

Household Poverty: *Addressing the Core of Microfinance*

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The Philippine microfinance market has been developing quite rapidly in the last few years, which in turn, is expected to be able to make a significant contribution to poverty alleviation in the country. With microfinance, the poor who have been left out by the formal financial market will have a greater chance of tapping additional resources from the microfinance market at reasonable prices, which they can use to expand their earning capacity and/or meet emergency needs of their families.

Given this, the question to ask is—has microfinance indeed established its roots at the household levels, the core of microfinance?

Most of the studies on microfinance have focused on the sustainability of microfinance institutions. This is under-

standable because in the past, governments around the world had used financial institutions as conduits of their subsidized credit programs, thereby undermining the credit and deposit markets and adversely affecting the viability of financial institutions. This has subsequently left the poor with very little access to financial services from the formal financial system. Few studies have examined the development of microfinance market from the household perspective as it relates to poverty alleviation.

This *Policy Notes* thus provides an analysis on the development of the microfinance market from the household perspective as it relates to poverty alleviation. The aim is to provide policymakers with additional information that can help them refine their policies and regulations for the microfinance market. Results of this study can also assist microfinance institutions (MFIs) in developing their programs and internal policies to improve their services particularly to poorer clients or beneficiaries.

A closer look at the households

To get a better view of the current condition of households and the extent of their access to microfinance services, a nationwide survey employing a multistage sampling scheme was conducted by these authors. The sam-

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pling was designed to focus on the poorer areas in the country that represent the three major island groups equally.

The sample includes 333 households that were categorized into two groups: male-headed and female-headed households. In order to make a comparison on the extent of poverty of these households, they were further grouped into (a) clients or those who have access to the services of the community-oriented financial intermediaries (COFIs) system,¹ and (b) nonclients or those who have no access to the services of the COFI system. The former consists of 167 households while the latter comprises 166 households.

The following profile of the households was drawn on the basis of the survey results:

- ▶ Male-headed households comprise 82 percent of the total sample while female-headed households, 18 percent. These proportions are close to those obtained by national surveys in the country and elsewhere.
- ▶ There is no significant difference between the average age of household heads of COFI clients and those of nonclients. The average age of the household heads is 46.2 years. However, male heads appear to be younger than female heads of households.
- ▶ The average household size is 4.73 persons. There is no difference in the household size between COFI clients and nonclients, and between male-headed and female-headed households.
- ▶ Household size, age of household heads and sex of the household heads could not explain the households' access to the COFI system.

¹The COFI system is one of the categories of microfinance institutions (MFIs) in the country. For this particular study, the COFI system looked only into the credit cooperative system.

²These are basically short-term loans. For nonclient households, the sources of their loans may either be from the following: friends/relatives, financial institutions, NGOs, pawnshop/lending investors or moneylenders, among others.

- ▶ The dominant economic activities of the household heads matter when it comes to access to the COFI system.
- ▶ COFI client households have a higher proportion of members who are employees than nonclient households.
- ▶ COFI client households are better off than nonclient households in terms of housing and facilities.
- ▶ The accumulated yearly amount borrowed by COFI client households and nonclient households from various sources average PhP106,965 and PhP27,833, respectively.²

Results of poverty analysis

From the profiles drawn from the survey results, further analysis was made in order to determine which types of or which particular household(s) suffer from a higher incidence of poverty. Appropriate policy and program interventions can thus be drawn up on said basis.

As a result of the numbers found in Table 1, the following may be observed:

- ▶ **Comparison between COFI clients and nonclients.** Results show that there is a large disparity in poverty incidence between the client and nonclient households, at 10.2 percent and 17.3 percent, respectively. This difference is found to be significant and seems to confirm the hypothesis that households who do not have access to the COFI system tend to have a higher poverty incidence than those who have access to the COFI system.
- ▶ **Comparison between male-headed and female-headed households.** There is hardly any difference between male-headed and female-headed households for

Table 1. Poverty decomposition analysis: head count index

	Male-headed	Female-headed	All
COFI Clients	8.76 (2.42)	16.67 (6.82)	10.18 (2.35)
Non-COFI Clients	18.94 (3.42)	10.00 (5.49)	17.28 (2.98)
All	13.75 (2.10)	13.33 (4.40)	13.68 (1.90)

Figures in parentheses are standard deviations.

the combined client and non-COFI client households in terms of poverty incidence using the headcount index. For male-headed households, the total is 13.8 percent while for female-headed households, it is 13.3 percent. The results do not support the hypothesis that female-headed households tend to have higher poverty incidence than male-headed households.

► **Among COFI clients: male-headed vs. female-headed households.** Female-headed households appear to be poorer than male-headed households, with poverty incidence of 16.7 percent vs. 8.8 percent for male-headed households. Still, the female-headed households contribute less to total poverty simply because there are more male-headed households (82 percent) in the total number of client households. The results seem to confirm the hypothesis that among clients of COFI, female-headed households tend to have a higher incidence of poverty than male-headed households.

► **Among nonclients: male-headed vs. female-headed households.** For nonclient households, male-headed households appear to be poorer than the female-headed households in all three measures of poverty. They significantly contribute to poverty among nonclient households. This result does not support the hypothesis that among the nonclient households, female-headed households tend to have a higher incidence of poverty. This result is completely opposite to the finding in the case of COFI clients.

Implications for policy and implementation

As shown in the analysis, poverty incidence is clearly higher among nonclients than clients of the COFI system. It could of course be the case that those who were able to access the COFI system were already economically better off than those who had no access in the first place.³ If this is true, then access to the COFI system could have worsened and can worsen the income dispar-

³This is a manifestation of the classic self-selection phenomenon that makes a lot of noise in the analysis.

ity between those with access and those without to the COFI system. Thus, if the COFI system itself will not be able to expand its coverage to include those who are currently excluded from its services, then poverty alleviation programs of the government will need to focus on those who currently do not have access to the COFI system.

For the COFI system to be able to expand its services to those who are currently excluded, the proper policy environment allowing COFIs to increase their reach must be put in place. At the very least, poverty alleviation programs should target households who currently do not have access to the COFI system so that they can eventually participate in said system.

Meanwhile, planners of poverty alleviation programs should take note of the survey results showing that there is virtually no difference in the extent of poverty between male- and female-headed households. As such, they should reconsider their present thrust of mainly targeting poverty alleviation programs for female-headed households. They should instead explore other indicators to improve the effectiveness of poverty alleviation programs.

Finally, the COFIs can contribute more to the effort to reduce poverty and income disparities within their respective communities by changing their internal policies so that they can provide more and better financial services to their poorer clients. 📄

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