

Imp-Act

***Improving the Impact of
Microfinance on Poverty***

***Action Research
Programme***

**Microfinance and Poverty:
Report from a one-day seminar held at the
Ranch Hotel, Polokwane, 4 May 2003**

July 2003

Imp-Act

The Institute of Development Studies,
at the University of Sussex, Brighton BN1 9RE, UK
Tel: +44 (0) 1273 873733, Fax: +44 (0) 1273 621202/691647
Email: Imp-Act@ids.ac.uk Web: www.Imp-Act.org

Charitable Company no.877338 limited by guarantee and registered in England

CONTENTS

Introduction: Seminar Objectives	3
▪ Background: Reasserting the role of microfinance in poverty reduction	3
▪ Poverty and Microfinance in South Africa	4
Setting the Context	5
(1): Achieving a 'double bottom line' in microfinance: ensuring poverty outreach and impact	5
(2): Issues in poverty-focused microfinance	5
What is happening world-wide? Input from international partners: 8Testing Low-Cost and Management-Oriented Poverty Verification Approaches	8
▪ The SEEP Poverty Assessment Working Group (PAWG) - Developing Poverty Assessment Methods.....	9
▪ Developing Poverty Targeting and Social Impact Monitoring Tools for the Opportunity International Network	9
▪ FINCA's poverty outreach work	10
Developing models of poverty measurement: Presentations from <i>Imp-Act</i> partner MFIs	11
▪ Linking Practitioner Poverty Measures to International Poverty Lines:	11
▪ The case of Small Enterprise Foundation (SEF).....	11
▪ Poverty-focused microfinance in the Eastern European context, PRIZMA	12
▪ Targeting the Poorest in India: The PRADAN Experience	12
▪ Assessments of relative poverty of microfinance clients and non-clients in lift above poverty organization (LAPO) operational areas	13
▪ BRAC's experiences of microfinancing with the poorest	13
▪ Comparing the use of a food security scale and a housing index poverty assessment tool, CARD.....	14
Feedback from participants on how to develop procedures for monitoring and reporting on poverty outreach and social performance	15
Final Discussion and Comments	16
Appendix 1: Welcome address by Mrs Mbeki, Women's Development Bank	17
Annex 2: Agenda	20
Annex 3: <i>Imp-Act</i> thematic group on microfinance & the poorest.....	22
Annex 4: Participant List	23

Introduction: Seminar Objectives

This one-day seminar reviewed progress of the *Imp-Act* programme in contributing to efforts globally to increase transparency and effectiveness in the poverty outreach and impact of microfinance. The seminar brought together *Imp-Act* partners, as well as key actors in poverty-focused microfinance.

Imp-Act is an action-research programme designed to improve the quality of microfinance services and their impact on poverty. The programme promotes credible and useful impact assessment systems that reflect and respond to client needs, as well as the priorities of microfinance organisations (MFOs) and their stakeholders. The *Imp-Act* thematic group *Microfinance for the Very Poor*, builds on the experience of ten leading poverty-focused MFOs from four continents, to document our understanding of the potential for microfinance to impact on poverty, and the operational ways in which it can do so.

A major aim of the group is to develop simple, cost-effective, verifiable procedures for monitoring and reporting on poverty outreach and social performance, and to link these to internationally comparable measures. Reporting and discussing progress towards those objectives was the main focus of the seminar. This is summarised in this report.

Where presentations were made, these are available under the relevant headings and are also available as links within the Agenda attached as Annex 2.

Background: Reasserting the role of microfinance in poverty reduction

The Microcredit Summit +5 meeting, held in November 2002 in New York, recognised the significant successes of microfinance in poverty reduction, but highlighted the need for more active strategies to ensure that microfinance becomes more poverty-focused and maximises its contribution to the Millennium Development poverty reduction goals.

There is a need for a concerted effort by practitioners, donors and policy makers to build on opportunities to achieve more consistent and significant impacts on poverty. The Summit challenged practitioners to use market research and impact assessment to better understand their clients' needs. The poorest are most likely to be excluded from microfinance initiatives, since they often have the weakest voice in 'client-led' institutions. However, outreach and impact do not occur by chance but must be addressed through carefully designed interventions. Organisations that wish to reach out to the poorest or to empower women need to develop deliberate strategies to do so. These need to be based on a process of understanding the needs of the specific groups of clients, and monitoring impact to ensure that the programme is having the desired outcomes.

The Summit also urged donors to seek verification that funds given in the name of poverty alleviation reach the poorest and lead to positive changes in their lives. There is burgeoning diversity in the microfinance movement, and increasing innovation to develop appropriate models and approaches for different client groups in different contexts. Financial self-sufficiency is key to ensuring the long-term survival of MFOs and scale of outreach, but 'best practice' models that do not recognise this diversity of purpose and strategy run the risk of stifling innovation and diversity.

Top of the agenda for those concerned with the impact of microfinance on poverty is the need for greater transparency in reporting on poverty outreach and social performance. This is needed to ensure appropriate use of funds specifically intended for poverty alleviation. Many people talk about the need for MFOs to have a 'double bottom line', i.e.

financial and social performance, but currently the measures available for this are weak and there is very little reporting or agreement of what could or should be reported.

Poverty and Microfinance in South Africa

John de Wit, Small Enterprise Foundation, South Africa

In understanding the role of microfinance in South Africa, it is useful to take a comparative perspective on national and international poverty indicators. The GDP of South Africa is relatively high; however, there is very high inequality, which leads to a high GINI co-efficient. This high inequality results in a low Human Development Index score.

49% of the population in South Africa lives in poverty. The geographical distribution of poverty is closely tied to the country's recent history and the apartheid system. In the late 1980s microfinance in South Africa was mainly focused on small business development. Since 1995 there has been increasing government support for the micro-lending industry, yet few MFOs actively target the very poor in South Africa. Small Enterprise Foundation (SEF) is based in the Limpopo Province, because this is the province within South Africa with the highest poverty rate. SEF runs two micro-lending programmes, Tshomisano Credit Programme (TCP) and Microcredit Programme (MCP). MCP is open to all existing micro enterprises in the village, whereas TCP specifically targets the poorest women. A CGAP poverty assessment study recently showed that SEF does more successfully reach the very poor with its targeted programme.

There are certain challenges that are specific to the South African context. These include the relatively high cost of salaries for MFO staff and the inheritance of a deeply unequal society from the apartheid years. However, the opportunities for microfinance in South Africa are good. This is mainly due to a highly developed banking sector, good physical infrastructure, opportunities for improvement for the poor, and high levels of private and government funding for the microfinance industry.

Click here to open presentation ([PowerPoint 134KB](#))

Setting the Context

(1): Achieving a 'double bottom line' in microfinance: ensuring poverty outreach and impact

Syed Hashemi, CGAP, Washington

In the South Asian microfinance context there has traditionally been a greater awareness of the wider social impacts of microfinance on poverty, counterbalancing the focus on financial sustainability more prevalent in the development sector. There is, however, an increasing focus on the impact of microfinance on poverty within the development field. One element of this shift in focus is the USAID poverty measurement initiative. Organisations such as the Microcredit Summit and Freedom from Hunger have been key in the development of tools to assess poverty outreach. CGAP has supported much of this work to come up with indicators of poverty outreach.

This effort to develop poverty outreach indicators is also an attempt to demonstrate how microfinance can and does contribute to the Millennium Development Goals (MDG). Indicators of poverty outreach and social performance can demonstrate the role of microfinance in education, health, empowerment, and in reaching those in absolute poverty. CGAP is therefore currently engaged in bringing about international consensus on a set of social performance indicators. The *Imp-Act* programme links in with CGAP's work in providing both a conceptual framework for reaching and impacting on those in absolute poverty, and a practical foundation of experience and work by poverty-focused MFOs.

Click here to open presentation ([PowerPoint 1,503KB](#))

Questions

1. How does one test the veracity of data on social impacts? How can the identified impacts be attributed to the microfinance intervention?
 - ⇒ With adequate sampling methods and sample size you will be able to gauge a general tendency. While you can never be 100% certain in attributing social impacts to your programme, determining a tendency is both sufficient and useful.
2. It would seem that financial sustainability can be measured at any one time, cross-sectionally. Social impacts have to be assessed over a period of time, longitudinally.
 - ⇒ Usually, in fact, to demonstrate financial sustainability you will need a longer perspective. Conversely, IM systems such as those at BRAC and the Grameen Bank, do show that findings and tendencies can be identified, both routinely and in the short-term cross-sectionally.

(2): Issues in poverty-focused microfinance

Anton Simanowitz, Imp-Act programme manager

Imp-Act's overall objectives are to develop credible and useful impact assessment systems based on the priorities of MFOs and the stakeholders; to broaden the scope of impact assessment to include wider poverty impacts; and to influence thinking and practice relating to the role of microfinance in poverty reduction. The programme brings together a wide variety of MFOs worldwide, including commercial banks, village banking, Grameen replicates and self help group programmes. This diversity is reflected in the differing approaches to IA embraced by the partner MFO. A number of partner MFOs

under the programme have a specific emphasis on poverty-focused microfinance, and form the thematic group on microfinance and the very poor.

This thematic emphasis has arisen in response to a number of challenges within the microfinance industry more broadly. The group is directly addressing the challenge for microfinance to contribute to the Millennium Development Goal of halving absolute poverty by 2015. In light of the fact that most donors and MFO justify subsidised funding on the basis of poverty alleviation, the group, moreover, aims to provide evidence of the demonstrated impacts of microfinance on poverty. The group thus aims to redress general patterns of insufficiency in the industry, notably that microfinance does not reach the very poor in large numbers, while, where the very poor *are* included, services are generally not designed for their needs and impacts may, as a result, not be positive.

Through the MFOs' action research projects and the group's collaborative work, several objectives are pursued:

1. Understanding poverty impacts of microfinance: this work involves understanding the nature of microfinance impact on different aspects of poverty and the processes by which microfinance impacts on poverty.
2. Poverty-focused microfinance methodologies: this work involves recording how the detailed methodologies of different models of microfinance relate to poverty impacts, how organisational culture and systems affect client impact, and refining organisational learning systems and methodologies to improve impact on poverty.
3. Social performance monitoring: developing systems and protocols for reporting on social performance indicators, working towards international standards of social performance reporting, and developing systems for auditing MFOs' social performance reporting.

Achieving these objectives involves overcoming a number of perceived barriers to developing reporting standards that are useful to different stakeholders across the industry. It involves redefining the parameters by which success is judged for MFOs, achieving consensus around the definition of poverty, and demonstrating that measurement is both useful and possible.

A framework for understanding poverty and measuring social performance is proposed:

1. Direct income impacts: simple client and exit income poverty data
2. Direct social impacts: MFOs with explicit social objectives can include data on social impacts at household and possibly wider levels
3. Indirect impacts: this category includes wider impacts, which may well not be directly addressed by MFOs themselves, but rather in external and comparative studies to which they may contribute.

The above are possible areas for measurement. The main issue is that performance measures should be flexible enough for MFO use and for poverty to be defined according to the local context. These will also need to be comparable between organisations and at an international level.

A number of areas for monitoring social performance are suggested:

1. Benchmark Data can provide a profile of existing clients, incoming clients and non-clients. It can also provide data related to poverty concentration in the MFO's operational area which can be compared with national poverty data.
2. An assessment can be carried out of the organisational commitment to and processes for achieving poverty-focus.
3. Basic Client Performance Data, including loan size, savings, loan use, client satisfaction, can be analysed and compared with client profiles.

4. Basic Client Impact Data can be monitored by using a small number of client impact indicators. Analysis can be disaggregated by client profile.

The credibility of MFO-reported data can be verified using an auditing system. The auditing process differs from a detailed impact assessment of each MFO in that it only considers the processes used to produce social performance information, such as “what are the social performance goals?”, “what indicators are used to monitor these?”, “how is the status of clients monitored?”, “how are the impacts on clients (existing and drop-outs) assessed?” and “How are the systems for monitoring client status and impact reviewed and improved?”.

Click here to open presentation ([PowerPoint 533KB](#))

What is happening world-wide?

Input from international partners

Testing Low-Cost and Management-Oriented Poverty Verification Approaches

Christopher Dunford, Freedom from Hunger

Freedom from Hunger (FFH) works with some 30 partners worldwide ranging from village banks to Grameen replicants. Sophisticated and high-cost impact assessments have been previously been carried out amongst these MFOs, yet no MFO had until recently considered poverty outreach – who is included and who is excluded from microfinance programmes. FFH subsequently worked on a poverty assessment study with an MFO in Mali, West Africa, using Participatory Wealth Ranking (PWR), in which local informants defined the poverty- and wealth-categories. The Mali study was a point of departure in defining FFH's future work for demonstrating the importance of poverty assessment.

FFH aims to contribute to the industry with an 'absolute' poverty measure, and to develop a set of methods that can be used to measure MFOs' poverty outreach, which require a minimum level of data collection and analysis. A universal measure of poverty – the food security measure - was developed, and the food security scale has been found to lend itself well to comparison with international poverty lines. The food security scale assesses specific conditions, experiences and behaviours that characterise the phenomenon of food insecurity and hunger, such as anxiety over insufficient food, lack of money for food, and reduced food intake. Levels of food security are divided into different classifications:

- Food secure: access at all times to enough food;
- Food insecure, without hunger: anxiety about inadequate food; limited variety or quality;
- Moderate hunger: reduced intake by adults and feelings of hunger
- Severe hunger: More diverse and frequent lack of food for adults, and instances for children.

Click here to open presentation ([PowerPoint 40KB](#))

Questions and Comments

1. Question to Christopher Dunford, FFH: How does one account for intra-household relationships and distribution, using the food security index to assess level of poverty?

⇒ FFH partner microfinance organisations mainly work with women as clients. The poverty assessment work only includes women clients in its sample. The results do reflect this. However, it is possible to say that for all members of poor households to benefit equally from the microfinance intervention, behavioural patterns do need to change. Poverty is associated with behavioural patterns and preferences, which also need to be addressed.
2. Question to Christopher Dunford, FFH: What is the potential for validating the food security scale against other types of poverty indicators?

⇒ FFH will be validating findings using food security as a measure of poverty against finding using other indicators of poverty. This is indeed seen as a necessary step in validating the results and demonstrating their wider applicability.

The SEEP Poverty Assessment Working Group (PAWG) - Developing Poverty Assessment Methods

Gary Woller, SEEP

The PAWG is engaged in collaborative work with USAID, CGAP and the broader microfinance community to develop and evaluate poverty assessment methods. This work is taking place in view of the North American legislation requiring USAID to demonstrate that 50% of its funds reach the very poor. In order to monitor whether USAID is meeting this requirement, USAID will have to report on the poverty level of clients reached by its partners. Over the next two years, USAID will adapt poverty measurement tools to identify and reach the very poor. In the more immediate term, USAID will certify two methods for measuring poverty outreach by October 2004. The PAWG is working with the Client Impact Working Group (CIWG) under the SEEP Network to respond to this development and will put forward its recommendations on poverty assessment methods, to be field-tested by USAID, microfinance practitioners, and independent researchers for eventual certification.

The PAWG sees poverty assessment work as useful to MFOs in a number of ways. While it can be instrumental in ensuring that an MFO fulfills its mission, poverty assessment work can also help improve products and services. If poverty assessment forms part of routine assessments of incoming clients, it can make poverty outreach easier and more effective.

The PAWG is presently conducting a survey of some one hundred MFOs to find out what approaches to poverty assessment are already in use. This survey will be validated by fieldwork by the PAWG, and findings will be available from the SEEP Network website: www.seepnetwork.org.

Click here to open paper on 'Poverty Lending, Financial Self-Sufficiency, And The Six Aspects Of Outreach' by Gary Woller & Mark Schreiner ([Word 186KB](#))

Developing Poverty Targeting and Social Impact Monitoring Tools for the Opportunity International Network

Brian Beard, Opportunity International USA and Lydia Opoku, Sinapi Aba Trust, Ghana

Opportunity International (OI) is an international non-profit network organisation working for poverty alleviation in poor countries with a focus on development of micro-credit programmes. It concentrates on providing basic training to start or improve small enterprises and supports them by loans.

The OI Network has in the past used loan size as a proportion of GDP as a measure of poverty outreach, but found through the use of the SEEP/AIMS impact assessment tools, that this was an insufficient measure. Subsequent work together with CASHPOR sought to devise an assessment of clients using a housing-index. This method was found to be too labour-intensive for partner MFOs however, and therefore not a feasible method for poverty assessment throughout the network. OI has over the past two years been working with its partner MFO, Sinapi Aba Trust (SAT) in Ghana, to develop an impact monitoring system, incorporating four elements: poverty measurement, impact measurement, exit- and loan size-monitoring and client satisfaction. SAT had previously used a "means test" questionnaire, which was discontinued in 2001 due to complaints that it was too labour-intensive for field staff. Currently, OI is developing poverty measures in collaboration with CGAP. This work will test proxies in four countries and will ultimately be integrated into the OI MIS ('CIMS'). SAT, together with OI, is looking to use an absolute poverty measure, and has identified the following four indicators of poverty: income ratio, household dependency ratio, housing status and access to

utilities. This poverty assessment work will further be validated by the implementation of the CGAP poverty assessment tool by four OI partner institutions.

Click here to open presentation on OI's work with SAT ([PowerPoint 171KB](#))

FINCA's poverty outreach work

John Hatch, FINCA, USA

FINCA is an anti-poverty microfinance organisation. Its work is aimed at creating employment, raising family incomes, and reducing poverty world wide. FINCA developed the Village Banking Model for microfinance and currently works in Central Asia, Eastern Europe, the Americas, and Africa.

A poverty assessment of eight of FINCA's affiliates was carried out in 2002. A follow-up was done in 2003 in 11 affiliates, using seven performance indicators, including Freedom From Hunger's food security index, as well as indicators covering client status issues such as household income and issues of empowerment. FINCA employed students working as interns for FINCA to carry out the poverty assessments, an approach which was felt to be useful, cost-effective and timely. Each poverty assessment study was completed within one month.

FINCA found that the two most pertinent areas of clients' poverty status were the number of children in education and the level of education attained, and clients' working capital. Education was felt to be of high importance in the poverty assessment work, as it is seen as an indicator of changing income capacity over generations. From the client's perspective, an investment in a child's education now can lead to a contribution towards future household income. These two areas will therefore form a central part of FINCA's future poverty assessment work.

Questions and Comments

1. *Question to John Hatch, FINCA.* It can be problematic to predict the future income generation capacity of clients on the basis of number of children in education. Wider societal factors such as the kinds of jobs available in the local job market are key in this context. A direct correlation between children's educational attainment and income generation capacity is therefore tenuous.

⇒ This is certainly a key issue, yet educational attainment is also likely to help clients in an environment where unemployment is high. Through education it is possible to also acquire skills that are useful for running a business.

Developing models of poverty measurement: Presentations from *Imp-Act* partner MFOs

Linking Practitioner Poverty Measures to International Poverty Lines: The case of Small Enterprise Foundation (SEF)

Julian May and Cathy van de Ruit, University of Natal

SEF's mission is to actively target the very poor and, by offering a range of financial services, enable them to realise their potential. SEF uses Participatory Wealth Ranking (PWR) to: identify and target the very poor, define the characteristics of the poor and the very poor, determine a cut-off line for the very poor and identify those eligible for its poverty targeted TCP programme. SEF has previously carried out a comparative poverty assessment of its two programmes, MCP and TCP, and found that the active poverty targeting strategy used in the TCP is both necessary and central to ensuring poverty outreach.

SEF has developed a model aimed to triangulate qualitative and quantitative approaches to poverty assessment. It tests the extent to which households categorised as poor using the components of the PAT and PWR are also categorised as poor using a conventional money metric poverty line. This exercise is very relevant because it links relative poverty measurements to absolute poverty lines, thus enabling international comparability.

After refining the model, a composite poverty index was constructed from the PAT components using proxy variables to describe household income and expenditure. The final selection of indicators used in the model were grouped in four categories covering the broad themes of the assessment: family structure (demographic data), food consumption, quality of housing and household assets.

Poverty scores derived from the PWR were compared to the PAT demonstrating that the Participatory Wealth Ranking tool is a reliable and effective mechanism for targeting the poor, particularly the poorest. It was found that PAT and PWR classify some 70% of households in the same way in terms of their level of welfare. This overlap tends to be stronger at the poorer end of the distribution, reaching 75% of those categorised as being poor. In fact, PWR tends to be more conservative in identifying households as poor compared to PAT (see annex 6a).

Having established that the PWR and PAT methodologies produce a substantially consistent identification of the poorest households, the PAT methodology was applied to the National Income and Expenditure Survey (IES) 2000 in South Africa to examine the likelihood of being poor according to PAT indicators and poor according to a conventional money metric poverty line¹.

SEF found that households classified as poor using the PAT indicators are also classified as poor, using a conventional money metric measure based on income or expenditure and a poverty line or threshold. Hence, SEF was able to infer that poor households categorised using PWR are also poverty-line poor households. This is true because both PWR and IES indicators were linked to the PAT composite index enabling them to be comparable.

¹ Van de Ruit and May (2003) "Triangulating Qualitative and Quantitative Approaches to the Measurement of Poverty: a study case in the Limpopo Province, South Africa"

Linking PWR and PAT measures to national and international poverty lines requires both critical assessment of absolute poverty thresholds and relative measurement; one possible avenue is through an asset index which would address the causes of poverty.

Click here to open presentation ([PowerPoint 186 KB](#))

Poverty-focused microfinance in the Eastern European context

Maja Gizdic, PRIZMA, Bosnia-Herzegovina

PRIZMA's poverty assessment work, which commenced in 2002, was the first of its kind in the country, and in Central and Eastern Europe and the NIS more generally. The main aims of the poverty assessment were to understand the character and extent of poverty in the region. PRIZMA's work has taken place against a general backdrop in the region, informed by a motivation to first and foremost achieve financial sustainability.

A recent CGAP poverty survey in the region further found that economic measures were mainly used in the industry and that there was a strong need to develop methods based on non-economic poverty measures. PRIZMA used the CGAP poverty assessment tool to assess the poverty level of clients relative to non-clients in the same community. This work forms part of the development of an impact monitoring system which will enable PRIZMA to assess the relative poverty status of its clients; link indicators to the country's poverty line to determine clients' absolute poverty status in the national context; and link these indicators to the \$1 per day measure in order to compare clients' poverty status in an international context.

Click here to view presentation ([PowerPoint 292 KB](#))

Click here to view overview paper ([Word 30KB](#))

Targeting the Poorest in India: The PRADAN Experience

Narendranath, PRADAN, India

PRADAN (Professional Assistance for Development) is an NGO engaged in the promotion of rural livelihoods across eight states in India. PRADAN's main focus is to support the development of Self-Help Groups (SHGs). PRADAN promotes SHGs, and assists them in building their capacity for leveraging loans from formal banks. PRADAN also provides a livelihood planning facility for women, and further seeks to identify and develop sectors where there is scope for generating larger-scale livelihood projects for the poor, such as poultry and dairy production. While the main focus is to enable communities to take up income generating projects, PRADAN also runs a community banking programme for rural women in South India. PRADAN targets women, scheduled tribes and castes and other marginalised groups. PRADAN demonstrates the effectiveness of detailed geographical targeting and actively seeks to work with the poorest communities, in the poorest areas of the country. Its selection criteria for areas of operation include degraded natural resources, lack of social and economic infrastructure, and use of traditional technologies and production modes. Client identification similarly attempts to identify poverty 'pockets'. Social mapping and wealth ranking are also used.

PRADAN conducted a CGAP poverty assessment in 2002. The CGAP questionnaire was adapted to include additional questions regarding household debt, access to government services and programmes and social networks. The poverty assessment work is seen to help PRADAN in achieving its mission statement, and in understanding the client base of SHGs promoted by PRADAN. Various tracking methods of the very poor are also planned to be integrated into the routine monitoring system, using the Internal Learning System staff workbooks and member diaries.

Click here to view presentation ([PowerPoint 95KB](#))

Assessments of relative poverty of microfinance clients and non-clients in lift above poverty organization (LAPO) operational areas

Stanley Garuba, LAPO, Nigeria

LAPO seeks to improve its poverty assessment system to provide routine monitoring information about all incoming and exiting clients and to be able to monitor changes in the poverty level of continuing clients (as part of an impact monitoring system). The credibility of the system is being strengthened for internal use and to provide data that can be compared to international poverty data.

A number of steps are being taken. A CGAP poverty assessment was conducted in early 2003. Data from this will be compared to national level and then international level poverty data so as to give a picture of the absolute poverty of LAPO clients, not just relative to non-clients. The CGAP data will then be compared to the participation data to strengthen the credibility of the indicators being collected with the means test, and to allow LAPO to compare its internal poverty data to international poverty levels.

The inclusion of poverty data in the participation form represents one component of LAPO's social performance monitoring system. The participation form will be used for client screening, collecting baseline information for LAPO's impact survey, and for monitoring changes in poverty status of clients over time.

Click here to open the presentation ([PowerPoint 201 KB](#))

BRAC's experiences of microfinancing with the poorest

Dr Shantana Halder, BRAC, Bangladesh

Dr Halder contextualised BRAC's programme for the poorest in relation to existing services provided by the non-governmental sector in Bangladesh. BRAC carried out a survey in 2001 collecting information from more than three hundred NGOs. BRAC found out that only 20% of the surveyed NGOs had some programmes for the ultra poor and these were related to relief, land resettlement, income and employment generation, health, education, social development and other special programmes. BRAC also found that there is no clear definition of the ultra or very poor among NGOs and there is inappropriate targeting due to lack of skills and knowledge on targeting methodology.

BRAC has three programmes specifically targeted at the very poor: The Income Generation for the Vulnerable Group Development (IGVGD); the Agro-forestry Policy and the Challenging the Frontiers of Poverty Reduction (CFPR) programme. The IGVGD has a holistic approach, which integrates food distribution, savings, microcredit, social awareness building, training and healthcare. The initiative to develop the CFPR programme came from the finding that a quarter of the IGVGD beneficiaries did not gain long-term benefits and usually returned to destitution after the food ration cycle. CFPR is aimed to enable the ultra-poor to develop their own options for creating sustainable livelihoods. CFPR beneficiaries are subject to strict selection criteria, and the targeting methodology draws on both informal-level local knowledge, and formal techniques such as Participatory Wealth Ranking, the programme's local knowledge and geographical targeting. The CFPR programme has been found to have been very successful in coming up with good targeting indicators, ensuring their application, and also ensuring that BRAC achieves its mission of working with the very poor.

Click here to open presentation ([PowerPoint 128KB](#))

Comparing the use of a food security scale and a housing index poverty assessment tool

Aniceta Alip, CARD, Philippines

CARD is a poverty-focused Grameen-style MFO providing credit and savings to the poor in the Philippines through solidarity groups. CARD strives to integrate a commercial approach to banking (in 1997 CARD expanded its NGO status to include formal banking status) with its original mission of reaching and serving landless poor women. In the past CARD used three selection criteria for potential clients: per capita income per month of less than \$28, total productive assets of less than \$1,890 and finally a housing index of six points and below. The housing index used was developed by CARD and CASHPOR, as a proxy measurement of poverty. It uses a score card for allocating points for each main component of the potential client's house, e.g. roof materials. The score card is filled in by field staff from the road side and does not require interviewing.

The housing score is then followed up by checks of the poverty status (income and productive assets) of those who pass as eligible. CARD's present work to develop a 'progress tracking' system (a regular monitoring system) is being developed in collaboration with Freedom From Hunger (FFH). This work had identified four areas of impact to be included in the progress tracking system: housing, productive assets, children's education and food security. A 'housing index vs food security' survey subsequently conducted found that the food security index provided more accurate information about the poverty level of members than the previously used means test. Furthermore, the food security results provided positive evidence that CARD is indeed reaching the poor. The food security survey also yielded useful information about operational issues and mission drift.

Click here to open presentation ([PowerPoint 1,056KB](#))

Click here to open the summary of findings from the client assessment workshop ([Word 34KB](#))

Afternoon Break-out Groups: Feedback from participants on how to develop procedures for monitoring and reporting on poverty outreach and social performance

Consideration of a geographically specific or a universal approach and methodology:

1. In relation to the Participatory Wealth Ranking (PWR) used by SEF, it was felt that this qualitative and participatory method yields robust results and serves the objectives well of client targeting and identifying local definitions of poverty. The reliability of the results was also seen as good, as results can be validated against other poverty measures. The only question raised in this context was regarding how useful PWR would be as a more widely used impact monitoring tool.
2. This question was raised with reference to microfinance in Central and Eastern Europe and the NIS, where there has been a high level of dispersal and break-up with the communities due to the historically recent conflict. PRIZMA, which works in Bosnia-Herzegovina, is currently developing a poverty monitoring approach which seeks to take these locally specific factors into account. PRIZMA is seeking to measure financial and social aspects of poverty using a scorecard-methodology, which will be relevant to the region.
3. PRADAN's approach (India) to integrating poverty measures into its impact monitoring system was seen as highly credible, but also as a very complex method. Further problems were that it does not capture organisational drift, and does not account for client desertion and re-entry into the SHGs.

Developing targeting methods that are verifiable and comparable:

1. Poverty targeting methods must be verifiable. PWR is useful in this sense, though questions were raised as to the possibility of integrating PWR into impact monitoring systems.
2. Direct income and expenditure measures may be more useful for auditing purposes, may be simpler to use, and findings may lend themselves better to reporting to donors.
3. With the new North-American legislation stipulating that USAID demonstrate it is reaching the poorest, poverty proxies using income and expenditure may become standard across the industry.

Final Discussion and Comments

- It will be important to develop poverty assessment methods, which are useful to MFOs, but which can also provide useful information leading on to micro-lending and saving provision. Many poverty assessment methods do in fact provide useful information on potential clients. Mapping exercises, for instance, give you a profile of a village, which can be very useful in designing microfinance services in that area.
- Participatory methods can give you a good working profile of a village, helping to position MFO products and services – these can be used both for poverty assessment and market research purposes.
- Participatory methods further have the benefit of letting clients understand the rationale for the assessment work conducted by the MFO, the services provided and that there may be scope for integrating client needs into MFO decisions. PWR, for instance, has the benefit of including the whole community in the process. People who do not qualify for SEF's TCP will have the opportunity of understanding and supporting the initiative and feel part of the decision-making process.
- If we achieve identifying a few useful poverty assessment methods for MFOs, this will be a significant position step for the industry.
- Like access to water and land, access to finance should be equally distributed amongst all people. If it is unequally distributed, economic growth is hindered. Impact assessment, in fact, should be carried out by governments, yet there is a silence, in the industry, about how a country thinks about and deals with the distribution of its resources.
- If access to financial services is seen as a human right, this has implications for legislation pertaining to banking. It also has several implications: targeting the poorest becomes a moral imperative.
- In the Indian context, the socialist commitment of the government to delivering services to the poor has meant that the government has also been proactive in promoting microfinance.
- One of the reasons why governments have not been involved in micro-lending is that the two have traditionally been seen as anathema: government, family and church have in people's minds been divorced from financial services provision. However, research to reach the poorest can only and must come from governments. No donor can provide sufficient funds to reach the 40% of your population, which are the poorest amongst your people.
- Because the microfinance industry is partly subsidy-dependent, and these subsidies ultimately come from tax-payers in 'the north', a rights-based approach to finance means that we are all, in some small way are responsible for poverty outreach and poverty reduction, and we all have a role to play in combating inequalities.

Appendix 1: Welcome address by Mrs Mbeki, Women's Development Bank, to the *Imp-Act* microfinance and poverty seminar - 4 May 2003

Local dignitaries
Mr Anton Simanowitz
Imp-Act Partners and Collaborators
Imp-Act Universities and Secretarial
Other Programme Collaborators and
Fellow Guests

(Disclaimer) I am not from the Prime Minister's Office, as listed. The Prime Minister does not know that I am here and what I am going to say.

As a continuing student of microcredit (I started in 1990), and a citizen who, among other citizens, is trying to push back the frontiers of poverty in my country through the promotion of microcredit, I was seduced to attend this seminar by the headlines of the concept paper which introduced *Imp-Act* to me: namely:-

- Reasserting the role of microfinance in poverty reduction
- Poverty outreach, impact and transparency
- Improving the impact of microfinance on Poverty

Later, a press release rhetorically asked if microfinance can help to unlock the potential of the poor to overcome poverty! It announced that this seminar would look at ways of influencing **International policy debates** to ensure that microfinance is prominent in donor strategies for reaching the Millennium Development Goals of halving poverty by 2015. It argued that there is ample proof that microfinance can be used as an effective tool to reach the world's poorest.

I wondered why South Africa was chosen for this theme because our national policy certainly does not give prominence to microcredit as a strategy for pushing back the frontiers of poverty. I hoped that the choice of South Africa, was perhaps to persuade us to do so and/or give support to the SEF and its cohorts as they strive to reach the poor with microfinance against all odds.

The aim, of the seminar, I thought, should not only be to influence international donor strategies, but primarily to influence national government policies and strategies towards this sector especially in countries with large numbers of poor people.

In South Africa microfinance practice such as it exists is not poverty-focused. It is overwhelmingly targeted at consumer wage-earners and civil service salaried personnel who predominantly have transmission bank accounts through which loans and repayments are made. South Africa is not dependent on international donations for this sector. Therefore international donor strategies for financing MFIs would bypass us excepting the two or three internationally funded NGO/MFI's.

How then shall our national policy and strategy be impacted by the debates that are going on in Polokwane?

Perhaps we should look to the participating South African Consulting and Research fraternity to provide some answers.

Many South Africans here will know that the poverty-focused NGO/MFO's have been waging a lonely battle for the development of this sector by government through an

appropriately distanced financing structure. (The same was done for small business through Khula). Delivery of loans to large numbers of the poor requires first of all the growth of viable Microfinance Institutions. There are very few such in South Africa.

This is in a background, according to the 2001 income expenditure survey of Statistic South Africa, of deepening income poverty. Statistic South Africa reports that the ratio of average income and expenditure for all households declined between 1995 and 2000, while the number of blacks in the lowest 20% of households rose from 29% to 33%. (This takes no account of improvements in housing, water and electricity). This is a pessimistic statistic for our hope of attaining the Millennium Development Goals. What should our response be if income poverty is increasing and deepening.

I believe that a concerted effort to put resources in the hands of the poorest 20% of our population will change this statistic. More so in a country where the poor do have the opportunity to access clean water, electricity, housing and even social grants if they qualify. Access to credit will enable them to use the rolled out infrastructure to best advantage.

According to the MFRC, the Microfinance lending industry which is private-sector funded has 850 registered lenders with more than 3,500 branches throughout South Africa. Size and outreach ranges from as small as 100 clients to those with over a million borrowers granting 5 days to 3- year loans at interest rates ranging from 60% to 1000%.

The average outstanding balance at any time for these lenders is about R5.3 million for about 2.5 million clients. It is estimated that the total size of this industry including formal and informal (17 registered in 2001) lenders on an annualised basis, is in the range of R25 billion. However, all this excludes rural women who are poorly educated and who lack alternative credit sources or secure savings systems.

What is the impact of these expensive loans on low income households even when employed e.g. (cleaners, security guards, domestic workers even teachers and nurses) on national poverty statistics? Do such loans alleviate poverty or do the high interest rates siphon off well-earned wages thus reducing the purchasing power of working people; keeping them poor. The Academics here present need to help us, so that we can recommend more enabling policies and empowering strategies for our country.

Challenges/Current Issues

"We must recognize that poverty is neither created nor sustained by the poor. The roots of poverty can be found in our institutions, concepts and theoretical framework" Prof Mohammed Yunus.

The most pressing challenge for microcredit institutions for poverty alleviation in South Africa is a **Paradigm Shift at the National Policy level**. When the new government came into power in 1994 the role of microcredit for poverty alleviation was recognised, but misconceived. It benefited the for-profit commercial lenders to the exclusion of poverty-focused MFI's. Up to 10 poverty-focused MFO's have collapsed since 1994. Available research reports blame the victim MFO's for poor skills, inappropriate financing etc.

We are urging our government to set up an appropriate Apex Fund (such as PKSF) to assist policy makers in enacting a user-friendly regulatory framework for the poverty-focused microcredit sector; to build the capacities of fledgling MFO's such as already exist; and to on-lend to them at affordable and even concessional rates as the World Bank does to the Least Developed Countries or Bangladesh lends to PKSF, its own MFO Apex Fund.

I cannot resist throwing this last gripe since I am in the community of Potential consultants.

How do we avoid the parasitic "Lords of the Flies" syndrome that is invading the microcredit consulting sector? These are the people who we shall call upon to evaluate the impact of our programs. It seems to me that some of those who have become expert in microcredit delivery through book learning as well as those who have achieved their skill through practice, have become national and international consultants preying on struggling MFOs. Some Microcredit consultants from the south as well as their western counterparts charge unbelievable fees for their services. I was astounded that a fellow southern practitioner quoted US \$10 000 per month for a one year contract to help us when we were experiencing operational problems (i.e. US \$120 000 p.a). He said these were UN rates! Later, an international capacity building outfit ran a one-week workshop in Cape Town Waterfront's most expensive hotel at US \$800 per day (that is 30 loans to women per day) excluding travel. We could send participants only because of the benevolence of the Ford Foundation. What justifies such fees and locations? This means that struggling NGO's must fundraise not only for their operations, but a sizeable amount must feed those who know better than all how NGO's struggle for funding.

I know that microcredit is effective in improving household incomes for poor women. This improvement comes with many other benefits in improved self-esteem, respect within the family, improved nutritional status of the children, access to education, home improvement, better health status, employment and generation of savings and additional assets. But does this get them out of poverty! We hope that *Imp-Act* will provide us with the tools to find out.

On behalf of Anton Simanowitz and John De Wit, our hosts, I welcome the International visitors to South Africa and the rest of us to Polokwane; The Province of our ancestry. You will find in this province not only poverty, which is much too much. You will find also within the Kruger National Park, 255 known archaeological and historic sites, spanning a human chronology of about a million years. Some of these have been marked for tourist rest camps – if you have the time.

There are ruins of the ancient stone city of Thulamela and Mapungubwe built on the Northern tip of the Province about 800 years ago. We have the baobab tree which has become our national symbol of service. The embroidery of the Tzaneen Kooswekers, the beadwork of Basadi-babapedi and the colourful costumes of this province let alone their dances. ...Should make you part with a few tourist dollars in support of local enterprise.

I wish you very productive deliberations and a happy stay in Polokwane, South Africa

Annex 2: Agenda

09.30 - 09.45	<p>Opening and welcome to Microfinance & Poverty Seminar (PowerPoint 504KB) Overview of <i>Imp-Act</i> and work of the Very Poor thematic group (Anton Simanowitz, <i>Imp-Act</i>)</p>
09.45 - 10.00	<p>Poverty and Microfinance in South Africa (PowerPoint 134KB) (John de Wit, SEF, South Africa)</p>
10.00 - 10.30	<p>Setting the Context (1): Achieving a 'double bottom line' in microfinance: ensuring poverty outreach and impact (PowerPoint 1503KB) (Syed Hashemi, Consultative Group to Assist the Poorest - CGAP)</p>
10.30 - 11.00	<p>(2): Issues in poverty-focused microfinance (PowerPoint 533KB) (Anton Simanowitz, <i>Imp-Act</i>)</p>
11.00 - 11.15	<p><i>TEA/COFFEE</i></p>
11.15 - 12.15	<p>What is happening world-wide? Input from international partners</p> <p>Christopher Dunford, Freedom from Hunger, USA: on the forthcoming validation research to compare the low-cost food security scaling with more formal and expensive household expenditure/consumption surveys to classify clients in relation to the international US\$1 per day poverty line. (PowerPoint 40KB)</p> <p>Gary Woller, SEEP, USA: on the work of the SEEP Poverty Assessment Working Group. (Word 186KB)</p> <p>Brian Beard, Opportunity International, USA & Lydia Opoku, Sinapi Aba Trust, Ghana: 'Developing poverty targeting and social impact monitoring tools for the Opportunity Network.' (PowerPoint 171KB)</p> <p>John Hatch, FINCA, USA: on FINCA's poverty outreach work. (no presentation available)</p>
12.15 - 13.00	<p>Developing models of poverty outreach measurement Presentations by <i>Imp-Act</i> partners:</p> <p>Kate Roper, Julian May, Cathy van de Ruit SEF South Africa: 'Linking SEF's poverty indicators to national and international poverty lines.' (PowerPoint 186KB)</p> <p>Maja Gizdic, PRIZMA, Bosnia-Herzegovina: 'Poverty-focused microfinance in the Easter European context.' (PowerPoint 292KB) (Word 30KB)</p> <p>Narendranath, PRADAN, India: 'Targeting the Poorest in India: the PRADAN experience.' (PowerPoint 95KB)</p> <p>Stanley Garuba, LAPO, Nigeria: Strengthening LAPO's in-house Poverty Screening tool, developing poverty monitoring systems, and linking data to national and international poverty lines. (PowerPoint 201KB)</p> <p>Dr. Shantana R. Halder, BRAC, Bangladesh: 'BRAC's experiences of microfinancing with the poorest'. (PowerPoint 128KB)</p>

	Annie Alip, CARD, Philippines: 'Comparing the use of a food security scale and a housing index poverty assessment tool'. (PowerPoint 1056KB) (Word 34KB)
13.00 - 14.00	<i>LUNCH</i>
14.00 - 15.00	Presentations from <i>Imp-Act</i> partners (continued)
15.00 - 16.00	Break-out groups Reflections on morning presentations & Moving the agenda forward: key issues to be resolved action plan for partners strategy for collaboration
16.00 - 16.30	<i>TEA/COFFEE</i>
16.30 - 18.00	Plenary report back and discussion

Annex 3: Details of the *Imp-Act* thematic group on microfinance and the poorest

The group builds on the work of partner organisations to improve understanding of the potential of microfinance to impact on the multiple dimensions of poverty.

Each organisation has developed an understanding of poverty in their own context. Based on this partners are developing their own context-specific measures of poverty outreach.

The development of these measures will be supported through technical assistance from the UK academic team.

Each MFOI is conducting rigorous external poverty assessments using the CGAP poverty assessment tool. (For more information on the CGAP poverty assessment tool see <http://www.microfinancegateway.org/poverty/index.htm>). This will provide a rigorous assessment of the organisation's poverty outreach. This assessment will be used to verify and refine the in-house poverty outreach measurement tools.

Each partner MFO is working with the UK academic team to relate the locally defined measurement of relative poverty to national poverty statistics and to internationally recognised poverty measurements.

Each organisation will be able to report on its poverty outreach in terms of its outreach, relative to the MFO's operating area, relative to national poverty, and relative to international poverty. Seven *Imp-Act* partners will begin reporting this data to CGAP by May 2003.

A similar process has been initiated, allowing MFOs to report on their social performance. Again, each organisation began reporting in terms of their own understanding of social performance and according to the data being collected. This is being refined with the assistance of the UK team, a protocol for social performance is being developed, and regular reports are submitted to the thematic group.

For more information about *Imp-Act*

Please refer to our website www.Imp-Act.org,

Email antons@ids.ac.uk, or write to the:

Imp-Act Secretariat

Institute of Development Studies

University of Sussex

Brighton, BN1 9RE, UK

Telephone: +44 (0) 1273 873 733

Fax: +44 (0) 1273 621 202 / 691 647

Annex 4: Participant List

Imp-Act PARTNERS & COLLABORATORS			
Shantana R. Halder	BRAC	Bangladesh	imran.m@brac.net
Aniceta Alip	CARD	Philippines	aralip@yahoo.com
Namrata Sharma	CMF	Nepal	namratas@cmf.org.np
Anup Dash	CYSD	India	dashanup@hotmail.com
George Muruka	K-REP	Nairobi	gmuruka@k-rep.co.ke
Stanley Garuba	LAPO	Nigeria	lapo@infoweb.abs.com
Michal Matul	MFC	Poland	michal@mfc.org.pl
Katarzyna Pawlak	MFC	Poland	kasia@mfc.org.pl
N. Damodaran	PRADAN	India	pradhanho@ndb.vsnl.net.in
Maja Gizdic	PRIZMA	Bosnia – H	maja@prizma.ba
John de Witt	SEF	South Africa	john@sef.co.za
Kate Roper	SEF	South Africa	kate@silvermist.com
Ben Nkuna	SEF	South Africa	ben@sef.co.za
Gary Woller	SEEP	USA	gmw@email.byu.edu
Sonshi Somayajulu	SHARE	India	Share@hd1.vsnl.net.in
Lydia Opoku	SINAPI ABA Trust	Ghana	lopoku@sinapiaba.com
Imp-Act UNIVERSITIES TEAM & SECRETARIAT			
Naila Kabeer	IDS	England	N.Kabeer@ids.ac.uk
Anton Simanowitz	IDS	England	A.Simanowitz@ids.ac.uk
Anna Portisch	IDS	England	A.Portisch@ids.ac.uk
Jamee Newland	IDS	England	J.Newland@ids.ac.uk
Alyson Brody	IDS	England	A.Brody@ids.ac.uk
OTHER PROGRAMME COLLABORATORS & GUESTS			
Frank De Giovanni	FORD Foundation	USA	
Zanele Mbeki	Prime Ministers Office	South Africa	
Grace Oloo	University of Venda	South Africa	oloo@univen.ac.za
Lindiwe Mfeti	WDB Micro Finance	South Africa	LindiweM@wdb.co.za
Nina Williams	WDB Micro Finance	South Africa	Ninaw@wdb.co.za
Shirley Robinson	National Treasury	South Africa	Shirley.Robinson@treasury.gov.za
Nkosana Mashiya	National Treasury	South Africa	Nkosana.Mashiya@treasury.gov.za
Syed Hashemi	CGAP	USA	SHashemi@worldbank.org
Darrell Beghin	Finmark Trust	South Africa	dbeghin@mweb.co.za
Chris Dunford	Freedom from Hunger	USA	cdunford@freedomfromhunger.org
Gerhard Coetzee	DAI	South Africa	Gerhard_Coetzee@dai.com
Catherine Van de Ruit	Natal University	South Africa	
Brian Beard	Opportunity International	USA	bbeard@opportunity.net
Delores McLaughlin	PLAN International	USA	Delores.mclaughlin@plan-international.org
Daryl Collins	Cape Town University	South Africa	dcollins@commerce.uct.ac.za
Michael Brand	Tembeka	South Africa	tembeka@metroweb.co.za
Richard Humphries	Southern Africa Regional Poverty Network	South Africa	rhumphries@hsrc.co.za
Reza Daniels	Human Science Research Council	South Africa	RDaniels@HSRC.ac.za
Leo Sibanda	DBSA Development Fund	South Africa	LeoS@dbsa.org
Ted Baumann	Community Microfinance Networks	South Africa	tedb@iafrica.com