

In-Pro: Quarterly Dispatch on Financial Inclusion & Social Protection



IN FOCUS: FINANCIAL LIVES OF POOR HOUSEHOLDS

5 mins read

Arun and his family live in a rural town in Odisha. He is the sole income earner of his family. Arun is a part-time small holding farmer. He also works as an agri-labourer on his neighbour's farm to support his family's expenses. For several months in a year, he is unable to find work or is unable to work due to poor health and therefore stays unemployed. He sells vegetables when the farm activity is slow and when he has some downtime. Arun's monthly income varies with no certainty of how much he will earn and when. A single shock is enough to push his family into a state of depravity. His family often faces cashflow deficits, meaning that their household income is not enough to cover their expenses. They manage day-to-day expenses with great difficulty, often having to forgo essential expenses and making costly sacrifices. In sum, Arun and his family's financial life is filled with radical uncertainty (a kind of uncertainty that cannot be described in probabilistic language- unlike risk which is the kind of uncertainty that can be). Moreover, Arun and his family have very little to fall back on. Arun's job doesn't offer the privilege of taking a sick leave or using health insurance when he falls sick. His access to financial tools to smooth his consumption or invest the lumpsum he earns through farming is inadequate, further complicating his financial life. Given these circumstances, Arun's family is embedded in an intricate web of community networks that they rely on to manage their finances.

Now contrast this with our life, the writers and readers of this newsletter. Often, we rely on regular salaried incomes to manage our finances. Our incomes are more than sufficient, almost always stable, and more importantly, we have access to financial tools such as insurance, pension, and investments that help us plan for our goals, cope with adverse events in our lives, and offer the kind of financial freedom and confidence that low-income households can rarely dream of.

The radical uncertainty that Low-Income Households (LIHs) deal with and the mission to work towards easing their financial lives have been our north star at Dvara Research. Some of our recent work aims to steadily build our portfolio of work in documenting the everyday financial lives of poor households and identifying meaningful solutions that align with their socio-cultural context. Our paper on [high frequency cashflow analysis](#) finds that LIHs face intra-year fluctuations in income due to which they move in and out of poverty many times during the course of the year. This approach to studying the cashflows of LIHs at a high frequency uncovers the true exposure of poverty faced by LIHs by accounting for the interaction between insufficiency, instability, and illiquidity of incomes. Our [position paper](#) on rethinking financial management for low-income households brings to our attention the reasons why LIHs manage their money at a high frequency, i.e., daily, weekly, etc., and the inseparability of their financial lives from the socio-cultural contexts they inhabit.

Income profile of a typical Low-Income Household depicts the ups and downs in monthly incomes, the multiple jobs they juggle for subsistence, and the informality of jobs that are one of the many sources of radical uncertainty in their lives.

The paper also uses case studies to highlight how the current product offerings by the formal financial system do not map to the financial needs of LIHs. Our Executive Director, Indradeep Ghosh makes a similar case in this [op-ed](#) highlighting this mismatch. He says, “..credit disbursements are wrongly calibrated to the borrower’s requirements since the condition for borrowing (cash flow deficits at a high frequency) is not aligned with the condition for lending (income sufficiency at a low frequency)”.

In the last two years, we have also furthered our focus on this theme by studying the financial lives of specific customer segments such as [gig workers from urban geographies](#) and [rural women from low-income groups](#) using both qualitative and quantitative modes of inquiries. Eventually, we hope this body of work will contribute to relevant solutions in the space of financial inclusion, especially non-credit products for the poor. Do get in touch if you want to further explore this area of work and collaborate with us.

PUBLICATIONS FROM THE QUARTER (JANUARY-MARCH 2025)

Research Papers:

[Financing Regenerative Agriculture in India](#)

[Unpacking Customers’ Trust: How do Customers come to Trust Digital Lenders?](#)

Reports:

[Financial health Transcending from access to impact](#)

[Emerging Trends and Shifts in Microfinance](#)

[Responsible and Trustworthy AI in Digital Lending: From Principles to Practices](#)

Consultation Reponses:

[Our Response to the Report on AI Governance Guidelines Development released by the Ministry of Electronics and Information Technology](#)

[Submission by Dvara Research to the Ministry of Finance as part of Pre-Budget Consultation with the honorable Finance Minister Nirmala Sitharaman, Jan 2nd 2025](#)

Policy Brief:

[How Should the RBI Respond to the Microfinance Crisis?](#)

Project Brief:

[Studying Exclusion in State-Sponsored Health Insurance: The Case of Mukhyamantri Ayushman Aarogya Yojan](#)

Blogs:

[Reflections on the Theory of Impact for Mobile Instant Credit](#)

[Ideas that Shape Policymaking: The Role of Think Tanks in India](#)

[Paisas to Prosperity: The Long Road to Savings](#)

Opinions:

[How to develop trustworthy AI in digital lending](#)

[Responsible AI means good business for all](#)

“ Understanding how low-income households manage their money at a high frequency and accordingly innovating solutions may eventually push India's financial inclusion journey to its next milestone of suitable access to both credit and non-credit products for the poor.

Misha Sharma
Head- Household Finance Initiative

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