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CREATING KNOWLEDGE TO END POVERTY

DOES MICROFINANCE REACH THE POOREST? FINDINGS FROM RURAL PAKISTAN

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Access to financial services enables poor people to increase and diversify incomes and improve their lives by building human, social and economic assets. However, despite worldwide efforts to provide access to such services, both formal and informal sectors in the developing world have fallen short of demands and expectations.

Consequently, in order to finance their immediate needs, and faced with limited choice, the rural poor resort to borrowing from private money lenders. Their interest rates are exorbitant and significantly greater than those charged by microfinance institutions (MFIs). Such high borrowing costs have a negative effect on development efforts, curtailing the growth and progress of microenterprises.

This study assesses the extent to which microfinance programmes target and reach the poorest in the rural areas of Punjab Province, Pakistan.

Methodology

Punjab is Pakistan's second largest province, contributing over 50 percent of the country's GDP and home to 56 percent of its population. The survey questionnaire was administered across 11 rural districts to 1,132 households (comprising over 8,000 individuals), who were interviewed for the survey.

The sample comprised 463 borrower and 669 non-borrower households. The strongest indicators were selected based on their ability to accurately recognise, represent, characterise and distinguish between relative levels of poverty.

Based on CGAP's (Consultative Group to Assist the Poor) poverty assessment tool (PAT), the survey develops a relative poverty index by applying principal component analysis (PCA). This is a typical multi-variable statistical method that helps to reveal a simpler pattern from a complex set of variables.

The end result is a single index of relative poverty that assigns a specific value to each sampled household. These represent the poverty status of each household relative to all other households within the sample. Relative comparisons between poverty levels can then made, based on an index derived from these scores.

Findings

The study finds that borrower-households, when compared to those that do not borrow, are distributed across the following three groups: 22.5 per cent in the *very poor* group, 35.4 per cent in the *moderately poor* group and 41.1 per cent in the *less poor* group (see graph).

These results reveal that the poorest households amongst the surveyed sample are not being reached to the desired extent. The outreach to this segment of society remains low, whereas the less poor are being served in larger numbers.

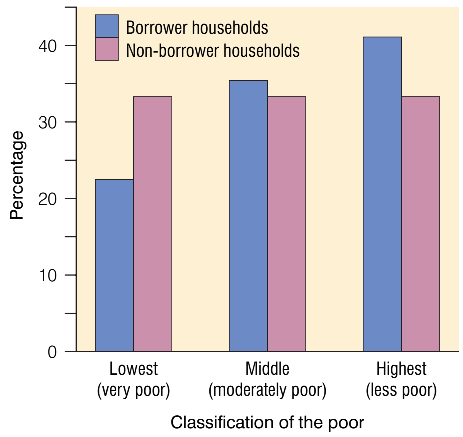

Figure 1: Poverty outreach of MFI programmes.

The microfinance model works to eradicate poverty. In order to be effective, however, services offered by MFIs have to be made available to those segments of society that are at the 'bottom of the pyramid'. This survey and a number of other studies find that outreach has been substantially lower than the level required to help people move out of poverty through microfinance.

Key policy points

- Depth of microfinance outreach is considerably lower than what would be required to make a dent in rural poverty levels.
- In order to make the model truly effective, the poorest segment of society has to be targeted and served with appropriate services.
- Diversifying the product mix, staff incentivising, and tailoring products and services to better suit the extreme poor can assist towards deepening programme outreach.

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Further reading:

Ghalib, A. K. (2011), 'Estimating the depth of microfinance programme outreach: empirical findings from rural Pakistan', *BWPI Working Paper* No 154. http://www.bwpi.manchester.ac.uk/resources/Working-Papers/bwpi-wp-15411.pdf