

**MICROFINANCE  
AND  
POVERTY ALLEVIATION**

**AN  
IMPACT ASSESSMENT SURVEY**

By:

RBS Foundation India

In Association with

CASHPOR Micro Credit

## MICROFINANCE IMPACT ASSESSMENT

### EXECUTIVE SUMMARY

ABN AMRO/RBS in association with CASHPOR Micro Credit, together conducted the second microfinance impact assessment survey in Dec 2008. The survey, using proportionate random sampling according to district, interviewed 320 mature clients, (those who have continuously taken and repaid 5 or more annual loans over at least 4 years). The questionnaire used for the survey gathered client information on sources of income (cash and kind) and number of earners, household statistics, uses of the loan funds, effects of life cycle events and shocks, Social empowerment and education of children. This information was gathered to attempt to answer the questions - **Is the continued use of Microfinance positively and strongly associated with poverty-alleviation?**

The data was used to score clients on the Progress out of Poverty Index (PPI); and it is estimated that **2 out of 3, a likelihood of 66%, of the mature clients are no longer poor, according to the Indian National Poverty Line.** Besides this, looking at longitudinal data and comparisons across different poverty groups – Non Poor, Moderate Poor and Very Poor (categories according to individual PPI scores), several interesting findings have emerged. These have been discussed and explained in the report and summarized in the table below.

IMPROVEMENT ACROSS THE YEARS		
Parameter	Before	After
	microfinance	microfinance
Average CASHPOR House Index (CHI) score	3	4
Average number of members per household	5	7
Average number of earners per household	2	3
% of households with more than 1 earner	61%	86%
Number of sources of income	1.75	2.48
% of families that have livestock as an asset	37%	100%
% of families that have agricultural land	1%	40%

#### Key Findings

- On an average each household added at least one new earner after the loans
- More than half the households added at least one more source of income after the loans
- Petty trade, not livestock, farming or labour, is the most common important source of income for microfinance borrowers
- 3-4 income generating activities combined with borrowing more than INR 75,000 over four or more years is the most effective means of moving out of poverty.
- Illness is the most common shock that the poor face, marriage is the most expensive
- KYC is possible: 97% of the women have either a ration card, or a voter i.d. or both

## MICROFINANCE IMPACT ASSESSMENT AT CASHPOR, VARANASI

“The key to ending extreme poverty is to enable the poorest of the poor to get their foot on the ladder of development. The ladder of development hovers overhead, and the poorest of the poor are stuck beneath it. They lack the minimum amount of capital necessary to get a foothold, and therefore need a boost up to the first rung.” - *Jeffrey D. Sachs*

### BACKGROUND



**CASHPOR Micro Credit (CASHPOR)** – was promoted by Prof David Gibbons who, inspired by (now Nobel Laureate) Prof Mohd Yunus of Grameen Bank Bangladesh, decided to start a microfinance program in India. CASHPOR was the Bank's first microfinance client in 2003. Driven by the passion for poverty alleviation through the creation of self-employment, Prof Gibbons selected one of the country's poorest regions – Eastern Uttar Pradesh – to start his work and set up CASHPOR in 1996. What is unique about CASHPOR is that not only was it the first to provide micro credit on a large scale exclusively to the poor in the poverty-stricken area, but also that it has over the years diligently maintained its focus on making these services available to the very poor. This it has achieved via its cost-effective targeting

tool called the CASHPOR Housing Index (CHI). The globally recognized CHI identifies target clients via an assessment of household assets particularly the dwelling structure. As of 31 March 2009, CMC provides credit worth INR 1.82 billion (about GBP 25 million), with an average loan outstanding of about INR 5,700 (about GBP 75), to 319,000 poor women. It has become profitable and financially-sustainable, while working exclusively with women who live below the poverty line. Delivering this service to women in far flung villages, are its 1,300 staff members located across 250 branches, almost all of which are rural.

#### **The first Impact Assessment Survey**

In 2004, ABN AMRO Bank conducted a survey with CASHPOR, to assess the impact of microfinance on poverty<sup>1</sup>. About 200 mature clients (those who had taken 4 or more annual loan cycles) were interviewed and it was found that 58% of them had experienced a significant decline in poverty and 41% had come right out of poverty. The results also showed that 78% of the clients, who had borrowed a moderate amount (<INR 30,000 each) and invested it to cultivate agricultural land, experienced a significant reduction in their poverty levels.

#### **The Second Impact Assessment Survey**

Four years later in December 2008, the second impact assessment survey was conducted in partnership with CASHPOR. The survey once again aimed to answer the question

**Is the continued use of microfinance positively and strongly associated with poverty-alleviation?**

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<sup>1</sup> Impact survey I report

For the second round, the scope was widened. Mature Clients were defined as those who had taken and repaid at least 5 loans from CASHPOR over at least 4 years, and the sample, increased to 320 poor women. Furthermore, the interviewers were 15 employees from ABN AMRO/RBS India, who together with 9 local students, spent 8 days in the districts of Mirzapur, Ghazipur, Varanasi and Chandauli interviewing mature and new clients.

## Methodology

### Questionnaire & the Progress Out of Poverty Index

The questionnaire used for the second Impact Assessment Survey has been designed jointly by Prof David Gibbons<sup>2</sup> and RBS Foundation India. It incorporates the Progress out of Poverty Index (PPI) for India<sup>3</sup>, developed by Grameen Foundation, USA. Using 10 simple questions that are drawn from the periodic Indian Socio-Economic Survey, and are strongly associated with expenditure levels of households, the PPI estimates the likelihood that a household is poor, according to specified poverty-lines, including the Indian national Poverty-Line and the international extreme poverty-line. The PPI can help Indian micro lenders (and other pro-poor development projects) target services, track changes in poverty over time, and report clients' poverty rates.



In addition, the questionnaire also captures the social impact that microfinance has on poor households. Key components of the questionnaire include:

1. **Types of income, cash or kind** – Efforts were made to capture income in kind as well as cash. Many CASHPOR clients are landless agricultural laborers who earn their income in the form of broken grain, which although not cash, is critical to the food security of the household. This indicator also takes into account children who may be contributing to the family income.
2. **Number of household members dependent on the earning members** to help determine the strain on household income and thereby vulnerability to “shocks”, like serious illness, death, natural disasters, etc. It is expected that continued access to micro credit may result in an increase in the number of earners in the household.
3. **Sources of income and use of the loan funds** – The assumption being that more the sources the more the income more the resilience to life cycle shocks. Also it helps us identify how well the loan has been used, and how important credit is for the family to sustain. It is expected that continued access to micro credit could result in diversification of (and increase in) the sources of household income.
4. **Effects of life cycle events and shocks** – Some questions try to determine whether life cycle events, such as deaths, marriages and births, etc., have actually been detrimental to achieving a

<sup>2</sup> Founder and Chairman of CASHPOR Micro Credit (CMC).

<sup>3</sup> Please see [www.progressoutofpoverty.org](http://www.progressoutofpoverty.org) for details.

positive impact on poverty through micro credit because of family and social obligations to spend heavily on them. In addition an attempt is made to measure the impact of unexpected “shocks”, like serious illness, death of family members or animals and natural disasters, on household income.

5. **Social empowerment and education of children** – The questions try to determine if there has been a change in the decision making pattern in the house. Are women who have been receiving micro credit more respected, have greater financial control and are consulted in key decisions? Are more of their children schooling, and staying in school longer?

### The Sample

The questionnaire was administered to 320 mature clients, those who have continuously taken and repaid 5 or more annual loans over at least 4 years. Proportionate random sampling according to district was used to calculate the number of clients to be interviewed per district and to identify them.

An analysis of the sample of 320 has yielded several interesting patterns and results. These have been broadly classified into

1. **Demographic patterns** – Outlining the various features of the sample
2. **Reduction of poverty** – Attempting to identify relationships, the association of continued access to microfinance on poverty levels
3. **Other social impacts** – Association with education, empowerment etc. if any due to long term borrowing and/or improved economic status

### Limitations of the survey

– **Control group:** The biggest limitation of the survey was the absence of a control group for comparison. An ideal control group would be one that comprises of women who are as poor as the mature clients were when they started borrowing, have a similar socio-ethnic background and reside in the same village thereby having the same opportunities and constraints, and have not availed a loan from CASHPOR. However it is not possible to put together such a group for the following practical reasons

- The mature clients are women who have been associated with CASHPOR for 5 years or more. Therefore they naturally tend to be the older villages in the MFI operations. Given that CASHPOR has been providing microfinance in Eastern UP since more than 10 years, there are few poor women in the village who have never been microfinance clients.
- One could argue that a similar village elsewhere in the region, in which CASHPOR does not work, is likely to have all the similarities and could serve the purpose of building a control group. Theoretically, this is possible, however villages within the same region that are not part of the CASHPOR group have been excluded for reasons such as better economic opportunities or different constraints. Thus this option too cannot result in a pure control group.

Irrespective of the design of the control group, women who have not availed a loan from an MFI will most likely not be keen to participate in interviews regarding the same. Of those who do participate, the responses are likely to be biased due to their exclusion, or their desire for inclusion in the microfinance programme.

As a realistic solution, it was envisaged that the new clients of CASHPOR, those who had borrowed for less than a year, would to a large extent be similar to the non-clients. Based on this premise, 72

new clients were interviewed but the analysis yielded that there was little difference in most socio-economic parameters vis-à-vis the mature clients. While it is not possible to accurately identify the reason for the same, experience indicates that, having first provided services to the 'very poor' families in a particular area, the natural progression for growth of the MFI branch is to then include those who are poor but an economic notch above the 'very poor'.

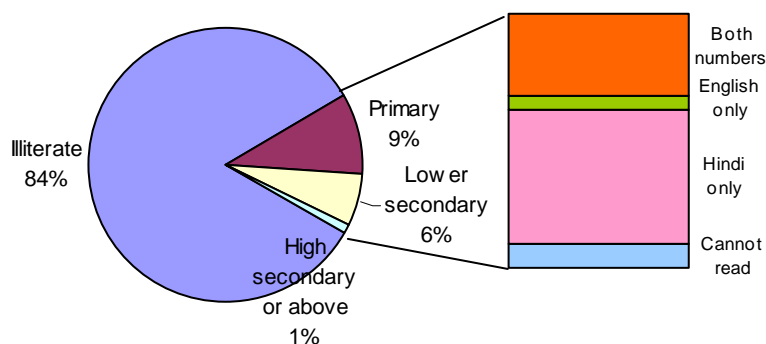
Given these constraints, the survey team took a decision to do away with the control group and conduct the analysis within the limitations.

- **PPI limitations:** The PPI is an excellent tool to monitor targeting and benchmark the data results, however does present several limitations.
  - PPI indicates likelihoods or probabilities and not certainties therefore in some cases associations discovered were not as strong as if the sub-groups were "pure".
  - Furthermore as PPI is a composite measure containing 10 items, none of these can be used to explain it thereby severely limits the analysis that can be done. For instance, one would naturally look for a relationship between source of income, or the occupation, and the poverty level. However as the principle occupation is already a PPI indicator, one cannot use it to explain poverty reduction.
  - A larger question related to the PPI is that it may inflate the number of non-poor households by giving points to items that have been given to these households as part of populist politics, such as pucca houses, serwing machine etc. The impact of these on the score would of course be dependent on state level politics and was not found to be significant during our survey.
- **Sampling deviations:** The sampling methodology followed Proportionate Random Sampling however as the interviews were conducted during the harvest season, occasionally interviewers had to substitute an unavailable client with another mature client not on the sampling list.
- **Limited resources:** The survey would ideally have liked to know whether or not microfinance causes poverty-reduction, however answering that question, would require a more sophisticated research design based on randomization, which was beyond our resources for this survey.

## DEMOGRAPHIC PATTERNS

### Literacy

It is estimated that the female literacy rate in India<sup>4</sup> is around 45% and in Bihar and UP it is much lower at 26% and 34% respectively. If one narrows it down to rural women, it is likely to be much lower, as was reflected in the sample. Schooling among the interviewed members was very low (84% of the sample has never been to school), nevertheless 21% of them can read numbers. Of those who have received some form of education, the percentage who can read increases to 91%. Interestingly, during our interactions with these women, we learnt that, literate or otherwise, almost all of them are able to recognize currency notes, primarily by the color and size, and several can count them as well. This indeed has been a contribution of microfinance, as more and more illiterate women learn to manage money.



### Household size and dependency

On an average each person had 7 household members, a considerable increase from the average of 5 at the time the women began borrowing from CASHPOR. An average of 3 persons in the household contributed to income and each household has added **at least one new earner after taking the microfinance loans**. The impact of the household size is best understood via the Dependency Ratio<sup>5</sup> - the extent to which a family is dependent on the earners. The ratio for the sample is 2.3, that is, each earner supports more than two household members. If this is extrapolated to the pre-borrowing average household size of 5 with one less earner, the dependency ratio of the household was marginally higher at 2.5. Had the household size not increased but the additional earner added due to microfinance, the dependency ratio would have been much lower at 1.7. Thus one can confidently infer that while the increase in household size may have had a negative implication for poverty reduction, it certainly increased the burden of earning members. If continued use of microfinance is associated with a significant increase in household size, the impact on poverty needs to be studied more deeply.

<sup>4</sup> Census 2001, Table – State-wise educational level

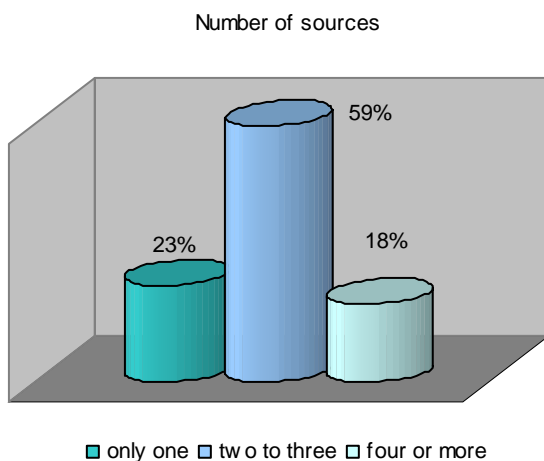
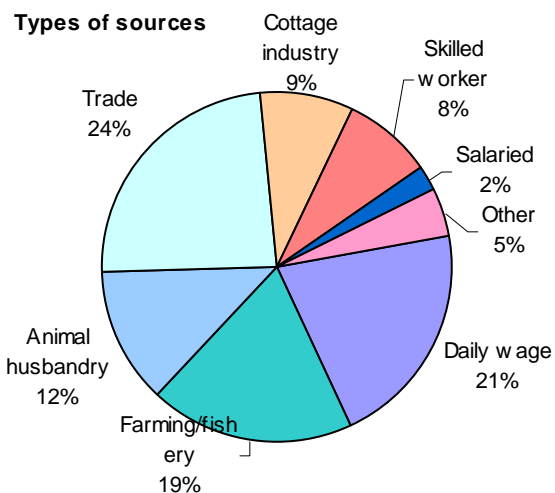
<sup>5</sup> Dependency ratio = No of household members per earner. The higher the ratio the higher the dependency

## Banking

Banking for the poor has been a major government mandate since the last five years and it is not surprising that 34% of the women already have bank accounts. But what's disappointing is that a majority of those who do not have accounts do not even want to open one. The common response that interviewers got was, "There is no money to put in an account".

## Income Earners and Sources

Agriculture labor, the traditional activity, is still the primary source of income for 21% of households, but 24% of the households also reported that trade is their primary source of income. Most of the petty trade activities undertaken by these families, such as small shop, bangle vending etc, can be attributed for microfinance for which they get loans from CASHPOR. Farming and fishery (on own land or sharecropping) are the third most important primary source of income (19%), and both use capital from the microfinance loans. Animal husbandry (livestock including cows, buffaloes, goats and pigs) is next, being the primary source of income for 12% of those interviewed. Most of them have bought milk buffaloes with their loans, and two buffaloes are ideal, as milk can be available all year round. Cottage industries, comprising mainly saree and carper weaving, and skilled work, comprising mainly masons and electricians and barber together account for income for 17% of the sample, however these are skills and occupations that are usually passed down generations.



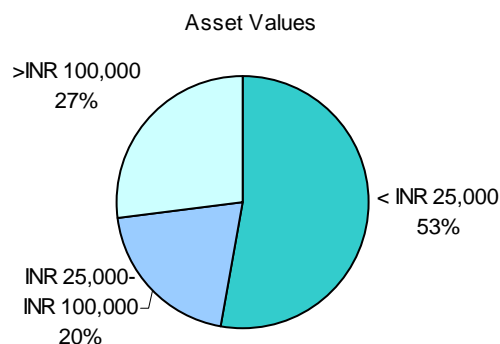
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More than half the households (59%) now have two or three sources of income, with 18% having four or more. Only a small percentage, 23% depend on one single source of income. It should however be noted that at least one of the sources of income are still seasonal. **55% of the households have added at least one more source of income.**

It is often the woman who is the additional earner in the family. In some cases where she is already working, she will take the loan to set up a small business for her son or invest in her husband's family business.

### Productive Assets

Ownership of productive assets is important to ensure that families that have come out of poverty do not fall back below the poverty line again. The average productive asset value of sample households is about INR 107,000. However, the range is quite wide, with a majority of the sample having assets less than INR 25,000 in values.



Every single family has some form of livestock compared with 63% that did not have farm animals at the time they began borrowing from CASHPOR, which gives loans for livestock. About 40% of the sample has agricultural land, compared to only 1% at the time of entry, and though most are small plots, the average value is INR 77,000. This may be a major impact of continued access to microfinance, as ownership of even small plots of agricultural land can secure the supply of food for the household reducing vulnerability to hunger. Cultivation of their own land can transform a landless labourer into a small farmer, with associated improvements in social status. A few of the clients also had large tracts of land, handed down by their forefathers, particularly around Ghazipur, where land values have been rapidly rising. These households tend to have a larger valuation of assets which skews the overall sample average. However one needs to ascertain the liquidity of these and other assets to determine their benefit in times of shock. The asset that the maximum number of families have is the bicycle, and about 30% of them also have mobile phones.

**Know Your Client** - 97% of the women reported having either a voter card or a ration card or even both. This is particularly important since MFIs have always assumed that meeting RBI's KYC requirements for their clients was impossible due to lack of photo-ID documents.

## REDUCTION OF POVERTY

Taking and repaying at least 5 loans from CASHPOR over the past 4 years is strongly and positively associated with progress out of poverty. This is the main finding of the survey. From the Progress-Out-of-Poverty Index (PPI) scores, it is estimated that **2 out of 3 - 66% - mature clients are no longer poor, according to the Indian National Poverty Line, and 50% are not poor according the the international severe poverty-line of US1/day (PPP).**

PPI Score	Number of Mature Clients	Likelihood of being above the Indian National Poverty-Line <sup>6</sup>	Number of mature clients not poor
0-4	16	23.0%	4
5-9	40	41.5%	17
10-14	46	48.8%	22
15-19	46	64.5%	30
20-24	37	71.3%	26
25-29	46	78.7%	36
30-34	32	81.1%	26
35-39	16	85.1%	14
40-44	16	90.0%	14
45-49	14	95.5%	6
50-54	5	94.9%	5
55-59	6	94.3%	13
<b>Totals/ Weighted Average</b>	<b>320</b>	<b>66.5%</b>	<b>213</b>

That nearly all of the clients were below the poverty-line when they began borrowing from CASHPOR was ensured by our targeting methodology based on the CASHPOR House Index and verified by our sources of income and productive assets test. This is demonstrated in the table below:

Poverty Indicator	At entry point	December 2008 (Impact Survey)
Average CASHPOR House Index (CHI) score	3	4
Owned any Agricultural land	1%	40%
Without any livestock	63%	43%

The average CHI score was only 3 at the time of entry, and it has now risen to 4. As is typical in rural areas, as soon as the family has some spare money, the first thing they do is invest it in improving their

<sup>6</sup> Indian National Poverty Line at INR 14.25/person/day. Source: Microfinance risk Management, LLC. Based on Schedule 1.0 of India's SES by NSSO

house, often rain-proofing the roof by replacing straw with used zinc sheets or tiles. The fact that the CHI has improved for the same clients, shows that there was some surplus income available. Only 1% owned any agricultural land at the time of entry, compared to 40% today. Nearly 2 out of 3 owned no large farm animals at the time of entry (owning a cow is the ideal of all poor, rural households), compared to less than half who do not own a cow or a buffalo today.

### Explanation

We can look to see what else is associated with borrowing micro credit and poverty-reduction to identify possible intervening variables between the two. In other words, what might relate the two phenomena? In order to answer, we divided our sample into three sub-groups according to the likelihood of being poor according to the Indian National Poverty-Line, as indicated by the PPI score, in the following manner:

Poverty Category	Sample Size
<b>Very Poor (VP):</b> 77% to 51.2% likelihood of being poor	102
<b>Moderately Poor (MP):</b> 35.5% to 21.3% likelihood of being poor	129
<b>Non Poor (NP):</b> 18.9% to 4.5% likelihood of being poor	89
<b>Total Sample Size</b>	320

As PPI indicates likelihoods or probabilities and not certainties, each of these sub-groups is in fact mixed as far as poverty status is concerned, with those categorized as VP, for example, including some clients who are actually MP or NP (please see PPI table above); but the overall likelihoods of each sub-group being poor are sufficiently different as to mean that most clients in each sub-group will be as labeled as far as poverty status is concerned. That means that we can go ahead with our analysis, but must keep in mind that associations discovered may not be as strong as if the sub-groups were “pure”.<sup>7</sup> Another problem with analysis using poverty likelihoods generated from PPI as a dependent variable is that PPI is a composite measure containing 10 items, none of which can be used to explain it. For example, we might like to try to explain different PPI scores according to the primary occupation of the households, but we cannot as it is a component of the PPI. This severely limits the analysis that can be done.<sup>8</sup>

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<sup>7</sup> This may be the reason why none of the associations reported in this analysis are statistically significant and the standard 95% confidence level still, they may indicate important paths out of poverty.

<sup>8</sup> In an earlier version of PPI, there was a variation composed of only 5 items. Perhaps it should be revived to enable more analysis of PPI poverty likelihoods.

### Borrowing and Poverty Status

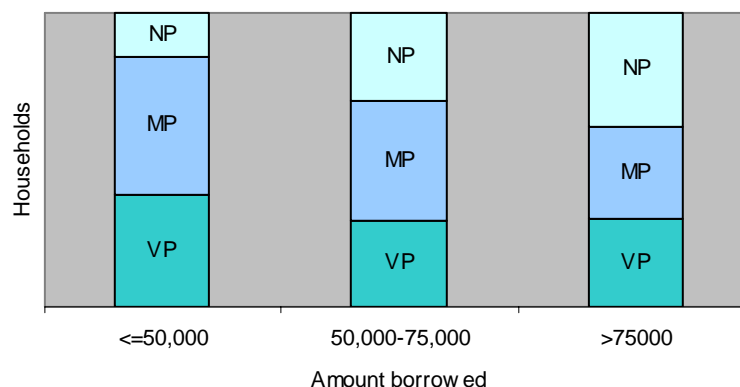
Everything else being equal, we might expect that the larger the total amount borrowed from CASHPOR and the larger the number of loans taken, to be associated with poverty-reduction. The following table shows the result:

Poverty Status	Average No. of Loans	Average Amt Borrowed across all loans (INR)
VP	8	60,574
MP	8	59,085
NP	8	69,101
Total	8	62,345

There is no difference among the poverty status sub-groups on the average number of loans borrowed. Nor is there much difference between the average amounts borrowed by the VP and MP groups. Only the Non Poor sub-group has borrowed more on average, although only about Rs.10,000 more. Let us look at this from another angle.

### Amount Borrowed and Poverty-Reduction

Let's categorize the total amount borrowed into Low, Medium and High, and look for an association with poverty-reduction.



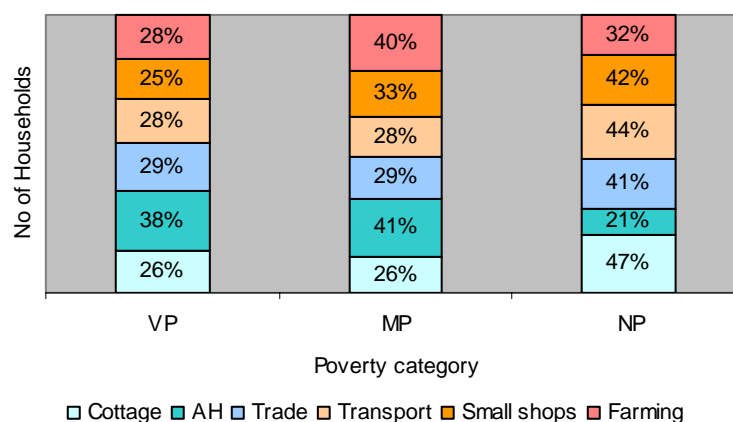
Total Amt Borrowed	Low	Medium	High
	<Rs.50,000	Rs.50,000 – 75,000	>Rs.75,000
<b>VP</b>	38%	29%	30%
<b>MP</b>	47%	41%	31%
<b>NP</b>	<b>15%</b>	<b>30%</b>	<b>39%</b>
<b>Totals</b>	100% n=68	100% n=164	100% n=70

Here we see that there is a weak over-all association, with the MP having the largest percentage among the Low and Medium category borrowers, and the NP among the High category borrowers. Moreover, the percentage of NP increases with each category of borrowing. However, still only 39% of the High borrowing category is NP. Let us see if the strength of the association increases if we look at what the clients were supposed to do with the loans, that is, the activity for which the loans were approved. All

loans from CASHPOR, except Emergency loans which are not common, are meant for income-generation.<sup>9</sup>

### Approved Loan Activity, Amount Borrowed and Poverty Reduction

If we look deeper into the high end borrowers according to the various activities for which they took a loan, we see there is an association among clients who borrowed more than Rs75,000, their approved loan activity and poverty-reduction



Amt/Activity >75,000	Cottage Industry	Animal Husbandry	Petty Trade	Transport	Small Shops	Farming
<b>VP</b>	26%	38%	29%	28%	25%	28%
<b>MP</b>	26%	<b>41%</b>	29%	28%	33%	<b>40%</b>
<b>NP</b>	<b>47%</b>	21%	<b>41%</b>	<b>44%</b>	<b>42%</b>	32%
<b>Totals</b>	99% n=38	100% n=39	99% n=51	100% n=32	100% n=36	100% n=25

If they borrowed for cottage Industries (mainly saree and carpet weaving), they had a 47% chance of being NP, followed by borrowing for Transport (mainly rickshaw but a few 3-wheelers), with a 44% chance of being NP, followed by borrowing for Small Shops (mainly grocery, but some bangle/cosmetic), with a 42% chance of being NP, and followed by borrowing for Petty Trade (mainly itinerant trade of all kinds), with a chance of 41% of being NP. Interestingly Farming (mainly leasing-in land for growing crops), and Animal Husbandry (mainly milch buffalo), were not strategies out of poverty for the High borrowing category; but they were paths out of VP to MP for this group. To get more understanding of these associations, and to try to identify the best path out of poverty, by looking at specialization vs diversification of loan activities.

<sup>9</sup> Not all clients use their loans for the purpose approved, but our loan utilization checks ensure that most do – at least initially. However, they may and do change the utilization thereafter according to experienced profitability and new opportunities.

### Investment strategies

There were 18 high-borrowing clients for whom loans were approved for cottage industry and became NP. Did they specialize in this, or invest in other income-generating activities as well? Lets look at the combinations of activities for which their loans were approved.

S No	Cottage Ind (C)	Animal Husbandry (AH)	Petty Trading (PT)	Transport (T)	Small Shops (SS)	Farming (F)	Pattern	No of loans.
1	46,000	18,000	20,000				C+AH+PT	3
2	28,000	61,000		1,000			C+AH+T	3
3	10,000		14,000		68,000		C+PT+SS	3
4	10,000		70,000		46,000		C+PT+SS	3
5	24,000		8,000		75,000		C+PT+SS	3
6	28,000		14,000		49,000		C+PT+SS	3
7	14,000		23,000	58,000			C+PT+T	3
8	45,000		17,000	14,000			C+PT+T	3
9	14,000			63,000	52,000		C+T+SS	3
10	18,000	38,000	14,000			10,000	C+AH+PT+F	4
11	40,000	6,000	20,000			14,000	C+AH+PT+F	4
12	56,000		16,000	6,000		8,000	C+PT+T+F	4
13	14,000		76,000	13,000	26,000		C+PT+T+SS	4
14	22,000		34,000	10,000	10,000		C+PT+T+SS	4
15	24,000		14,000	8,000	43,000		C+PT+T+SS	4
16	40,000		24,000	13,000	10,000		C+PT+T+SS	4
17	42,000		8,000	22,000	6,000		C+PT+T+SS	4
18	46,000		8,000	1,000	36,000		C+PT+T+SS	4
<b>Avg amt</b>	<b>28,944</b>	<b>30,750</b>	<b>23,750</b>	<b>19,000</b>	<b>38,272</b>	<b>10,666</b>		

None of the high-end borrowers, for whom loans had been approved for Cottage Industries, who became NP, specialized in that activity. In fact all of them had loans approved for 2 or 3 other income-generating activities, with half having a total of 3 IGAs and the other half 4 IGAs. Predominant among those with 3 IGAs was the investment strategy of C+PT+SS, accounting for 4 out of 9 clients. Among the other 9 clients with 4 IGAs, one strategy, C+PT+T+SS, was found among 6 of them.

Thus we can conclude that two investment strategies accounted for 10 (55%) of the 18 clients who had become NP through investing in Cottage Industries, C+PT+SS and C+PT+T+SS, with Transport being added. Interestingly, although all 18 NP clients had invested in Cottage industries, they had invested more in the other IGAs, with an average investment of INR 28,944 in Cottage Industries compared to INR 38,272 in Small Shops, etc.

**Borrowing for Cottage Industry plus two or three other IGAs involving Petty Trading, Small Shops and Transport, was the most successful strategy out of poverty**, but still with only a 55% chance of success. There may be an internal logic to this successful pattern. The Cottage Industry utilizes household labor and perhaps other workers. Initially, Petty Trading may be added as a way of selling saris/carpets at a better price. If the integrated business prospers, it may result in the establishment of a fixed-location Small Shop from which to sell the sarees/carpets. Finally a Transport vehicle, a rickshaw or rickshaw van, may be purchased to facilitate transport of the sarees/carpets for petty trading and/or to the shop. **Whatever, the need for three or four IGAs to come out of poverty, results in the need to borrow more than INR 75,000 to achieve it.**

### Current sources of income

Investment strategies can fall afoul because of economic events over which the investors have no control. Of 15 high-end borrowers who had loans approved for cottage industries for whom data are still available, **only two are earning income from cottage industries today**. The cottage-based weaving industry, both sarees and carpets, has collapsed in eastern UP, losing markets because of international concerns over child labor, and the import of significantly cheaper machine-made cloth from China. It seems that the **former weavers have fallen-back on existing other income sources to survive. Among these petty trading and small shops (mainly grocery and some bicycle repair) are the most prominent, with 12 out of the 15 households doing itinerant trading and/or having a small shop**. One household has 5 members involved in bidi (traditional cigarette) making, while another has 8 members making idols. Both make and sell their products from shops. One other family relies upon cultivation of 10 biswa (about half and acre) of irrigated land.

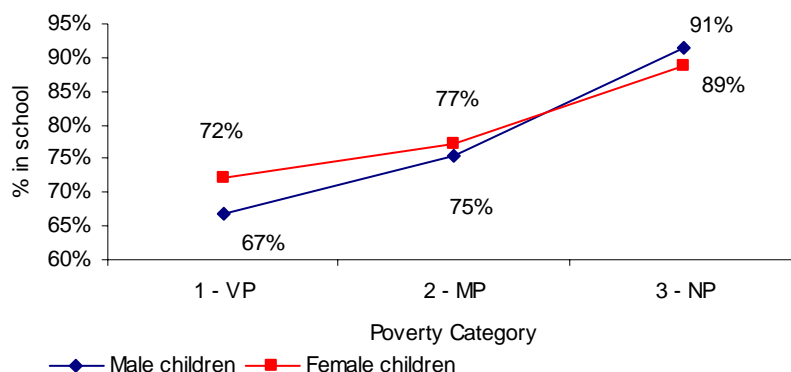
**It appears that diversification of sources of income as a result of access to capital from CASHPOR, and continuing access to it have enabled these formerly poor households to withstand the collapse of their traditional weaving industry, and still stay out of poverty.**

## SOCIAL IMPACT

Microfinance is expected to have several impacts, emerging from improved or stabilized economic conditions. The results however do not consistently point towards this, though once again the analysis is limited due to the indicators already used in the PPI.

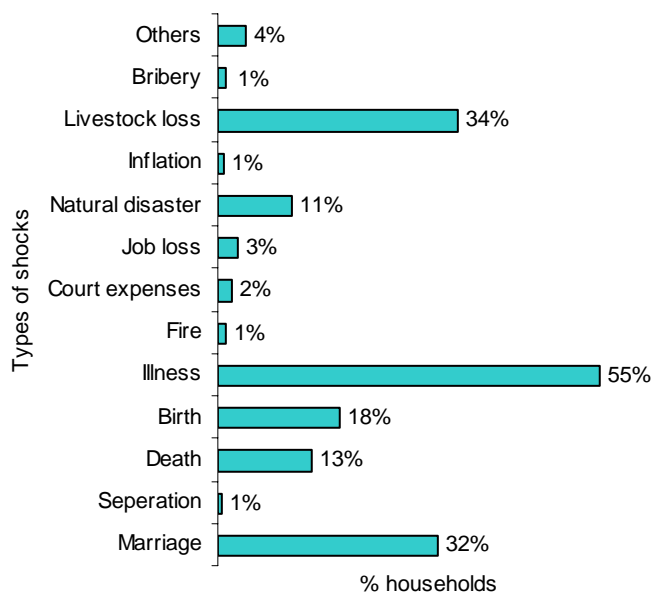
### Education of Children

On an average each household has 3 children. Of these three-quarters of the children of school age of the mature clients are in school. While very surprisingly there is no significant difference between the percentage of male and female children in school, across the poverty status categories, in light of the widespread belief that female



children receive less education than their brothers, there is a positive association between poverty status and education of children. **The proportion of both male and female children schooling increases with reduction in poverty, with 70% of the children of the VP in school and 89% of children of NP still schooling.** Overall the average of 75% of all children in school appears satisfactory, and likely to increase with further poverty-reduction.

It was learnt during the interviews that families tend to regularly pull out boys from school during the harvest season so that they may help as agriculture labour. Female education only stops when the girl is perceived as being marriageable age or when the school is far from the village.



### Vulnerability

Every family has experienced 1-2 life cycle events/shocks in the last few years. Shocks that have cost them an average of INR 52,500 to cope with. More than half (55%) of the families reported shock due to illness for which they spent an average of INR 19,000. Almost one third of the households (32%) reported marriage of daughters recently, spending an average of INR 75,000 per family. About the same proportion (34%) reported death of farm animals recently.

Poverty Category	Average financial shocks (INR)
VP	52,923
MP	40,307
NP	71,229
<b>Sample Average</b>	<b>52,543</b>

There is no strong relationship between poverty category and shocks. However one can infer that even though those in the NP category experienced higher average shocks they perhaps utilized their loans in a manner, as discussed above, that allowed them to

better manage the shocks thereby rendering them as NP. However there is no strong correlation to prove the same.

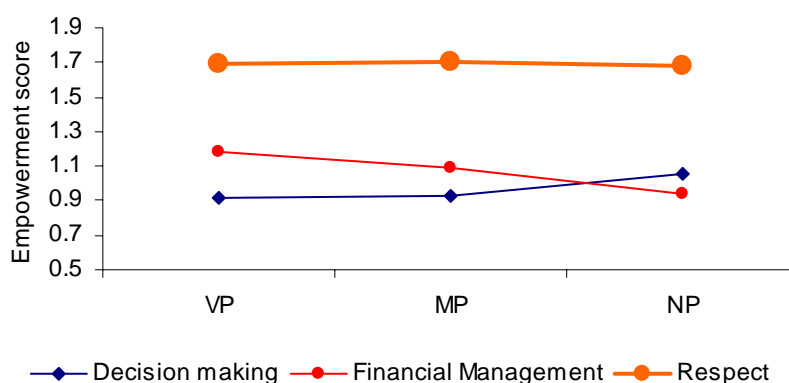
### Empowerment of Women

The questionnaire attempted to capture empowerment through eight questions. Some of these were meant to better understand the empowerment while three have been weighted and used to determine the empowerment level of individual mature clients. The borrowers were asked who took the important decisions in the family (weight = 1.5), who took the financial decisions in the household (weight = 1.5) and did the women feel a change in the respect they received after becoming microfinance clients (weight = 2.5).

Poverty Category	Overall empowerment of Women (max score 10)
VP	6.53
MP	6.43
NP	6.37
<b>Sample Average</b>	<b>6.44</b>

One would expect that the non poor would display higher levels of empowerment by virtue that they had played an important role in their families breaking the shackles of poverty, however the results were disappointing. While there was no significant difference in empowerment

among the three categories, 75% of the women reported that they felt they were more respected by their friends, family and friends now.



### Sustainability of Poverty-Reduction

Other things being equal, households with more valuable productive assets should find it easier to sustain their poverty-reduction, than those who have less. To make this comparison, we have removed those assets which are reported on in the PPI.

Poverty Status	VP	MP	NP
<b>Adjusted value of Productive Assets (INR)</b>	92,617	96,898	127,112

**The mature clients who have come out of poverty have productive assets of higher value than those still in poverty. Hence the former have a basis for sustaining their higher income, and this should help them not to fall back into poverty.**

### **Loan Repayment**

Nearly all (84%) of the Mature Clients said they were having no difficulty in making their weekly loan repayments to CASHPOR, and there was no significant difference among the poverty status sub-groups. Probably this reflects the overall improvement in their incomes. It also indicates that they should continue to have access to microfinance from CASHPOR. According to their credit histories, very few had in fact missed installments, and on average they settled their loans in 40 weeks, although they could have taken 52 weeks. These Mature Clients of CASHPOR have become low risk borrowers.

## CONCLUSION

Conducted in four districts of UP with CASHPOR Micro Credit, the interviews with 320 mature clients of the MFI yielded several interesting results. A mere 16% of the women interviewed had been to school, but 21% of them could read numbers as they learn to count currency and repayments. Being illiterate themselves has not stopped them for seeking a better life for their children with 75% of both boys and girls reported going to school. Their households tend to be large with the 6-7 members dependent entirely on the 2-3 persons who support the family. **These women are among the income earners and the results of the impact survey indicate that as per the PPI, that there is a probability that 66% of those who borrowed five or more loans for four consecutive years, are now non-poor.**

### The poor diversify their sources of income with access to Microfinance

Agriculture labour is still the primary source of income for 21% of the households. That, 24% of the mature clients now rely on petty trade as their primary source of income can be largely attributed to microfinance that makes these micro enterprise loans. The opportunities provided by microfinance have been used by the households to add at least one new earner as well as diversify their sources of income. More than 75% of the households reported having two or more sources of income. But shocks and life cycle events that involve significant financial outlay continue to mar the household's efforts to pull itself out of poverty. Poor hygiene makes illness a shock that more than 55% of them had experienced. Marriage is another large expense, an average of INR 75,000 that most households incur.

### Loan amounts and uses make a difference

During the course of the analysis, the sample was divided into the three poverty categories, based on the PPI scoring of the family likely to be poor, and an attempt was made to understand if there are causal factors or patterns that are correlated with a household likely to fall in a particular category. Differences were few but the ones that emerged were very interesting. The average amount borrowed was not very different across the categories. Furthermore, if one was to divide the amounts borrowed into low, medium and high, there was still not a high correlation between that and poverty category. But when the analysis went deeper, it was noted that of those who had taken loans of more than INR 75,000 for the purpose of saree or carpet weaving (cottage industry), 47% were in the non-poor category. However, it is common knowledge that the carpet industry is dying in the country due to strict international norms and cheaper competition. The question then arises whether cottage industry remains a viable investment to pull a family out of poverty. Plagued by reducing revenue, these clients continued to invest in their traditional craft but at the same time were prudent to diversify their sources of income by investing in at least three different activities. Thus one can infer that Borrowing for Cottage Industry plus two or three other IGAs involving Petty Trading, Small Shops and Transport, was the most successful strategy out of poverty, but still with only a 55% chance of success and whatever combination of activities, they need to borrow more than INR 75,000 to achieve it.

### Social impact

MFIs often assume that financial access and an improved economic status automatically leads to social benefits for women and the family however the results are mixed. It was encouraging to note that the

proportion of both male and female children schooling increases with reduction in poverty, with 70% of the children of the very poor in school and 90% of children of the non poor still schooling. The ability to withstand financial shocks also seems to be better among the non poor who spent a higher average amount on financial shocks, yet made it to the non poor category. But the empowerment of women measured by decision making, financial management and respect, was largely the same across the different categories. This does not imply that empowerment has not taken place, but instead it simply reports that it is not related to the likelihood of the woman's loan to improve the economic status of the family, as 75% of the women interviewed felt that they felt more respected now by their family, friends and spouse.

Microfinance is certainly not the silver bullet that will wipe away poverty, however it is undoubtedly making an impact on the socio-economic status of those who avail it and use it well. The survey gives us the statistical evidence that its continued use for at least 5 loans over at least 4 years is positively and strongly associated with the likelihood of non-poor, according to the Indian National Poverty Line.