach of the MFIs in a given geography.

GF believes that the parameters of 'scale' and 'penetration' are necessary in the poverty context but not sufficient in themselves if the genuine purpose underlying the MFI sector is universal financial inclusion through a rightly, and fairly, governed institutional model. Based on its sustained

2 This is an additional poverty line for India to provide a means to segment between \$1.25 and \$2.5 ban — a band that encompasses nearly half (48%) of Indian households.

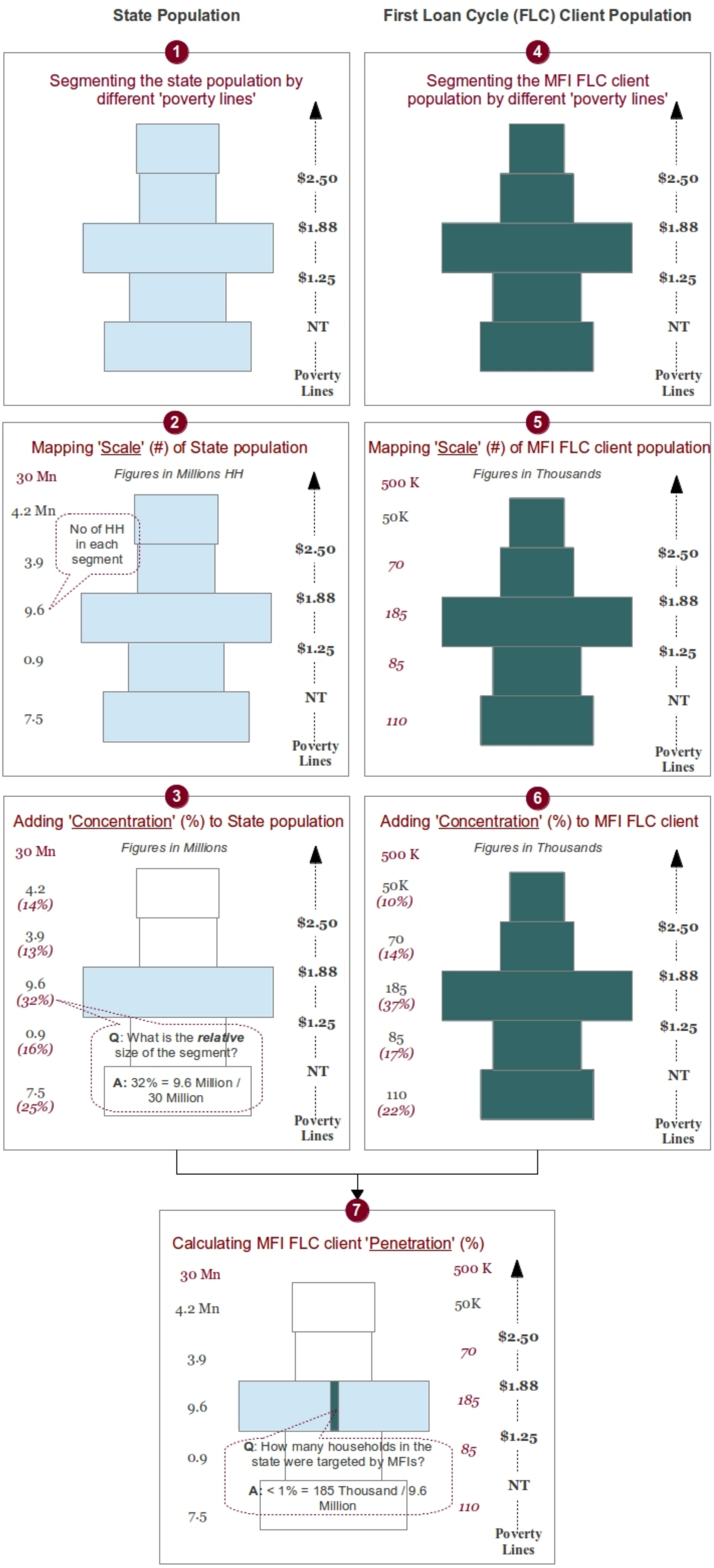
observation of the sector GF has reached a conclusion that for the spotlight to remain on this underlying purpose it is equally important (if not more) to emphasize on the parameter of 'concentration' in MFI portfolios across different poverty segments in addition to 'scale' and 'penetration'.

By 'concentration' GF means how a given client portfolio is distributed across multiple poverty segments. A focus on 'concentration' enables an interested stakeholder to ask very elemental questions: what fraction of the portfolio comprises of specific categories of poor clients? How do various segments of the portfolio correlate with the operating environment of MFIs? How does the poverty make-up portfolio change over time?

A combination of 'scale', 'concentration' and 'penetration' in the context of outreach to the poor then supplies a practical tool-kit to the practitioner, regulator and the investor/funder communities to arrive at a more balanced picture of current status of the sector.

The illustration that follows ties all these three together into a single visual and walks through the steps of understanding of de-coding the visual. This visual template is used for the remainder of the report to depict the portfolio of the participating MFIs.

Illustration 01: Understanding the Terms Used to Measure MFI Poverty Outreach



PPI: A STATISTICALLY RELEVANT POVERTY MEASUREMENT TOOL

Poverty line-based segmentation offers one useful, uniform way to segment the poor and create standard benchmarks. Recognizing this, Grameen Foundation created the Progress Out of Poverty Index (PPI); a country-specific, statistically sound and simple to use poverty tool. With the PPI, the answers to 10 questions about a household's characteristics and asset ownership are scored to compute the likelihood that the household is living above or below any of a number of national and international poverty lines. PPI data can thus measure the portion of clients living above or below a particular poverty line, and when used over time can track movement into and out of poverty.

The latest version of the PPI for India was created in March 2012 by Mark Schreiner of Microfinance Risk Management, L.L.C., developer of the PPI. Indicators for India's PPI were developed based on data from the Household Consumer Expenditure Survey - Round 66 (July 2009 to June 2010) conducted by the National Sample Survey Office (NSSO). Note that given the regulator's guideline on income limits for microfinance borrowers, the PPI for India is also calibrated to the RBI urban line and the RBI rural line, in addition to other national and international poverty lines. Currently, there are over 30 PPI users in the country, including microfinance institutions, who are known to Grameen Foundation India.

METHODOLOGY AND DATA CAVEATS

Stratified sampling. The districts in each state were divided into two or more regions. Each district was further divided into rural and urban areas. A stratified sampling strategy was followed to arrive at the number of MFI first-loan-cycle clients to be sampled for each region, and within each region, for each district and each participating MFI. Once this was determined, MFI branch managers and loan-agents were involved in the actual field level exercise to administer the PPI (Progress out of Poverty Index) questionnaire. As an example of how the sample was designed, please refer to the illustration 01 presented for the region of Western Uttar Pradesh.

A stratified sample provides an opportunity for greater statistical precision as compared to a simple random sample provided the each of the stratum so chosen has members that display similar characteristics along some key behavioural characteristics of relevance to the study at hand.

Understanding what the sample represents and does not represent. Except for the state of Uttar

Pradesh, the results for the states of Madhya Pradesh, Odisha and Bihar the results are not representative of the client profile of the sector in that respective state. Rather, the results represent client profile of the *participating MFIs as a group* for each of the individual states. In Uttar Pradesh, the participating MFIs represented 81% of share of the total MFI market whereas in Madhya Pradesh, Odisha and Bihar the figures were respectively: 40%, 25%, 74%.

By the term *participating MFIs as a group*, this report means that the results do not represent client profile of one or more MFIs out of line with their share of the MFI market. That is if a MFI has 10% share of the market among the participating MFIs, the sample has been designed to ensure the number of clients sampled from that MFI does not exceed 10% of the total sample size.
The same principle is applied in inclusion of each district in a given state. The number of clients sampled from a given district is proportionate to the number of clients of the participating MFIs that belong to that particular district.

All of these together ensures that the sample collectively mirrors the underlying pattern of outreach among districts, regions and participating MFIs.

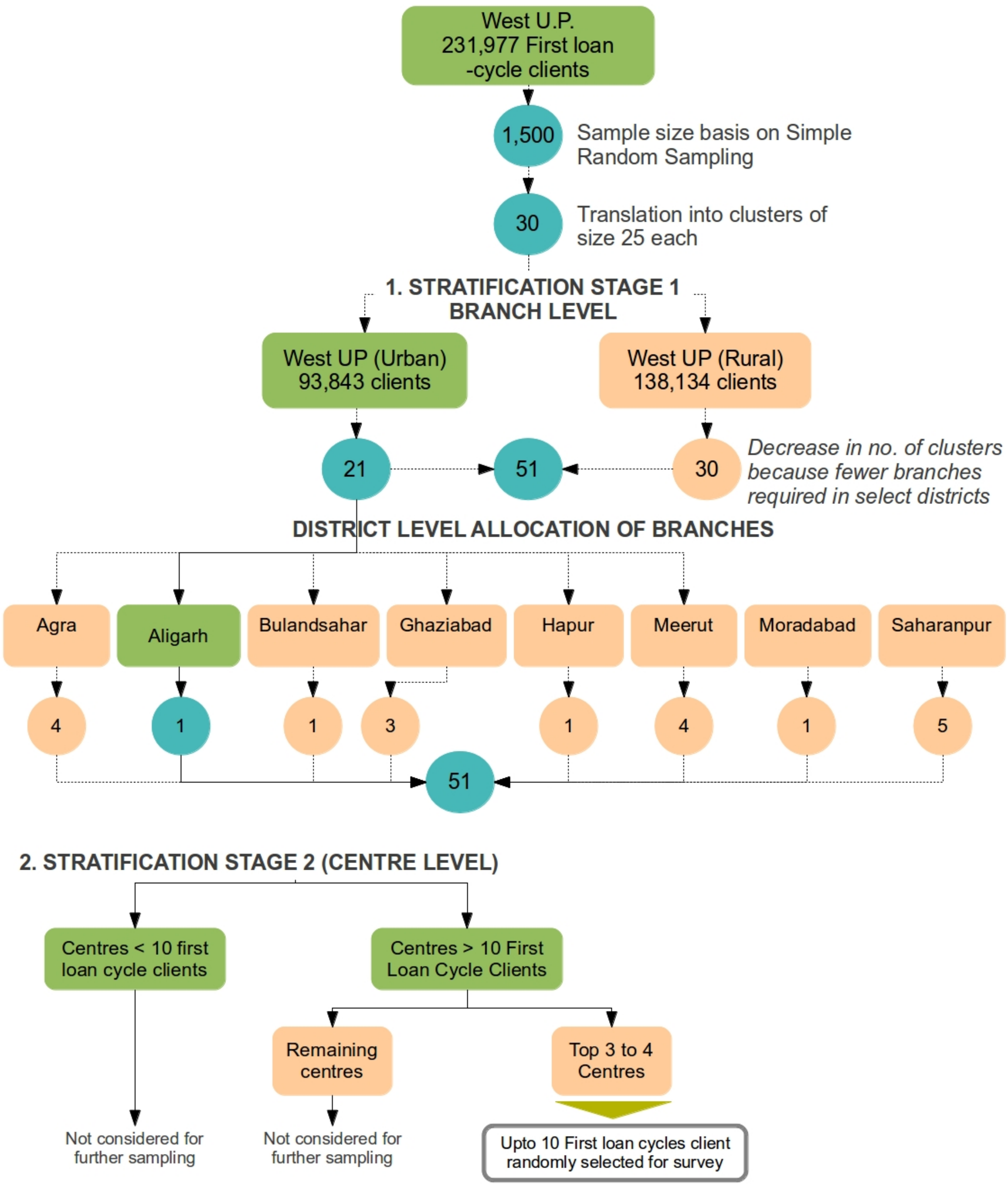
All analysis is valid at the level of an individual state and not as a single block of states. As each state level sample mirrors the underlying state level pattern of outreach, and the sample does not reflect the microfinance sector in the state (with the exception of Uttar Pradesh) it is not possible to aggregate all the samples across all the states and perform a consolidated quantitative analysis. Thus, the high-level outcomes highlighted are qualitative patterns gleaned from the individual quantitative analysis for each of the PSIG state.

Potential multiple-counting of clients. The data does not contain individual client identifiers, which makes it impossible to identify and trace individual clients across microfinance institutions. As a result, if a client has active loans from multiple microfinance institutions within the period, the client *may be counted more than once*.

Availability of secondary data. While PPI scores were collected in 2014, the data used for comparison are not from the same period. State level poverty incidence estimates from NSSO 2009/10 and population figures are based on 2011 census.

Findings applicable to mostly first-loan-cycle clients (excepting Bihar). Samples for the states of Uttar Pradesh, Odisha and Madhya Pradesh are drawn from *first-loan-cycle* clients. However, it is important to note that for Bihar the sample is drawn from the entire client outreach of participating MFIs irrespective of the loan cycle.

Illustration 02: Example of stratified sampling methodology



01. STATE-WISE FINDINGS AND OBSERVATIONS: UTTAR PRADESH

SUMMARY STATE PROFILE

State Population	As per Census 2011, the largest and most populous state with population of nearly 198 million persons (accounting for 17 % of India's population) or 34 million households. Of these, 26 million (77%) households were in rural areas and 8 million (23%) in urban areas.
Number of districts	71
Brief characteristic of economic and social development	A sluggish economy, low agricultural productivity and industrialization, and low levels of public and private investment have characterized the development trajectory of Uttar Pradesh for a considerable period. This is further intensified by caste, community and religion-linked tensions. Limited employment has resulted in high migration rates – as per the 2001 Census, Uttar Pradesh accounted for the largest net outflow of migrants (2.6 million) of any state. A key characteristic of the state has been stark regional disparities in levels of economic and social development, with the western region demonstrating markedly better development compared to the rest of the state.
Financial inclusion as measured through Crisil Inclusix Score	33.5 — Ranked 24 out of 35 (28 states and 7 union territories) in terms of financial inclusion.
Regional division of the state from MFI practitioner's perspective	Given the marked unevenness in development across the state, the microfinance practitioners have specific preferences and different approaches when it comes to different parts of the state. Based on inputs from the practitioners, the districts in Uttar Pradesh are divided into three non-overlapping regions: 1) Western UP (21 districts) Eastern UP (18 districts), and 3) Central, Northern & Southern UP (32 districts). CNS was studied as one contiguous block because the Northern, Central and Southern regions display similar poverty rates as well as similar

	microfinance penetration rates. Of the three regions, CNS is the largest at 16 million households (47% of total population) followed by Western UP at 10 million households (29%) and Eastern UP at 8 million households (24%).
Sample Design	125 branches of 10 MFIs participated in the study providing coverage of 572,000 first-loan-cycle clients across 41 districts represented through a statistically significant stratified sample base of 3,449 clients. 67% of this sample base was from rural areas and 33% from urban areas and 100% of respondents were women. The 10 MFIs that participated in the study represent 81% share of the total MFI market of MP. *Thus, the results of UP from this exercise are representative of the MFI sector in UP.*

POVERTY PROFILE OF STATE POPULATION AND AGGREGATED MFI FIRST LOAN CYCLE CLIENT PORTFOLIO

Illustration 03: Poverty concentration of overall portfolio of participating MFIs in Uttar Pradesh

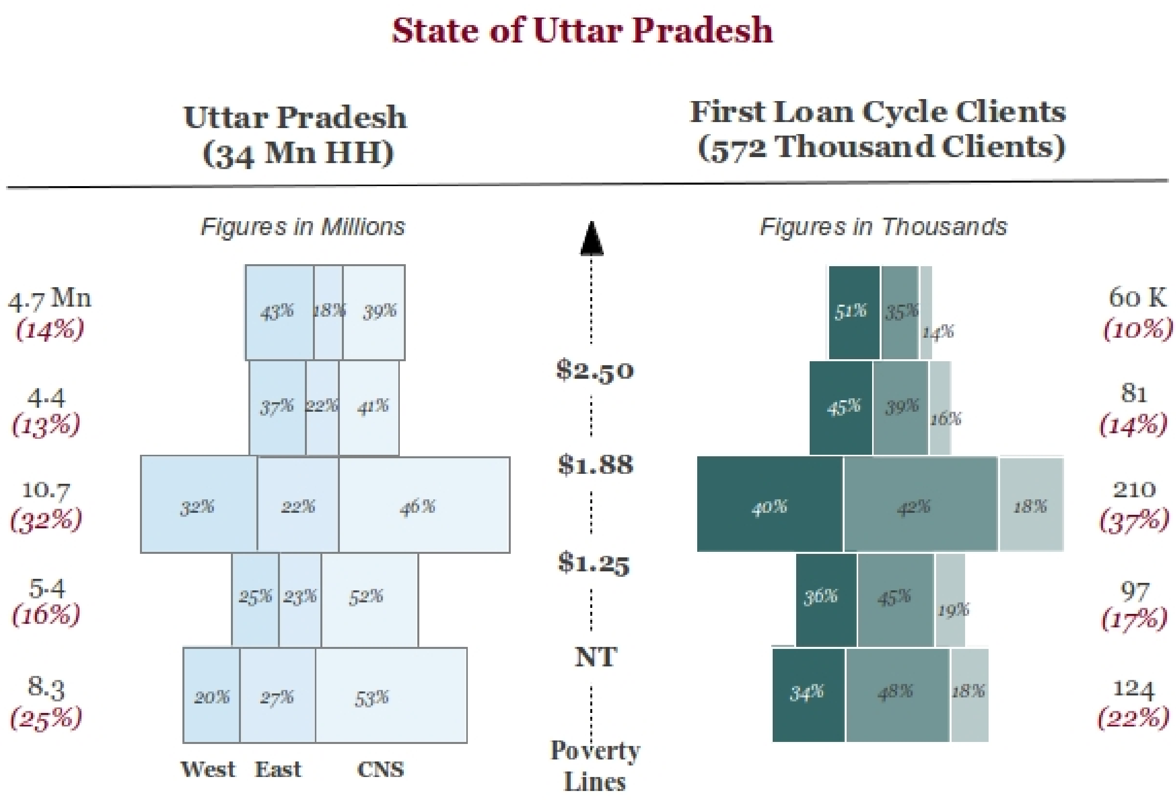
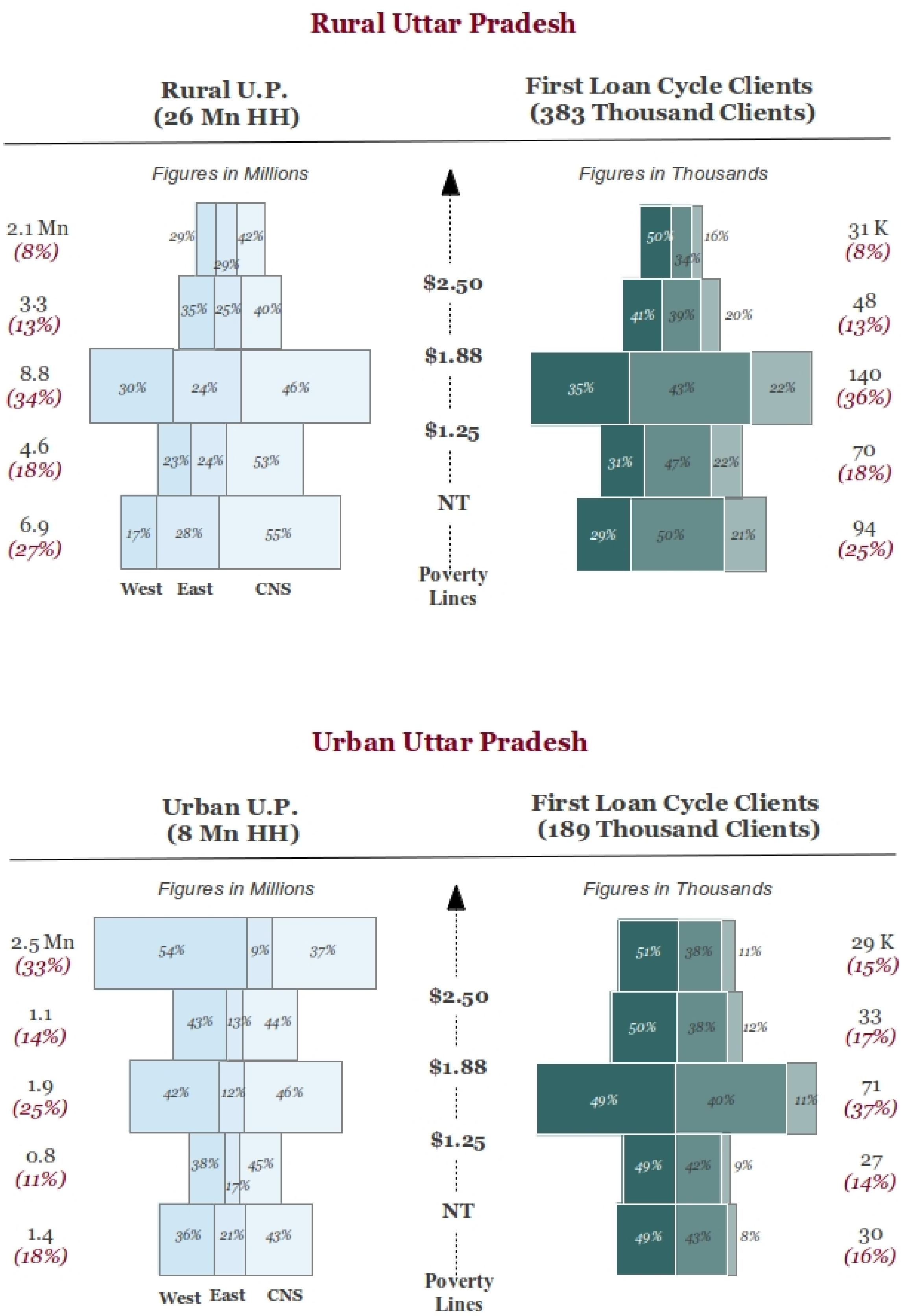


Illustration 04: Poverty concentration of rural and urban portfolios of participating MFIs in Uttar Pradesh



KEY OBSERVATIONS

Sr#	Question	Observations
1.	What is the poverty profile of the new recruits and additions to the MFI portfolio compared to the poverty profile of the state population?	• At a state level the concentration profile of the portfolio of participating MFIs mirrors the state. For example, 39% of the new clients targeted by MFIs came from below the $1.25 2005 PPP Poverty Line and over half from the $1.25 to $2.5 2005 PPP Poverty Lines segment. Against this, 41% of the total households in the state fell below the $1.25 2005 PPP Poverty Line and 45% between $1.25 to $2.5 2005 PPP Poverty Lines segment. • Among the four PSIG states, the poverty profile of MFI first-loan-cycle portfolio in Uttar Pradesh showed the least variation from the poverty profile of the state population. • However, like other PSIG states, the MFIs in Uttar Pradesh continued to show a preference for client origination in the $1.25 to $2.5 2005 PPP Poverty Line segment with over half of new clients originated from this segment. • However, unlike Madhya Pradesh and Odisha there was also a critical mass clients (40% of the MFI portfolio) below the $1.25 2005 PPP Poverty Line segment.
2.	What are the urban-rural disparities in MFI coverage?	• There are visible differences between rural and urban client profiles of the MFIs. The *first marker of difference* is reflected in the share of households that are above $2.5 2005 PPP Poverty Line in the rural and urban portfolios of first-loan-cycle clients: in rural UP hardly 8% of the new clients were recruited above $2.5 2005 PPP Poverty Line, while in urban Uttar Pradesh, this figure doubles to 16% • Further, MFIs in urban Uttar Pradesh seem to give greater emphasis to households within the $1.25 and $1.88 2005 PPP Poverty Line segment (56% of

Sr#	Question	Observations
		portfolio) as compared to rural Uttar Pradesh where the MFIs still favoured these households (50%) but not as much. • The *second marker of difference* is in the fact that MFI portfolio in rural Uttar Pradesh mirrors very closely the underlying state poverty profile. But in urban Uttar Pradesh there is a greater divergence from the state poverty profile. This is most pronounced in the \$1.25 to \$1.88 2005 PPP Poverty Lines segment where the state has 25% of its population but the MFIs end up recruiting nearly 40% of their clients from this segment.
3.	What are the regional disparities, if any?	• The concentration profile of the MFI portfolios across the three regions showed characteristics broadly similar to the MFI portfolio at a state level. The point of difference was however with regard to the scale of outreach of the MFIs in the three regions. • 83% of new client origination took place in Western and Eastern UP. Of the new clients recruited in these two regions, 40% came from Western UP and remainder 60% in Eastern UP. *This pattern of outreach is perplexing* because Western UP has higher population (29%) than Eastern UP (24%) and a greater measure of socio-economic development. • In addition, while CNS and Eastern UP have populations with similar poverty profiles, for every 1 client recruited in CNS, 2.5 are recruited in Eastern UP. Indeed, as a region Eastern UP has a lower index (Crisil Inclusix Score) of formal financial inclusion. This is reflected in the fact that in Eastern UP 11 of 18 districts showed a measure of noticeable MFI activity as compared to CNS where hardly 3 odd districts showed any significant MFI activity.

Sr#	Question	Observations
		• The fact that CNS lags to such a damaging extent is explained by the fact that different pockets of CNS have challenges with respect to accessibility. *Central UP* is deemed to be politically volatile by practitioners, *Northern UP* difficult to physically access due to its hilly terrain and possibility of recurring floods, and *Southern UP* (or what is known as *Bundelkhand*) deemed economically very backward being an endemically rain-fed and drought-prone region.
4.	Engaging with the poorest of the poor: those living below the National Tendulkar Poverty Line	• Like other states in the PSIG block (with exception of Bihar), one out of every four households in Uttar Pradesh falls below the National Tendulkar Poverty Line. • Against this state poverty profile, 1 out of every five clients recruited by MFIs in Uttar Pradesh were from this segment. This compared very favourably with Madhya Pradesh and Odisha where the corresponding ratio was only 1:10. • This tendency was sharper in the region of Eastern UP where 45% of client origination took place in this segment compared to Western UP and CNS which mirrored the state average. It should, however, be noted that as a region Eastern UP has double the share of 'poorest of the poor' (~30%) as compared to Western UP (16%).
5.	Engagement with what is deemed to be the not-so-traditional client base of MFIs: segment above $2.5 PPP Poverty Line	• Interestingly, the segment above the $2.5/day 2005 PPP Poverty Line in urban Uttar Pradesh does not appear to be particularly attractive to microfinance institutions. • The poverty concentration of first-loan-cycle microfinance clients in this segment is only 16%, while the underlying state poverty incidence in this segment is 33%. It is unclear why that should be so, given that

Sr#	Question	Observations
		intuitively, these could be considered "good clients".
6.	Other characteristics of the MFI client-base	• In terms of occupation profile, a majority of sampled microfinance clients were found to be involved in performing irregular labour. These clients are primarily involved in small trades and services, and may or may not own an enterprise. In general, their trade and employment pattern is intermittent and unpredictable. Poverty outreach of MFIs below the $1.88 2005 PPP Poverty Line was found to be the highest in this occupation segment. • A significantly high number of sampled clients reported ownership of a savings bank account. This could be due to the universal financial inclusion scheme – PMJDY, recently launched by the Government of India. Access to life insurance is also high - probably due to the fact that most credit products offered by microfinance institutions are linked to a life insurance product which provides coverage for the tenure of the loan. Access to other financial services remains very low.

02. STATE-WISE FINDINGS AND OBSERVATIONS: MADHYA PRADESH

SUMMARY STATE PROFILE

State Population	As per Census 2011, Madhya Pradesh is India's second largest state by geographic size. It has a population of 72 million persons (7% of India's population) or 15 million households. Of these, 11 million (73%) households are in rural areas and 4 Million (27%) in urban areas.
Number of districts	50
Brief characteristic of economic and social development	Once considered a backward state, Madhya Pradesh is now deemed a revenue surplus state. Since FY 2011-12, for example, it has grown at a CAGR of 10.2%, well above the national average. In contrast to other high growth states in India, Madhya Pradesh's growth has come largely from agriculture and allied activities and services sector. Industrial growth remains much slower in comparison. On social indicators, though, the state does not fare equally well: parameters such as sex ratio, literacy rate, maternal and infant mortality rates, and life expectancy are all below national average.
Financial inclusion as measured through Crisil Inclusix Score	27.5 — Ranked 27 out of 35 (28 states and 7 union territories) in terms of financial inclusion.
Regional division of the state from MFI practitioner's perspective	The state is traditionally divided into distinct agro-climatic zones — Kaimur Plateau & Satpura hills, Vindhyan plateau, Narmada valley, Waingaga valley, Gird (Gwalior), Bundelkhand, Satpura plateau, Malwa plateau and Jhabua hills. However, for purpose of this study, the state was divided by the participating MFIs into regions named, for convenience, as Region 1 (22 districts) and Region 2 (28 districts). Region 1 comprises of districts such as Bhopal, Dewas, Indore, Harda, Hoshangabad, Narsimhapur, Ujjain, Vidisha among others and was deemed more conducive for MFI operations. Both Region 1 and 2 have nearly equal share of the state population.

	However, Region 1 was a higher number of urban centres compared to Region 2.
Sample Design	96 branches of 10 MFIs participated in the study providing coverage of 335,000 first-loan-cycle clients across 36 districts represented through a statistically significant stratified sample base of 3,007 clients. 49% of this sample base was from rural areas and 51% from urban areas and 98% of respondents were women. The 10 MFIs that participated in the study represent 40% share of the total MFI market of MP.

POVERTY PROFILE OF STATE POPULATION AND AGGREGATED MFI FIRST LOAN CYCLE CLIENT PORTFOLIO

Illustration 05: Poverty concentration of overall portfolio of participating MFIs in Madhya Pradesh

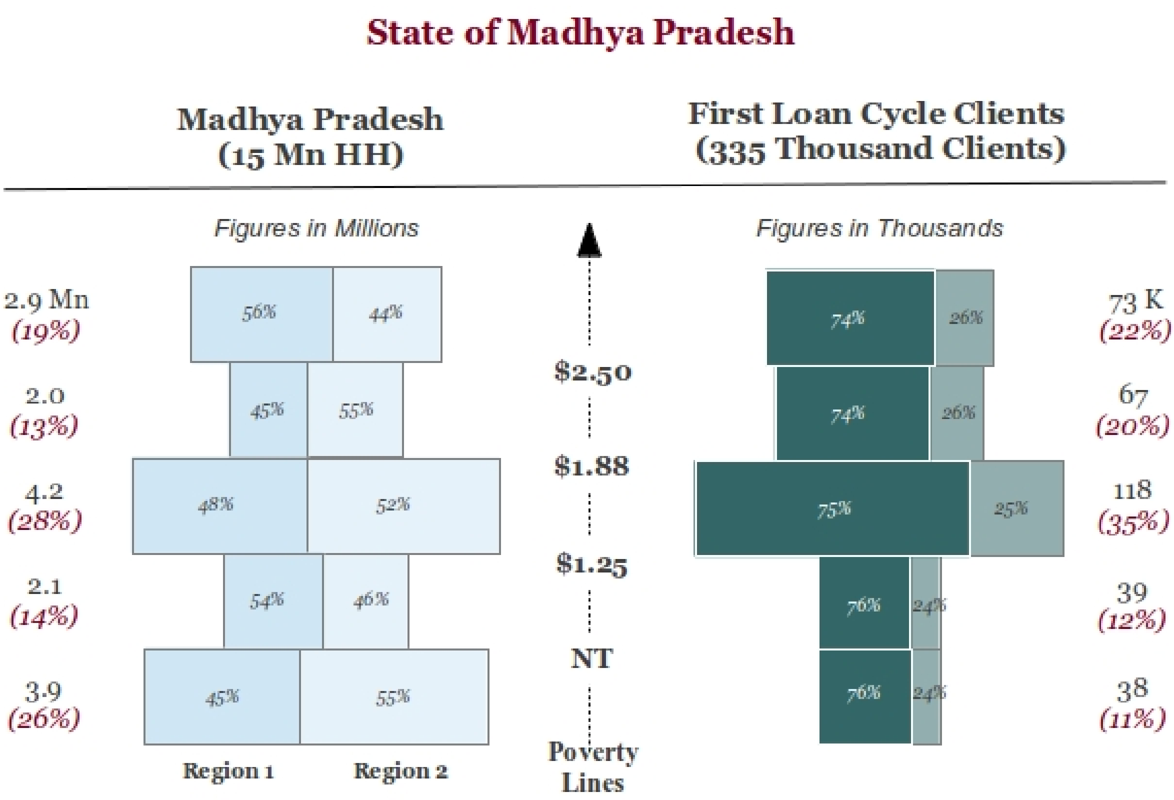
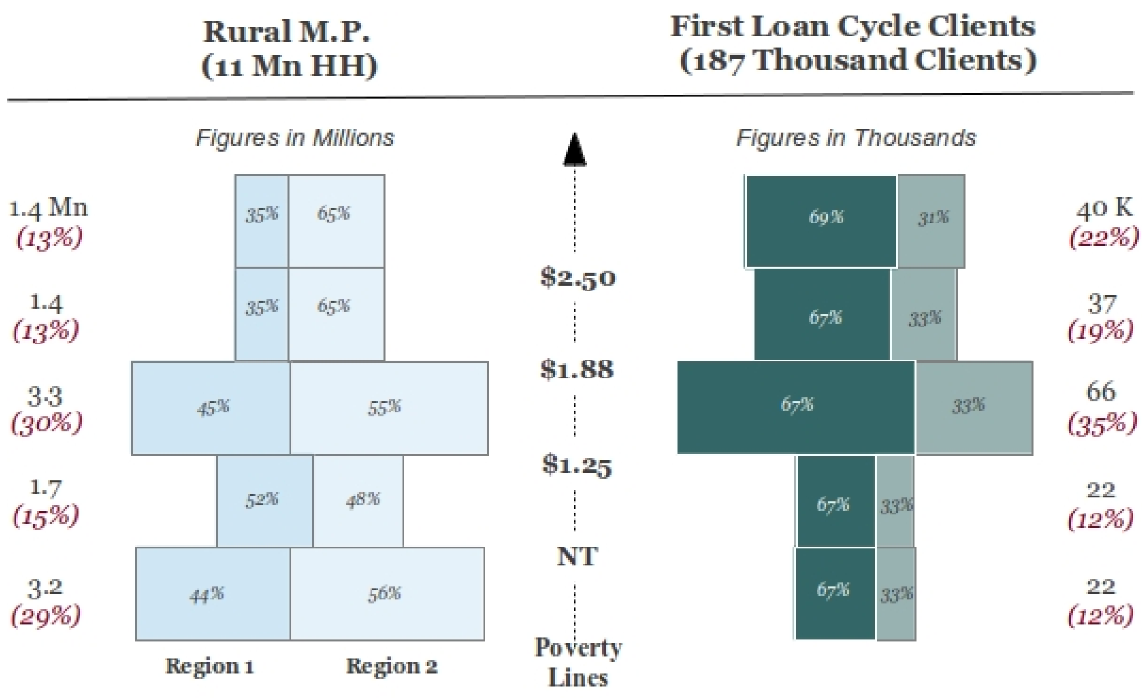
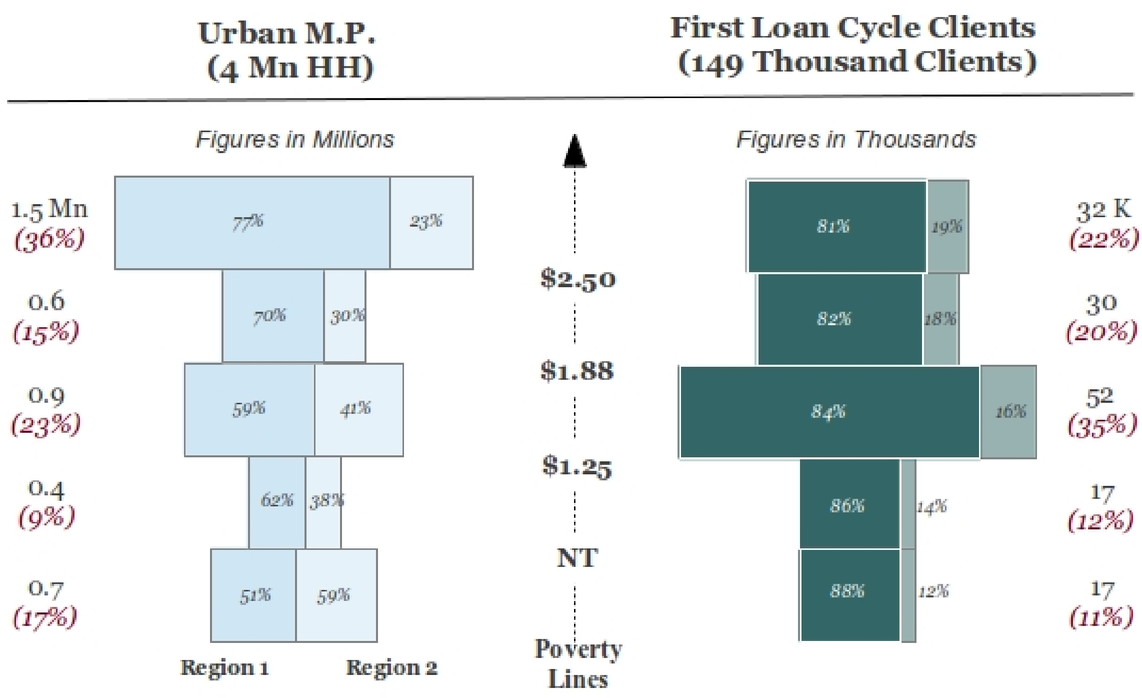


Illustration 06: Poverty concentration of rural and urban portfolios of participating MFIs in Madhya Pradesh

Rural Madhya Pradesh



Urban Madhya Pradesh



KEY OBSERVATIONS

Sr#	Question	Observations
1.	What is the poverty profile of the new recruits and additions to the MFI portfolio compared to the poverty profile of the state population?	• The poverty profile of the new MFI clients lagged the poverty profile of state population. For example, in Madhya Pradesh, 40% of households in the state were below the $1.25 2005 PPP Poverty Line while the MFI portfolio had 23% of households from this segment. • The tendency to recruit between $1.25 PPP and $2.5 PPP Poverty Line was pronounced. For every 1 recruit below $1.25 line, the MFIs were likely to recruit more than 2 between $1.25 PPP and $2.5 PPP Poverty Line and 1 above $2.5 PPP Poverty Line. Given that only 40% of state population falls in $1.25-$2.5 segment while 55% of MFI portfolio is concentrated in this segment points to a definite preference of MFIs in Madhya Pradesh for client origination from this segment.
2.	What are the urban-rural disparities in MFI coverage?	• On the whole, among all the PSIG states, Madhya Pradesh had a larger share of its popoulation in urban areas. • The poverty profiles of new clients recruited by MFIs were broadly similar between rural and urban areas. However, in urban areas MFIs showed a tendency to originate a higher proportion of their new clients between $1.25 PPP and $1.88 PPP Poverty Line. While urban Madhya Pradesh had just under a fifth of its households in this segment, MFIs recruited over a third of their clients from this segment.
3.	What are the regional disparities, if any?	• In general, MFIs showed a stated tendency to operate in select geographies in Madhya Pradesh. This is readily seen in the fact that while Region 1 and Region 2 had equal share of the state population (roughly 7.5 million each), participating MFIs had a total client base of 444 thousand clients in Region 1 compared to 187 thousand

Sr#	Question	Observations
		in Region 2. • This preference for Region 1 was also evident when looking at new client origination. Over three-fifths of the new MFI recruits are from Region 1. • One of the driving factors for this could be higher urbanization of Region 1 (36%) compared to Region 2 (18%). • More significantly, as a marker of geographic concentration 7 districts in Madhya Pradesh contributed to 50% of MFI total client outreach and just 2 districts, Indore and Bhopal contribute to 25% of total MFI client outreach. A majority of these districts fall in Region 1.
4.	Engaging with the poorest of the poor: those living below the National Tendulkar Poverty Line	• The overall share of the poorest of the poor in the MFI portfolio is much lower. 1 in 10 new clients recruited by MFIs are below the National Tendulkar Poverty Line. This sits in contrast to the fact that over a quarter of the state's population is living below the National Tendulkar Poverty Line. • The MFIs are likely to recruit double the number of clients above $2.5 2005 PPP Poverty Line than below the National Tendulkar Poverty Line. Further, the picture does not change for the better when we look at either rural or urban Madhya Pradesh, or for that matter, Region 1 and Region 2. • This is an aspect which *deserves greater notice* in future conversations on MFI outreach in the state of Madhya Pradesh.
5.	Engagement with what is deemed to be the not-so-traditional client base of MFIs: segment above $2.5 PPP Poverty Line	• In urban Madhya Pradesh, a third of the population is above the $2.5 2005 PPP Poverty Line segment. On ther other hand, MFIs recruited a fifth of their clients from this segment. This is unlike rural MP where just one-sixth of the population was above $2.5 PPP Poverty Line

Sr#	Question	Observations
		but the tendency of the MFI to recruit above the \$2.5 PPP Poverty Line was similar to that in urban MP.
6.	Other characteristics of the MFI client-base	• In terms of occupation profile, a majority of sampled microfinance clients were found to be involved in performing irregular labour or activities generating inconsistent streams of income. These clients are primarily involved in small trades and services, and may or may not own the enterprise. In general, their trade and employment pattern is intermittent and unpredictable, and these clients are poorer than those who borrow credit for self-owned enterprises. Poverty outreach of MFIs below the \$1.88 2005 PPP Poverty Line was found to be the highest in this occupation segment. • A significantly high number of sampled clients reported ownership of a savings bank account. This could be due to the universal financial inclusion scheme – PMJDY, recently launched by the Government of India. Access to life insurance is also high - probably due to the fact that most credit products offered by microfinance institutions are linked to a life insurance product which provides coverage for the tenure of the loan. Access to other financial services remains very low.

03. STATE-WISE FINDINGS AND OBSERVATIONS: ODISHA

SUMMARY STATE PROFILE

State Population	As per Census 2011, Odisha is India's ninth largest state by geographic size and eleventh largest by population. It has a population of 81 million persons or 9.6 million households. Of these, 8 million (83%) households are in rural areas while 1.5 million (17%) are in urban areas. The make-up of Odisha, in comparison to Uttar Pradesh and Madhya Pradesh, is much more rural.
Number of districts	30
Brief characteristic of economic and social development	As per the Economic Survey (2015) commissioned by Odisha's state government, its GDP was expected to grow by 8.78% in 2014-2015. The growth is characterized by a gradually falling share of agriculture and allied services and a larger share of industry and service. However, almost 60% of Odisha's population continues to rely on agriculture for a living. The state is vulnerable to natural calamities, and has had to face frequent floods and cyclones which regularly impacts its population. On social indicators, performance of Odisha is mixed. Its index of human development is below national average. Indicators such as calorie under-nourishment and female literacy levels are below national average while sex ratio and male literacy levels are above national average.
Financial inclusion as measured through Crisil Inclusix Score	At 40.6 Odisha's Crisil Inclusix Score is above the national average of 40.1 and it is ranked 15 out of 35 (28 states and 7 union territories) in terms of financial inclusion. It is to be noted that Odisha's ranking on Crisil Inclusix is higher than that of Uttar Pradesh and Madhya Pradesh.
Regional division of the state from MFI practitioner's perspective	The state of Odisha displays stark disparities across regions in terms of level of economic and social development, with districts in the north and south demonstrating markedly lower levels of economic and social development as compared to districts lying on the coast along the Bay of Bengal as well as those on the western border. Accordingly, the practitioners were very clear and unanimous in their strategic segregation of Odisha: Coastal & Western Odisha formed one distinct regional block consisting of 19 districts while Northern & Southern Odisha formed a second regional block consisting of

	11 districts.
Sample Design	50 branches of 5 MFIs participated in the study providing coverage of 119,000 first-loan-cycle clients across 22 districts represented through a statistically significant stratified sample base of 3,040 clients. 58% of this sample base was from rural areas and 42% from urban areas and 100% of respondents were women. The 5 MFIs that participated in the study represent 25% share of the total MFI market of Odisha.

POVERTY PROFILE OF STATE POPULATION AND AGGREGATED MFI FIRST LOAN CYCLE CLIENT PORTFOLIO

Illustration 07: Poverty concentration of overall portfolio of participating MFIs in Odisha

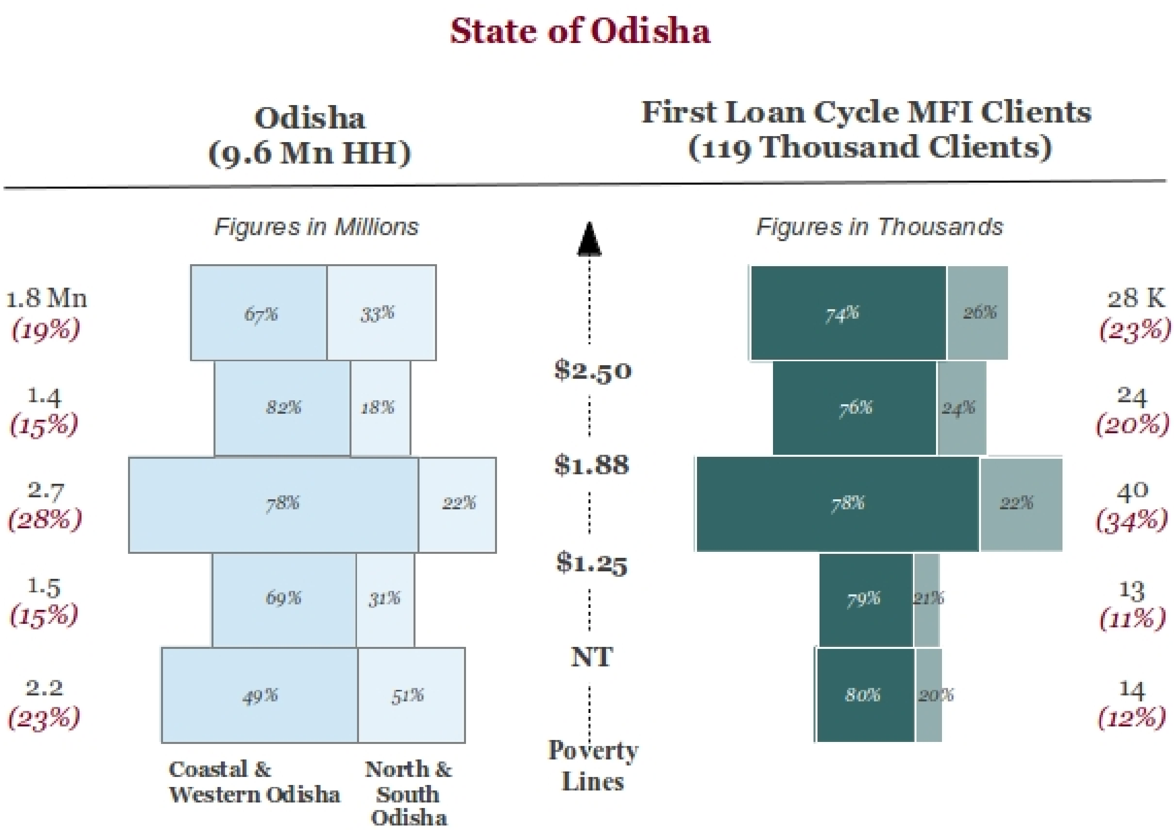
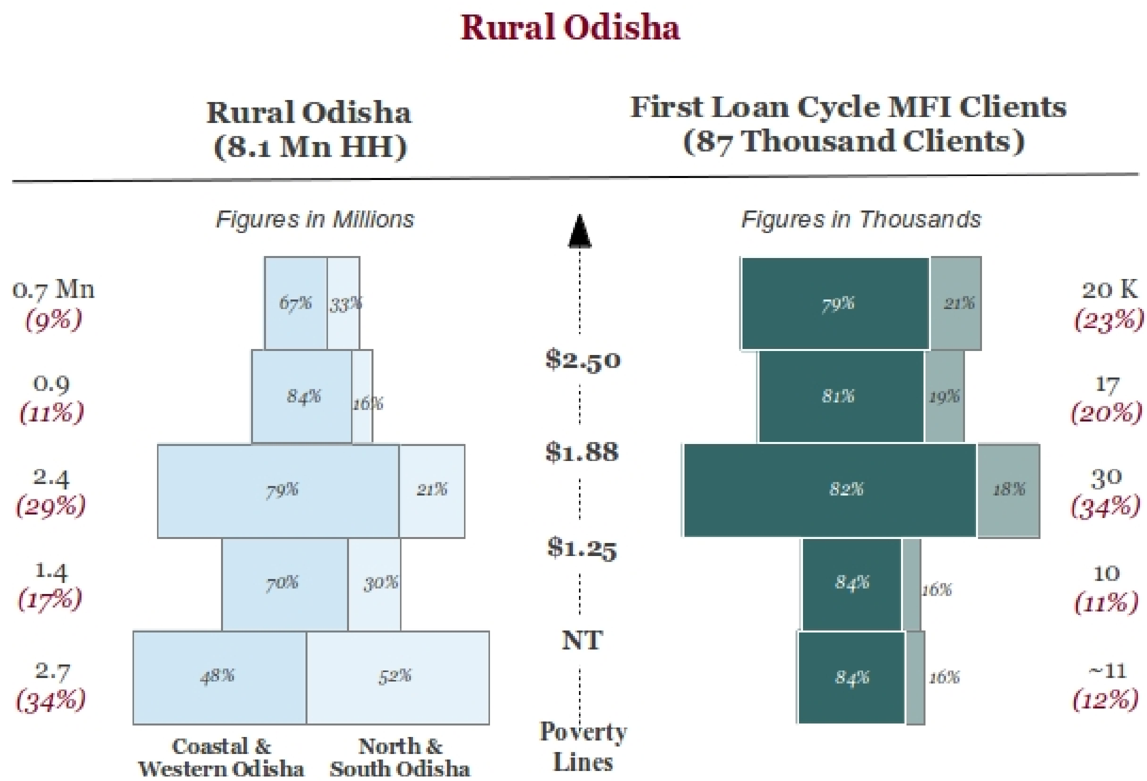
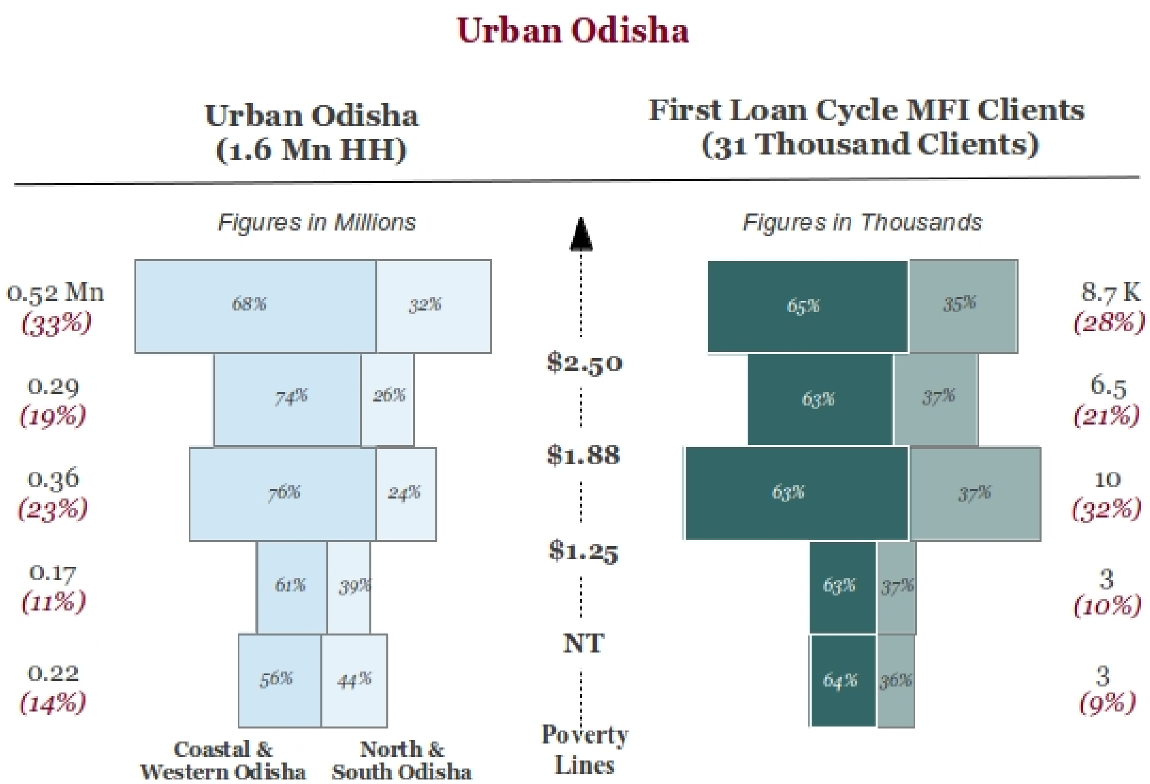


Illustration 08: Poverty concentration of rural and urban portfolios of participating MFIs in Odisha





KEY OBSERVATIONS

Sr#	Question	Observations
1.	What is the poverty profile of the new recruits and additions to the MFI portfolio compared to the poverty profile of the state population?	• The poverty profile of the new MFI clients lagged the state population poverty profile. For example, in Odisha, 46% of the population is likely to be below $1.25 2005 PPP Poverty Line while the MFI portfolio had only a 22% representation from this segment. • The tendency to recruit between $1.25 PPP and $2.5 PPP Poverty Line is very evident. The difference with the share of the segment in the state population is stark and comparable to Madhya Pradesh. While 40% of the state population was comprised of households in this segment, the MFIs had 55% of their new clients from this segment.
2.	What are the urban-rural disparities in MFI coverage?	• By and large, the rural and urban profiles mirrored the underlying poverty profile of the state rural and urban populations respectively. • Not surprisingly, in rural Odisha MFIs recruited 24% of new client base from the segment below $1.25 2005 PPP Poverty Line compared to urban Odisha where the figure was 19% given a higher concentration of rural households in that segment. • However, what is an important surprise is that while 9% of rural households in Odisha were earning more than $2.5 per person per day on 2005 PPP basis, MFIs originated 23% of their new clients from this segment. It is not out of turn to conclude that there is apparent a tendency on part of MFIs to look at this segment on a conscious and not on an incidental basis in Odisha. • A comparison with outreach of MFIs in urban Odisha above $2.5 2005 PPP Poverty Line puts the above MFI tendency in rural Odisha in perspective. While a third of households in urban Odisha were above $2.5 2005 PPP

Sr#	Question	Observations
		Poverty Line, MFIs originated 28% of their new clients from this segment: not very far from the 23% that the same group of MFIs originated from rural areas in spite of this segment comprising a significantly smaller share of population than in urban Odisha.
3.	What are the regional disparities, if any?	• In Odisha the population is concentrated in Coastal & West Odisha: while 3 million households live in North and South Odisha, more than double that figure (over 6 million) live in Coastal and West Odisha. • The poverty profiles of the regions are starkly and disturbingly different. Two indicators highlight the difference: in Coastal & West Odisha 38% of the households lived below $1.25 2005 PPP Poverty Line as compared to 61% in North & South Odisha. Looking particularly at the households below the National Tendulkar Poverty Line segment this difference is amplified considerably: in Coastal & West Odisha 22% (over a fifth) of the households were below the National Tendulkar line compared to 47% (nearly half) of the households in North & South Odisha. • Logically, the MFIs showed a very clear preference for Coastal & West Odisha. Of the total 119,000 new clients that the MFIs originated during the period of the study, over 91,000 (77%) came from districts falling on the eastern coast and the western belt compared to its northern and southern regions. • The practitioners cited reasons of political instability and a greater presence of indigenous populations in the north and south (for example districts like Debagarh and Malkangiri). In their opinion, there was considerable investment needed in building financial literacy in the districts of North & South Odisha as well as some

Sr#	Question	Observations
		assurance on predictability of cash-flows before these districts could figure in a prominent manner in the outreach strategy of MFIs. • Surprisingly, the client acquisition strategy of MFIs as discernible from the poverty composition of their portfolio is remarkably similar in both the regions. Thus, while the scale of operation of MFIs differs in proportion to the different poverty dynamics of the two regions, the concentration of the MFI portfolios does not.
4.	Engaging with the poorest of the poor: those living below the National Tendulkar Poverty Line	• In Odisha, like in Bihar, at 31%, a critical mass of the population was below the National Tendulkar Poverty Line. In comparison, in Madhya Pradesh and Uttar Pradesh, a fourth of the population was below the National Tendulkar Poverty Line. • On the other hand, only one out every 10 new clients of MFIs was likely to come from this segment. When compared to Uttar Pradesh and even Bihar, the poverty outreach of MFIs in Odisha among this segment appears to be largely indifferent and very much comparable to a state like Madhya Pradesh which has an excuse of a much smaller share of this segment and a different rural-urban mix. • This pattern of microfinance outreach was found to be consistent whether looked at from the rural-urban perspective or a regional perspective.
5.	Engagement with what is deemed to be the not-so-traditional client base of MFIs: segment above $2.5 PPP Poverty Line	• Over a third of households in urban Odisha fall in this segment compared to only a tenth in rural Odisha. As outlined above (point 2), however, the tendency of MFIs to recruit clients from this segment is similar: MFIs are likely to recruit on average one out of four new clients from this segment.
6.	Other characteristics of the	• In terms of occupation profile, a majority of the sampled

Sr#	Question	Observations
	MFI client-base	microfinance clients were found to be running their own enterprises. The next biggest segment of clients recruited by MFIs was found to be performing irregular labour. These clients are primarily involved in small trades and services, and may or may not own the enterprise. This second group of clients comprised 30% of the new client portfolio of MFIs in both the regions. 75% of those engaged in irregular labour were below $1.88 2005 PPP Poverty Line. • A significantly high number of sampled clients reported ownership of a savings bank account. This could be due to the universal financial inclusion scheme – PMJDY, recently launched by the Government of India. Access to life insurance is also high - probably due to the fact that most credit products offered by microfinance institutions are linked to a life insurance product which provides coverage for the tenure of the loan. Access to other financial services remains very low.

04. STATE-WISE FINDINGS AND OBSERVATIONS: BIHAR

In case of Bihar, only one region was included for sampling. As a result, to have a sufficient representative sample, it was drawn from across all-loan-cycle clients unlike first-loan-cycle clients for the states of Uttar Pradesh, Madhya Pradesh and Odisha. Hence, the findings presented here will have a different perspective than the other three PSIG states.

SUMMARY STATE PROFILE

State Population	Bihar is the 13th largest state in India and 3rd largest by population. It has a population of 104 million persons or 18.9 million households. Of these, 16.8 million or 89% of households are in rural areas while 2.05 million or 11% are in urban areas. The make up of Bihar is primarily rural though most infrastructure and facilities are concentrated in the urban areas.
Number of districts	38
Brief characteristic of economic and social development	As per the Economic Survey (2015), the recent growth process of Bihar's economy has been strong and sustained one, and its growth rate was one of the highest among all the Indian states. Between 2010-11 and 2013-14, the growth rate was even higher at 10.4 percent. Recent times have seen a spurt in the growth of secondary and tertiary sectors with a slight decline in the primary sector. The economy of Bihar is largely service-oriented, but it also has a significant agriculture base. The state also has a small industrial sector. As of 2012, agriculture accounts for 22%, industry 5% and service sector accounts 73% of the economy of the state. On the social development front, there is a large scope for improvement for Bihar. Of the 23 states ranked on HDI (Human Development Index), Bihar is at 21. According to a report released by MOSPI for India on achievement with reference to MDG goals, Bihar is one of the few states that is likely to miss its 2015 targets. The state ranks very low on most development indices around gender empowerment, hunger, health and other kinds of inequalities.
Financial inclusion as measured through Crisil Inclusix Score	Bihar is one of the bottom scoring states on the CRISIL Inclusix index and its performance on financial inclusion is found to be below average. With a score of 30.2, the state is almost 10 points below the national average and ranks in the bottom five states.
Regional division of the state from MFI	Social and economic development / status in Bihar is heterogeneous with different geographical pockets. In fact, a closer look at data will show that

practitioner's perspective	there are distinct pockets where urbanization, and therefore, the presence of enterprises and opportunities are higher (such as Patna, Hazipur, Muzaffarpur etc.). On the other hand there are areas affected by acute poverty that lie in rural areas such as Purnia, Champaran with limited access to basic amenities. Then again there are regions within the state that are highly prone to floods etc. making it difficult for microfinance institutions (among others) to operate. The microfinance practitioners, therefore, divided the state into 2 regions to really help understand their outreach in context to the local characteristics that limit or expand the scope of microfinance penetration in those areas. However, *the study only covers 1 region constituted by western and central Bihar* since the participating MFIs only had presence in this region. The 2nd region, constituting Northern Bihar (bordering Nepal), and in some respects southern part of the state, was not covered by this study.
Sample Design	49 branches of 9 MFIs participated in the study providing coverage of 507,595 clients through 15 districts represented through a statistically relevant stratified sample of 1,505 microfinance clients. 64% of the sample was from rural areas and 36% from urban. 100% of respondents were women. The 9 MFIs that participated in the study represent 34% of the total market share in the state of Bihar

POVERTY PROFILE OF STATE POPULATION AND AGGREGATED MFI FIRST LOAN CYCLE CLIENT PORTFOLIO

Illustration 09: Poverty concentration of overall portfolio of participating MFIs in Bihar

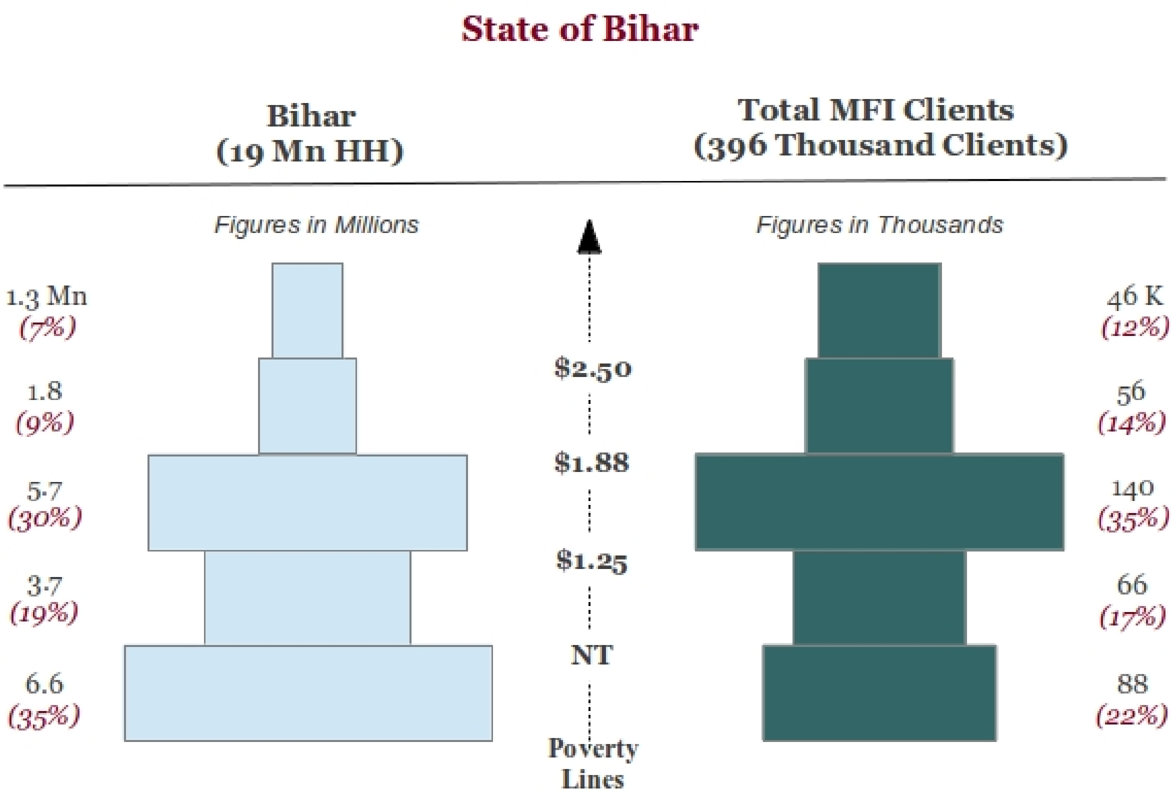
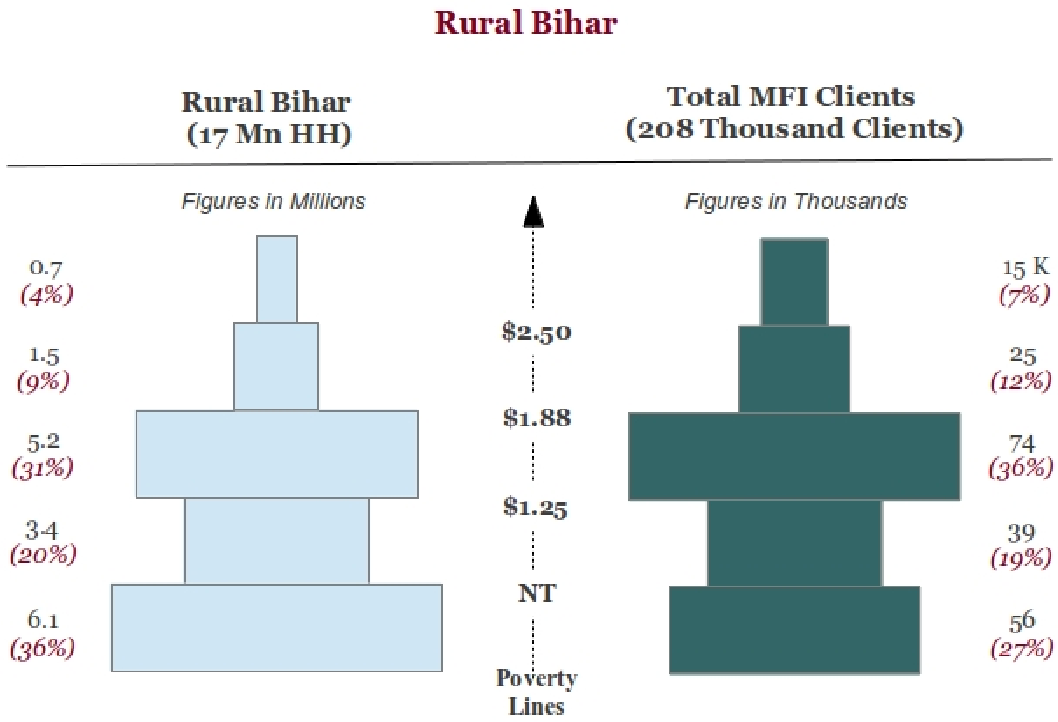
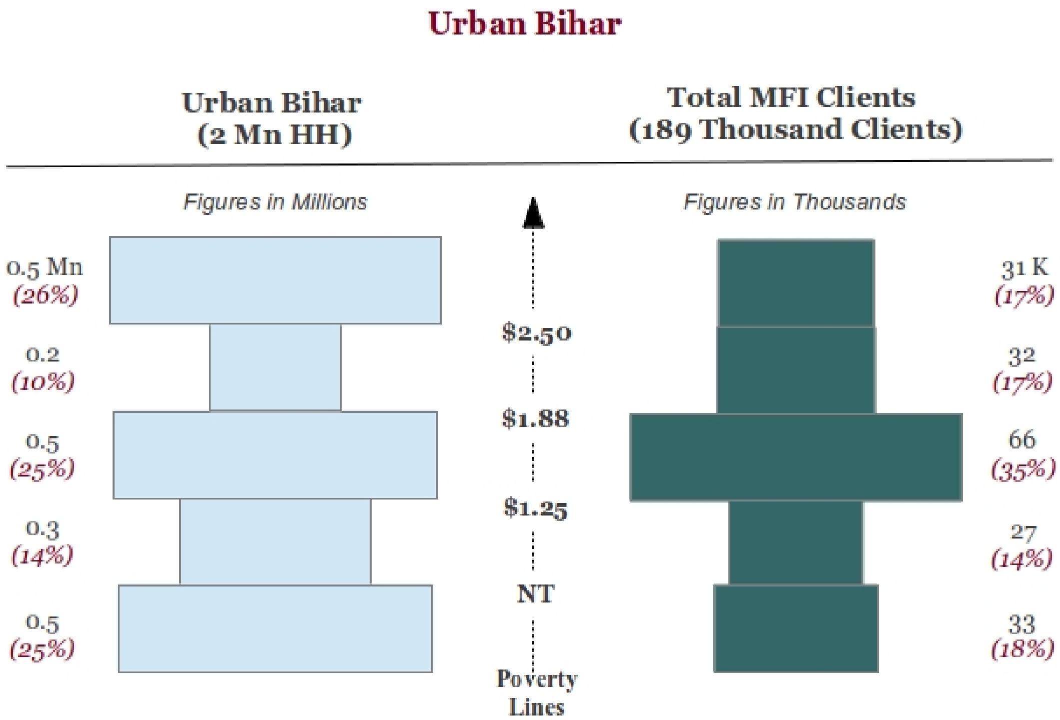


Illustration 10: Poverty concentration of rural and urban portfolios of participating MFIs in Bihar





KEY OBSERVATIONS

Sr#	Question	Observations
1.	What is the overall poverty profile of microfinance clients in Bihar and how does it compare with the poverty profile of the state (base) population?	• The poverty profile MFI clients in Bihar lags the state population poverty profile. For example, at an overall level, 54% of the population in Bihar lies below \$1.25 2005 PPP Poverty Line. However, only 39% of the microfinance outreach lies below this poverty line. • When compared to the state poverty profile this outreach seems, at best, adequate. Nonetheless, the outreach of the MFIs in Bihar below \$1.25 2005 PPP Poverty Line was the highest among all four PSIG states. • The tendency to recruit between \$1.25 and \$2.5 2005 PPP Poverty Lines segment is evident like for other PSIG states. 39% of the state population was within this segment while this segment formed 49% of the MFI portfolio.
2.	What are the urban-rural disparities in MFI coverage?	• That Bihar has a primarily rural character is self-evident if one considers the fact for every one household in urban Bihar, there are over 8 households in rural Bihar. Of the total population of 19 million households, nearly 17 million lived in what would be termed 'rural areas' as per the Census and 2 million in 'urban areas'. • This kind of difference between rural and urban Bihar persists even in the poverty composition of rural and urban areas. Their respective population profiles are inverse-mirror-images of each other. In rural Bihar, the ratio of population below and above \$1.25 2005 PPP Poverty Line is 56% : 44% respectively. This stands almost inverted in urban Bihar at 39%:61%. • In particular, over a third of the population (36%) in rural Bihar falls under the National Tendulkar Poverty Line. That is a disturbingly critical mass of the

Sr#	Question	Observations
		population can be deemed sensitive to economic, medical and social shocks. In urban Bihar, on the other hand, this ratio drops to a, still significant, fourth of the population. • At the end other end of the scale, above the $2.5 2005 PPP Poverty Line,rural Bihar had hardly 4% of the households in the segment compared to 25% in urban Bihar. Thus, the state poverty profiles of rural and urban Bihar differ materially. • Against this characteristic of the base populations, MFI poverty outreach has some surprises in offer especially when compared to other PSIG states. In general, the broad outline of the MFI outreach was similar in rural and urban Bihar with a critical but expected difference in emphasis below the $1.25 2005 PPP Poverty Line. • MFIs had 46% and 32% of their clients in rural and urban areas respectively below the $1.25 2005 PPP Poverty Line. When compared to the state poverty profile this outreach seems, at best, adequate. However, when compared to other PSIG states, the outreach of MFIs in rural Bihar below $1.25 2005 PPP Poverty Line stands out. It also raises the question of why MFIs in rural Bihar are able to achieve this level of outreach? Does that hold lessons for other states? • On the other hand, in rural and urban Bihar MFIs recruited roughly half their clients between the $1.25 and $2.5 2005 PPP Poverty Lines (47% in rural Bihar and 51% in urban Bihar)
3.	What are the regional disparities, if any?	Since only one region is considered for the state of Bihar, a regional analysis is not conducted for Bihar.
4.	Engaging with the poorest of the poor: those living	• Similar to the neighbouring PSIG state of Odisha, over a third (35%) of the state population can be deemed most

Sr#	Question	Observations
	below the National Tendulkar Poverty Line	vulnerable. This is unlike Uttar Pradesh and Madhya Pradesh where a shade over a fifth of the households are likely to be deemed most vulnerable. • Presence of a large critical mass of the population living below the National Tendulkar Poverty Line does seem to have a positive bearing on the outreach of MFIs in this segment. On average, MFI portfolios are likely to have over a fifth for their client-base drawn from this segment. In this, Bihar compares with Uttar Pradesh and favourably to Madhya Pradesh and Odisha. • In rural Bihar, this ratio would improve to 28% (i.e. MFIs recruiting well over a fourth of their clients from this segment) while in urban Bihar it would drop to 17%. However, even at 17% the MFIs in urban Bihar seem to reach out to a larger share of the vulnerable segments as compared to say the state-level poverty outreach averages of MFIs in Odisha and Madhya Pradesh. • However, given the high incidence of this segment (below National Tendulkar Poverty Line) in the overall state population, even this performance of MFIs significantly lags the state poverty profile.
5.	Engagement with what is deemed to be the not-so-traditional client base of MFIs: segment above $2.5 PPP Poverty Line	• Over the $2.5 2005 PPP Poverty Line the MFI portfolio is likely to have 12% of its client-base drawn from this segment. • This is contributed largely by the urban as opposed to the rural portfolio of MFIs. Of the 46,000 clients above $2.5 2005 PPP Poverty Line covered by this study, 31,000 (67%, over two-thirds) were the urban client-base of the MFIs. • Concentration of MFI clients in this segment in urban pockets is expected due to a higher concentration of this segment in urban pockets of Bihar. Of the 1.2 million

Sr#	Question	Observations
		households in Bihar above \$2.5 2005 PPP Poverty Line, 0.5 million are in urban Bihar (25% of urban Bihar) and 0.7 million in rural Bihar (4% of rural Bihar).
6.	Other characteristics of the MFI client-base	• In terms of caste profile, MFIs primarily serve the Other Backward Castes (OBCs) with 56% of the portfolio belonging to this caste category followed closely by Scheduled Castes (SCs) with 16% share and "Others" with 14% share. Unlike other states, General category has a very small portfolio share at only 4%. However, when analysed by poverty levels, interestingly, it is the SC group which is the poorest with 83% of such clients falling below \$1.88 poverty line. On the other hand, 74% of the OBC group, the largest portfolio share for Bihar MFIs, falls below \$1.88 poverty line. • In terms of occupation profile, a majority of sampled microfinance clients were found to be running their own enterprises. This segment accounts for 48% of total portfolio in Bihar. The next biggest segment of clients recruited by MFIs was categorized as performing irregular labour (35% share of portfolio). These clients are primarily involved in small trades and services, and may or may not own an enterprise. When analysed for poverty levels, it is the group performing irregular labour that is the poorest of all occupation segments with about 87% of such clients below \$1.88 poverty line. On the other hand, for the 'own enterprise' group only 68% of clients fall below \$1.88 poverty line. • The study also surveyed respondents to understand access to basic amenities such as drinking water and toilet facilities. In terms of ownership of drinking water sources, Bihar reports the highest ownership among microfinance clients with 76% of clients having direct

Sr#	Question	Observations
		ownership of such sources. When analysed for poverty there is not a very significant difference between the poverty levels of owners and non-owners indicating that the issue is more to do with access to such infrastructure than poverty. However, when analysed for access to toilet facilities it was found that almost 58% of respondent households do not own toilets and use open space for defecation. The remaining 42% use public/shared facilities. There were no responses recorded for exclusive ownership of toilet facilities. When compared for poverty levels, there is a significant difference between those using open spaces for defecation with 83% of such households falling below$1.88 poverty line and those using public/shared facilities at 66% below $1.88 poverty line. • A significantly high number of sampled clients (87%) reported ownership of a savings bank account. This could be due to the universal financial inclusion scheme – PMJDY, recently launched by the Government of India. Access to life insurance is also high - probably due to the fact that most credit products offered by microfinance institutions are linked to a life insurance product which provides coverage for the tenure of the loan. Access to other financial services remains very low.

APPENDIX 1: THE PROGRESS OUT OF POVERTY INDEX (PPI)

What is the PPI?

The Progress Out of Poverty Index® (PPI®) is a poverty measurement tool for organizations and businesses with a mission to serve the poor. With the PPI, organizations can identify the clients, customers, or employees who are most likely to be poor or vulnerable to poverty and integrate objective poverty data into their assessments and strategic decision-making.

How does the PPI work?

The PPI was designed with the budgets and operations of real organizations in mind; its simplicity means that it requires fewer resources to use. The PPI is a set of 10 easy-to-answer questions that a household member can answer in 5 to 10 minutes. A scoring system provides the likelihood that the survey respondent's household is living below the national poverty line and internationally-recognized poverty lines.

The PPI is country-specific. There are PPIs for 55 countries, and a similar poverty scorecard with a different creation methodology exists for use in China. All together, Grameen Foundation has developed poverty measurement tools for the countries that are home to 90 percent of the people in the world who fall under $1.25/day 2005 PPP.

The PPI serves as a poverty score to measure poverty outreach in a given population. When it is used to capture data over time, it serves to measure potential changes in poverty level-or “progress out of poverty.”

More information about the PPI

Please visit www.progressoutofpoverty.org for more information about the PPI, FAQs and resource documents.

Key Poverty Lines used in the report

Poverty lines are cut-off points separating the poor from the non-poor. They can be monetary (e.g. a certain level of consumption) or non-monetary (e.g. a certain level of literacy). The use of multiple lines can help in distinguishing different levels of poverty. There are two main ways of setting poverty lines—in a relative or absolute way.

Relative poverty lines

These are defined in relation to the overall distribution of income or consumption in a country; for example, the poverty line could be set at 50 percent of the country's mean income or consumption.

Absolute poverty lines

These are anchored in some absolute standard of what households should be able to count on in order to meet their basic needs. For monetary measures, these absolute poverty lines are often based on estimates of the cost of basic food needs (i.e., the cost a nutritional basket considered minimal for the healthy survival of a typical family), to which a provision is added for non-food needs.

This report examines microfinance performance for the following absolute poverty lines:

Table 11: Definition of Poverty Segments (Monetary / Expenditure) used in the report

Client classification	**Definition — based on household PPI score**	**% of Population within a Poverty segment**		
		All India	**All India – Rural**	**All India - Urban**
Ultra poor / economically most vulnerable	Households that are below the National Tendulkar Poverty Line.	18.4%	21.3%	11.6%
Very poor	Households that are between the National Tendulkar and $1.25 2005 PPP Poverty Line.	13.4%	15.6%	8.0%
Poor	Households that are between the $1.25 and $1.88 2005 PPP Poverty Line.	32.0%	35.2%	23.3%
Borderline Poor	Households that are between the $1.88 and $2.5 2005 PPP Poverty Line.	15.7%	15.3%	17.9%
> $2.5 Poverty Line	Households that are above the $2.5 2005 PPP Poverty Line.	20.5%	12.6%	39.2%

Rupee Values for Global Poverty Lines

For the purpose of PPI, dollar-based poverty lines defined by the World Bank are used. Poverty measures based on an international poverty line attempt to hold the real value of the poverty line constant across countries, as is done when making comparisons over time. The internationally comparable lines are useful for producing global aggregates of poverty. In principle, they test for the ability to purchase a basket of commodities that is roughly similar across the world.

What is ICP?

The international Comparison Program, which estimates PPP, coordinates the collection of price data for a basket of goods and services in countries outside the jurisdiction of Eurostat (Statistical Office of the European Union) and OECD (Organization for Economic Cooperation and Development), used for comparison purposes. The data collected are combined with other economic variables to calculate **Purchasing Power Parity (PPPs).**

What is PPP?

Purchasing Power Parity (PPP) is an economic theory and a technique used to determine the relative value of currencies, estimating the amount of adjustment needed on the exchange rate between countries in order for the exchange to be equivalent to each currency's purchasing power. It asks how much money would be needed to purchase the same goods and services in two countries. The PPP-based exchange rate is entirely different from market exchange rates. Market-based exchange rates should not be used while defining national currency equivalent for dollar-based poverty lines. For India, the PPP of the Rupee to the US$ was INR 16.28 compared to the market 11 exchange rate of INR 48.5 in 2009.

APPENDIX 2: INDEX OF DATA TABLES AND ILLUSTRATIONS

Index of Data Tables

Index of Illustrations