MICROFINANCE AND ENTERPRISE DEVELOPMENT: EFFECTIVE TOOLS TO ERADICATE POVERTY?

AN ONLINE SPEAKER'S CORNER HOSTED BY JAN MAES AND FACILITATED BY THIERRY VAN BASTELAER, SUE DORSEY, AND BRIAN BEARD. THE FORUM WAS HOSTED ON WWW.MICROLINKS.ORG.

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DAY ONE: APPROPRIATE FINANCIAL AND MICROENTERPRISE SERVICES FOR VERY POOR PEOPLE

DAY 1 – WELCOME TO SPEAKER'S CORNER 28

Post by: Jan Maes

Welcome to the 28th edition of MicroLINKS Speaker's Corner titled "Microfinance and enterprise development (MED): effective tools to eradicate poverty?"

Microfinance and enterprise development practitioners have always aimed to serve very poor people (which we define as those living below the $1/day international poverty line or in the bottom half below a national poverty line), but very few existing approaches, both within microfinance and enterprise development, specifically tailor their products and services to very poor people.

In a recent study, twelve members of The SEEP Network Poverty Outreach Working Group (POWG) conducted case studies of their programs with the goal of sharing experiences and identifying promising strategies to deepen poverty outreach by the MED field. None of these programs or institutions reached very poor people exclusively, but among those who measured their poverty outreach up to one third of clients were very poor, proving that reaching very poor people is challenging but possible.
I am very grateful to three members of the POWG who will co-facilitate this important discussion. On Day One Thierry van Bastelaer (Save the Children) will help us focus on appropriate products and services for very poor people. During Day Two Sue Dorsey (The Friendship Bridge) will address with us strategies to reach very poor people. And finally, on Day Three Brian Beard (IRIS) will facilitate a discussion on the use and benefits of a new generation of poverty measurement tools, which are essential to ascertain that we are indeed reaching very poor people and the extent to which they are moving out of poverty.
Thanks to all of you for your interest in this important topic. We look forward to hearing from you and learning from your knowledge and experience.

Let's hand this over to Thierry, and start the discussions!

Jan

Post by: Anura Widana
Hi all,

Programme looks too good!

Two requests, one to Thierry and the other to Sue PLEASE!

Thierry, in your discussion to address "methods to identify or issues involved," you might want to focus on participatory and livelihood focused assessment techniques too. Thank you.

It might be useful for you Sue, to address proven methods to reach v poor people in your discussion. You may want to stress channeling through user groups. What issues are involved here? What are advantages and disadvantages? How to overcome disadvantages? Thank you.

WHAT TYPE OF PRODUCTS AND SERVICES DO VERY POOR PEOPLE NEED - AND IN WHAT ORDER?

Post by: Thierry van Bastelaer

Welcome to the first day of our discussions on the effectiveness of microfinance and microenterprise services to eradicate poverty. My name is Thierry van Bastelaer; after spending 12 years at the IRIS Center at the University of Maryland, I now serve as Senior Director in the Livelihoods Department at Save the Children, where we work to increase the economic viability and food security of poor households in the developing world and the US. I am honored to have been asked to help moderate today's discussion--and I am sure I will learn a lot from it.

On the first day of our discussion, we suggest a discussion of the products and services that very poor people need. Let's first focus on financial services only, and talk about non-financial services afterwards--if time allows.

So to start out, what are the financial services that can build a durable pathway out of poverty and what are participants' experiences about the ideal sequencing of these services? Some of the general literature on microfinance gives the impression that it's the credit side of the equation that is the most likely to alleviate extreme poverty. Yet don't the very poor consistently indicate that savings is their first financial need? At what point do families need insurance or remittances? For deeply destitute families, are cash transfers the only option to prevent further asset depletion? Are we able to identify a sequencing of these various services that seems to hold in most of the places where we work? If not, why? We look forward to reading your thoughts, and may suggest follow-up questions.

Post by: Linda Jones

Hello all,

If clients say that savings is there number one issue, then I think that has to be respected. Why encourage people to take debt - surely what is happening in our own financial system should underline the dangers of debt to rich and poor alike. If we can't understand it enough for ourselves, we certainly need to tread lightly for the poor. I am currently in India where, as you all likely know, 250,000 farmers have committed suicide over the past ten years do to debt - and this was not all from the traditional moneylenders. CARE, Oxfam, AKF and others have been doing great work in the area of savings - I look forward to the learnings on this.

I am not saying that disadvantaged people should not have access to a broad range of financial services. Choice is a key element of empowerment.

Another comment on credit - often it is used for consumption and income smoothing (savings would provide an interest free income smoothing if we could make a one cycle leap). There is value in that. But, I have observed that many people are urging that credit be more related to income generation. The problem is that MFIs who often provide the debt are not experts in enterprise development and long term sustainable improvements in income. This brings us back to the old debate or the relationship between MF and ED. Development donors got away from MF to some extent, which separated MF from a more holistic approach to development.

FAO is pushing the agenda on value chain finance in Agriculture. This has potential as it combines knowledge of MF and ED in a way that is more market-oriented, production focused, asset creation driven.....but again, there are no easy paths and no silver bullets.

Some early morning thoughts. Thanks for the chance to debate these critical issues.

Post by: Ajaita Shah
Dear All,

My name is Ajaita Shah and I am the Program Director of SKS Foundation. SKS NGO and SKS Foundation are the non-profit arm of SKS Microfinance based in Hyderabad India. At SKS NGO/Foundation, we have been running a pilot program focusing on the Ultra Poor (or in this case, very poor at less than a $1/day) for 2 years. I would like to thank Mr. Thierry van Bastelaer for starting this discussion with excellent questions…

While credit may be the focus of most microfinance organizations, in our experience credit is really not the primary/appropriate service for the very poor.

Microfinance has successfully addressed millions of poor women's needs by providing financial services to help maintain or enhance their financial capital, and SKS is a proven leader in microfinance, having served more than a million clients across India. Unfortunately, many women who are unable to generate income or attain enterprises are left behind, missing the opportunity for change and success through microfinance. The poverty of very poor populations is multi-dimensional, and is characterized by malnutrition, hunger, poor health, and illiteracy. The very poor lack a stable income and often do not have the means to feed their families more than once a day. They have been excluded from the traditional microfinance sphere because of these challenges. They often self-select themselves out of programs due to a lack of confidence or concern for indebtedness. In addition, microfinance staff and group members may see the very poor as a credit risk, thereby preventing them from group inclusion.

Our program focuses on a three-dimensional model of economic, social and health development. As a financial service oriented organization, we believe that financial service and economic development are crucial elements for this group. This includes savings, enterprise selection and 3-6 days of skills training. Savings inculcates a sense of financial discipline in members and provides cushioning during crisis events. Additionally, and most importantly, the program includes a thorough financial education program focusing on training and education about income-expenditure, budgeting, goal setting, and financial services. Without proper understanding of savings, options of financial services like credit, insurance etc, we think these women are making themselves vulnerable to multiple economic shocks which bring them back into the vicious poverty cycle.

Unless the very poor are able to generate a stable and sustainable income, they will not be ready for credit. Most of these groups lack proper assets or enterprises to receive credit in the first place. We believe that helping them gain access to an income generating enterprise, training in maintaining that enterprise along with savings and financial education are crucial steps BEFORE credit.

I look forward to hearing other people's comments and further experiences.

Post by: Nav Raj Simkhada

Dear all,

I am currently working with Microfinance Project in Papua New Guinea (PNG). Before joining the project in PNG I have worked with various organizations involved in microfinance sector in Nepal.

The microfinance sector in PNG is still in emerging stage. The Grameen Model, replicated in PNG was failed because most of the people in PNG have no savings and credit culture. Moreover, the Grameen replication focused on credit rather than savings services. The experiences and studies showed that people in PNG need more orientation and trainings on financial education and building savings habit. MFIs which are offering client friendly savings services in PNG are able to reach more clients. This proved that people prefer savings more than credit. However, the services of these MFIs are limited in city centre leaving most of the needy people in remote areas unserved.

Market study revealed that most of the people in rural areas of PNG do not plan a head of time to meet the future predictable and unpredictable needs when they need lump sum cash. People have habit of spending whatever income they made. When people received money from various sources, they always become tempted to spend it. Budgeting and savings habit is almost non-existence. Most of the members fulfill their major life cycle needs and other needs when it occurs by pulling help from clan members, friends, and relatives or borrowing from informal sector, friends, relatives, or other sources.

People normally don't save because: 1) They are not aware/educated on the importance of savings and don't plan ahead of time for future financial needs 2) The appropriate savings services are not available in the community 3) Poor security situation which hinders collecting savings in the community and transporting it to the secure place.

I agree the views provided by others contributors. The poor need both savings and credit services. The very poor need savings services first. The credit can push the very poor to vicious cycle of poverty. The savings not only help to build assets but also help to build thrift, maintain discipline, educate on financial planning and finally empower the poor.

Post by: Sebastian Behrle
Dear all,

I would like to contribute with a few experiences from Southeast Asia.

The really destitute (victims of war or catastrophes) are not in need of finance, they are in need of clean water, clothes, housing, food... The chronically very poor would be best served by savings and small loans for emergency situations. Production loans are risk-increasing; the very poor have not the capacity to fail, at least not in a commercial financial system.

I think it is important to understand poverty and its reasons in order to design good financial products for poor people.

The causes for poverty are manifold:
- external causes: political circumstances, generally low economic development, disasters, diseases, social reasons,...
- more interesting and often giving an explanation for, why some families remain chronically poor, while others prosper, are peoples' attitudes.

Mr. Nav Raj Simkhada described some attitudes in PNG, which I think are quite universal:
- lack of discipline
- propensity to spend

I would add:
- low work/leisure rate (some call it laziness)
- drug or alcohol addiction
- 'social addictions' (playing cards, girls,...)

Microfinance can preserve these people from misery, but not from poverty. We must acknowledge that for many of these 'attitudinal' poor their lifestyle is more or less a choice, which we should respect! These people can even be a big threat to any MFI, as they might default ex ante: they are not credit-worthy, and can only be reached by savings.

Post by: Linda Jones

Hi,

Your comment seems to put a pretty strong emphasis on poverty being a choice. Not sure if you meant that - quite a libertarian view.

You forgot to mention things like:

feudalism
indentured labor
lack of opportunity
failure of education systems
illiteracy

prejudice
chronic disease
degradation of natural resources
forced migration
child trafficking
etc.

Wanted to balance out the scorecard a bit...

Post by: Sebastian Behrle

Linda,

Of course my list of causes was not exhausting, so thanks for adding.

It's usually not appropriate to talk about (this kind of) poverty like this. Nevertheless it is existing, and we both know it's true... I did not generalize, I did not judge and I did not want to categorize. Neither did I make any estimation, how big a part of poverty is caused by attitude.

I have lived between very poor people for several years, so I feel entitled to describe what I have seen.

Post by: Maria-Sara Jijon

Dear all,

I was planning to send a longer and more detailed message, and I will later on today.

I the meantime, I would just like to add that families living in poverty for generations certainly "acquire" a certain attitude towards life: one of hopelessness (desesperanza, in Spanish).

If what they have been born, lived, and seen all their lives is just misery, anguish, lack of resources, and abuse .... (I agree 100% with Linda's list, and I could add a few more). They will continue with this cycle, over and over again.

This is what in my country we call "cultura de la pobreza"!!!

Of course, if they start seeing that some of them, with proper education, health services and opportunities change their lives, they will certainly - little by little - change as well. Maybe not all. Maybe for some it is too late. Maybe the lack of nutrition for centuries has destroyed not only their full intellectual capacities, but also their "animus".

Post by: Luis Sfeir-Younis

Hello all,

My name is Luis Sfeir-Younis and I am a Program Associate at Trickle Up. Thanks to the moderators for putting this together, and the participants who have contributed thus far some very interesting thoughts and stories.

I would like to offer my view, based on very limited experience, on what I see as the more interesting aspects of the two questions Thierry offered to get us started. As a reminder, these are:

- What are the financial services that can build a durable pathway out of poverty?

- What are participants' experience about the ideal sequencing of these services?

Because I am relatively new to the field, I unfortunately don't have very many interesting stories or tidbits to offer. Yet having family who grew up in abject poverty and having worked and lived in impoverished communities myself, I can say from personal experience that poor individuals, families, and communities are much more resilient, adaptable and hardworking than I think a lot of us living in the 'developed world' (what an odd label!) give them credit for. That's the first point I would like to offer: the poor are not powerless, and they do often do a lot more with a lot less than many of us would imagine possible.

Secondly, the issue of 'financial services' is a complicated one, because we often view financial/economic issues as somehow disjointed or unlinked to other, more 'messy' issues of a cultural, social, and political nature. I think there's a need to realize throughout the field that - whether it be savings or credit - financial services will not be and should not be seen homogenously. What I mean is that what we refer to as 'financial services' in one context, or 'savings', or 'credit', may have completely different functional or effective meanings in different contexts.

Where does that leave us? For me, it means that attempting to argue that savings is better than credit, or vice versa, perhaps misses the point that financial services exist within an environment, and that that environment - which should place the poorest and most disenfranchised at its center - is going to vary widely from context to context.

So, I suppose my own personal response to the first question posed is that we have to first take the approach that financial services are not a sort of 'tool box' from which we can draw tool A, B, or C (savings, credit, whatever) and use in the same way in all contexts. Rather, before we even decide what model needs to be employed to sustainably alleviate poverty, it's important to first take in the situation 'on the ground', and understand directly from the people who are at the center of extreme poverty what the immediate sources of poverty seem to be, and how they cope with it. From there, one can then move further away, looking at links to less immediate and more indirect causes (e.g. national economic policies, global economic forces, etc), which is also important if any poverty alleviation strategy is to be truly durable.

Of course, that is not to say that there are no standards, either in existence or yet to be developed, that cannot be 'universalized' to a certain extent. But flexibility and a bottom-up approach, in my view, is essential to make any such 'standardized models' effective in any meaningful way.

Post by: Thierry van Bastelaer

Many thanks, Luis, for your thoughtful and uniquely informed contribution to the discussion. I think most participants in this Speaker's Corner would agree with you that financial services are not homogeneous, and that they should be designed with extraordinary care and attention to local conditions, be they cultural or development-related. Clearly, also, it makes little sense to suggest that "savings is better than credit" or similar statements, the validity of which also varies widely according to the local conditions--although evidence that poor people need safe savings options more than credit seems to hold up pretty much anywhere. So, what we are trying to identify is whether, despite the enormous variations in these local conditions, a similar sequencing of services seems to work best for very poor people across contexts?

In other words, have some of us noticed that any of the following sequences of services (where they are all available) best meets the graduation needs of most poor people across the countries where we work:

Transfers -> Savings -> Credit -> Insurance

Transfers -> Credit -> Savings -> Insurance

Credit -> Insurance -> Savings

or...

Or are local conditions so vastly different that any statement can only be valid under very specific environments?

What do others think?

Post by: Janet Heisey

Like SKS's project in India that Ajaita highlighted, Trickle Up is piloting a project in India to link the very poor with ongoing access to capital. Both of our organizations are part of a CGAP-funded initiative to reach out to the very poor, with projects in roughly eight countries.

Based in West Bengal, Trickle Up's project was launched just over one year ago to support 300 very poor women. Baseline results from the Grameen poverty assessment tool show that 72% of participants were living on less than $1 per day at project inception. The project incorporates many elements of Trickle Up's existing program-training, savings support and seed capital grants, and incorporates a few new elements including health care education and linkages, village development committees and veterinary care (the vast majority of participants are pursuing animal husbandry).

The theory behind the project, and Trickle Up's work in general, is that the very poor have livelihood strategies that usually involve daily wage labor but lack productive assets that enable them to save and build assets. The sequencing of the project is important, and we've tweaked and nudged the project as we've gone on. Generally, following the selection of participants, the project begins with livelihood training focused on the activity the women have selected. This is followed up with one-on-one weekly visits to the family to reinforce the learning and monitor the well-being of the livelihood and of the family. These visits continue for the duration of the project.

Just after the livelihood training, exposure visits to existing self-help groups are organized to allow participants to learn about the benefits of saving from peers. Self-help groups are formed and women meet and begin saving roughly Rs. 5 per week (US 13 cents). Participants are responsible for building the shelter for their animals, and once this is completed the women collect their assets to launch their livelihoods.

Most of the livelihoods are animal husbandry, so participants receive a stipend of Rs. 13 per day (US 33 cents) to help with food consumption and smooth income in the early days of their new livelihood activity. We found during the course of the project that we also needed to extend the subsistence allowance during the rainy season when the family was not earning from other sources.

While weekly monitoring visits for the livelihood continue, a health worker visits each participant once per month to check on the health status of the family, to provide information about services available, and to assist families in accessing government health programs locally. The health worker also visits the self-help group to provide additional information.

A part-time veterinarian is paid by the project to train the staff and provide care to animals. However due to extensive flooding last year the loss of animals was high and we felt greater training and support needed to be provided to participants. So we created a system of Animal Friends-local community members (sometimes participants themselves) who received training in animal care, effective vaccination and feeding, and warning signs of common diseases. Each Animal Friend is responsible for 10 families and she visits those families each day to check on the health of the animals. Since we started using Animal Friends, animal mortality has dropped and live births have increased. Animal Friends obviously also benefit other community members who can benefit from their knowledge.

Finally, a village development committee is formed consisting of a few participants and several community leaders. They are encouraged to be guardians' and supporters of the project participants and several have already intervened on behalf of participants who faced crisis, so this committee provides broader support to the very poor in the community.

For Trickle Up, we consider the point of 'graduation' to be the link between the savings group and the bank. In India, well-run self-help groups can access a loan from local banks of up to four times the amount of their savings. We will consider the participants to have 'graduated' to an ongoing source of capital when they have taken, and repaid, loans from the bank that expand the group's capital. We will also gauge success by ensuring that each family has 2-3 livelihood activities after 2 years and is a member of a functioning, independent self-help group, as well as looking at other indicators.

We have found that careful and close support to families in the initial stages of livelihood development is essential to ensure women and men can create strong and sustainable livelihoods. As we've all learned, the challenges the very poor face are many and varied, and while our organization does not pretend to address all or even most of them, we must always be cognizant that they exist, and flexible enough to understand how we can best address them.

I look forward to learning from others what you've found most effective.

Post by: Ajaita Shah

Dear All,

While local conditions do vary throughout the world, I think there is some validity to your point Thierry... there might be a few who may argue, but I think for this group, it is suffice to say that Savings and Insurance are extremely important and may come before Credit.

Continuing with Janet's statement (and thank you Janet for laying out the details of the project - makes my statement a lot shorter!)... given the nature of local conditions and household abilities/inabilities to generate a vast amount of incomes, credit seems to be a need after graduation... In the sense, that "Graduation," for us, especially for the very poor in India, ends up being defined in more socio-economic terms:

1) able to sustain an enterprise and generate daily-fixed income

2) can store a month's worth of food

3) diversify income generation

4) send children to school

As they prepare to graduate with these standards, they are more inclined for savings components...

I think insurance products, while are not an obvious demand, are needed to help this group with shocks and vulnerabilities. (As we know, this is one of the most vulnerable groups)

For example, one of the largest expenditures and reasons for money-lending/credit is due to health catastrophes - while preventative healthcare and the health component (as Janet mentioned) is crucial, a health insurance can alleviate a very large burden and shock in this group.

Livestock Insurance - when we provided our members (500 in AP) with livestock options for an enterprise, one of the most popular were buffalo... we partnered with the AP Livestock Development Agency to insure buffalos - once again, a huge benefit to the very poor - natural disasters, local diseases etc can lead to sudden death of their livelihoods and inevitably make them fall into their cycle of poverty,

As Janet mentioned, we are too are trying to figure out an ideal structure for the next phase of graduation - which as of now, looks like a group savings model - allowing for internal lending as desired....

Savings and Insurance for this reason become a large protection from these vulnerabilities which seem to be crucial steps before credit.

Post by: Sebastian Behrle

Dear Thierry,

Risk is a very crucial subject to 'the very poor'. In this regard I would opt for (Transfers - but not everybody has something to have transferred... >) Insurances > Savings > Credit.

BUT: The question seems rather academic to me.

Insurances are the most difficult of the financial services to set up, and savings are normally (not always) interlinked with credit services. But savings are a basic, but excellent substitute for insurances.

So in real life this means normally: Savings + Credits (> Transfers) > Insurances.

Post by: Tom Coleman

It is exciting to see a discussion like this focused on serving the very poor, those living on less than $1/day. I like to refer to this niche of microfinance clients as the Bottom Billion based on Paul Collier's fascinating recent book "The Bottom Billion", 2007. I also like Mark Lange's statement (Christian Science Monitor, March 10-14, 2008) about the importance of placing a priority on the Bottom Billion (those who live in "extreme poverty"). Lange argues that global development aid makes an important mistake by failing to place a priority on the Bottom Billion.

I would argue that microfinance also, for many of the same reasons, has strong incentives to avoid placing a priority on the Bottom Billion. This needs to be addressed not only by sharing the practitioner successes being discussed here but also by looking at the broader picture of attracting greater investment financing and MFI interest toward that part of microfinance that does the most to measurably help large numbers of Bottom Billion people.

My background is as a financial economist, formerly Director of Research and New Product Development at the Chicago Board of Trade for 20 years. I have been an independent microfinance consultant for the past dozen years focusing on ways to bring together capital markets and investment linkages to microfinance, AND that part of microfinance that places a priority on effectively serving large numbers of Bottom Billion people.

I have come to the conclusion that except for groups like those in this discussion, most in microfinance do not speak clearly about "poverty" or about what "measurably works" for Bottom Billion people. Does this effectively make microfinance for the Bottom Billion a minority niche in global microfinance? I think it clearly does!

The statement "All microfinance serves poor people" is unfortunately enough for many social investors and many microfinance practitioners as well. This effectively loses any meaningful focus on the Bottom Billion and unfortunately helps to let them stay excluded.

While the majority of the world struggles with poverty: 5.5 billion living on less than $10,000/year, 4 billion living on less than $4/day, 2.6 billion living on less than $2/day, and 1 billion living on less than $1/day, most aren't dying by the millions every year. The Bottom Billion are.

By looking at global microfinance client mix and the global distribution of MFIs and MFI loan portfolios alone two things are clear. I did some data work on this a year ago for Grameen Foundation which shows this. (I am promised this data study will soon be posted on the Grameen Foundation's new PPI website). The growing MFI use of poverty measurement tools is making this even clearer.

1. Microfinance serves many relatively poor people (who are not in the Bottom Billion). And this is great!

2. Microfinance is not focused on the Bottom Billion. Furthermore it seems to be the case that most microfinance serves other "poor people" often to the exclusion of the Bottom Billion. This is not great!

*The good news is that, at least some MFIs, including some of the MFIs that are large, profitable and able to serve large numbers of clients in a cost effective way are also serving significant numbers of Bottom Billion clients. This is really exciting!!!

I hope I haven't already lost your interest by talking outside the range of practical practitioner experiences working with Bottom Billion clients, because this is all very relevant to how we can create more and better investment for the funding of appropriate and effective microfinance services for much larger numbers of Bottom Billion people.

Consider the following propositions. You may or may not agree.

1. For the past decade microfinance has focused mainly on the health and profitability of MFIs. This has led to an impressive increase in MFI capacity and cost efficiency.

2. It may have also reduced attention to client interests, especially Bottom Billion client interests.

3. More attention is needed on what works for Bottom Billion clients. This discussion is helping.

4. If we can identify what works for Bottom Billion clients and which MFIs are doing more of the things that work, then we can create financing/investment that specifically encourages larger and more effective microfinance for Bottom Billion people (Bottom Billion Microfinance).

5. We need to create a Bottom Billion Fund with financial incentives for MFIs to maximize social return in the form of effectively serving more Bottom Billion people, even if this means a new kind of MFIF with significantly less financial return paid to investors.

Post by: Jan Maes

Thank you, Ajaita and Janet, for sharing the details of both these "graduation" projects in India. It seems that in these models/pilots the sequence is cash transfers, savings, loan and then loans (from internal savings, and perhaps linked to a bank).

You also mentioned a number of non-financial services (training, veterinary support for instance, but also food stipend, health checkups, etc.). These non-financial services were an important aspect of almost all the POWG case studies, and we can talk more about these later today.

Can you elaborate a little bit more on micro-insurance. Why is this seldom offered to very poor people? Are they not familiar with this and unable or unwilling to pay a premium for benefits that they might not need (in case the insured event does not take place), are there too many obstacles on the supply side, or both?

Post by: Sebastian Behrle

Dear Tom,

Thanks for your brilliant analysis! –

I do agree with your propositions 1 - 4. Though, I do only partially agree with the fifth. Of two reasons:
- Part of the 'Bottom Billion' - the one hit by (political, natural, personal, social,...) disaster - is better served by other activities than Microfinance. Even more focusing will not help. Money is not even amongst the core problems.
- Focusing too much on the other part of the 'Bottom Billion' - let's call them the chronically poor - is normally at the expense of the service provider's financial sustainability. Maybe we can find a donor who would support this provider because it is achieving social goals. But how sure can we be of this support for the years to come? Which donor would be willing to subsidize such a provider for let's say 15 - 20 years?

So I agree completely that we maybe have lost the really poor amongst our MF clientele, and we should do more about it, but not at the expense of sustainability. - NEVER TRUST A DONOR....

Post by: Ajaita Shah

Dear Jan

Thank you for your questions... just one point:

The Cash Transfers aren't exactly "cash-in hand," we pay for the enterprises each member chooses after their training session. We identify the market and the vendor, allow the member to choose their enterprise, and then pay the vendor accordingly... the members know the worth of their enterprise, but it is a cashless transfer - in the sense that they do not receive the cash themselves.

Re: Insurance

It's a very good question, and here are my thoughts...

1) I think literacy and awareness is a huge reason why insurance does not reach the very poor - both because they do not know about the insurance schemes in the first place, and secondly, perhaps cannot measure the value (as you mentioned, certain insurances schemes are protecting them from risks which they might not witness - i.e.: health catastrophe)

2) Another major reason are the product designs themselves... if you look at the existing health insurance products, for example, while they might cover a lot of health needs, do not necessarily reach the poor - they are poor service providers - our entire project is based in Medak, which is a rural district of AP - while we would love to bring a health insurance product to them, there are no services providers able/willing to come into these Rural areas - a large lack of infrastructure.

3) Livestock Insurance - also very limited and based on a lot of conditions - the AP Livestock Agency developed an insurance product which only covers buffalos - while a lot of our members prefer a buffalo, about 25% do not for various reasons: they do not have enough space to take care of the buffalo, they are widow and do not have family support that will allow them to leave the buffalo while they continue their daily wage labor in the fields, etc... they will choose less costly and smaller livestock like goats - there are no insurance schemes covering goats. Is this because goats are more likely to need insurance coverage because they are so mobile? I don't know...

At SKS Microfinance (our for profit company) - they are giving insurance to their customers - because they make most of these insurance schemes mandatory (i.e.: Life Insurance, Health Insurance... and sometimes, depending on how old the customer is, Livestock insurance) - there isn't much backlash because there is a surplus of income which allows the customers to pay premiums... so I do agree with your point, that perhaps that the ability to afford premiums prevents the very poor from being an appealing market for insurance...

Tom:

I completely agree with your points as well... In fact, this was a huge reason for why SKS NGO had taken on the Graduation Pilot - in response to this reality: while Microfinance is doing a great job providing financial services to the poor, they are NOT reaching the bottom... SKS argues that the very poor are not READY for such services for the very reasons we have been discussing yesterday and today... SKS NBFC's mission is to provide financial services for all requiring it through credit/insurance - if you look at their market, it is reaching the middle-upper poor classes - at the NGO, when we do our market survey, we first consult our counterpart to identify areas that were NOT market friendly to the MFI because there is a large risk of providing credit to the very poor. Therefore, a project like the Graduation Project, which is quite donor dependent right now, is perhaps needed for the very poor before we allow an SKS NBFC or any other MFI to reach them.

Post by: Thierry van Bastelaer

Sebastian raises the issue of sustainability, and it is clearly the elephant in the room--I suspect it will be addressed again in the next two days: how much subsidization can we live with in order to reach the poorest? In the light of the discussion so far, one could phrase the question slightly differently: to what extent do pure transfers or loss-making loans play the unique role of "priming the pump", or setting households on the track to productive use of financial services and graduation from poverty--a cost of doing business, in a sense?

Post by: Jan Maes

Yes, sustainability is indeed a key issue, one that deserves to be discussed further. Indeed to what extent can the subsidies to help people become profitable clients of a microfinance institution or bank be considered as the cost of doing business? And who should pay for them? Can MFIs for instance bear some of those costs themselves, perhaps through cross-subsidizing (in this case use higher profits from profitable clients to provide some of these services)? The potential for that is limited, and probably only applies to its core business, financial services, I would think. I want to point out that several POWG case studies offering microcredit products

(Save's partner Nirdhan in Nepal is an example) were able to reach a significant amount of very poor people (close to one third, I believe). What do others think?

But what about non-financial services? Which ones are important or even vital? Health services seem to come up again and again. What experience do all of you have with health services? Which ones are important? Health education or awareness, access to healthcare services? And besides health, what type of other non-financial services do very poor people need before they can successfully take advantage of financial services? And who should deliver those services? How can MFIs and other service providers engage in sustainable partnerships? And what role can donors play in forging such partnerships?

Post by: Jan Maes

Thanks for that clarification, Ajaita.

I would like to pose another question related to these graduation models. As you mentioned, "graduation" of a participant involves among other her being able to sustain a microenterprise and generate a regular income. Have you come across economic contexts, for instance very remote rural areas, where there is little potential for viable microenterprises, at least not for large numbers of very poor people? What can be done in this context? Do these people also need access to better financial services than what local money lenders have to offer? What type of (financial) products do these people need, and how can they be provided in a sustainable way?

Post by: Julie Peachey

All,

Thanks to everyone for a great discussion so far. I am really happy to see many mentioning the importance of the role of savings for the poorest. But, how practically can an unregulated organization start offering savings products and taking deposits legally? Is the only option transformation? I think transformation is a good thing for many reasons, but we have to be realistic that once an MFI transforms to a for-profit regulated entity, there is greater risk that focus will shift away from the poorest (if it was even there to begin with!) It seems to me it is mostly the unregulated NGO types, like SKS Foundation, that are truly trying to serve the poorest, and so how can they offer savings? I realize the laws are different country to country, but would love it if anyone can share successful structures for doing this. Do the service company or business correspondent models really work? At best, they allow the savings products to be offered to the client (which is the end goal of course), but don't provide the dual advantage of being a capital source for the MFI.

Post by: Janet Heisey

I'll contribute with Trickle Up's experience with this project, and hope that Ajaita does too.

We did an assessment of viable livelihood activities in the area before we began and determined that there were few opportunities for market-based trading businesses, but great potential for livestock-goats, sheep and pigs. The benefit is that most everyone in the working area had room to manage these businesses, but the downside is obviously that they are long-cycle businesses that don't generate a profit for many months.

Trickle Up's projects in India are designed with the assumption that the livelihood activity we support will be complemented by ongoing wage earning and other activities, the combination of which will provide enough income after two years to move participants sustainably over the poverty line. We work in a number of contexts in India, but always in remote, rural areas, and have found that markets there can absorb a relatively large number of participants. However they are nearly always pursuing animal husbandry or agricultural activities. Moneylenders in the area will not generally provide capital for these types of enterprises, and nor will participants generally want to assume this liability even if funds were available.

This ties in with the issue of sustainability. Moneylenders offer capital but none of the other invaluable supports that are essential for ensuring success. Health education and linkages, veterinary care, training and close one-on-one support are all key elements that ensure these participants will succeed. The savings group support and village development committee support further bolster their growing livelihood.

I believe the savings groups are the key to the sustainability question and how these services can work in poor, rural areas. Savings-led microfinance has made great strides towards supporting the very poor. In the communities in which we work, however, we've seen that mobilizing the very poor into groups and encouraging savings is extremely difficult as they are living hand to mouth. I've had this discussion with field staff for the past year-wondering whether they can mobilize in savings groups without the asset. They're convinced it's not possible. Their experience has been that the livelihood support is essential to ensure participants have the confidence in these new-found assets to set aside some of their earning in savings each week. Without it, they are unwilling, and I would suggest unable, to contribute.

And just a quick note to address Julie's point about how savings are collected. Trickle Up is facilitating the creation of independent savings groups of 12-20 members who manage their own money, set their rules, hire a local person to help keep records, and determine who receives loans and on what terms. Neither Trickle Up nor our partners touch the savings funds held by the groups. I know that other organizations in the graduation pilot project are MFIs who I believe are holding savings themselves, but I'm not certain about how that works on the ground.

Post by: Ajaita Shah

Thank you Jan for your questions...

Janet has pretty much summed it up; I agree with literally everything she just wrote.

SKS uses a VERY similar model - we also conduct a thorough market survey to understand viable enterprises for these women - remote rural villages have minimal options, which is why we also focus on animal husbandry/agriculture. We try to find innovative ways to link these women into the main market - whether its the local town market or becoming a vendor within the village. We found that buffalos and goats are the most popular enterprise, and then the next being kirana shops and land-leasing. We try to partner with government programs to increase markets - for example: the government has created milk chilling facilities near towns for women to sell their milk. We also insist on this enterprise being a complementary business to their existing income generating livelihood which, as Janet mentioned, is daily wage labor - in fields, as construction workers, etc... the major point is, this livelihood is not sustainable nor is it fixed... it is based on seasonality and therefore, they need a longer term business ... when we choose the enterprises, our goal is to have them generate income immediately; for example, when we help them locate buffalos, we ensure the buffalo is already pregnant or has just given birth so that it produces milk immediately. Similarly, we insist women purchase 2 goats, so they can produce babies sooner than later. While their enterprise is developing, they are continuing their daily labor.

As Janet mentioned, Savings is THE sustainable component, but it is important for these women to understand HOW and WHY... At SKS, we hold the group's savings and then open a bank account for the members...The Savings component is directly linked to our Financial Education Program- during the course of the 18 months, as these women meet every week - they are learning everything about their business - what kind of markets exist, how to diversify, how much income they a re generating, why they are generating that amount, how much money they are spending, whether they can cut costs, what kind of budgeting goals can they have, can they meet these goals, and eventually, goal setting - what do they want from this enterprise? Are they satisfied? Do they want to grow? Do they want to diversify? etc... we have done a study on the progress of this methodology and found some results:

1) As Janet mentioned, since most people do end up taking the animal husbandry/agriculture enterprise, these women tend to use their excess income to add an additional enterprise which is different from their original.

2) Most women initially do not know why they are saving or the point of the savings, it usually seems like a conditioned component to the program (which goes along with Janet's point that the livelihood link gives them some confidence to save, or incentive to save).

3) However, as they begin saving and realize they can use their funds for emergencies or their business or consumption, the savings component of the program becomes practical and favorable to the group.

4) These women insist on internal lending within the savings - we're seeing natural SHGs forming... while the money lender is not replaced yet because they will not be saving enough to compensate for grossly large needs, it is a step in the right direction - which again, is usually near the point of graduation...

I think training and education are KEY components to the program. Anyone can provide capital for an enterprise, but its worthless of there is no revenue from that investment. Both our programs focus on ways to ensure there is some revenue generation; that's the major difference...

It is also the reason I don't think the traditional credit approach applies to these women: when microfinance organizations lend to women, they are assuming that loan will be utilized to improve or expand an existing business. There are very few (if any) organizations that take the time to link or help their members actually improve or expand the business through training or linkages. Their assumption is that these women have their plans ready and just need the capital - I think we're all understanding, that sometimes, especially for more vulnerable groups, capital isn't necessarily enough,

Post by: Ajaita Shah

Hi Julie

Thank you for your remarks; legally, in India, only unregulated or non-profit organizations can offer ANY sort of savings products because of RBI regulations. Non-Banking Financial Companies are not allowed to collect savings in India, therefore, non-profits are actually the only source.

We, at SKS NGO and Foundation - have been working as a banking correspondence - we have opened accounts for our Ultra Poor Members at a Bank once we've collected group savings...

I believe Mr. P Ramesh from Grameen Foundation would argue that on a large scale, the banking correspondence system works quite well and in fact, generates income for the non-profit...

Eventually, SKS Foundation/NGO will become a business correspondence to these Banks, which the RBI grants permission... The major caveat is that Banks that are participating must conduct due diligence on the NGO/Foundation before agreeing to form this business correspondence contract...

I do think this is a good option, but not necessarily the only option for savings. I think NBFCs should be allowed to have a savings component because it is a favorable product in the immediate and long run for all members. Especially if we want to get involved in areas like mobile banking, education products, etc. I also think focusing the savings product is important - if we create products which are meant solely for savings - like a dowry based saving product, or a gold product etc - but again, this, as you mentioned, in my opinion, is not dealing with the very poor...

Post by: Brian Beard

Janet and Ajaita illustrated how useful the internal savings managed by group members themselves can be in generating needed capital for businesses and as a safeguard against disasters. But in addition to (or prior to) promoting savings, it is often necessary to give the poorest a grant or subsidized loan (the term "loss-making loan" and also "priming the pump" were used). I have heard stories about how governments sometimes offer loans to the poor (especially prior to an election to get more votes), and those programs end up with huge default rates because the people assume the government doesn't really want the money to be repaid—or assume they can get away with not paying. So a culture of dependency is created, and it is much more difficult for MFIs to enter the market and achieve high repayment rates. So I am interested to hear how the programs that provide grants or loss-making loans (that have lower interest rates) deal with the issue of graduating their clients to more traditional products and at the same time breaking any culture of dependency that may have developed (or preventing it from happening).

And that ties back into the question of who is best suited to provide for the poorest. Providing all the products and services needed by the poorest is costly, and especially so if one is providing grants or loss-making loans. As Jan mentioned, large MFIs can sometimes cross-subsidize and use profits from their loans to pay for more training and guidance to the clients who need it most. But is that the best model?

Post by: Linda Jones

Hello all,

It's been an informative discussion on MF today - and thanks to Thierry for leading this.

This is the day that Jan indicated we would discuss "Appropriate financial and microenterprise services for very poor people". In the interest of covering the other side of the target for this speaker's corner - enterprise development - I'd like to add a few points about experiences in this area.

Enterprise development is of course much more than what we have traditionally called 'non-financial' services. ED is about identifying market opportunities that have the potential to create prosperity (assets) amongst struggling microentrepreneurs - and to developing a step by step program that can link 1000s of MEs to that opportunity (with or without finance). Needless to say, in order for these market opportunities to be meaningful, there has to be a match with what MEs are doing or can do.

In ED, we do not generally provide services directly to disadvantaged producers - we would consider that market distortion. We attempt to facilitate the development of a self-sustaining locally-owned system. Therefore, our approach looks very different from MF and we cannot talk about it in the same way. Two brief examples follow -one with a financial component, one not.

1) The ECDI - MEDA program in Pakistan was one of the case studies that was prepared by PAWG to look at reaching the very poor (Jan - I'll have to check the numbers on this, but a large percentage of our clients were very poor). This $600k, three year USAID 2004-2007 funded project integrated 9000 homebound rural women into contemporary embroidered garment markets, more than doubling incomes on average. No MF was involved in this project.

The main services that we Facilitated (but did not provide directly) were:
Market Linkages
Market Information
Supplies of appropriate inputs
Quality control
Order management
Contemporary designs Capacity building of intermediaries

Since we did not offer these services - we had to create a model whereby the services could be delivered sustainably. We used the value chain approach to identify market players (from inputs through to retailers) and settled on two levels of women intermediaries and women-owned buying houses. The project focused on developing their capacity to provide services to their homebound counterparts.

2) The MEDA horticulture program in Tajikistan combined the development of an agricultural loan portfolio (with IMON) and the development of enterprise development services to smallholder farmers. This program was funded by CIDA ($5 m with MEDA contribution, 2004-2008). Services across both MF and ED included:
Design of appropriate loan products for smallholder horticulturalists
Design of a balanced loan portfolio
Market information
Market linkages
Extension services
SME loans for processors

Business development services for SME processors
Matching grants for processors

This program was primarily a sub-sector development program, not rigorously focused on a specific market channel. It is an early example of value chain financing. The lending to both MEs (smallholders) and SMEs depended upon the identification of market opportunities and gaps in reaching those opportunities. The loans were focused on production and profitability. IMON has expressed that they were successful in agricultural lending due to the combination with ED, and particularly the input of Ag extensionists.

To conclude, as part of the SEEP Urban Value Initiative, we are looking at models for unprecedented scale and sustainability. We are combining conventional VC approaches with social enterprise, fair trade, workforce development, and alternative technologies - ultimately these all focus on ED services for the very poor, most of which also incorporate finance as a service (bank accounts, savings, insurance, and credit). If Mary McVay has time, I'll ask her weigh in on this so that my email wont go on forever!

Post by: Nav Raj Simkhada

Dear Janet, Ajaita and other colleague,

You have mentioned that your program will provide savings support and seed capital grants, and incorporates a few new elements including health care education and linkages. Could you please explain how you provide this support, what are the criteria, what is your phase out strategy and sustainability of the program???

During 1991-1995 I was involved similar projects implemented by an international organization in Nepal. The mandate of the project was to support only for poor and very poor and we used wellbeing ranking to identify the poor. It was an integrated project having education, health, skill development and microfinance as a key components. As you mentioned we also provided matching fund to encourage savings, seed capital to start income generation activities. But half of the initiatives were failed or become dormant during project phase and all most all initiatives were failed sometime after project was phase out. The lesson I learned from this project is that the project should focus to promote self-help empowerment rather than giving the piece meal. And if we try to implement everything the community need we loose focus and we will be no where. This is my experience in the communities in Nepali context.

My experiences in development field teach me that willingness and commitment to change is the crucial factors for the social and economic wellbeing of an individual. The factors such as participation, ownership, empowerment social and cultural value, collective efforts, mind set etc may play a crucial role to make our initiatives successful. We as development worker just assist to the individual/ communities initiatives as a partner. If we lead the initiatives, after we there may be nobody to lead.

I have other example where I select and implement the project as per need expressed by the member of community but become failed. Why, the reason is lack of ownership and long term vision and commitment to change.

However, my above experiences will not apply for the people suffering from natural calamities, war and other catastrophe situations when people need grant support to organize their food and shelter.

Post by: Anura Widana

Hi Jan,

Interesting project and some good principles for others to learn from! Thank you.
The self-help grouping is critical. This is an issue which many micro credit initiatives have not supported.

I've a couple of issues / questions for you!

a) What is the link between the self-help group and the village committee? How is the VC appointed / selected?

b) Providing stipend is a bit of a worry! How could this be supported beyond the project? My experience is not to engage in any activity which can't be supported beyond the project! There is dependency which as you may agree is not a healthy development!

c) How did you continue with the vet staff supporting the poorest? I have on several projects found that it is very difficult to get vet (and other govt officials) to support unless "incentives" are paid to the staff. The question is how to continue this form of incentive to govt staff beyond project life?

d) What are examples of income generation activities for the poorest that you assisted with?

Finally, do you have a report providing all details of micro credit support under the project?

Thank you and keep up with your good work!

Post by: Anura Widana

Hi all,

I've worked on micro credit and micro enterprise initiatives in about 10 countries during the past 20 years. One basic problem with many service providers is in their approach to grouping (self-help group's formation). This is a specialist area and, I've dozens of experiences to demonstrate that this job has not done well! It is almost axiomatic that one can't have viable and sustainable micro finance (MF) and micro enterprise (ME) activities with poor people unless self-help group formation is supported and strengthened. All successful models such as Grameen, SANASA and several other models are based on the group concept.

Savings promotion is vital for success. However, the poor should be provided with appropriate methods for them to initiate / continue with savings. Such initiatives should be from within their own community. The best I've found is income generation activities based on local materials, resources and practices.

It is very important that service providers help community with appropriate methods and opportunities for income generation. Record keeping, evaluation and making all members aware of what is happening around have significant benefits. Many providers fail to support in all these three areas.

Post by: Anura Widana

Hello everyone!

Whether we are supporting war destitutes, IDPs, rehabilitation or livelihood, the group concept works every where very well. In fact, group formation is the basis for working with MF and ME with the poor!!

It is not possible to ensure long-term sustainability unless the initiatives do help form/strengthen grouping among the poor. Experience in several countries suggest that groups should not be "forced" on the people but become an essential part of the entire programme. There should be skilled people to work in this area which many projects have failed to recruit.

The precursor to group formation is the support towards "social mobilization" which many initiatives have again not recognized. This is yet another specialist area and I know of several projects which failed in social mobilization as such projects did not involve experienced and skilled social animators.

Both social mobilization and grouping are long-term processes which, more often than not, extend well beyond the life of the project. Many projects do not have sufficient provisions (specialist staff and other resources) to support the two processes over the long-term and, hence at the time of project closure, groups are not yet formed or are very weak. It is nothing to do with the concept but project practitioners (and donors too) have failed to recognize the dimensions of grouping and social mobilization! We know that successful MF and ME initiatives have effective programmes for social mobilization and grouping and, are successful.

RE: WHAT TYPE OF PRODUCTS AND SERVICES DO VERY POOR PEOPLE NEED--AND IN WHAT ORDER?

Post by: Getaneh Gobezie

Dear all,

Perhaps an addition to Sebastian's points -- "Aspiration Failure" among many poor. Studies increasingly point out that due to “satisfaction” (or “happiness”) with one’s circumstances, and absence of “role models” in many localities, there is a widespread occurrence of 'aspiration failure' - individuals being unwilling to make pro-active investments to better their own lives. This would be one real challenge in the poverty alleviation and development efforts in many poor countries unless appropriate measures are taken along the microenterprise support. Some (like Dr. Suzan Johnson, Bath University) suggest the idea of offering 'incentive goods' to induce the 'aspiration'. I have tried to summarize the issue in my paper recently presented at the AEMFI-Ethiopia workshop: SUSTAINABLE RURAL FINANCE: PROSPECTS, CHALLENGES AND IMPLICATIONS. I have posted the paper at microlinks.org: http://www.microlinks.org/ev_en.php?ID=25504_201&I!D2=DO_TOPIC&EID=1_201&EID2=DO_MEPAGE

Post by: Eva Benita Tuzon

Thanks Brian for having included me in the mailing list for this online forum. First, the topic question suggests various respondents from which answers would come where one is coming from which perspective. Granted that we need categorical answers, I think that the "very poor people" whom the question is being referred to would want to enlighten us.

As a development worker that I have been and perhaps would spend the rest of my productive years in the government sector, I want to straightforward point out that the weakest point in any development agenda remains to be the issue of target setting. Even if we specifically mean that a particular initiative is meant for the "very poor people," the acid test would be identifying them correctly and be able to accurately build a database [benchmark and progressive updates].

The type of products and services, whatever these may be, must come from them and not from what development agents would suggest. There are a hundred ways/methods to get people's views based on what we have learned from community organizing and development theories and practices. The content and processes would help us build credible policy information on what they in fact need. The design which includes how to facilitate the community analysis, stakeholders, and objective analysis [up to monitoring framework] must be clear from the start in generating a comprehensive knowledge about the needs of the very poor people.

As observed in many developing countries, a large number of communities are already organized and must have received several interventions. To ask them what type of products and services do they need would give us an array of responses. With the emerging campaign on results based management as part of the Paris Declaration, development institutions should attain the discipline of trying to build common platform so as not to confuse people specifically the very poor people who may not be able to absorb assistance without achieving certain level o f readiness and capacity.

But common sense dictates that once we get to their communities and try to stay and have some degree of immersion in their lives, the obvious issues, needs and concerns would be seen and felt. The question might be, "what would be their priority options?" To do the inquiry requires art and science, meaning we need some tools to assess their levels of development, as what we are using in the Department of Agrarian Reform-Philippines. We have the so called Agrarian Reform Communities Levels of Development Assessment tool where stakeholders could generate policy information that would best address the question, "what type of products and services do these rural communities need?"

It is not only knowing what they need but importantly what are their inherent capacities that would help them resolve development issues. If they need financial assistance and they possess high level of organizational maturity, then by all means, they could propose certain intervention, e.g., innovative micro credits, micro insurance, etc. Those that they could also give their individual equity such as time, labor, etc., What we could provide them are those products that they could work on and engage in services that would provide them income in return of their time and labor. So it is not just delivering the services but enabling them to deliver the services. It takes creativity, innovation, will, guts to start them moving.

Pardon the late contribution for the first topic. I wish I could still catch up with the remaining discussions. [My contribution is just my personal opinion and do not necessarily represent my organization]

Eva Benita A. Tuzon
Development worker
{Agrarian Reform Program Officer II in the Department of Agrarian Reform-Bureau of Agrarian Reform Beneficiaries Development]

SAVING FOR CHANGE EXPERIENCES

Post by: Jeffrey Ashe

Dear All:

Some comments. There is a lot of talk about poverty eradication. We are quite happy with poverty mitigation and certainly the women in Oxfam America/Freedom from Hunger's Saving for Change program are very pleased that they can better feed their families during the hungry season and have more of a say in the household because they have some more money. (Of course "eradication" would be better, but then how to achieve it and how is it defined.) It makes a lot of sense to start with savings rather than debt. First of all everyone needs a safe convenient place to save (and maybe a fifth need a loan) and I have heard time and again how the discipline of getting money out from under the mattress and into a fund where the family can't get at it the most immediate benefit of being a group. Then there is the fact that basic group training20services can be provided by NGOs already working in these villages. This approach does not require the financial sophistication of a NGO. There are a lot more NGOs that can do a good job training than run a loan fund. An additional plus is that the majority of the groups can be trained by villagers leaving in place a cadre of trained "replicating agents" or "village saving agents" or "promotoras" who can continue to support existing groups and train new ones one their own. In this way savings led microfinance is a sustainable microfinance. Then there is the issue of deep outreach. According to a study done using Finca's poverty assessment methodology 95% of the Saving for Change group members are at the under $1 a day level. (There was only one other program with such a high percentage of poverty outreach.) I think these percentages are a little suspect but when virtually all the women have joined SfC groups in a village we can be sure that we are involving a most of the poorest as well. We will know a lot more about this with the extensive research being carried out under our grant from Gates that will ramp up SfC in Mali (to 347,000) and Cambodia (180,000), study impact and introduce the methodology to Latin America.

Post by: Anura Widana

Hi Jeff,

Thanks for your post.

Very pleased to note that you would prefer to poverty "mitigation" (or even reduction) rather than trying to do something (elimination?) which is not possible! You may have noted that even the UNMDG have poverty elimination as its objective without realizing that this is indeed NOT possible. I've raised this is a number of previous discussions and, thank you again highlighting this very important issue!

Next, you talk about group training which I must admit is important. However, we need to focus deep on supporting / strengthening groups of which one element as you may agree is training. You may also recognize that training alone is inadequate. I know of a number of donor-funded projects which speak highly of training! Voluminous training manuals were prepared, trainers trained, fat training budgets, buildings for training, scholarships for training, supporting training institutes, attractive displays on training and... several others on training but lack in any substantial project support to "social mobilization, group formation, strengthening, linking, federation," etc. Specialist in social mobilization and group strengthening were not available but were several training specialists!! The result is quite clear with group failing to survive beyond project life as many other dimensions required for group sustainability not being looked into and supported.

My last point (at this stage), can you please send me the links for documentation on the research projects that you mention? Much appreciated.

SUMMARY OF DAY 1: WHAT TYPE OF PRODUCTS AND SERVICES DO VERY POOR PEOPLE NEED--AND IN WHAT ORDER?

Post by: Thierry van Bastelaer

Thank you to all who took time today to share their thoughts about the nature and sequencing of financial services for very poor families. Contributors to the discussion offered a wide variety of opinions, informed by experiences in many countries—with a focus on India. The following paragraph are an attempt to identify the main strands of thinking provided by participants in the day's discussion—with my apologies to those whose contributions are insufficiently represented in this summary.

Savings and insurance are seen as more relevant for the very poor than credit—that's what the poor tell us. Credit is, in most cases, not appropriate for very poor, who have no room for additional debt burden or business failure. Because they are unable to generate a steady income or start a sustainable microenterprise, most vulnerable households are not ready to take on the opportunities and risk of credit. That, in turn, doesn't make them attractive clients for credit-only providers, which may explain why most microfinance providers—in particular those focused on sustainability—have little interest or success in reaching to the "Bottom Billion."

Identification and sequencing of financial services must take into account the situation 'on the ground', and understand directly from the people who are at the center of extreme poverty what the immediate sources of poverty seem to be, and how their families cope. Contributors to the discussion, nevertheless, suggested that most successful sequencings of financial services appear to start with savings—often preceded by critical livelihood training or financial education. As Trickle Up's and SKS's graduation models suggest, livelihood support transfers (in the form of a stipend, subsistence allowance, livestock, or direct enterprise purchases on behalf of the client) are an important element of the early stages of the program, as is the provision of health, veterinary services, and the mobilization of local supporters. Without this livelihood support, most poor families will not have the confidence or ability to set aside earnings for savings—hence livelihood support can be seen as "priming the pump" for these families' entry into the realm of growth-supporting financial services. "Full Service" graduation models like TU's and SKS's also introduces credit as directly related to specific livelihoods activities—thereby avoiding the often-heard observation that business credit without market access or business support is used for consumption and income smoothing (which probably the most rational use of credit in most cases).

Health and livestock insurance are important elements of successful graduation programs. Most insurance products remain challenging to design in a profitable way, in part because they require completely different set of provider capacity and commercial relations hips than savings. Lack of infrastructure, or product designs that do not meet the poor's needs are some of the main challenges.

The sustainability issue was raised several times. Savings is generally seen as the most sustainable financial service, and to the extent that MFIs are legally allowed to mobilize savings, they meet their clients' first financial need in addition to providing the dual advantage of being a relatively affordable capital source.

We are grateful to Linda Jones for broadening the discussion beyond financial services to include microenterprise development. Her contribution represents such a perfect overview of the challenges and success of state-of-the-art microenterprise development that it would be foolish—and useless—to try to summarize it here. So I urge all of you to read her posting as an indispensable complement to our discussion on financial services and graduation.

Today's discussion offers an excellent starting point for exchanges on Day 2. Now that savings and insurance have been identified by most contributors as the most critical financial services for the very poor, what will we learn on Day 2 about the promising features of these classes of products? What are the respective advantages of group-based vs. individual products? What are the benefits and drawbacks of regulation of deposits, and how do these vary according to the legal status of the financial institutions? What are the latest findings in terms of protecting productive assets through livestock and crop/weather insurance? What enterprise development services are most appropriate for very poor, risk-averse clients, and how are they best combined with financial services?

I hope that these, and other possible questions, will benefit from the same level of specificity, openness, and personal commitment to poverty alleviation that characterized today's discussions. Thank you to all who participated today, and to Jan for providing me with this unique learning opportunity.

Thierry van Bastelaer

Post by: Anura Widana

Many thanks for highlighting several points from the on-going discussion Thierry.

With my MF and ME work in over 10 countries, one pattern is apparent across all situations! Which is as you outlined: "transfers-savings-credit-insurance." I haven't found deviations from this pattern in all projects/initiatives that I know of!

Having said this, let me focus on few other very vital dimensions. First, it is very important that the poor are provided with opportunities for savings! Without this, the savings programme that the project is trying to build up will not be successful. There are numerous ways even the v poor could be helped to save! The SANASA programme in Sri Lanka (which several others have followed) provides some unique experiences in this area.

Second, the mechanism for transfers, savings, credit, etc. is "grouping" or supporting self-help groups. Without this, I haven't heard of long-term success with MF and ME with the poorest. I've not read (as yet) others experience in this area. What do others think?

Post by: Anura Widana

My view on this is slightly different from what has been proposed!

Let me explain the basis for my argument! Can we think of "savings" first with the poorest? Certainly not! Before we encourage savings, they need to be provided with small-scale income generation (IG). To support this, we need to transfer from the poor's current habits towards IG and savings!!

Hence, the pattern looks like this: Transfers-IG-savings-credit-insurance.

Can we have success with any of the above unless we pay attention to social mobilization and grouping? It is here that we need to bring forward the discussions on mobilization and grouping and, we can't talk of the two processes in isolation!

I'm really interested in learning from others about their experience in insurance. What are successful insurance programmes with the poor?

Post by: Nav Raj Simkhada

My view is also a slightly different view. Every poor has survival skills and it is not a lack of income generation activity/capacity that determine savings capacity of the poor but it is building a savings habit, convenient and safe place to save and easy access to savings etc. The experiences have proved this fact.

Post by: Chintha Munasinghe

Dear friends

I recently met a group of volunteers in the eastern province of Sri Lanka, who complained that they are not benefited from any programmes/organizations to overcome their economic hardships, despite being used for getting the work done on free-basis. I met them through SHAKTHI - a NGO working with the communities affected by post-conflict in the Trincomalee district of Sri Lanka, who wanted me to consult them to come up with remedies to address their issue.

I started the consultation meeting by asking them what exactly the problem they are challenged with. Answer was "Not enough money". When I ask them how much they want, all shut their mouths, as I wanted them to say the exact amount they need for a week that could fill their income gap. When I talked about possibilities of savings they react as if I am talking nonsense. It was the case in many villages I visited in Sri Lanka and Kenya. But, in many cases with family-level expenditure recording for about a month, people came up with many innovative ideas to lessen their economic hardships to begin with followed by expanding income generation opportunities to fill the expenditure gaps, that has indirectly contributed to increase in savings.

My experience with many people who consider them as poor in my country, is that they are not used to manage their expenditure and thus the income. My approach to enterprise development starts from the family. Getting people to monitor their expenditure first. So that they can in someway record their family expenditure to identify the real gap/debts. Based on the analysis of recorded expenditure, identify the areas that can be replaced with an alternative. e.g. cost related to purchasing vegetables can be reduced with pot-planting/home gardening ventures that can be expanded to pant nurseries/ cultivation of vegetables for selling (as a business) in agricultural areas; identifying skills among the family members that can be converted to a micro-business at their level... this in turn could be developed into a business plan; if required capital - micro-credit scheme can be of help.

If you just suggest this, they will have many excuses e.g. illiteracy. Thus, it is important to work in consultation with them to convince them the importance and work-out all possible ways to get it through. The time and efforts one has to put in this exercise will be more, but if succeed all other areas - savings, micro-credit, BDS, etc., that you are talking about can fit in well with them.

Best wishes

Chinthi

Post by: Jan Maes

Thank you, Thierry, for this comprehensive summary of a rich discussion, and thanks to all of you, for sharing with us some unique insights and new learning directly from the field! Your experiences also show how much bigger the challenges are when providing microenterprise development services to very poor people as opposed to "mainstream" microfinance clients. New posts are already coming in from the East (as the sun must already be high in Asia!), so without further due, I now give the stage to Sue Dorsey, who will be our main facilitator for Day 2 of the discussion. I look forward to learning more from those of you have already submitted posts, and I encourage others to speak up as well!

DAY TWO: REACHING VERY POOR PEOPLE

DAY 2: REACHING THE VERY POOR

Post by: Susan Dorsey

Thank you to all the participants of the dialogue so far. It is extremely important to keep the discussion of reaching the very poor in the forefront as the industry continues to evolve and change and mature. My name is Sue Dorsey and I have been the Executive Director for Friendship Bridge (FB) for the past 12 years. FB provides microfinance and education to women in rural Guatemala. FB has a strong mission of reaching the very poor with a balance of both financial services (credit and savings) and participatory, non-formal education trainings in business development, financial management and health. MFIs such as FB have been challenged to reach a level of sustainability given the rural-focus and integrated approach to reaching the poorest.

Thierry did a great job summing up the discussions from today and starting the discussion for Day 2. As we have seen from the various experiences, savings and asset transfers are often the first and most appropriate product offered to the very poor with insurance and credit products to follow. There are also examples of organizations that offer non-financial services as well. The question I would like to pose now is:

How do you design these products and services to ensure that you are attracting and reaching the very and have an impact on their lives? Many examples talked about group vs. individual products. How much do immediate sources of poverty play into the design of the products or are there universal elements to their design that can be taken across countries or borders?

Later in the day, we can talk about whether product design is enough in reaching the poor or are there other obstacles that need to be overcome.

I look forward to listening and learning from all of you.

Post by: Sarah Mayanja

Hi all,

My name is Sarah, and I work with an NGO in Uganda.

Previously, I have had experience working with an NGO that had a micro-finance 'arm', and therefore agree with Tom's four points and suggestions below.

Many MFIs have to struggle with breaking even in the course of providing services to the rural poor. Given the state of roads, scattered nature of clients and many other prohibitive circumstances, many of them are faced with high operation costs (monitoring loan performance, savings build up etc). As such, many of them charge high interest rates, some of which are camouflaged in application fees, cost of forms etc.

At the end of the day, certainly the 'poorest of the poor' - those living on less than a dollar day can't afford such loans, however good an investment plan they could have.

Thierry also talked of heterogeneous loan products to suit the different clientele in their settings - this obviously would be a great idea. Many MFIs have blanket products and few have ventured out in product development.

I certainly look forward to learning more from this platform on how we could reach the 'real' poor. I hope to share experiences on non financial loan products as currently this is my area of operation.

Post by: Jan Maes

Thanks, Sarah, for bringing up some good issues.

Let's explore one of them a bit more, the lack of products designed specifically for the very poor (if I hear you correctly). The experience with the Poverty Outreach Working Group (POWG) case studies was generally such that a product was designed to attract poorer people, but in the end it was still a blanket product, as you called it, offered to both groups of clients, poor and very poor. In other words, these approaches (whether they were focused on credit, savings or asset transfers) all managed to bring down the bell curve to include more very poor people.

Is this sufficient to reach very poor people and meet their needs? Or alternatively, are very poor clients so significantly different (in terms of financial and enterprise development needs) from less poor people, that they require their own tailor-made products? I am interested to hear what participants have to say about this, and whether any of you have been involved in market assessment and product development (for instance, using MicroSave tools) specifically with very poor customers in mind?

Post by: Anura Widana

Dear Navraj,

Thank you for the post. You have an important message in your post around which sufficient discussion had not taken place as yet in this forum.

Your experience clearly points out the need for grouping among people (poor included) for success in rural development. My experience with so many projects in Asia and Africa lead to the need for self-help groups! For success in MF and ME with the poor in particular, grouping is essential.

The group environment facilitates people to assess what is on offer. It assists in planning and most importantly, assists in sharing own experiences and learning from each other. What remains of many projects that I have worked are the groups! On the other hand, projects which did not emphasize on groups have failed to sustain MF, IG and ME initiatives that were put out to people.

Post by: Jan Maes

Today has been a day with more questions than answers, and I am afraid I will continue that trend with this post…

I want to focus our attention on Linda's post early this morning, and thank her for representing the ED part of this discussion, which I believe is just as important (if not more, judging from the importance many participants have given to microenterprise development) as the financial services part. Linda's point that ED does not deliver services directly to disadvantaged producers is important, I believe. I imagine that some very poor people (like the ones in the two different graduation initiatives mentioned by Ajaita and Janet yesterday) would still be unable to get involved, because they are constantly in crisis mode trying to meet the most basic demands every day (and for many days not succeeding at it) and having no productive assets (besides their own labor) to begin with. How can they be linked to market opportunities? How can markets be made to work for the very poor? Should we engage in partnerships with livelihood organizations, food aid programs, other players?!

I would also be delighted to hear more about the SEEP Urban Value Initiative (and from Mary McVay!), as it is looking at so many non-conventional ways of providing employment opportunities. Within the scope of this Speaker's Corner, how can social enterprise, fair trade, workforce development, and alternative technologies "reach" very poor people?

I look forward to hearing from others on this as well,

Post by: Linda Jones

Hi Jan,

Thanks for the post. I have been reading the discussion with interest, but since it has been largely MF, I didn't want to break the thread - and look forward to other ED-focused practitioners joining the discussion.

ED can and has reached the very poor - all would argue we cannot / should not segment the market to only focus on less than a dollar a day. Our work tends to be much more centered around communities, and certainly on specific 'industries' or 'subsectors' - horticulture, embroidery, small-scale manufacturing, rice....etc.

We do target areas that have a high number of poor people - and many of us need to get better at assessing and reporting. But, in Pakistan, for example, I can tell you that I didn't much care about the $1 a day line when I went to communities where lots of kids were obviously malnourished (hair color, size), we had to cross railway tracks on foot or walk along open sewers to reach households, the households were cramped and dirty, the women looked far older than they were etc. We targeted the community, and all who wanted to participate could, and they would benefit. I know that's unscientific, but efforts to be more selective would have been counter productive in terms of resource use for such an ED project.

Further it's not often advisable to segment out >$2 in ED, because one is trying to create productive clusters that can be integrated into market systems. This often calls on community cooperation, lead producers to represent a group with traders or wholesalers, and even ones that can be a ' demonstration' effect particularly if there are new technologies or plant varieties that will inevitably be perceived as risky (and in fact will be somewhat risky no matter what). One does of course need to be careful that the poorer segments aren't excluded and this is a danger of the non-targeted approach. So, assessing and reporting still have a role.

One approach that has worked well in many programs to reach the very poor (in addition to clustering effects) is 'embedded services' whereby producers do not pay for services but receive these as part of the transaction. These services can be from lead firms (outgrower models - Kenya BDS was an example of this) or from intermediaries (the mobile women sales agents in Pakistan) or from a supplier such as Agrocel in India. Other than the cost of facilitation or upfront investments, this can be a sustainable model. In fact, that is the whole point of current ED approaches (sustainability at the market level). Malcolm Harper's book that is due out on Inclusive Value chains in India has a lot of good examples of lead firm models that appear to be reaching very poor farming households.

I would love to hear from others...off shortly for my work day in Delhi (this week) but will check in this evening.

SAVINGS AND SELF-HELP GROUPS

Post by: Jan Maes

Hi everyone,

Anura has raised a lot of interesting issues, and I am interest to find out what others have to say on the importance of group formation, especially:

1) Are groups indeed paramount to provide sustainable access to financial services for the very poor? Clearly there are advantages and disadvantage to reaching individual vs. groups. What have your experiences been? What works best?

2) If group formation (and social mobilization) is key, do MED practitioners often underestimate the importance of it or lack the skills to facilitate the formation of sustainable self-managed groups?

3) Anura also points out the long-term effort required to assist very poor people in understanding and using appropriate financial services. Are we (practitioners and donors alike) patient enough to see such long-term process (perhaps with only incremental successes along the road) to the end?

4) Lastly and equally importantly, if subsidies are needed, how do we deal with the issue of sustainability?

Sorry for bombarding you with four questions at once, and of course feel free to only address one or two at a time!

DAY 2: TARGETING THE VERY POOR

Post by: Susan Dorsey

Tom's post had some interesting observations about microfinance serving many "relatively" poor people but not focused on the Bottom Billion. What do you think? Is focusing on the very poor a niche market within the larger microfinance industry?

As he stated there are 4 billion people living on less than $4/day; 2.6 billion living on less than $2/day and 1 billion living on less than $1/day.

What experiences do you all have in segmenting the poor into different levels of poverty and targeting those different poverty levels with different products and services? Diversifying your products and services can certainly allow for greater cross-subsidies but also be difficult and costly within an organization.

Sarah mentioned that in her observation many MFIs have blanket products and few have ventured out in product development.

What are your experiences?

Post by: Tom Coleman

My internet connection was down for awhile this morning.

I really appreciate the great comments we have been hearing from practitioners at the front lines of trying to provide sustainable? MFI services and ED facilitations and also sustainable results for the Bottom Billion aka very poor aka people living on less than $1/day aka the target audience for the MDGs and the Microcredit Summit Goals. Whether Bottom Billion Microfinance is just a small niche of microfinance or a real priority of at least part of the industry, it seems like one of the best of all social priorities to be pushing especially if we have real clarity about what is working and not working and at what scale.

I want to add some more general statements and assumptions about poverty and microfinance. This is meant as a provocative challenge, certainly not as any form of criticism—but hopefully helps to better define our challenge of making a measurable and large scale difference for the Bottom Billion.

Mainstream microfinance has primarily proven useful for the "middle class" in poor countries. Is this really true or fair???

Chris Dunford in an important article presented at the last Microcredit Summit said that it appears that most microfinance has proved to be good at reaching people just above and just below the "global poverty line of about $4/day". The median global income is somewhere between $2/day and $3/day. Over 40% of the global population lives on less than $2/day. The median income in most poor countries is probably $2 or less. In a number of poor African countries the median income is $1/day or less. I use the $1/day and $2/day numbers instead of "poor", "very poor", "not so poor", etc. because the ambiguity of our language about poverty tends to hide the realities of which segments microfinance serves.

This suggests that mainstream microfinance may be primarily a business for the lower end of the top income half of the world—the second quartile from the top. Or mainstream microfinance may be primarily a business for the middle third of the global income distribution--$2/day to $10/day (or $15/day).

OK, so what if mainstream microfinance is generally not focused on the Bottom Billion and maybe not so widespread among $1/day to $2/day people as we often think.

Some MFIs including some large and profitable MFIs appear to be serving significant numbers of poor—especially $1/day to $2/day people and even some significant numbers of Bottom Billion people.

1. Are some of the largest (and also profitable) MFIs in countries where a lot of BB people live, the best agents for serving large numbers of BB people—primarily because they have capacity to grow, are profitable and cost efficient, and able to cross subsidize as needed? E.g. Bangladesh—Grameen, BRAC, ASA, etc. India—BASIX, SKS, SHARE, etc. Nigeria—LAPO (Keep in mind that 4 countries—India, China, Nigeria and Bangladesh account for 2/3s of all BB people)

2. What about smaller poor countries, especially in Africa, that have few or no large and profitable MFIs?

3. Are these kinds of agents (MFIs) most successful with BB only through cross subsidizing their mainstream products or through their more BB oriented companion NGO or Foundation.

4. Is there any financially sustainable model out there that has more than 10%, 20%, 30%, 50 % BB clients for which the BB segment of the business is also financially sustainable?

5. There has been some great creativity among smaller MFIs. Are there any small MFI models for serving large numbers of BB people that could be significantly scaled up??

6. Are there any large scale (10,000, 100,000 or more clients), financially sustainable ED models?

a. Financially sustainable for the client—the groups or individuals thrive after the facilitation ends??

b. The facilitating organization or program is able to become financially sustainable????

7. If there is no stand-alone financially sustainable model for serving large numbers of BB people (MFI financial product s, MFI foundation specialty approaches for BB clients, ED approaches), how do we envision funding those things that are now working best for BB people onto a larger scale and maybe even making this provision of services or ED facilitations sustainable in some fashion?

8. Should we just abandon the Bottom Billion to government and government funded solutions? I certainly hope the answer to this is NO.

I am extremely grateful for the core of people and organizations that prioritize the Bottom Billion to the greatest extent possible and who want to better understand what is working best and build on it.

Post by: Ajaita Shah

Dear All,

My sincere apologies for coming in late for today's discussions, but it seems like a great start! I will be referring to Susan/Tom's questions about segmenting the poor...

I think segmentation is an important and useful way to reach all of the poor - we are able to better deliver products that are directly useful to each segment.

We have been discussing since yesterday, why some of our financial products, like credit, are not reaching the bottom billion, and as Tom pointed out, they cannot because that is not the prime target for a lot of growing MFIs.. The question I pose is, is this because MFIs have not started thinking about segmentation and market demands according to segmentation?

I think some organizations are now realizing that segmentation is in fact a focal point to determine services:

For example: SKS

At SKS, as I mentioned earlier, we decided that credit based loans would be used for business enhancements and the existing client should have enough of a revenue to pay back the first loan installment - this automatically removes a good portion of the poor pyramid.

Additionally, the NGO, had initiated the Ultra Poor Program (or Graduation Pilot that Janet and I had been referring to yesterday) because we knew SKS NBFC would not be catering to the bottom of the pyramid given their focus on providing credit as the first step to microfinance. We realized the very poor would need different services including ED, Savings, and Transfers..

These are two distinct types of services which are focused on two very different segments of the poor - the mid to upper poor vs. the very poor. SKS NBFC and SKS NGO decided that by separating their services and focus, we can better serve the poor population (I cannot determine whether it's the ENTIRE poor population, but a start...)

Another way segmentation is useful is through the concept of Product Marketing: example:

Ujjivan is an organization that provides 2 types of loan products - a consumption loan and business loan - both loans require a similar cost structure analysis to determine ideal candidates for the program, only Ujjivan offers lower loans to clients in the urban sector. We saw that salaried women (working in factories, as housemaids, etc) were taking consumption loans and non-salaried acquiring business loans. Later on, there would be a possibility of a top-up loan which would be given to disciplined members who are able to repay with ease - usually, the salaried women were able to get top-up loans while entrepreneurs were having difficulty - there was a clear distinction created amongst the members' economic status...

As both Ujjivan and SKS begin expanding their loan products into Housing and Education, we realize the shaping of the product has everything to do with segmentation of the market. Certain customers are eligible for a much larger loan and potentially an individual loan vs. others; what makes them eligible and others ineligible - it is not as simple as stating that one client is older than the other - there is an economic stratum which gets created within the system.

Nevertheless, neither organization has fully explored this idea yet; this is where social marketing and poverty assessment tools like the PPI become interesting resources to determine whether segmentation is in fact a useful/important factor when determining the BEST financial tools for the ENTIRE poor population.

Can we create multiple loan products which serve each segment's demand? For example: Education Loans - do they have to be very large individual loans focused on college tuition, or can they also include smaller loans focused on paying for private schooling, or to pay for books etc? Who would prefer which loan? Is there a correlation between the type of loan product and the segmentation of the poor?

Post by: Tom Coleman

Ajaita,

Your comments about market segmentation by client income levels being in its early stages is valuable.

Does SKS have a clear estimate of how many Bottom Billion people it reaches based on PPI or something else?

Does SKS find this client segment more expensive to serve?

What kind of financing or financial incentives would it take to encourage SKS to serve larger numbers of BB people?

If there is a "cross subsidization" cost or alternatively a cost of offering different services through a companion non-profit SKS NGO or SKS Foundation, would it help if SKS quantified that cost and if social investors offered to "pay" for part or all of that cost in return for good evidence that SKS was serving more BB clients with indications that these BB clients were benefiting in a meaningful way?

Post by: Julie Peachey

All,

I asked my colleague Nigel Biggar who is in charge of Grameen Foundation's social performance efforts which include the development of the PPI (Progress out of Poverty Index) to address this. Here is his response:

Susan raises some useful questions for the microfinance industry and its focus on the bottom billion. With the tools that CGAP, Grameen Foundation, Ford Foundation and USAID are developing to measure poverty likelihoods (the PPI and PAT), MFIs are now able to have reasonable confidence about segmenting portfolios based on client poverty levels. This is relatively new to the industry but with time we're seeing more and more experience in this kind of portfolio segmentation. MFIs that are doing this work will no doubt comment on their experience.

We're also seeing more and more practice with MFIs that are using the PPI successfully to target poorer clients. And the initial evidence that we're seeing is showing that MFIs can do this and still maintain good levels of profitability. Some of our financially self-sufficient partners are serving large shares of clients in the extreme poor category (20% to 35% of their portfolio). At the same time some organizations are pushing the frontier on reaching poorer clients (Grameen Bank's beggar program, Fonkoze's CLM and BRAC's targeting the ultra poor programs come to mind) and clarifying the nature of the trade-off between social and financial goals.

These results are very encouraging and will help inform product development and investment decisions to make microfinance more effective at serving the bottom billion. A market that serves billion clients does not need to be a niche.

Post by: Susan Dorsey

Thank you all for your comments. There have been some very interesting questions posed to the group. I would encourage others that have developed different products that address the segmentation of the population they are trying to serve to share their experiences as well.

Nigel brings up an interesting statistic that some early results from the PPI show MFIs are reaching 20%-35% of the very poor. How are MFIs that reaching a good share of the very poor doing this? Is it through active targeting of the very poor, screening of clients as they enter the program or mostly tailored products so clients self-select?

Sue

Post by: Tom Coleman

Julie's comments that some large MFIs are successfully and profitably including as many as 20% to 35% BB clients in their mainstream portfolio is very good news.

More evidence from PPI use on these significantly high percentages and on these MFIs' profitability while serving these kinds of percentages of BB clients should encourage more MFIs to do the same.

Julie, are you saying that MFI profitability while serving these kinds of significant percentages of BB clients is good enough that no addition financial incentives are needed for Bottom Billion Microfinance?

A lot of our commenters seem to be saying that they have been finding it more expensive to serve BB clients and that other kinds of services are needed. If there are large MFIs that have found ways to cost effectively and profitably serve large numbers of BB clients, it seems we should be

1. promoting this evidence more widely

2. encouraging more large (or small MFIs) to do the same, and

3. exploring ways to encourage investors who care most about the social return of serving BB clients to invest more in these kinds of MFIs at favorable rates rather than just looking at MFI financial risk and return under the assumption that all microfinance is the same in terms of social return.

Post by: Zvi Galor

I am Zvi GAlOR, and my experience and knowledge, among other fields, is the rural development and the rural cooperative development.

I find the figures brought by Susan very interesting in the sense that, even though, known to many already, they serve well our discussion.

Let's take the 1 billions of the $1 dollar a day. What we observe out of the various proposed solutions until now: offering them credit; offering them savings; offering them...

But, how far is our possible outreach? One percent of the billion (ten millions) will benefit, may be, of the credit we are offering them, and what about the rest. Let assume we are able to offer credit to the one billion, what will be the results. Are they going to be wealthy persons. I doubt it.

I think that everyone who was in this industry of development knows that the fact that finance is provided is not enough to enable the majority of the very very poor, the 1 billion, to get out of their situation and to improve it.

Why is the MFI industry offering credit? I assume that the answer would be to enable the poorest to get out of their poverty, but how this people would be successful in their efforts. One of the answers is that the poor would utilize the credit to create small businesses and small enterprises which would lead them out of their extreme poverty. But, we know that only minority among ourselves, be it wealthy or poor, are having the entrepreneurial ability to make their enterprises successful, and most of those who are engaged in entrepreneurial projects fail, and this is true among the poor or among the wealthy.

So may be the solution of offering credit is not sufficient to solve the problem of the one billion, but for only very small handful of them.

I think that we should face two possibilities:

- We are able to assist to only a minority among the one billion. But, to assist them we should offer not only the necessary credit, but also the know-how how to become entrepreneur, and to offer them the ability to save their economy. (the credit should be offered at the lowest possible rate of interest and the saving should offer to savers the highest possible rate of interest, and it is possible) The credit should enable the entrepreneur to acquire the needed inputs at the lowest possible cost. And the produce of this entrepreneur, products or services, should be marketed in the most efficient way, and to enable the entrepreneur to get out of his/her results the highest possible return from the marketing. All this create a triangle. This is the Essential Triangle of Production (ETP), which should facilitate and enable those who are entrepreneurs to succeed.

- The second one should face the situation that only minority among the one billion would be able to benefit out of the credit, and they also deserve a solution. The solution is consisting of a policy which will create employment and income to this population, wherever they are, in the rural areas and in the poor urban areas, so a policy which
will encourage the creation of various enterprises which will employ these poor and would afford them employment and earning to enable them to get out of their poverty.

Post by: Zvi Galor

Are we care and looking for MFIs which are profitable, or we are looking for profitable poor.

We should understand, in my view, that we have an axe, where on one side are the successful MFIs which charge very high rate of interest, to enable the poor to become poorer, and on the other side of the axe are the poor which are in need, among other factors, very cheap credit to make their produce more profitable for them.

I feel it is time that the MFI industry may start to think about the welfare of the poor and not the welfare of the MFIs, those MFIs which are functioning, in many cases, on the ideology which has just collapsed in a small street in New York.

Post by: Jan Maes

20-35% is of the same order of magnitude as the poverty outreach achieved by some operationally self-sufficient MFIs within the POWG case study research. Nirdhan in Nepal is an interesting example, and Thierry or others with Save
the Children (which provide technical assistance), as its goal is to cover costs, but not to maximize profits. (100.7% operational self-sufficiency and 100.6% financial sustainability in 2006, I believe) This might be a good candidate for the type of social investors Tom has in mind.

Going back to Julie's post, I want to repeat what Sue already asked earlier today. How did these MFIs manage to reach 20-35% very poor people among their clients: did they design products specifically with these very poor clients in mind and/or did they actively screen prospective clients according to poverty?

And, what is it that these very poor clients did to mitigate the risks of taking a loan?

Post by: Kanai Chakraberti
MICROFINANCING will never be successful for people living below the poverty lines. Since the surplus generated will not be sufficient enough to repay the proncipal+interest, the FUND will be eaten away by the family unless a very stringent GOVERNMENTAL MEASURES are ensured with a back-up insurance covers for the funding agencies, and political rogues do not resort to anti-recovery / loan-waiver campaigns.

Post by: Eva Benita Tuzon

Oh, I think that is a sweeping observation which in fact was already proven incorrect. Prof. Yunus of Bangladesh was awarded that prestigious development recognition if only to tell the world that the poor people are equally bankable. It is a kind of trust that we refused to give them but was made challenged with the Grameen Model and so with other similar models around the world. It takes ample guts and brave heart to get them organized and draw the best in them, which is the basic principle in education. Drawing out the best from an individual is the true goal of education as a profession. Teaching people to save even if in fact they are ultra poor. Poverty is a temporary hindering factor by which they could be bridged out of poverty, here is where we could categorically say, the poor needs credit. If only to serve as a bucket of water to be able to pump out water. Thank you.

Post by: Jeffrey Ashe

Dear All,

According to the study using the FINCA poverty assessment tool 95% of the women group members in Mali are at the under $1 per day level. I am not sure that the FINCA tool is the most accurate but be that as it may the percentage in the under $1 category for the credit programs was a third to a quarter of the Saving for Change Mali figures. Similarly when I evaluated Pact's Women's Empowerment Program in Nepal, those in the top income group were earning $1 per day with the rest scaling down from there. The basic reason why the savings led programs have deeper outreach is that while perhaps one fifth of villagers could productively use a loan, all need a safe, convenient, profitable place to save. When members take out loans from the group fund to meet their usually under $50 (and often under $20) credit needs the interest they pay for their loans builds the group fund making it possible for members to take out larger loans while it earns a healthy dividend for the members. In Cambodia we have observed that many who were taking out loans from MFIs are now using their groups for the smaller loans and the MFIs for the larger loans. A natural segmentation of the market is occurring. In Mali the direct partner costs for facilitating the training are $250,000 over three years to train 1,000 groups with 20,000 members, about $13 per member. 60% to 80% of the groups will be trained by group leaders who receive three days of training. When the NGO team pulls out in three years the cadre of trained "replicating agents" will train new groups and support existing groups in the years to come amortizing the $250,000 investment over even more groups and lowering the costs. Adding all other costs including selecting, training and supporting partners, research and development, evaluation etc. adds about another $10 per group member with these costs amortized over larger numbers of group members as the program grows.

With the funding for Gates Oxfam/Freedom from Hunger will be adding 10,000 villagers per mo nth to Saving for Change groups in Mali and Cambodia, up from an average of 4,000 villagers per month over the previous three years.

I look forward to your comments,

Post by: Kanai Chakraberti

Dear Madam,

I have been doing MICROFINANCING since 1972, a few years back when Prof. Younus actually started developing MICROFINANCING . Kindly be it sure and I repeat for granted that it is successful only amongst the GROUP just above B P L /ultra-poor category of people. Highly hindering factors are :

a) Absence of Governmental Legal Support for Recovery.

b) Vote-Bank attempt for Non-Recovery & periodical Loan waiver campaigns.

c) B P L categories to be given FINANCIAL SUPPORT /SUBSIDIES irrespective of the nuisances of Religion, Caste & Creed etc. There is no scope to contradict on these points.

Post by: Brian Beard

Dear Kanai,

Thank you for your contribution. I think most will agree that the enabling environment and government policies have a great deal of influence on how effective MFIs can be in helping the very poor, and that subsidies provided by governments or other entities can also hurt the regular loan providers, either by creating an expectation that they should keep receiving subsidized services, or by making it difficult for non-subsidized MFIs to compete and become more sustainable. But it is important not to generalize too much. Every country is a bit different, and the needs and abilities of the poor can be very different from those of the very poor. The purpose of this online discussion is to learn from others and explore the options for finding ways to better meet the needs of the very poor. It is true that traditional microfinance has not effectively reached the very poor in significant numbers, but there are an increasing number of examples, such as those cited in the last 2 days, about programs that are reaching a significant number of the very poor while maintaining sustainability for the institution. These examples demonstrate that it is possible, at least in some contexts. Dealing with governmental obstacles is beyond the scope of this discussion, but let's agree that effective outreach to the poorest has been very limited in the past, and that we need to build upon the increasing number of successful programs, and figure out how such methods and principles can be adapted to other contexts. Measuring poverty levels to find out who you are really reaching is an important step in this process.

Post by: Tom Coleman

Jeff,

Your Mali example is an exciting and practical example of significant outreach to BB people at rates much higher than most MFIs or other approaches.

(This is not to say that a large MFI that reaches 100,000 clients, only 10% of which are BB people is not doing significant work with BB people. Serving 10,000 people as part of a successful/sustainable/profitable MFI is a huge success for MFI outreach and for BB people. Of course this also assumes that these 10,000 BB people are well served with the right services and products.) This would offer the possibility of social investment in the MFI with the string attached that the investors want to especially see more development of the BB client group.

Can you talk more about the sustainability of the Mali approach? It appears that after the initial training of trainers the savings groups will continue to grow on their own. That is certainly one form of sustainability. This sounds like a great social investment with a significant financial return that accrues entirely to the participants.

Do future projects like this also require $250,000 training grants? It seems there ought to be a way to pay for more of this through some sort of ongoing sustainable "social investment. Does that make sense to you?

Post by: Alice Brooks

Hi everyone, I'm writing from Bolivia. I've been waiting for the discussion to critically address the merits of providing credit to the ultra-poor, but have decided to wait no longer since this is the last day. Sorry Brian if this interrupts the stream you're moderating!

I wanted to express my appreciation for Zvi's statement yesterday:

"I think that everyone who was in this industry of development knows that the fact that finance is provided is not enough to enable the majority of the very very poor, the 1 billion, to get out of their situation and to improve it."

There have been several voices in this discussion to date raising this same issue - microcredit isn't beneficial for all the poor. Many of us, including myself, struggle with the concept but can't completely dismiss it. If it is true, then we need ways to identify which poor groups can and which poor groups cannot benefit from microcredit programs.

- Zvi suggests a dual proposal to implement integral self-employed production programs for the 'natural-born entrepreneurs', and something else not including credit for the play-it-safers so they could get jobs as employees. The differentiating factor from this optic is the person's innate business capacity. [Zvi, please correct me if I'm misreading what you wrote.]

- Kanai suggests that the separation between those who can and those who cannot benefit from microfinance is linked to their initial poverty condition - that the ultra poor cannot generate enough surplus from microcredit, regardless of their business capacity. [Also, Kanai, please correct me if I'm reading your email incorrectly.] I've seen this referred to as a 'productive threshold' barrier leading to poverty traps.

So beyond reaching the ultra-poor, I'd be very interested to hear if/how MF programs have addressed these concerns. I haven't seen anyone specifically identifying potential clients on this basis in Bolivia, and conceptually implementation would be very tricky. Under the first premise, how can we protect the play-it-safers from the lure of credit, if they really don't need it and can't use it well? How could you train MF credit officials to avoid providing credit to naive play-it-safers? And under the second premise, is there a practical way to provide transfers to the ultra-poor to bring them over the productive threshold and, only at that point, transition the program into microcredit?

Post by: Tom Coleman

Is it fair to say that some number--probably at least several hundred million--of the BB (1.4 billion under $1.25/day) are able to use MFI mainstream services, including credit or specialized services for BB needs?

Is it also fair to say that some MFIs are already reaching millions of this BB segment with some success?

Post by: Anura Widana

Hi all,

I was involved in a project in Sri Lanka investing heavily on "training". The project developed a set of trainers from villages who could provide the necessary training for local people and members of farmer's organizations.

The "training of trainers" component of the project focused on community members as well as members of farmer's organizations (FOs). It also heavily invested on training materials preparation including several manuals.

There were some problems such as trainees not able to devote much time to attend in training due to other work. There was also lack of contacts between community and the trained trainers. We could already see the investments on "training of trainers" were fading away.

On the other hand, the same project had a component of FOs. The FO programme involved several groups being formed. This includes some poorest members from the community who established their own organizations as they did not like to mix with the "not so poor". The FOs were federated to the higher level joined by several of the groups that serve in one village. Compared to the training of trainer component, the FOs are doing well after 6 years of the project. They (FO) provide micro credit, assist its members in micro enterprise and income generation activities, in crop marketing, in savings, in crop processing, provide more effective extension, inputs supply, as a social glue and in many other activities useful to the community. Everyone could see after 6 years of operation, the most useful element of the project is FO.

The initiatives introduced by the project appear to be clearly sustainable due to the active work as well as FOs developing an "ownership" of the work thus contributing greatly to sustainability. The worry!! We did not support FO under the project to the extent we did support training. We also realized that supporting FO is the best way to support training as well. We also understood that "training" should be demand-driven rather than supply-driven. The FOs themselves would recognize the need for training for their strengthening.

What a great way to support sustainability through FOs?

However, in subsequent projects in spite the good lessons from the previous, the attention was more on "training"! Training of local people, officials, representatives of FO, etc. The project progress reports are full of training deliveries, cost for training, etc. Are we doing the right? What do others think?

Post by: Anura Widana

You are right Eva!

The concept has not been recognized clearly. MF works well with the poorest if only it is linked with income generation and channeled through the group approach. I've worked with some of the poorest who could not dream about saving anything. When the idea was suggested to the poorest, they started shouting that they have nothing to save and looked away!! The trick is one can't promote savings if the poorest are not made available of other opportunities of small-scale income generation. There are dozens of IG activities from the very locality of where the poorest are and, that can be supported. When they see income generation works, savings start building up. When they work in a small group, can compare the savings of other members which itself acts as an impetus for others to save. This works very well.

DAY 2: SUMMARY

Post by: Susan Dorsey

Thank you for your participation today. It was a very good dialogue and certainly themes that will continue to be discussed among this group moving forward.

Some highlights from today:

1. As Jan mentioned there were more questions than answers, but with new poverty tools emerging that are user-friendly and cost effective we may be able to answer more of these questions, especially as more and more MFIs large and small start using these tools.

2. Tom's questions demonstrate that social investors are interested in supporting programs that reach the very poor, yet there is still a question as to when and where to invest their money that will yield the maximum social (and I would assume financial) return.

3. Ajaita and SKS is an example of a large MFI that has reached scale and thus reached down market sustainably with targeted products and services. Other examples are BRAC, Grameen, Fonkoze. As MFI reach scale and understand the different market segments they serve will their focus continue to look down market?

4. Zvi mentioned that as MFIs focus on reaching scale it is important to focus not only on profitable MFIs but profitable clients and ensure that MFIs are careful to provide affordable and appropriate products and services to the very poor.

5. Nigel's message is important, as effective poverty tools get tested, proven and incorporated into mainstream MFIs the more information we will have about the poverty levels of clients and thus able to segment products and services based on poverty levels. This will also allow MFIs to see whether there is actually a trade off between reaching the poorest and sustainability.

6. Nigel said that a market that serves a billion people is certainly not a niche market. The bottom billion is a very important market segment and one that deserves our attention.

Some of the questions that still remain are listed below. These questions are extremely valuable and will help set the agenda for the Poverty y Working Group in the coming year so I have included them here in the summary of Day 2.

* Anura sees groups as key to long-term sustainability and raised a lot of interesting issues about the importance of group formation social mobilization. Are groups indeed paramount to providing sustainable access to financial services for the very poor? What experiences and best practices out there?

* If group formation (and social mobilization) is key, do MED practitioners often underestimate the importance of it or lack the skills to facilitate the formation of sustainable self-managed groups?

* Anura also points out the long-term effort required to assist very poor people in understanding and using appropriate financial services. Are we (practitioners and donors alike) patient enough to see such long-term process (perhaps with only incremental successes along the road) to the end?

* If subsidies are needed, how do we deal with the issue of sustainability?

* Many MFIs have blanket products and few have ventured out in new product development geared toward very poor clients, as Sarah from Uganda commented.

* Is such a single-product approach serving both very poor and less poor client niches effective at reaching large numbers of very poor people, or are very poor clients so significantly different (in terms of financial and enterprise development needs) from less poor people, that they require custom-tailored products?

* What experiences do you all have in segmenting the poor into different levels of poverty and targeting those different poverty levels with different products and services?

* What kind of financing or financial incentives would it take to encourage an MFI to serve larger numbers of BB people? Is there is a "cross subsidization" cost or alternatively a cost of offering different services through a companion non-profit?

* Some MFIs are still successful at reaching significant numbers of very poor people? How do they do this, if not by custom-tailoring their products? To what extent is active targeting (for instance by screening clients based on poverty) needed to ensure that very poor people are reached?

* If very poor clients are indeed taking loans, how do manage to mitigate the risks involved?

Day 3 will concentrate on emerging poverty assessment tools and their experiences to-date in the field.

Thank you all for the opportunity to share in the dialogue.

Sue

Post by: Kimberly Lemme

Well done, Sue!

I've been following the discussion and it seems to be going great. The few questions I have had have been brought to the forum, so I'm finding that I'm learning a lot from reading through. I plan to put a summary together for Doug, so he can stay updated on the conversation of the larger industry. Thanks for the name of the book - I'm hoping to get it soon. Let's plan lunch together soon to catch up. I'm home on Wednesdays, but any other days are usually good. I'm hoping for some good feedback from the field after Doug returns from the board trip, so will wait for early next week to see what has transpired down there.

Thanks again for keeping such a great discussion going!

Post by: Jan Maes

Sue, thank you so much for highlighting these important insights and also listing a still fairly large number of issues we haven't explored yet to the fullest. I strongly encourage all of you to still share your insights that you might have pertaining to these questions, even while we move on to the topic for day 3. We will be preparing a synthesis paper based on your contributions, and I want to take full advantage of having all of you (exactly 100 participants, I was told) together to outline our collective knowledge and experience as well as the areas where we don't have the answers yet.

I also want to direct your attention to the speaker's corner website, which includes a number of papers and resources that are of interest to this discussion. For instance, Chris Dunford's paper presented at the Microcredit Summit in Halifax (2006) and mentioned by Tom Coleman, is there, as well as a very recent SEEP Poverty Outreach Progress Brief, which I urge all of you to read as it attempts to take stock of where poverty outreach currently stands in MED.

During the upcoming SEEP Network's Annual Conference there will also be a plenary on the same topic that we are discussing at present. I want to make sure that the plenary speakers will benefit from your insights and take the discussion to a next level, encouraging many of us to join a reinvigorated action agenda to better serve very poor people with MED services.

But now I want to pass the torch to Brian Beard, who will facilitate the last day of our discussion.
I look forward to more of your insights.

DAY THREE: MEASURING POVERTY OUTREACH AND PERFORMANCE WITH NEW POVERTY ASSESSMENT TOOLS.

DAY 3: MEASURING POVERTY OUTREACH AND PERFORMANCE WITH NEW POVERTY ASSESSMENT TOOLS

Post by: Brian Beard

Hello, and thanks to everyone who has contributed to this informative dialog over the last two days.

My name is Brian Beard, and I work for the IRIS Center at the University of Maryland. IRIS has a contract with USAID to develop survey tools to enable microenterprise practitioners to measure the proportion of clients who are very poor. I am the Lead Trainer and Help Desk Facilitator for the USAID Poverty Assessment Tools (PATs). In addition to developing new, country-specific tools, offering regional trainings, and providing technical assistance via the Help Desk, the IRIS PAT team is also developing an e-learning portal that will allow anyone to take a self-paced, online course to learn how to lead the implementation of a PAT.

After discussing which products and services are appropriate for the very poor and which methods are most effective in reaching them, I would now like to introduce our topic for Day 3: Measuring poverty outreach and performance with new poverty assessment tools.

Yesterday we heard about the importance of identifying the poverty level of clients and potential clients in order to segment products and services to better meet the needs of each segment, including the very poor. Eva's recent posting stressed the importance of finding out directly from the poor what products and services they need. This all ties in to the importance of learning more about your clients-their status and needs.

But when trying to identify which clients or potential clients are the poorest, it is important to recognize the limits of measuring absolute poverty with a short and practical survey tool. Tools that are calibrated against a national household survey database--the PAT and PPI-identify relatively accurately the proportion of people in a sample who are very poor or poor (the latest versions of both tools include multiple poverty lines). However, it is important to make clear that these tools cannot accurately individually identify each and every poor person among those interviewed. A tool is much more likely to mis-identify any particular individual, but in a sample of 400 respondents, for example, many of the individual misclassifications will cancel each other out. In other words, some respondents will be incorrectly classified as very poor, and some will be incorrectly classified as not 'very poor'. But when you look at the results of the entire sample, the overall percentage identified as very poor will be a great deal more accurate than at the individual level. The Grameen PPI deals with this issue by giving a likelihood or probability that an individual is above or below a poverty line, but it does not attempt to state definitively whether or not that person is very poor. So I want to stress that, when trying to target clients and decide whether or not they are poor or very poor, it is important to recognize that individual-level poverty measurement is much less accurate and not reliable for deciding whether or not a particular person should receive a loan or other services.

For today's discussion, please feel free to ask any clarification questions about the PAT and PPI, how they are used, and what they can and cannot do.

We have talked about the importance of identifying the poverty level of clients to know more about who they are and what they need. In what other ways can poverty tools be used to improve microfinance and enterprise development service delivery? Even if you do not have first-hand experience in implementing a poverty tool, we would like to hear your opinion.

CORRECTION TO BRIEF -- USAID DEFINITION OF "VERY POOR"

Post by: Don Sillers

I would like to offer a technical correction to the briefer circulated as background for this session, "Moving the World's Poorest Families Out of Poverty." The briefer states that the United Nations and USAID define the "very poor" as those living on less than $1.08 per day at 1993 PPP. That was partially correct, but is now out of date.

In constructing poverty assessment tools, USAID adheres to the definition of the "very poor" contained in US legislation: those living on less than $1 per day at PPP. Our understanding of this wording, confirmed in consultations with Congressional staff and members of the Microfinance Coalition, is that Congress wants USAID to calibrate its tools against the poverty line used to track progress toward the MDG of cutting the share of the developing world's population living in extreme poverty in half between 1990 and 2015. The poverty line used for that purpose has recently entered its third generation, with each generation based on a new and improved set of Purchasing Power Parity (PPP) rates. The first-generation poverty line was $1/day at 1985 PPP – giving rise to the label that continues to be used today. The second-generation line was $1.08 per day at 1993 PPP. Though a huge improvement on the first generation, the 1993 PPP rates used to translate that line into local currencies were known to contain large errors for many low-income countries, leading to similarly large errors in the estimated share of people living in extreme poverty.

Fortunately, new PPP rates – based on 2005 prices, and released earlier this year – provide a dramatic improvement on the 1993 versions, permitting hugely improved estimates of share of people in each country living in extreme poverty. To take advantage of this fundamental improvement in accuracy, the U.S. Government – including USAID – is in the process of adopting the poverty line based on the new PPPs -- $1.25 per day at 2005 PPP – for purposes of tracking extreme poverty. In doing so, USAID will be following the lead of the World Bank, which tracks progress toward the poverty MDG on behalf of the United Nations. In particular, USAID will calibrate its new poverty assessment tools against the new poverty line, and will recalibrate existing tools against the new line as time permits.

Post by: Jan Maes

Thanks, Don, for clarifying this so early in today's discussion. Now that we finally learned to say that the S1/day figure is really 1.08 at purchasing power parity in 1993, you're telling us to change to $1.25 per day at 2005 PPP! Just kidding of course, and the resulting improved estimates of the share of people living in extreme poverty can only be welcomed.

My question, naturally, is what this implies in terms of the share of very poor people, globally and at country levels? And how big is the impact on for instance an MFI's poverty outreach compared to both the old and new yard stick?

Post by: Robert Driscoll

Dear all,

As you may know, the Microcredit Summit Campaign's (MCS) second goal is working to ensure that 100 million families rise above the US$1 a day threshold adjusted for purchasing power parity (PPP), between 1990 and 2015. This goal is aligned with the

Millennium Development Goal (MDG) #1 of cutting extreme poverty in half by 2015. If the UN goes ahead and adopts the World Bank's new extreme poverty line of $1.25 a day, MCS will also change it's second goal to reflect the new MDG #1.

Post by: Don Sillers

Jan --

The broad answer to your question is hinted at in the title of the World Bank's summary of the new poverty estimates -- "The Developing World is Poorer than We Thought, But No Less Successful in the Fight Against Poverty." (attached). The bottom line is that the cost of living in developing countries is higher than reflected in old PPP estimates, meaning that real incomes are lower, and hence extreme poverty more widespread. For the developing world as a whole, and estimated 25.7% of the population -- 1.4 billion people -- fell below the new line in 2005, versus 17.2% (931 million) using the old poverty line. However, the differences at the country level are in many cases much greater, reflecting the correction of very large errors that plagued the old PPP estimates. The attachment provides much more detail, whereas the new country-level estimates just went online -- this morning, I think --at the PovCalNet web site, http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp This is the global mother lode of poverty data.

Post by: Tom Coleman

Don

Thanks for the update on $1/day to $1.25/day. So 1.4 billion people or 20% of the global population lives in extreme poverty on less than $1.25/day.

Under the new statistics, how many people live on less than $2/day and what is the new $2/day?

Post by: Mary McVay

Pardon my own lack of clarity, but isn't there a definition of "poor" and "very poor" corresponding to living on less than $2 and day (poor) and living on less than $1 a day (very poor)? The latter corresponding to the MDG definition of people living in extreme poverty?

Post by: Brian Beard

Hi Mary,

It appears that Tom's message asking Don Sillers about the change in PPP figures did not continue with the same thread that Don started, so you were not able to see Don's original message. If you are following online at the MicroLINKS/Speakers Corner webpage, you can see Don's thread, with the subject of "Correction to Brief."

I am also pasting it below, with Don's original message, and then his response to Jan about how this changes the number of very poor.

Cheers,
Brian

Don's original message:

I would like to offer a technical correction to the briefer circulated as background for this session, "Moving the World's Poorest Families Out of Poverty." The briefer states that the United Nations and USAID define the "very poor" as those living on less than $1.08 per day at 1993 PPP. That was partially correct, but is now out of date.

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Coalition, is that Congress wants USAID to calibrate its tools against the poverty line used to track progress toward the MDG of cutting the share of the developing world's population living in extreme poverty in half between 1990 and 2015. The poverty line used for that purpose has recently entered its third generation, with each generation based on a new and improved set of Purchasing Power Parity (PPP) rates. The first-generation poverty line was $1/day at 1985 PPP - giving rise to the label that continues to be used today. The second-generation line was $1.08 per day at 1993 PPP. Though a huge improvement on the first generation, the 1993 PPP rates used to translate that line into local currencies were known to contain large errors for many low-income countries, leading to similarly large errors in the estimated share of people living in extreme poverty.

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Don Sillers, USAID

Don's response to Jan about how this changes the number of very poor:

Jan –

The broad answer to your question is hinted at in the title of the World Bank's summary of the new poverty estimates -- "The Developing World is Poorer than We Thought, But No Less Successful in the Fight Against Poverty." (attached). The bottom line is that the cost of living in developing countries is higher than reflected in old PPP estimates, meaning that real incomes are lower, and hence extreme poverty more widespread. For the developing world as a whole, and estimated 25.7% of the population – 1.4 billion people -- fell below the new line in 2005, versus 17.2% (931 million) using the old poverty line. However, the differences at the country level are in many cases much greater, reflecting the correction of very large errors that plagued the old PPP estimates. The attachment provides much more detail, whereas the new country-level estimates just went online -- this morning, I think --at the PovCalNet web site,
http://iresearch.worldbank.org/PovcalNet/jsp/index.jsp This is the global mother lode of poverty data.

Don Sillers, USAID

Post by: Tom Coleman

Assumptions—Are they true?

Some MFIs already effectively serve some significant number of poor ($2/day)?

b. Specialized services, e.g. transfers, income generation, savings, credit, insurance through MFI companion organizations or non-MFI organizations in partnership with MFIs

c. Non-MFI, grant funded enterprise development projects that create better employment for some number of BB and poor people

d. Non-MFI savings groups or farmer organizations

2. How many poor and BB people do microfinance and other solutions like ED (enterprise development) serve now?
ANSWERS?

a. We don’t know at all

b. We don’t know with any precision, but poverty measurement such as PPI and PAT are beginning to help in a big way to help answer this.

3. How well are poor and BB being served?

ANSWERS?

How much rigorous evaluation do we have of effectiveness and match with what BB want and need???

How can we best attract more social investment and grant funding that is specifically targeted to increasing what is measurably working for BB people and better answer the above questions as we proceed?

Post by: Don Sillers

Tom, I'm very sorry for the delay in responding to your question -- for some reason, I am still not looped in to this forum by email.

The new World Bank estimate is that 47.6% of the developing world's population -- 2.6 billion people -- were living on less than $2/day in 2005, using the new PPPs. The paper itself -- attached below -- provides a huge range of additional detail, broken down by region, year, multiple poverty lines, etc. It's well worth the toner.

Post by: Tom Coleman

Thank you for this.

In terms of what we are learning about the poverty levels of MFI clients, it is interesting to note that 1.4 billion people or over 1/4 of the developing world live below $1.25/day (2005 PPP) and 2.6 billion people or nearly 1/2 of the developing world live below $2/day (2005 PPP).

What percent of all MFI clients globally are now in the top half of developing country income--above $2/day?

Add to this the as yet unclear poverty increasing effects of recently increased world food prices--100 million -200 million people added to the two groups above???

While I certainly value the great work that MFIs do with people living above $2/day, it seems that it is extremely important for us to learn more about how many people under $2 are being reached and especially how many under $1/day (or the new $1.25/day) are being reached.

Even harder but more important, how can we move further toward assessing how many BB MFI clients are achieving measurably improved livelihoods while receiving MFI services?

Can/should USAID focus its funding more on MFIs who can show more BB clients and larger increases in their numbers of BB (Bottom 1.4 Billion) clients.

Given the difficulty of measuring this in an unbiased way, could USAID:

1. support cost efficient 3rd party validation of MFI reported BB numbers?

2. use a cruder but objective tool such as priority countries, e.g. 4 countries account for 2/3 of all BB people, 15 countries account for 80% of all BB people. Also about only 30 countries have 40% or more of their population who are BB. This is not perfect. 2 problems. 1st, just because an MFI is in India or Nigeria does not guarantee that it is serving lots of BB people or serving them well, but it is far more likely than an MFI in many other countries where there are far fewer BB people. 2nd, some great MFIs in countries with smaller numbers of lower percentages of BB people may be given lower priority while doing an excellent job of serving lots o f BB people.

Technical question----If $1.25 is the new 2005 version of the old $1/day, what is the new 2005 version of the old $2/day?

Post by: Don Sillers

Tom –

You've raised a bunch of interesting questions. However, having been engaged in this exchange all day, I'm only going to hazard an answer to the easy one, namely, what's the current analogy to the old $2/day line? As far as I can tell, the answer remains up in the air. The same World Bank working paper I posted previously provides estimates of global poverty trends against a range of poverty lines, the highest being $2.50 per day at 2005 PPP -- that is, twice the new line for measuring extreme poverty. However, to the best of my knowledge no one has made any kind of official choice in this matter.

RE: DAY 3: MEASURING POVERTY OUTREACH WITH NEW POVERTY ASSESSMENT TOOLS

Post by: Brian Beard

Hello everyone,

We appreciate all the inputs, and welcome ongoing discussion addressing the subtopics from the last two days. I am reposting below my introduction message for today's topic as a new thread, for those of you following the discussion online via the MicroLINKS web page, so that it will be easier for you to follow the group of messages associated with today's topic. So if you have not seen my Day 3 intro message yet, it is pasted below. Our first discussion question is: "In addition to enabling you to identify/segment which of your clients are very poor, poor, etc., in what other ways can poverty tools be used to improve microfinance and enterprise development service delivery?"

And for those of you following online, please also note that Don Sillers posted a message that USAID will be following the lead of the World Bank, and will work with the IRIS Center to update the USAID Poverty Assessment Tools to reflect the new PPP rates, based on 2005 prices, that were released earlier this year. That discussion thread can be found here: http://www.microlinks.org/ev.php?ID=27547_201&ID2=DO_DISCUSSIONPOST_LIST , or you can find it with the subject line of: "Correction to brief..."

Here is my previous posting:
Hello, and thanks to everyone who has contributed to this informative dialog over the last two days.

My name is Brian Beard, and I work for the IRIS Center at the University of Maryland. IRIS has a contract with USAID to develop survey tools to enable microenterprise practitioners to measure the proportion of clients who are very poor. I am the Lead Trainer and Help Desk Facilitator for the USAID Poverty Assessment Tools (PATs). In addition to developing new, country-specific tools, offering regional trainings, and providing technical assistance via the Help Desk, the IRIS PAT team is also developing an e-learning portal that will allow anyone to take a self-paced, online course to learn how to lead the implementation of a PAT.

After discussing which products and services are appropriate for the very poor and which methods are most effective in reaching them, I would now like to introduce our topic for Day 3: Measuring poverty outreach and performance with new poverty assessment tools.

Yesterday we heard about the importance of identifying the poverty level of clients and potential clients in order to segment products and services to better meet the needs of each segment, including the very poor. Eva's recent posting stressed the importance of finding out directly from the poor what products and services they need. This all ties in to the importance of learning more about your clients-their status and needs.

But when trying to identify which clients or potential clients are the poorest, it is important to recognize the limits of measuring absolute poverty with a short and practical survey tool. Tools that are calibrated against a national household survey database--the PAT and PPI-identify relatively accurately the proportion of people in a sample who are very poor or poor (the latest versions of both tools include multiple poverty lines). However, it is important to make clear that these tools cannot accurately individually identify each and every poor person among those interviewed. A tool is much more likely to mis-identify any particular individual, but in a sample of 400 respondents, for example, many of the individual misclassifications will cancel each other out. In other words, some respondents will be incorrectly classified as very poor, and some will be incorrectly classified as not 'very poor'. But when you look at the results of the entire sample, the overall percentage identified as very poor will be a great deal more accurate than at the individual level. The Grameen PPI deals with this issue by giving a likelihood or probability that an individual is above or below a poverty line, but it does not attempt to state definitively whether or not that person is very poor. So I want to stress that, when trying to target clients and decide whether or not they are poor or very poor, it is important to recognize that individual-level poverty measurement is much less accurate and not reliable for deciding whether or not a particular person should receive a loan or other services.

For today's discussion, please feel free to ask any clarification questions about the PAT and PPI, how they are used, and what they can and cannot do.

We have talked about the importance of identifying the poverty level of clients to know more about who they are and what they need. In what other ways can poverty tools be used to improve microfinance and enterprise development service delivery? Even if you do not have first-hand experience in implementing a poverty tool, we would like to hear your opinion.

Post by: Brian Beard

The latest discussion question is: In what ways can poverty tools be used to improve microfinance and enterprise development service delivery?

Here are a couple options:

1. To identify the percentage of your clients that are in different niches (levels of poverty), so that you can better target each group with a different set and/or sequence of products-as we discussed over the last 2 days.

2. To measure changes in the overall proportion of the very poor that are being reached, which could show that you are more effective in reaching poorer clients, or that the clients you are already reaching are experiencing a change in their poverty status. Keep in mind that trying to assess movement across a poverty line, and especially trying to attribute upward movement to impact is a much more complicated and involved process.

Do you think poverty tools should be used for these purposes? What other reasons might motivate someone to measure poverty of their clients? How has this information been used by MFIs and others who are collecting it?

As I mentioned before, everyone is welcome to continue addressing previous discussions from yesterday, in addition to this new topic of poverty tools. We look forward to a wide variety of input and discussion on the overall topic of poverty outreach and how to effectively reach the very poor.

Post by: Robert Driscoll

Dear all,

I'd like to ask if there are any practitioners on this forum who are employing the PPI or PAT and if they can share their experience using either of these poverty measurement tools based on Brian's points below.

I'm also curious for those who are implementing the PPI, how cost-effective was using this tool?

Post by: Janet Heisey

Hi there,

Trickle Up is beginning to use either the Grameen PPI or the USAID PATs in the countries in which we work. Our purpose for using the tool is different than for MFIs in that our organizational goal is to work exclusively with people living under $1 per day. These tools were not particularly designed for this kind of use, and are not quite as effective as we had hoped because our sample sizes are relatively small and the tool can only describe the 'picture of poverty' in the aggregate. Nonetheless, we hope that the data we're receiving will enable us to troubleshoot our poverty targeting strategies. If scores are low, we'll improve our geographic targeting and poverty wealth ranking methods that are used for selection of participants.

We've received data from 11 of our 15 partners in India, and scores thus far range from 62% to 81% living below $1 per day, with an average across all partners of 72.2% living below $1 per day.

In addition, we're interested in using the tool to gauge the move across the poverty line over time though, as you point out Brian, the tools are not particularly designed to do so. Nonetheless, in addition to results from our outcomes assessment and other assessment tools, we're hoping this will give us a picture of how our participants are progressing.

I'm curious to learn if other ED or safety net programs are using these tools for similar purposes. Because of our grant methodology, we have long been aware of the need to accurately target the very poor and leave the credit-worthy population to microfinance organizations.

Date: 10-16-2008

Post by: Jan Maes

Janet,

Thanks for sharing your experience at Trickle Up. These poverty outreach numbers are higher than anything I have heard from MFIs, and that makes sense given Trickle Up's mission.

I want to encourage others to share their experiences as well. From conversations I have had with several people who have either used these tools or seen the results, it is my impression that in general MFIs are not reaching the kind of poverty outreach that one would expect based on earlier data (particularly in the Microcredit Summit reports) which were self-reported and in most cases not obtained through use of poverty measurement tools of the same accuracy as those that are available now (something the MCS always made very clear in a footnote). I said that this is my impression, because I have only seen a few data (for instance, the ones that Julie shared with us yesterday), even though many more have used the tools.

The data shared by USAID in its 2007 Microenterprise Results Report are more revealing: The average proportion of very poor clients served by MFIs and MED programs supported by USAID was only 21.6 percent (note that only about one fifth of USAID partners were required to measure, because tools were not widely available yet, and that the tools still used the "old" poverty line), far below the 50% target set by the US congress. This all seems to indicate that microcredit CAN and DOES reach very poor people, but rather at the margins. It would be interesting to take a closer look at these data and which MFIs are especially successful at reaching very poor people, to see if they have any common features, such as access by their clients to non-financial services, for instance. This would go a long way in answering the questions that Tom has been posting on this forum.

Post by: Thierry van Bastelaer

Since the issue has now come up twice, I thought I'd mention that Manfred Zeller and I wrote a paper about the conditions under which poverty assessment tools can be used to measure movement across the $1/day line (or any other poverty line as appropriate). The document is copyrighted, so I unfortunately cannot share it with the group, but here is the reference:

van Bastelaer, T., and Zeller, M (2006): "Achieving the Microcredit Summit and Millennium Development Goals of Reducing Extreme Poverty: What Is the Cutting Edge on Cost-Effectively Measuring Movement across the $1/Day Threshold?", in Daley-Harris, S., and Awimbo, A, eds, More Pathways out of Poverty, Kumarian Press, Bloomfield, CT.

The central argument on this issue is presented as follows in the paper: "Although they are generally designed to produce "snapshot" assessments of poverty outreach, shortcut tools [such as PAT and PPI] can be used to measure movement across the $1/day line, provided that all of the following conditions are met:

* The poverty line is expressed in terms of Purchasing Power Parity rather than the market exchange rate;

* Tools are as accurate as is technically feasible;

* Poverty status is assessed on groups of clients [instead of on individual clients];

* Tools are calibrated for the country to which they are applied;

* Tools are kept up to date between the first and the last measurements;

* Respondents are entering clients [less than six months in program, preferably before first loan] at the time of first measurement;

* Poverty data are collected at regular intervals on the same sample of clients;

* Tool implementers dedicate requires significant commitment and attention to the practical aspects of data collection and analysis- particularly engagement by the organization's leadership, the structure of incentives for both clients and staff, careful decisions about outsourcing, and constant attention to quality control."

Post by: Jan Maes

Thanks, Thierry, for pointing out the conditions needed to use these poverty tools to measure progress out of poverty.

I think that these poverty tools, despite some of their limitations, are invaluable tools for microfinance, because they strike the best possible balance between accuracy and practicality, are standardized, and serve so many purposes. Microcredit institutions are using them more and more, not only because required to do so by USAID (that applies only to USAID partners of course), but also for social performance measurement purposes (which are many).

How about the savings-led financial service promoters (Oxfam, CARE, CRS, etc.), are there any who have used these tools (PAT or PPI) as well? Jeff, you mentioned the FINCA FCAT tool, but if I understand correctly, this tool is different and less accurate in predicting absolute $/day poverty levels.

Who can enlighten us on this?

Post by: Robert Driscoll

Dear Janet,

We share a common interest. In order to meet our second goal of ensuring that 100 million households rise above $1 a day, MCS is making efforts to find methodologies of measuring $1/day poverty. One way is through the expansion of cost-effective poverty measurement tools, such as the PPI. There are two reasons why MCS is pushing for increased use of this: 1.) it can be calibrated to the $1 a day poverty line and 2.) it can be used to track clients' poverty likelihood through time.

I'm curious how you determined your sample size? Who did you interview? All (new and existing) clients or a random sample? Were the interviews chosen just in a certain region of that country or all regions?

Post by: Janet Heisey

Hi Rob,

Thanks for your question. Currently, we are using the PAT or PPI with all of our new participants before they receive any assets or services, and are planning one-year and two-year follow-up surveys. We work in four states in India (Bihar, Jharkhand, Orissa and West Bengal) and each partner agency works with 100-300 participants, which as I mentioned are quite small populations. We imagine that the number of participants served will increase as partner capacity increases, but this may take some time.

Let me know if you have other questions.

Post by: Jan Maes

Posted on behalf of Mark Schreiner:

In his introductory remarks this morning, Brian Beard said: "The PAT and PPI . . . cannot accurately individually identify each and every poor person among those interviewed."

The PAT and PPI (aka "simple poverty scorecards") *can* identify the likelihood_ (probability) that an individual belongs to a household with per-capita expenditure below a given poverty line. Whether they do this accurately enough or not depends on the purpose of the exercise, the alternatives of achieving that purpose, and the costs/benefits of the alternatives for that purpose. What is true that neither tool can tell you *with certainty* whether someone is below a poverty line. Of course, no tool can provide such certainty.

Brian also said: "I want to stress that, when trying to target clients and decide whether or not they are poor or very poor, it is important to recognize that individual-level poverty measurement is much less accurate and not reliable for deciding whether or not a particular person should receive a loan or other services."

Of course, poverty scoring should not be used in place of credit-risk assessment. But there is nothing at all wrong with using it to determine eligibility to undergo a risk assessment, or to determine fees or interest rates, or non-financial services, or anything else that you might want to target to poorer people.

Naturally, accuracy with a sample size of 1 (which is what you have when applying a poverty scorecard for targeting) is lower than is accuracy with larger sample sizes. But again, the answer to the question of whether the tools are reliable enough again depends on the purpose, alternatives, and costs/benefits of achieving a certain level of accuracy.

As I see it, the main value of poverty assessment is in promoting/enabling explicitness, transparency, and intentionality. If you are explicit and transparent about how poor your clients are and how you try to reach them, then you are better able to manage that out reach intentionally (supposing that outreach to the poor is part of your mission). In keeping with the principle of transparency and intentional management, the poverty scorecards/PPIs that I have developed for the Grameen Foundation report their accuracy for targeting individuals (http://www.microfinance.com/#Poverty_Scoring). This way, users can decide for themselves whether accuracy/reliability is sufficient for their purposes.

I would ask Brian to be explicit about the criteria and data that used to arrive at the judgment that the tools are not accurate/reliable enough. For what purpose? Compared to what alternatives? At what cost? Exactly how accurate are the IRIS PATs when applied to individuals?

In any case, using tools like these for targeting was not something new. Credit-card companies use much less accurate scorecards daily to target offers, and they have lots of their own money at stake. (And yes, their gross mis-use is one of the causes of the current financial crisis.) The World Bank's targeting guru, Margaret Grosh, has stated that these sorts of tools have provided the best poverty incidence among similar alternatives when used for targeting. Many national governments around the world (Mexico, Costa Rica, Colombia, Chile, and Pakistan, among others) use similar tools to target social welfare programs. The tools are not perfect, and of course we would all welcome greater accuracy. But until we have 100 percent accuracy, transparency seems like a good way to go.

Post by: Jan Maes

Posted on behalf of Mark Schreiner:

Janet Heisey of Trickle Up gave an excellent example of how poverty scoring can be used. Trickle Up wants all its new participants to be below $1/day. They applied the tool in India and found that not all were (although, compared my many other organizations, they had a very high poverty incidence). Now they are using the improved information that they have about the depth of their poverty outreach to make management decisions (such as improving their geographic targeting and their other targeting methods).

Janet and Trickle Up are aiming for all their new clients to be under $1/day. Because the scoring tools are not accurate enough to guarantee this, they are using other methods (more costly, but probably more accurate), as mentioned above.

Finally, I would like to mention that the PPI/simple poverty scorecards *are* designed with measuring movement across a poverty line in mind. In particular, I try to include indicators (such as "ownership of a radio") that are more likely to be sensitive to changes in poverty status (as opposed to "education level of the household head"). The key points for measuring change are (1) do not confuse "change" with "impact" (as Brian rightly noted), and (b) make sure that you have a representative sample of your clients both at baseline and follow-up, and (c) Make sure you are using an appropriate scorecard (as Thierry and Manfred point out).

Post by: Jan Maes

Posted on behalf of Mark Schreiner:

At the risk of seeming like a nit-picker, I'd like to add my thoughts to those of Thierry and Manfred in terms of the conditions for using poverty assessment tools to measure change. I'll look at each of their points:

* The poverty line is expressed in terms of Purchasing Power Parity rather than the market exchange rate
-Expressing the poverty line in PPP has nothing to do with measuring change; it has to do with making measurements internationally comparable. It is completely feasible and valid to measure changes in poverty rates using national poverty lines (or other non-PPP lines). For internal management purposes, non-PPP lines are usually the most relevant. See, for example:
http://www.microfinance.com/English/Papers/Scoring_Poverty_India.pdf or
http://www.microfinance.com/English/Papers/Scoring_Poverty_Peru.pdf

* Tools are as accurate as is technically feasible
-No disagreement there. I would mention, however, that cost and practicality also matter, in addition to technical accuracy.

* Poverty status is assessed on groups of clients [instead of on individual clients]
-Again, while the tools are more accurate for groups, technically they can still be applied, even for measuring change, to individuals. That said, my judgment is that the level of accuracy for measuring change at the individual level is so low as to be technically uninformative, and I would not advise measuring change at the individual level. I have measured accuracy in this case, and the 90-percent confidence interval for a sample of one is typically +/- 50 percentage points or more.

* Tools are calibrated for the country to which they are applied
-Yes.

* Tools are kept up to date between the first and the last measurements
-Yes. The limitation here is usually the availability of national expenditure data to use to build updated tools.

* Respondents are entering clients [less than six months in program, preferably before first loan] at the time of first measurement
-This is not really a condition. One can measure change on existing (non-entering) clients as well. We care about the poverty status of all clients, even if they are not today new ones. Of course, specific organizations may be interested only in entering clients, which is fine.

* Poverty data are collected at regular intervals on the same sample of clients
-Scoring clients at regular intervals is not really a condition. They can be scored at different intervals, and the analysis can adjust for this. It is also not really a condition that the same sample be scored both at baseline and at follow-up. What *is* a condition is that the clients scored at baseline and the clients scored at follow-up both be representative of all clients at baseline (or of all entering clients at baseline, or, more generally, representative of whatever the population of interest was at baseline).

Of course, one way to do this is to make the baseline sample representative of the population of interest, and then score them twice, as Thierry and Manfred indicate. But one could also take two different representative samples from the population of interest, one at baseline and a different one at follow-up.

Tool implementers dedicate requires significant commitment and attention to the practical aspects of data collection and analysis- particularly engagement by the organization's leadership, the structure of incentives for both clients and staff, careful decisions about outsourcing, and constant attention to quality control.
-Yes, exactly. The key constraint in using poverty assessment tools for management, reporting, measuring change, targeting, or whatever is ensuring quality data and adequate incentives. And this is much more difficult to achieve than any of the technical details that I have been discussing. I've found that transparency is useful in helping achieve management buy-in etc.

Post by: Brian Beard

Dear Mark,

Thanks for your input, and for clarifying a bit more about the relative merits of using the PPI for poverty targeting. I agree that "accurate enough" is a very relative term. I don't believe that loan approval decisions should be based on a poverty tool used at the individual level, as many who are deserving of a loan may be misclassified and left out, or vice versa. However, as you say, some organizations may decide that it is accurate enough, depending on their purposes and the services for which they are screening (so I shouldn't have been so sweeping in saying "loans or other services"). And I agree that the PPI and PAT would provide more accurate estimations than other poverty targeting methods, since they are calibrated against national household surveys. But I would prefer using other methods for attracting poorer clients, especially for loan decision-making, and then use a poverty tool at the group level to determine the extent to which the program is increasing its overall outreach to the poorest. That way you are using a more accurate measurement for determining the prevalence of poverty or extreme poverty, and not leaving out anyone who should have been included. However, if screening clients at the individual level is a priority for the organization and they fully understand the implications of the limits in accuracy, then the PPI is the best tool for that purpose.

Post by: Bobbi Gray

Dear Jan and all, thanks for your questioning below of the existing tools people are using to measure poverty levels of clients as well the constraints of their use. I think the summary you've provided about they types of interventions very poor people need is a nice one.

I've been following the various threads and just thought I'd offer a few thoughts as to how we see a few of these issues at Freedom from Hunger.

First of all, thanks to all of the recognition of Chris Dunford's paper at the MicroCredit Summit. The only thing I think he'd warn here is that the pyramid he presented was only illustrative and that we shouldn't be drawing hard conclusions from the graph (in terms of who microfinance is reaching). As has been discussed in this forum, I think there is some belief that microfinance can target those that live on $2 per day or less (and this is the point that Chris Dunford was making in his presentation).

Freedom from Hunger participated initially in the vetting of various tools that could be benchmarked and the one that we submitted was our Food Security Survey. This is a uni-dimensional measure of poverty of course, but for our purposes, this tool helps us measure whether we are reaching food insecure populations (part of our mission is to reach the chronically hungry poor with integrated services). We could argue that if you are food insecure, this means you do not have enough money to buy the basic necessities, like food. While the PAT and PPI tools have been in development, we have been using our food security survey tool with our partners. We are not necessarily using it to benchmark against a set poverty line, but what we are doing is to assess similarly, are 50% of incoming clients' food insecure and then following them over time to see if their food security levels improve. This tool has been validated to measure food security accurately in 5 different countries--so we feel quite confident of its use and applicability for "targeting" the very poor. We will also have more data soon representing the food security levels of clients from MFIs that Freedom from Hunger partners with.

It is also fairly low cost and one that an MFI can implement itself without the need for outside research entities. For some of our partners, they've found anywhere between 45-82 percent of their Credit with Education clients are food insecure. It's not used as a targeting tool, but it does give them a sense of the type of client they are reaching. For our purposes, we've set a threshold that we want to see that our products and services (integrated financial and non-financial services in the form of non-formal adult education on health, business, and financial topics, as well as health protection services in the form of micro-insurance, health savings and loans, health linkages, and health products) are reaching populations where at least 50% of the incoming client population is food insecure. If the percentage of food insecure clients comes back lower than 50%, it triggers internal debate here as well as with the partner. So, getting back to MFIs measuring their social performance and using that data for decision-making, this tool is one that allows them to do that because it is short, doesn't cost a lot to implement, and is simple to understand.

I only add this to the conversation as an additional approach that is being implemented, with similar goals. We fully support the development of the poverty tools (PAT and PPI). In some cases, we've integrated the instruments in some of our other surveys and support any of our partners who are implementing the tools. In the meantime, this is the approach we're taking to measure our own outreach to clients.

Post by: Tom Coleman

Bobbi,

Interesting comments. I especially like Chris Dunford's paper because it challenges all of us to be clearer about who we are really reaching and the extent to which we can validate this. That is key to getting better results and knowing that we are getting better results.

What do you think the relation is between "food insecure" and either $1/day or $2/day?

There are so many strategic and investment decisions that pick one country over another or one MFI over another. Yet the only or best data all seems to be financial not poverty specific or even objective social data. With all their complications that's why I like $1 and $2 because they offer some objectivity for cross country and cross MFI comparison.

Post by: Sara Pait

Hello every body!

My name is Sara Pait and I have been working in microenterprise-microfinance and gender in Latin America for the last 30 years, being currently a consultant for Oxfam Novib in LA for the WEMAN program on Gender and Economic Justice in Asia, Africa and Latin America. Brian, I shared a team with you in Lima, in 1999 for the impact evaluation of Finca Peru where you participated with the AIMS' mission!

There has been already a lot of discussion, but I would like to contribute with some ideas.

First, about measuring poverty, I think we should make a distinction of people living in rural or urban areas, and their access to livelihoods in terms of food security and other topics. It is not the same to live with one dollar a day in a rural, in an intermediate city, or in a metropolitan area where if you don’t have money to move around or pay for some basic services you would soon become excluded.

On the other hand, access to markets is another issue to be considered. A very poor person in a commercial urban area could begin a petite trading activity with seed money from a village bank and potentially increment his or her's capital and income, even if starting with less than a dollar a day. I've seen many cases of women who begun with just a small seed fund and were able to improve progressively their lives and help their families to improve their situation (of course an important element was not just the credit but also the group support). On the other hand, access to credit for very poor persons in rural areas would just be significant if there is an economic alternative for their production - usually being part of value chains in a development program, (we count they are very poor because they don’t have enough social networks, and none of their family members contributes with salaries, remittances or other sort of funds). It is not a matter of just reaching the poor, is a matter of identifying the viability of the credit products in terms of objectives, amounts, opportunity and other variables.

About how poverty is understood also varies within the small villages and communities. Having an income is one issue, but having a house, animals and other goods are usually stated by people in the communities as part of the family wealth. In participative assessments, people usually describe very well what they understand by poverty in their own communities.

On the other hand, in some countries poverty lines are considered by the lack of services important to cover the basic necessities, such as water provision, electricity, or by poor housing material, illiteracy and other family indicators related to poverty.

Any how, even considering all these issues, I am interested in the measuring tools Brian has referred to and how to collect the information needed, when is clear why it is needed for.

Post by: Eva Benita Tuzon

Yes, we need relevant tools to measure poverty outreach and tools to be able to assess progress or results. And more critical is not just about the design of the tool but to build consensus for the utilization of these tools are even more challenging. To agree on what we would want to measure [choices of indicators] and agree on achieving the targets on time are in fact the fundamental concerns we all are trying to address. Putting structures, tangible and actionable terms, combining resources and political support are what we need to put up in this online forum. How we could make our dialogue bring us to more specific partnerships in building country systems. Building database of the poor where stakeholders could commonly use and divide the huge challenge of addressing those that are part of the base of the pyramid, most of them are residing in the rural communities, I think this is basic information we need to have so as to make harmonization, alignment and effectiveness become a reality. Which focus and locus we should agree at the country level? Among the programs/sectors, which could efficiently target the poorest? How do we go about it? How donors could help the governments prioritize this concern? I am afraid if I make sense about the topic.

RE: DAY 3: MEASURING POVERTY OUTREACH WITH NEW POVERTY ASSESSMENT TOOLS

Post by: Anura Widana

Hello Eva,

Thanks for your post.

Let me say that what you ask for is impractical!

The poverty status and its definition depend on local circumstances. I've conducted dozens of PRA where the definition for poverty that worked out by local participants is different from place to place. Under such circumstances, it may be near impossible to come out with a generic definition for poverty status to suit a variety of different situations. For example, the extreme poverty was defined by the community in one province in China as having one meal (or even less) a day, not having potable water and living in an earthen abode (such as a cave). The definition for extreme poverty in another community was: one having two solid meals a day and living in a shanty. Hence, the extreme poverty definition is different across different communities even within the same country. The message is clear in that it is impractical to come out a universal definition for extreme poverty, very poor, moderately poor, and non-poor. etc.

The best way to deal with the issue is for the community to come out of their own definition for different levels of poverty and, we as donors/practitioners to come out with different methods/tools to deal with poverty.

It is very important that we (donors/practitioners) ourselves do NOT come out with own definition of poverty for a given situation! By coming out with our own definition, we can do more harm than our intended help to the community to reduce poverty.

Hope the above helps you.

Post by: Eva Benita Tuzon

Dear Anura:

Poverty becomes a generic term in the development sphere from which even when I was still connected in the Centre on Integrated Rural Development for Asia and the Pacific, poverty as a subject remains to be an interesting research agenda, hence this online forum on poverty. We all agree that it is a relative term by which nations/governments, institutions, groups, and for individuals would have their own understanding, definitions, indicators, etc.

We would just differ in terms of priorities, scope, locus, focus but otherwise some of which share universal meanings and values, e.g., hunger, inequality, justice, all of which would have their own measurements, poor, very poor, ultra poor, low, medium, high, etc. What is more important is that, at the end of the day, at least in the government, it should be able to approximately identify, quantify the poor rather than be absolutely wrong in terms of target setting and priorities. Why they love to argue that aid does not work, simply because of the perception of ineffectiveness rooted in "poor targeting" or inaccurate or corrupted planning [when politicians bully the executives] where resources should go.

"If we cannot measure, we cannot improve." It requires certain discipline, creativity to engage in the rigor of evaluating development framework, much more, in dealing with poverty measures. I am grateful to see different perspectives via this virtual learning network. Best regards, Eva

Post by: Brian Beard

I first want to mention to everyone that we are keeping the online forum open for at least another 12 hours, and probably longer, in order for all those in other time zones to have a chance to contribute to today's discussion. So please feel free to continue to post messages—the more perspectives and views we have, the more enriching the discussion, and the learning. The summary for today will be posted tomorrow morning (US EST), and Jan will be providing an overall summary, as well.

Hi Sara, it is good to hear from you—it has been a long time since we spent all those long days on the AIMS-SEEP tool implementation in Peru!

Thanks for pointing out the importance of taking into account the context when trying to interpret poverty measurement data. A tool which measures the proportion of families living below absolute poverty lines can be very useful for comparing across countries and MFIs—Tom mentioned earlier this evening that such tools are best suited to his needs in trying to provide social investors with data on poverty outreach across multiple countries. But Sara's point about the importance of taking into account a client's rural/urban status illustrates the importance of putting the results of poverty measurement into the local context. The degree to which someone can satisfy the basic needs of their family can be very different for a poor person in Lima compared to someone with the same income in a rural area of Peru, for example, as Sara pointed out. Likewise, the products and services offered have to be customized to the local context.

With the local context having such importance, and the widely varying missions and target populations of various microfinance, enterprise development and poverty alleviation programs/organizations, your organization may find it much more useful to your needs to use another tool for assessing the status of your clients—especially if you are trying to target a certain population. Bobbi from Freedom from Hunger pointed out that they created their own Food Security Survey, as it is more appropriate for helping them reach the chronically hungry poor, their target population.

My main point here is that, although measuring absolute poverty can be quite useful for a number of reasons that we have been discussing the last three days, it is important to not make too many generalizations while interpreting or reporting the results. And organizations working with and trying to reach the very poor should not automatically assume that absolute poverty measurement tools such as the PAT or PPI are the ones best suited to their needs.

Post by: Eva Benita Tuzon

Dear Ms. Sara Pait:

Hi Ms. Pait. I am Eva Benita A. Tuzon of the Department of Agrarian Reform-Philippines. I have just posted twice a while ago of my views re: today's topic and it is a bit comforting to know that we basically have common opinion as to identifying the poor based on where they are physically residing [urban or rural areas]. By this factor alone, would allow us describe them differently and perhaps would only share common things in some aspect, e.g., income but not perhaps same with source/s of income. The poverty measures we all understand is just but one piece of information that we could easily target the poor but generating a comprehensive knowledge about them requires serious attention, research and resources to conduct such an inquiry.

The HDI and the other popular indexes may be sufficient to tell us the country/regional comparisons but at the country level, if we indeed seek to track them for the purpose of finding out what they need and how they are progressing in terms of the different development interventions is a concern many of us are yet to address closing the information gaps.

What is more interesting to know, as we are mentioning about tools that each of us may have been using, are the designs of these tools which we may want to share and see the common things and perhaps be able to evolve a comprehensive yet easy to use and interpret, and a tool that could be appreciated by multi-stakeholders across cultures. The existing development indexes are proven to be useful in looking at how countries are ranked. But building an index that would compare the levels of development of rural or urban poor using indicators reflective of what [rural] development is all about, is a big challenge.

For the last four years while I was still working at the Centre on Integrated Rural Development for Asia and the Pacific [CIRDAP], I have tried advocating for building the Regional Sustainable Rural Development Index, which is replicating the Agrarian Reform Communities Levels of Development Assessment [ALDA] tool if only to share and generate knowledge on whether results we aspire to facilitate where they should happen, while many agreed for the soundness of the concept, building consensus and starting a group or countries to pilot it, is in fact a bigger challenge. While Paris Declaration is undeniably a relevant declaration that could propel change in the way we do things, governments, donors, and other development agents need a bit of concentration, focus and locus. The Program-Sector wide approaches could be the mechanisms to build common platforms, partnerships have to be built among us who frequently take time to engage in dialogues and make tangible relationships in undertaking a task that would generate the kind of information that we all need to make harmonization, alignment and effectiveness happen.

While we all talk about the very poor, ultra poor, middle poor, etc., do they have specific names, faces, conditions that all of us could be accountable about. Many institutions could give us numbers but then many also could not provide credible lists and make a substantive reporting of what is happening [levels of development]. It would be a noble purpose for this online discussion to be able to build a tangible piece of work we might want to start working on together and at the end of the day, we could add fresh knowledge about the poor. Let us try building a tool that would assess their levels of development and see how they progress from the hindering temporary situation of poverty. Could we share our tools and evolve one that would be useful across countries and within our governments.

Post by: Bobbi Gray

Tom,

Thanks for your comments. Freedom from Hunger conducted a research project that did try to benchmark the food security survey against the $1 and $2 a day benchmarks (about the time the PAT tools were being developed). We wanted to see whether the food security survey could serve as a proxy for these poverty lines. Our research found that we couldn't predict the poverty levels accurately enough (in relation to the rigor that the PAT tools were looking for). On average, the food security survey will predict the poverty level of a household about 67% of the time (and that's on average across the partners in the study from Ghana, Burkina Faso, Bolivia, and the Philippines). And, given the discussion about the international poverty line with PPP calculations, like in some other cases, we had to resort to using a direct market exchange for a USD $1 instead of incorporating PPP because it ended up demonstrating that basically none of our partners clients fell beneath $1 a day, and intuitively, given our knowledge of the partners in the study, this didn't feel accurate or representative. But, overall, we still felt this was good enough for our purposes. We might not promote this tool as a tool that measure poverty based on the international poverty line benchmarks, but it gets close enough for it to be meaningful to us and our partners. And because it’s the same measurement across all of our partners and it's one indicator, it does help us make some comparisons as to the depth of outreach we have with particular partners and in particular regions.

We fully appreciate the use of the poverty tools that are benchmarked. We just haven't had the opportunity to use them ourselves, because we have been trying to systematize the use of this survey tool as well as the qualitative data we collect in conjunction with the tool.

We've definitely been a part of this movement to have MFIs measure their depth outreach to the very poor--so that we are holding true to the social missions that should b e driving our work. I hope that we are able to find the balance between what is accurate measurement of poverty as well as what is operationally possible, so that people will actually do some type of "approved" measurement versus no measurement at all. For those of us in the ongoing conversations regarding social performance, that's the point. Measure something that is meaningful and use that data to inform your ability to reach your target client. USAID may be dictating a particular process in some cases, but in other cases, make the measurement of outreach and impact meaningful to the institution as well as demonstrative of the efforts of trying to stay "on mission."

-Bobbi

Research and Evaluation Specialist

Freedom from Hunger

Post by: Eva Benita Tuzon

Dear Brian, Sara, and everybody,

This forum must be our maiden discussions and hope would not just end from here. Of course, I am very much interested to include the elements of PAT and PPI and how they are being used in our current evaluation of the tool that assesses the levels of development of the agrarian reform communities across the country [Philippines]. We are in progress having series of assessments for those new ARCs and existing ones from which I am being tasked to go with a team and observe how they conduct the assessment. I am though more interested on the substance [content] of the tool.

I am not sure whether I would be thinking wild to dream of one day we shall have a face to face workshop of having our tools presented and learn from each other and then be able to evolve these tools into simplified and would fit different communities. It is interesting to generate a comprehensive knowledge of poor people and see the common and distinct factors across different borders. The knowledge would facilitate better global, regional, country level development policies that would systematize poverty reduction/eradication, even if we understand that in development one-size-fit-all would not work but I strongly argue that many development values are universal values and could be held true and correct. We can learn different mechanisms that are tested and worth replicating as concepts.

To make our tool enhanced as an art and science, we in DAR would want to integrate your models' best practices [components/variables/indicators, etc.].

Thanks Brian for the opportunity to share and learn in this e-forum on poverty assessment.

Post by: Kanai Chakraberti

Dear Sir,

While benchmarking the poverty level, be it $1 or $2 a day per head/per family of five, it has to be remembered that 'Cost of Living' are varying , from Regions /Countries to Regions /Countries, world over. It is undoubtedly the cheapest in India.

Post by: Don Sillers

Sara –

I strongly agree with much of what you say. In case you were not aware, the effort to develop poverty assessment tools for use by USAID-assisted organizations, in which Brian and I are both deeply involved, responds to US law that dictates its parameters, and eliminates most of USAID's latitude to respond to the kinds of concerns you raise. In particular, the law requires that USAID focus on ONE poverty line for each country -- in the case of middle-income countries like Peru, the line that divides the poorer half of those living below the national poverty line from the less poor half of that "nationally poor" population. More problematically, the law forces us to focus exclusively on one question -- whether or not people are above or below that single line -- in effect, ignoring any differences among those ABOVE the line, as well as differences among those BELOW the line. This either/or treatment seems starkly at odds with the underlying reality on the ground, where poverty is both a matter of degree and a matter of considerable complexity -- as your post emphasizes. Finally, this single-minded obsession with whether a household is above or below that legally specified line makes it impossible to rely on otherwise perfectly suitable, and virtually costless, methods of identifying poor households, such as that used by Freedom from Hunger. IMHO, the restrictions placed on USAID's poverty tools by current law dramatically reduce the potential utility of those tools to our implementing partners.

CAN/SHOULD USAID USE POVERTY ASSESSMENT RESULTS TO ALLOCATE FUNDING TOWARD PARTNERS THAT CLAIM TO SERVE THE POOREST?

Post by: Don Sillers

Brian Beard's initial post this morning invited questions regarding what Grameen's PPIs and USAID's Poverty Assessment Tools can and cannot do. The following offers some (strictly personal) thoughts on that topic.

The poverty assessment tools that USAID is developing in response to its legislative mandate offer several potential uses, including:

(1) providing implementing partners a way to assess the economic status of their clients;

(2) providing the U.S. Congress with a means to judge USAID's success in meeting its legislative mandate to direct at least 50% of the benefits of its microenterprise funds toward the "very poor;" and

(3) providing USAID a means actually to meet this mandate, by reallocating funds away from implementing partners with fewer than 50% "very poor" clients, and toward those with more than 50% "very poor" clients.

This post argues that the poverty tools have considerable potential in the first role, but only mixed potential in the second. In contrast, at present those tools appear virtually useless in the third role.

In the first role, USAID's poverty assessment tools offer a useful complement to the rough-and-ready methods that many partners have long used to distinguish the poorer from the less poor among their current and/or potential clients. Because they are calibrated against reliable data on the overall living standards of the country's population, USAID's tools can help partners achieve a richer, more objective understanding of the socioeconomic circumstances of their clients. This is especially true for those USAID tools that directly estimate the consumption levels of those clients, rather than merely dividing them into two groups - those below the line and those above - with all other information thrown away. For that reason, USAID is looking for ways to enrich its tools so as to provide useful information to its partners, beyond the narrow either/or question that the law requires.

In the second role, the substantial gap between the legislative mandate that at least 50% of USAID's microenterprise funds help the "very poor," and the results from the first round of reporting from 31 partners, can be viewed in different ways - either as evidence that USAID is failing to channel its resources through partners that are sufficiently focused on the very poor, or as evidence of the lack of realism in adopting $1/day as the dividing line between the "very poor" and everyone else in the world, including you, me, and Warren Buffet. USAID is certainly inclined toward the latter view, noting that no organization anywhere has offered credible evidence that substantially more than 50% of its clients are "very poor" as defined in the legislation. (Of course, that could change ...) More broadly, it will take some years, and millions of dollars in funding for further tool development and application, before we'll have a large enough sample of reporting organizations to provide a broad picture of the share of clients in USAID's overall program who live below the legislated threshold.

It's in the third role - reallocating USAID money - that the poverty tools seem to offer the least promise. By clear Congressional intent, USAID's poverty tools are intended for partners to measure and report their own results. That's not a problem in generating information for those organizations to use for their own purposes. In contrast, it would be an enormous problem in allocating funds among partners. Any self-reporting tool is inherently vulnerable to deliberate manipulation. Given the circumstances under which these tools are applied, such manipulation would be virtually undetectable by USAID. Under those circumstances, it would be absolute folly to direct millions of dollars in US taxpayers' hard-earned money toward organizations that simply claim to have applied the tool and found that a very large share of their clients were "very poor." This is not at all to suggest that any reporting partners are currently manipulating their reporting. Rather, the problem is that, with hundreds of millions of dollars at stake, USAID has no practical means of distinguishing between the great majority of honest partners, and possible bad apples. In the wake of recent corporate accounting scandals, it is very difficult to see a practical way around this problem. In principle, USAID could hire third-party agents to conduct the poverty assessments and report directly back to USAID. However, aside from the massive expense this would involve, it seems wildly at odds with what appeared to be Congress's goal in mandating these tools, and equally at odds with what appears to USAID like their most promising role - helping partners run their own programs more effectively.

If anyone sees a plausible way around this dilemma, we would love to hear it!

Post by: Jan Maes

Dear Don,

Thanks for presenting your thoughts on this issue that USAID is facing, and thank you for providing the opportunity to the 100 plus participants (many of whom are practitioners) to offer their own thoughts and advice on this. Folks, this is your chance to weigh in on this complicated issue.

Let me just offer one thought for now. The fact that there are no organizations showing credible evidence that they are reaching 50% or more very poor clients of course doesn't mean that there are no such organizations. After all, the tools are still very young and not many have used them. And leaving ED aside for the moment, those that have used them are almost exclusively microcredit institutions, either because they were required to report their numbers to USAID and/or because they were genuinely interested in finding out who they were reaching. However, there seems to be a general consensus among the (active) contributors to this forum that microcredit is not the most important product demanded by very poor people, not as important as transfers, savings or microinsurance. So why not look among those organizations who offer these products and services, and who might be quite distinct from current USAID partners, to achieve the congressional mandate? I am putting it quite simplistic and blunt to get some discussion going on this.

But I haven't offered a solution for the issue of potential manipulation of self-reported results, which is indeed a big problem. Quite frankly, I don't understand why an independent verification mechanism was not pursued in the first place. Is the cost indeed prohibitive, when compared to the costs that have gone into training USAID partners (instead of a small cadre of independent local monitors) and that have been used to reimburse partners for the effort it takes them to implement these tools? And if MFIs can pay for financial auditors, why can't they pay for poverty (or other social indicator) auditors? If social investors eventually want to trade financial return for social return, I imagine that they too would not be satisfied with self-reported results.

Again, I thank you for involving this forum in brainstorming on this!

Post by: Jeffrey Ashe

Dear All,

I think it will be demonstrated that the savings led methodology has deeper outreach than the MFIs because while some need credit all need a safe convenient place to save and access to often under $50 loans. In Mali according to the FINCA poverty assessment tool 95% of the members are at the $1 and under level. Even if this percentage is 80% it is still significant. In hundreds of villages in

Mali all the women are members of groups so by definition we are reaching the poorest even within the very poor category. We are reaching deep into the community with those at the bottom rationing what they eat several months a year.

The challenge is to reach this population cost effectively in a setting where villages are scattered and access is difficult at best and virtually all the women are illiterate. Oxfam and Freedom from Hunger accomplish this first of all by introducing an oral record keeping system where that requires no written records and then having! Villagers train 60% to 80% of the groups using a pictographic manual to guide the process of group formation using FfH's Learning Conversation methodology to insure thoughtful replication. We will be withdrawing support to the NGOs in the regions where Saving for Change has operated for three years and track if the groups stay in intact and continue to grow and to see if new groups are trained. Pact studied the groups that its Women's Empowerment Program had operated six years after all support was withdrawn and found that most of the groups survived and grew and through spontaneous replication the number of groups remained constant (or may have grown). In this way savings led microfinance can be as sustainable a microfinance methodology as the MFIs but through the creation of thousands of independently functioning groups rather than through the creation of microfinance institutions. As a person who worked in credit for 25 years it is a real relief to focus on training rather than institution and starting with savings rather than debt and it is possible to tap into the thousands of NGOs already working in communities that can train even if they would be terrible candidates to manage a loan fund.

Post by: Jan Maes

Jeff,

Two comments:

1) There was at some point in the past a debate among savings-led financial service practitioners about the pros and cons of connecting savings groups or self-help groups to some kind of formal institutions, be it a bank, MFI or credit union. One of the arguments in favor, I believe, was that savings groups would be more sustainable over the long run. Where does that debate stand now? And what is your own advice on this?

2) For devil's advocate's sake, what if only 20% or 40% of the SfG members are very poor? It would still be significant, in my opinion, but we would learn different lessons from it. The difference between the FINCA FCAT tool in Mali and the PPI for Mail is that we don't know anything about the accuracy of the former. It would be extremely useful for this discussion (to be continued after the Speaker's Corner, I hope), if some of the savings-led programs measured their poverty outreach with the PAT or PPI. (And have it done by an outsider, and USAID will be sending its funds your way, if you have can demonstrate numbers above 50% J)

Post by: Tom Coleman

Don,

(1) providing implementing partners a way to assess the economic status of their clients;

Promoting the expansion of poverty measurement is valuable in many ways. It seems from the dialogue that MFIs that are successful in serving 20% or 30% very poor/BB (Bottom Billion) clients do this as a part of their total business—perhaps with cross-subsidization and greater cost. If most private investment favors higher MFI return for lower risk and if BB clients are more expensive and sometimes riskier, can USAID play a role in helping willing MFIs produce higher social return and at the same time encourage private social investors to invest in these MFIs for high social return even if it comes with lower financial return?

USAID could help support a private Bottom Billion Fund that invests in those MFIs that produce the highest BB client percentages and absolute numbers.

(2) providing the U.S. Congress with a means to judge USAID's success in meeting its legislative mandate to direct at least 50% of the benefits of its microenterprise funds toward the "very poor;" and if we can't find MFIs that can now meet the 50% criteria (hopefully as Jan suggests there are some out there), perhaps USAID should reward MFIs that significantly increase their % of very

poor/BB clients reached. Perhaps some of the money should be awarded based on documented success in reaching lower percentages of BB people and the rest awarded as increases numbers of BB clients are demonstrated.

If non-credit approaches are superior in effectively reaching BB people, could USAID fulfill its mandate by promoting 1) MFIs with companion organizations, e.g. MFI allied NGO or Foundations or specially designed "very poor" programs that help increase service to larger numbers of BB people or 2) promote ED approaches or savings groups with or without MFI affiliation.

Support a loan to the MFI but let the interest be paid to fund BB services rather than to provide financial return to the investor. Encourage the spending of financial return to buy social return for BB people.

MFIs are powerful and valuable agents. The real objective is client results for larger numbers of BB people.

Reducing the amount or % of USAID funds spent on BB clients seems like a bad idea. This work is often harder and more expensive work than "mainstream microfinance" and needs all the help USAID can provide.

(3) providing USAID a means actually to meet this mandate, by reallocating funds away from implementing partners with fewer than 50% "very poor" clients, and toward those with more than 50% "very poor" clients.

It seems inevitable that cost efficient validation of MFI poverty measurement needs to be developed if poverty measurement is to be a meaningful criterion for USAID grants or private investment decisions. We have audits and validation for financial data and MFI financial risk and return.

Perhaps USAID could promote/support private funding of MFIs that serve large numbers of BB clients and leave it to the private investors to validate MFI BB client percentages and poverty measurement.

Post by: Eva Benita Tuzon

Dear Jan & Don:

The discussion made me ran to my colleagues who have been involved in the Agrarian Reform Communities' development using the mandated ARC Development Framework [with specific key result areas that are more or less similar to any other integrated area development program/projects]. The only major theme is that the Department of Agrarian Reform anchored its mission in supporting reform in terms of land, justice and social services as program formula. I asked them whether DAR is conscious about categorizing the poor in its target setting as per international measurements being mentioned as well here. DAR being perceived as an institution that balances the interest between the biases for the poor and the rich, would rather believe that it could not escape the critical eyes of the public in targeting the poor, with day in day out evidence that the poor either take refuge in DAR or take "quarrels" with DAR.

The government has identified which are its poorest provinces and accordingly, DAR likewise uses the national list of these provinces in its target priorities. And we are aware that in some projects, not necessarily in DAR, there were at times issues of or impressions of having to adjust report if only to make a proposal fit in a certain intervention for a specific area [political bailiwicks]. I suppose there is no denying of this anywhere in different developing countries. What I am trying to say is that, in the Philippines, targeting the poor is not basically a problematic concern as we are still confident to say that we are conscious of figuring out which provinces deserve prime attention. However, as to the issue of M&E, planning and budgeting for the very poor, is an area that requires strengthening of different parts of the bureaucracy. Building databases, having them updated and making them more credible wherein each individual poor constituent deserves to be tracked in terms of progress as facilitated by the government, NGOs and private sector.

Targeting the poor is not an easy task thus we need strong advocacy for building mechanisms by which we could improve outreach to become more accurate, fast and neat. This would cure the enduring wastage of assistance. It is not only that we reach the poorest but engaging them to be participants and not just recipients of goodwill in the development sphere. Having their names logged, development tracked, opportunities created for them, poverty reduction would be made effective and efficient. Rude as I may be, what is pathetic is when an institution cannot provide a credible list of whom they claimed they have reached/served.

Post by: Jeffrey Ashe

Dear Jan,

You raise two points. There is considerable debate on the wisdom of linking self-help groups to external sources of credit. Oxfam and Saving for Change strongly believe that the groups should not be linked to credit and most of the evidence from Africa is that when these groups are linked to external credit the experience has been negative. These are some of the major issues:

* Typically when a SHG applies for an external loan there are only two or three members who want the loan. They put the entire group at risk when they take out the loan and don't repay it.

* The MFIs typically ask the group to use their savings as a guarantee which means that the group can't use its own money for loans.

* An often extensive loan does not encourage savings and using the group fund for loans. If the group focuses on saving more it can often save enough to not need an external loan in a year or less.

* There is a conflict of interest. The MFIs want to move as much money as possible, often more than the groups can handle. Also, the MFIs are often not clear about the costs and the risks of taking out a loan.

Saving for Change encourages individuals in the group to take out an MFI loan if the group fund is not large enough for their needs.

What we have observed in Cambodia is that the once villagers join groups they take out their smaller loans from the group and de-link from the MFI. Why pay interest to an MFI if interest income can build the group fund. Why put your land at risk as collateral when a loan from the group does not require guarantees. Why put up with the harassment and cost of an MFI loan when a loan from a group is more flexible and convenient.

Your second point is if it is not sufficient that 30% or 40% if the members of the groups are the very poor. Some villages are so poor that all the members are in the very poor category even if some are better off than others. Our objective is that the profiles of the various groups in a village taken together reflect the income profile in that village. Typically the middle poor will join first. The poorer and then the poorest will join later once they see the benefits of the groups (although there will always be some who do not join.) The better off do not join since they have alternatives. SfC's objective is that all the villagers join groups. When all join groups the poorest also be included.

Post by: Linda Jones

Hi,

This is a picture of a jewelry cluster that I visited yesterday in Jaipur. Each door that leads off this courtyard is a room that houses the work and living space of three or so piece workers in the subsector. I won't attach a second picture where the back of the building is missing and full of rubble, or the images of child workers (who are glad to have a job!)

As an ED practitioner, when I have a chance to work with a cluster likethis, I don't much care how much people are earning in precise $1 a day terms. I work with the whole cluster to try and develop a competitive industry that directly benefits the producers. I resent spending too much
program resources for the benefit of a bureaucratic process that I don't completely believe in.

People seem to think that numbers don't lie and they can't be fudged – that to me is naive. Measurement and reporting are important - to a point – we can't have money being siphoned off or used inefficiently by do-gooders. But I think the qualitative measurements are more important than figures on a page.

Thanks for the discussion. Hope this picture comes through.

MOST MFIS AVOID THE REALLY POOR

Post by: Alexander Andukunnel

Many thanks for the information about Micro Finance & Poverty Eradication. Micro Finance is a powerful tool to eradicate poverty but my own experience with the MFIs is different. Most MFIs avoid really poor people, the vulnerable section of the society. It is the well to do among the poor who benefit from the present MFI system. I tried to get Micro Finance support for my SHGs (about 50 SHGs) from MFIs but they refused to support since my SHGs are people from Differently Able persons whose businesses are small and they would not be able to repay with interest which is very high. Hence I am of the opinion that Micro Finance is exploiters of the poor and the poorest of the poor really do not get any benefit.

Post by: Kanai Chakraberti

Dear Alexander,

You are partially correct. It is extremely difficult to judge, because degree of POVERTY is varying from country to country depending upon the cost of living. MF, from Commercial Institution ,will not be viable for BPL categories. Surplus generated will be eaten-up and nothing will be left for REPAYMENT (Principal+Int.). Unless, heavy Governmental 'SUBSIDIES' are matched with the loan quantum, post-business elevation, above BPL, will not be possible. AND there should be no nuisances of political rogues for NON-REPAYMENT / LOAN-WAIVERS for vote-mongering.

Post by: Anura Widana

Hi Alexander,

You're spot on! Many MF providers don't want to deal with the poorest, worst on an individual basis. I've this experience at least from 3 Asian countries.

The best strategy to deal with in this situation (again through experiences gained from field practices) is to generate savings by SHG itself through a variety of IG activities and other informal forms of savings that work very well with the poorest. Of course, you need a bunch of products and practices that are specifically suited for the poorest. Need to exercise utmost care in what products/services are appropriate! In all my projects, have found the income generated by SHG itself is quite adequate for initial cash needs of the poorest members.

The development of links with MFIs can be attempted at a time when the SHG itself is fairly strong enough.

I've planned and implemented MF services for the poorest in several Asian countries in the past 20 years. Can't think of an effective way of assisting the poorest people with their MF needs without resorting to the SHG mode.

Post by: Tom Coleman

I still refer to a roughly 5 year old study by CGAP that looked at direct foreign investment in MFIs.

Direct foreign investment is investment by International financial institutions and private investors, manly through funds.

The CGAP paper told us that less than 10% of the Bottom Billion were living in Eastern Europe and Latin America, but were receiving about 90% of direct foreign investment in MFIs. At the same time over 90% of the Bottom Billion were living in Africa and Asia where only 10 % of direct foreign investment was flowing. (There is still important Bottom Billion work to be done in Latin America, but for 50 million people.) I did a data study last year for Grameen Foundation and, although the pattern has improved somewhat for Bottom Billion Microfinance, the same bias away from Bottom Billion people still exists in global microfinance in many ways.

1. THIS IS WHY WE NEED AN ABSOLUTE POVERTY MEASURE TO COMPARE COUNTRIES AND MFIS AND TRY TO PRIORITIZE THE PLACES WHERE THE MOST BOTTOM BILLION PEOPLE LIVE both by country and within country, at least for

those who choose to prioritize Bottom Billion people. There are important reasons for the bias away from BB that we could talk about. The pattern of development aid also shares the problem of serving many other purposes ahead of Bottom Billion people.

I strongly believe that those who care about the BB as a priority need to look at the financial incentives that drive this pattern. We also need to provide information, data, AND NEW FINANCIAL INCENTIVES to social investors and MFIs to encourage more and better service to BB people.

2. Within a country the absolute poverty measures of $1/day and $2/day are less useful, although in a country like India MFIs could serve hundreds of millions of deserving clients without touching one BB person.

WITHIN A COUNTRY THE COUNTRY POVERTY LINE, URBAN VS. RURAL DISTINCTIONS, HUNGER LEVELS, AND DETAILS ABOUT TRIBAL GROUPS OR ABOUT OTHER EXCLUDED MINORITIES CAN BE VERY VALUABLE IN BETTER UNDERSTANDING AND TARGETING BB PEOPLE AND TARGETING WHICH PRODUCTS AND SERVICES ACTUALLY WORK.

I would welcome comments on this.

Post by: Ajaita Shah

Dear Tom

I strongly agree with your assessment. I think that in order for this to happen, especially in India, MFIs need to adapt a tool to

1) measure their existing client base

2) their future client base

And then assess why they are or aren't adhering to the BB. Sks had made this assessment and realized their products in the MFI aren't right or effective for the BB, hence the adaptation of services focusing on transfers, savings and ed through the NGO.

I believe the social performance task force, which I am a member of, wants to take this further and determine which organizations are serving which bracket, and whether that was their original intention or not. In a meeting in Paris, we decided that the best way to start this would be by creating a map to measure social performance which would need tools like the PPI or PAT to first determine the group and assess whether their services are in fact meeting that demand.

I think the question as far as FDI is whether it comes from the investor or the institution. Is there are a cost efficient, even sustainable way to effectively provide the best services for the BB that directly meet their demand?

Post by: Lisa Kuhn

I agree with Tom that having more comparable information about poverty levels/characteristics across countries and MFIs would be helpful to investors wishing to target their funds to that population. However, we have to be conscious that investors have other criteria to consider such as diversification of risk in their portfolios and the strength of the institutions that they are investing in. Historically, it has been easier for investors to find strong institutions to invest in Latin America and Eastern Europe. It's less about where the "deserving clients" are and more about where the strong, investment-ready institutions are. Investors also have to take into account the foreign exchange risk, which is extremely high in some of the places where the bottom billion live-like Zimbabwe. So it seems that a focus on capacity-building and enabling environment could help in increasing capital flows to the bottom billion.

Post by: Dr. B S Suran

Sorry for barging in like this. The posting and discussions touched on a very interesting point, I could not resist on the sidelines. I am presently a researcher in microfinance and have been working on loan pricing / / debt diaries of poor/ also attempting to suggest a new framework for analysis on MFIs.

I fully agree with the observation that most MFIs do not really touch the poorest or the BB that one of the discussant mentioned. This is particularly true, when the financial service delivery is a non-SHG or individual financing is done. This is not to suggest that when there is a group mode, be it, SHG or JLG, the likelihood of the group member being very poor is more pronounced. As, in a group mode, there are self imposed norms like in an SHG …about the minimum waiting period, quantum of credit that the member can access after the wait etc. This serves as a deterrent for relatively well off among the poor. This is not to suggest that all SHGs are of the very poor category. Often there are SHGS which are also non-poor. Somehow the bottom of the pyramid is not where development workers and MFIs look for clients. Now, even in SHGs you find a new phenomenon called walk-in groups in manly places…this is generally not of the poor.

CONTINUING THE DISCUSSION

Post by: Jan Maes

Dear participants:

While we normally would have closed the forum by now, we decided to keep it open, given some of the recent interesting posts. So, by all means, continue the conversation, and provide your feedback on issues that are currently being discussed:

- The need for and use of comparable poverty information across countries and MFIs, something Tom has brought up and already received some interesting responses by Lisa and Ajaita. I personally would add that this information would also be extremely important across microfinance approaches, and therefore would love to see some comparable data on savings-led microfinance.

- Also, even though many of you stated in earlier days that credit is not the number one priority for the Bottom Billion, the conversation somehow has focused mostly on MFIs recently. What role can MFIs play in offering savings services? What is the role for savings groups (Self-Help Groups, Village Savings and Loan Associations, Savings for Change groups, etc.)?

- And since USAID has been so instrumental in providing us with these new extremely valuable (everyone seems to agree on that) poverty tools, what should USAID and other donors use this information for? More specifically, given the obstacles mentioned by Don, how can USAID use this information to reach more very poor people through its partners in order to meet the US Congress mandate to allocate at least 50% of USAID's microenterprise funding to the very poor? Brian will be providing us with a summary later this afternoon, but I encourage everyone to continue the discussion!

A NEW VISION FOR BOTTOM BILLION MICROFINANCE

Post by: Tom Coleman

A Vision for Bottom Billion Microfinance

Imagine with me for a minute. The year is 2018.

Gross global MFI portfolios have grown from $35 Billion in 2008 to $300B in 2018.

Gross global MFI savings are now reported to be over $100B.

$60 Billion of all MF is dedicated to serving the remaining 700 million people living in extreme poverty in 2018. This is called Bottom Billion Microfinance. BB savings are reported to be over $20B. Savings match programs funded by social investors have helped to build these savings. There is more focus on savings and asset building than credit for BB people, but both are flourishing.

While the MDG of cutting extreme poverty in half by 2015 was met in aggregate, it was missed in half of Africa and several countries outside of Africa. But aid for development has become much more aligned with the poorest countries and the needs of Bottom Billion people.

Bottom Billion Microfinance (BBM) not only offers most of the features of mainstream microfinance, it also has extensive links through customized graduation programs from government and charity programs for destitute people.

BBM MFIs have many links to companion NGOs or Foundations that fund ED and other livelihood projects out of the profits of the MFI and the sharing of financial returns from MFI investors through Bottom Billion Investment Funds that now account for 20% of all Microfinance Investment Funds (MFIFs). These BBIF receive special tax breaks in all developed countries.

The successor goals to the MDGs include the goal of eradicating extreme poverty ($1.25/day) by 2025. BBM expects to redefine itself completely by 2025 in terms of a Bottom Billion population that lives on less than the new equivalent of <$2/day but more than $1.25/day. Every poor country is now using a BB targeting method based on successes in eradicating diseases where detailed data on every country and district with people living among the BB has been identified and is being served.

What started this 2018 BBF success is still not completely clear. The creation of the first Bottom Billion Fund after the 2008 SEEP conference is cited as one of the early steps that began to define Bottom Billion Microfinance. The causal role of microfinance in helping people leave poverty is still being debated by academics.

The first Bottom Billion Fund brought together some of the fiercest skeptics among practitioners that microcredit was really helping Bottom Billion people at all together with a new breed of social investors that made the commitment to maximize MFI social return in the form of numbers of Bottom Billion people served and actually leaving extreme poverty. A combination of MFI profits together with social investor financial returns formed the base of paying for more expensive services for BB people. After the model was proved and scaled it became more cost effective and attracted increasing amounts of government and foundation support without falling into the traps of early subsidized microfinance of the 1980's.

Post by: Jeffrey Ashe

Tom,

I enjoyed reading your 2018 vision underscoring the need to assist the poorest. Here's an alternative take on this, slanted this time from the perspective of savings led microfinance:

Imagine with me that the year is now 2018.

The cumulative savings of self-help groups and credit unions of all types have grown to 40 billion reaching the poorest 2,000,000 families in a hundred countries with 200,000,000 members of groups and credit unions. The average savings per member is $200 with those in the poorest countries such as Mali with less than $100 in savings and the better off countries several hundred countries. In addition remittance payments sent from "Juan" who works abroad to "Juana" who is a member of a saving and lending group is made available to the others in her group so that they can develop their enterprises.

Instead of borrowers sending 12 billion a year in interest payments to financial institutions (30% X 40 billion) this 12 billion will grow the group funds of 10 million saving and lending groups averaging 20 members each at the rate of over $1,000 per group making it possible for the members to take out larger loans since they have more money to lend, assist the destitute and invest in community improvements in water, schools and basic infrastructure.

This investment to build up these groups in 100 countries over the next 10 years will have cost donors 4 billion dollars (and average of $20 per group member and $400 per group $400,000,000 per year, a small fraction of the cost to develop credit institutions reaching this population.

There is really no need for social investors to match the savings of the poorest because as Richard Rosenberg has shown that 15 out of 16 such efforts have been failures because groups form to get the match not to save. The donations of social investors will focus on underwriting the training and support of the groups with contributors to investors in Kiva instead of supporting a single entrepreneur for $400 can underwrite t he training and support of a saving and lending group with 20 members. (Most of the Kiva supporters do not withdraw their investment and keep their "investment" circulating in the loan fund.) Groups can save enough to meet their needs in two to three years.

This savings led, mass scale, low cost, virally self-replicating revolution turned the traditional credit led paradigm inside out when it was realized that MFIs could not and would not reach the poorest and that the poorest were not too poor to save but that when properly organized their savings could take care of many of their local needs. The savings led revolution overcame the enormous skepticism of those who advocated that debt was the way out of poverty.

An extreme statement to encourage discussion. Of course there is room for both savings led and credit led models but the savings led alternative is increasingly becoming an alternative.

Post by: Mary McVay

While we are envisioning ... I'd like to share a broader vision. I am challenged in this and similar dialogues because we talk about eradicating poverty and then leap to goals for expanding microfinance services to reach the very poor. Let's turn the tables a bit, be more demand driven and consider what the poor need to work their way out of poverty. When members of the SEEP Network's Poverty Outreach Working Group did this, we brainstormed a more holistic poverty eradication approach, based of course on existing frameworks from integrated development agencies such as Christian Children's fund. We integrated into these "livelihood" approaches a stairway or ladder of microenterprise development services that would offer divers services to people at different poverty levels in a community to help them achieve economic security and a sustainable community safety net. The model recognizes that people move into poverty and out of poverty - when a crisis hits, or the economy is going well. Having access to a range of MED and other services can help people recover quickly. It can help better-off people to support people who are more vulnerable.

The contention is that microenterprise development work/agencies - including MFIs - need to be more pro-active not only in adapting their services, but also in partnering with other organizations to help people living in or at risk of poverty to work their way out, and to help communities develop sustainable safety nets to prepare for future disasters. In considering the role of microfinance, the challenge from this perspective is to consider the broader needs. In other words, we need stop "not my jobbing" on the less financially viable services and figure out whose job it is to deliver these services, help them get the resources to serve the target population, work with them in tandem to help people graduate smoothly to more financial sustainable services. I see this happening increasingly in reaction to the HIV crisis in Africa. The model is proposed for comment in the SEEP Network guidelines for MED and HIV programming.

For a link to the SEEP Guidelines to Microenterprise Development and HIV Programming: http://communities.seepnetwork.org/hamed

You can download the whole thing and/or go to the Chapter 2.3 - look for the diagram that looks like a cake!

Here is the page with the specific diagram: http://communities.seepnetwork.org/hamed/node/766

Detailed explanation is here: http://communities.seepnetwork.org/hamed/node/767

Reactions?

Mary McVay
Director, The Value Initiative
The SEEP Network

Post by: Tom Coleman

Jeff

Good stuff!!

Tom

Post by: Tom Coleman

Mary,

Great visioning,

The variety, holistic nature and customizing to BB needs/demands instead of customizing to MFI needs is great.

How is this financed?

Tom

Post by: Jeffrey Ashe

Tom,

Thanks. Some comments from others?

Jeff

Post by: Tom Coleman

Jeff,

Savings is sure more attractive than debt most of the time.

The low cost and viral growth with self sustainability is very attractive. Great social rate of return and financial efficiency.

How is this financed? Only by donors??

Post by: Jeffrey Ashe

Tom,

To date getting Saving for Change going requires a grant of about $250,000 to fund a team of 10 animators and a coordinator and all their costs over three years. The outcome is 1,000 groups (80% of them trained by villagers) with 20,000 members in between 200 and 300 villages. After three years the NGO team is reduced to two or three with the expectation that the 300 to 400 trained "replicating agents" recruited from the groups trained by staff will continue to support and train new groups with the SfC expanding organically in each village and in the nearby villages where the NGO staff have not reached. The expectation is that this cadre of "replicating agents" will continue to support these groups in the future while the NGO staff is redeployed to new regions. The cost at this level is about $13 per group member. The additional $7 cost per member is to recruit, train and supervise the NGOs who carry out the work in the field, research and development, research and advocacy. Freedom from Hunger is Oxfam's partner in this venture. (These costs will vary from region to region.)

This is hardly a theory as we have been perfecting this methodology for more then three years and these figures appear to be fairly accurate.

So, as I said the money required to do this will come from private and public donors. When you compare the cost to the cost of creating an MFI - which may (or probably will not) be sustainable after a few years the outside subsidy per group member is a small fraction of the MFI costs.

Post by: Tom Coleman

Jeff,

The cost efficiency sounds great!!!

1. Any possibility of funding these partly through profits from a large and already profitable partner MFI or other locally sustainable institution rather than foreign consultants with donor money?

2. Do any of these groups have % of very poor/ BB validated with a tool such as PPI or IRIS PAT?

Post by: Sara Pait

Dear Tom:

There is a program in Ecuador from CEPESIU Foundation that forms autonomous saving-credit groups called Sociedades Privadas de Inversión, where there is a monthly initially very small investment of the members (the monthly investment may grow when the group is ready for that), who lend the money among associates or to third parties (with different amounts and similar or different interest rates, the group decides about this). The institutions accompany the groups for more than two years (within a subsidized program, by EU funds). This saving-credit groups have proved to be sustainable and with great impact in their members capacity to grow/capitalize. I heard Costa Rica Finca's model is similar to this one.

The idea to give impulse to this sort of programs to outreach poorest people to capitalize seems a very good idea, not necessarily the only one.

Post by: Sara Pait

Again, the name of the groups is: Sociedades Populares de Inversión.

Post by: Jeffrey Ashe

Sara,

Contact me about the Sociedades Populares de Inversion. Under our grant from Gates we proposed evaluating a savings led program in Ecuador.

Post by: Jeffrey Ashe

Tom,

If profitable MFIs want to contribute to expanding outreach to those they would not likely reach this would be fine but not with the intent of lending to these groups but to lend to individuals in the groups for the reasons I mentioned in an earlier e-mail. What Oxfam/Freedom from Hunger hopes to do in each country is to develop the model and reach a critical mass of from 5,000 to 10,000 groups and then use the local technical team that has supported the NGO partners to spread the model to other NGOs funded through a variety of sources that could include profitable NGOs, local governments, other donors etc.

Post by: Tom Coleman

Jeff

Just to be clear, you don't see common interest between these savings groups and MFIs who want to serve poorer people than their current credit products are good for.

Post by: Sara Pait

Hello Jeffrey, you could get more information about Sociedades Populares de Inversion in CEPESIU Web site (see the link below).

http://WWW.cepesiu.org/38.0.HTML

The executive director is:

Post by: Jeffrey Ashe

Tom,

As individuals not as groups. When MFIs link provide credit to groups at least in the African context the results have been disastrous. Paul Rippey documented in Niger that the more self-help groups received outside loans the more members they lost and the more likely they were to fail. The problems (to repeat what I said last night): typically only a handful want a loan and getting a loan puts the group at risk, the MFIs typically require the group to deposit its savings as a guarantee thereby greatly restricting the ability of the group to use its own fund, the MFIs typically push more money on the group than is prudent leading to default, the MFIs are often not transparent in their loan terms and interest rates and the interest goes to the MFI rather than stays in the group. The challenge that the groups present the MFIs is to develop products that complement the groups. The most effective way to challenge Compartamos in Mexico is to develop savings and lending groups in the same villages offering some real competition to Compartamos.

The only example I know of where the link to banks has been effective in NABARD in India where through their SHG/Bank linkages program have over 15 years or so provided loans to over two million self help groups with some 35,000,000 members making this the largest microfinance program in the world. The breakthrough. The NGOs train the groups and the groups when they are ready go to the bank for a loan. When they no longer need a loan form the loan they go back to using their savings. Unlike the African programs the interest rates are low, the support is good and the banks do not require any collateral so the groups can continue to use their savings.

Post by: Tom Coleman

Jeff

Thanks for this explanation.

Post by: Thierry van Bastelaer

Jeff, if I understand correctly, you are discussing below the linkages between banks/MFIs and self help groups--and the almost uniform failures that resulted, due to the reasons you explain so well. What has your (or others') work shown about the success of links between bank/MFIs and group MEMBERS? While there is massive evidence that linking banks/MFIs fundamentally damages the dynamics that underlie group operations, is there reason to believe that such link would also fail at the individual level? Is there any evidence that poor people would prefer self-help groups to equally safe individual financial products? If not, can SHGs serve as screening/self selection mechanisms for savings/loans products designed for individual group members?

Post by: Jeffrey Ashe

Thierry,

You raise some interesting questions. I know that about 10% of the Saving for Change members in Mali have a current loan with an MFI and around 20% in Cambodia (and virtually none in El Salvador). We also know that in Cambodia many who once took out MFI loans now borrow from their groups. (We will have a much better fix on these statistics over the next couple of years.) We know little about individual borrower's experience with their MFI loans. We have no evidence about group member's preference for individual savings/loan products since they are generally not available in the rural areas where we are working or require a long expensive journey to access. It seems a little cumbersome for SHG's to screen candidates for individual savings and loan products. Those who want to pursue this option will simply do so.

We will know more in a year or so.

Post by: Thierry van Bastelaer

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Post by: Jeffrey Ashe

Tom,

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Post by: Tom Coleman

Jeff

Just to be clear, you don't see common interest between these savings groups and MFIs who want to serve poorer people than their current credit products are good for.

Post by: Anura Widana

Hi Jeff,

Let me share some of my experiences in the area of MF through SHGs.

The experience with several Asian countries is in favor of groups rather than individual approach to MF at least in dealing with the poorest. The SANASA MF programme in Sri Lanka is decades long now with very strong SHG groups promoting income generation (IG), savings and loans administered very successfully. The total savings under their own brand of SANASA Bank is several Billions. The Samurdhi groups (another poorest group of people) have registered a high level of success though the practice there is bit shorter than the SANASA groups is. The experience with at least a dozen of other SHGs support programmes is also similar to what was stated above. In Maharashtra and Karnataka States of India, there are scores of SHGs who administer income generation, savings and credit to its members very satisfactorily. Some have been doing this for decades on a sustained basis. The very successful experiences with dairy co-ops (Andra, Karnataka, and several other States of India) and dozens of other entrepreneur SHGs (shoe making, handicrafts, etc.) again in Karnataka, India are well recognized. The Grameen model in Bangladesh focuses entirely on groups for IG, savings and credit, operating very successfully for decades. There are many other successful SHG experiences in IG, savings and credit from several other Asian countries such as Nepal, Vietnam and Cambodia.

In summary, SHG as the format for savings and credit with the poorest has done very well and on a sustained basis.

The credit needs (of smaller amounts) among the poorest come from almost all members of the group. Such need is not restricted to a few members within. When we asked community members to define who is poor in one of the PRAs, their own definition included "one who is heavily indebted" as one criteria. Hence, all members within a SHG need credit and this holds true in all initiatives that I'm personally familiar with. The purpose of credit is for consumption, emergencies and to start up small-scale IG activities, the latter comes later though. The credit is given to members from the SHG as a loan. It is not the borrowed money from a Bank which is given to its members as credit for consumption, emergencies, etc. However, the rate of interest charged for members is much less than the private money lenders which are the only alternative (for SHG) in a rural area. SHG does not stop with just lending money to its members! The SHG promotes IG, savings and encourages its members to pay back part of the loan on a regular basis. Several IG activities are normally organized which provides income to its members enhancing both savings as well as repayment of borrowed money. The SHG also promotes several other activities such as self-help, visiting its members and discussing their problems, support in activities that they could not have done on a household basis and several other social activities. The end result of all these activities is strengthened group solidarity and further enhancement of group cohesiveness leading to a well-glued group. The poorest members benefit more in terms of credit needs, consumption needs and help in their household activities such as home repair, building sanitation facilities, repair of a road leading to a remote and poor village, for instance. For these reasons, SHG principle works very well with the poorest. In fact, the group approach is considered the only sustainable method in dealing with the poorest.

The SHG adopts special techniques to promote savings for all its members. Even those few poor members who do not yet have a savings culture are encouraged to save as they could see the savings of other members of the group. In my experience, I have seen the people who spend heavily on alcohol (another criterion have become less-addicted to alcohol and have improved savings. Other members who were reliant on their daily income as laborers (without having a regular income) began to start a small business such as selling agricultural items; this helped them to save more as income is more.

In summary, experiences that I'm personally familiar with support SHG as the single approach to IG, savings and credit with the poorest.

It is not possible to analyze the reasons for failure of SHGs in Niger. Need more information to answer the reasons. There could be several reasons as to why this principle did not work. One possibility is that the members were not the poorest but a mixture of poor and non-poor. Hence, the basic composition of the group itself is inappropriate. In such a situation, what Jeff describes (not all members need credit, bigger loan amounts, SHG needed to deposit funds in a bank, etc.) could be quite possible leading to the disintegration of the group, especially the poorest separating the SHG. Another possibility is that loans may have been given pre-maturely, in the sense the SHG itself was not matured enough and the cohesiveness was weak at the time when it began to administer loans. In our cases, large-scale credit was administered only at a time when the SHG is strong with a fat fund. Another possibility being that there may not have been an urge for members to group but grouping was "imposed" from outside. As there was no transparency and understanding among group members, the poor members may have left the group when the non-poor borrowed money at the strength of the group funds for which even the poorest were contributing to. It is also possible that the SHG formation was not backed by specialist advice but a generalist without the best skills in facilitating SHG. It is critical that SHG facilitation is carried out by a specialist and that the support itself needs to be extended over a long period of time which has to be decided only after a thorough review of the strength and the performance of the group. There can be several other reasons as to why the SHG principle did not work in Niger.

Comments are welcome.

Post by: Sebastian Behrle

Dear Jeffrey,

Oxfam's 'Saving for Change' seems to be a promising methodology with populations, which otherwise are difficult to reach.

Especially its simplicity and cost-effectiveness are thrilling to me.

As even SHGs need a record-keeping system (simple, accurate and transparent), and most of these populations have a very low level of formal education, I would be interested to learn more about Oxfam's solution!

My question to you is: Do you see these SHG as a more or less final solution? - Will they be self-sustainable without continued external support? - Will they be sufficient to satisfy their members' needs in the longer term? –

What do you see as the next steps for these SHG?

Best regards and thanks in beforehand

Post by: Jeffrey Ashe

Dear Sebastian,

Vinod Parmeshwar who works with me at the Oxfam Community Finance unit developed an oral record keeping system for Mali that requires no written records. (In Mali virtually all the women group members are illiterate.) The system is a masterpiece of simplicity. Each member only needs to remember whether or not they saved last meeting and the amount and due date of their loan. The accuracy of their memory is checked by the person sitting next to them who remembers these facts for her partner and for herself. Everyone in the group also needs to remember the amount in the cash box as it is locked at the end of the meeting. The first action of the next meeting is to unlock the cash box and count the money to be sure that the amount is the same. This encourages trust and transparency so members save more.

Previous to the end of the cycle all the loans are repaid and the entire fund, savings plus interest plus fines plus the income from group projects is divided into equal piles and distributed to the members. This usually occurs at just before the planning when families are rationing what they eat and need to buy seeds. The only disadvantage of this system is that unlike the VSLA system that uses passbooks, savings that vary from week to week cannot be recorded. An alternative of members agreeing to save shares (multiples of the savings amounts) is used by many groups. A person who saved two shares during the entire cycle would receive two piles of money, for example.

Not only is this system highly accurate and very fast it is highly participatory with all engaged in record keeping rather than just the committee.

Is this a final solution? This is a hard question to answer but in India many SHGs have been functioning for more than a decade and very few of the Saving for Change groups have disbanded. Following the insight from VSLA that the objective is to graduate groups as quickly as possible most groups operate independently in one year with weekly support for about six months scaling down to every other week, every month and every quarter.

Most groups can take care of member needs in three years (if they do not redistribute the funds every year.) Individual that need larger loans can go as individuals to MFIs for larger amounts of capital. Most loans are under $50 with the largest loans around $100 and the smallest $5.

I hope this is useful to you,

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Post by: Jeffrey Ashe

Dear Anura,

Thank you for your comments. With a program as mature as that in Sri Lanka it would be interesting to study what impact this has had at the individual household and village level. The programs you described are much further advanced than ours in Mali and Cambodia where the focus is entirely on individual groups. (The oldest group is less than three years old and with 5,000 villagers per month joining groups the program is still expanding at a rapid clip.) In Mali, however, an alternative form of federation has emerged that overcomes the risks of transparency, fraud and elite capture of the federation model. In Mali federations of ten to 40 meet groups meet monthly with two representatives of each group attending the federation meeting. The Federation is organized as a giant ROSCA with each group contributing $10 to a common pool that is by lot is distributed to one to four groups depending on the size of the federation. (The groups that previously received their payout are not eligible.) In this way the groups receive more for their loan funds (either sooner or later) and because of the nature of the model there is no chance for fraud or elite capture.

I hope this is useful.

Post by: Anura Widana

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Comments are welcome.

Post by: Sebastian Behrle

Dear Jeffrey,

Thanks for your illuminating answer!

The Saving for Change model resembles very much the 'Lin Houai' used by market women in Southeast Asia. They have done this for centuries without external help.

I think Savings for Change can be extremely valuable in demonstrating and creating a culture of saving discipline and mutual trust, which are the basis for economic and institutional development.

My guess would be that in the long run, more sophisticated systems with a broader range of products will evolve, coexisting with and finally replacing the SHG.

It was very interesting to me to read about your (negative) experiences in linking SHGs with MFIs.

That cooperation with a MFI reduces the activity in the SHG seems in a way natural and unavoidable to me. Most people participate in self-help activities because they have no alternative, and leave the work to specialists as soon as this a trustworthy and cost-saving option.

I fear excluding linkages with the formal sector is not the right way. I would opt for helping SHG in overcoming problems in dissymmetry of information and power towards the MFI.

Some of you having experiences with this?

Post by: Jeffrey Ashe

Sebastian,

One of the reasons Saving for Change has spread so quickly is that there are traditional savings and lending mechanisms called collectively ROSCAS - Revolving Savings and Credit Association - in one form or another throughout Africa, Asia and Latin America - that operate under hundreds of different names - tontine, susu, dikuti, vacita, san, soceidad, pasanaqu etc. etc. All these traditions are alive and well in the USA and in New York City most of the immigrant business activity is funded through these mechanisms. What Saving for Change does - and the similar programs run by Pact, CARE, CRS, Plan and thousands of Indian NGOs is to build on an improve on that tradition. The basic differences:

- Elected officer
- Bylaws
- Improved record keeping and transparency
- Pooling of the fund (a sort of nano-credit union) so that members can take out loans when they want in the size they want
- Charging interest on loans to build the loan fund
- Variable savings amounts
- Addition of various educational modules
- Creation of a cadre of trained villagers who form and support new groups
- Etc.
- Significantly, however, Saving for Change is operating very will in Cambodia - 50,000 villagers with an objective of reaching 180,000 in three years - that has no indigenous tradition of village based saving and lending and in El Salvador that also lacks this tradition.

Post by: Sebastian Behrle

Dear Jeffrey,

Thanks for your illuminating answer!

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Some of you having experiences with this?

Post by: Jeffrey Ashe

Nelson,

If the banks out compete the MFIs it is up to the MFIs to seek out new markets that the MFIs are not reaching. The great gift that the MFIs and earlier the NGOs have given the formal financial sector is to show them how to access a market that they never considered reaching before. They need to show their creativity again and show the financial sector how to move further down market.

Post by: Olatunji Nelson Olaniyi

Hi Jeff,

is quite interesting discussing this topic at this our, but there are great problems in here in the sub sahara, using nigeria as example is true the govt. lauched microfinance fund to be administered by the central bank, yet we see most heavy weight banks still contesting keenly in market, instead of playing the supervisory/ advisory role, to the industry, leaving the market for the MFIs. should it be the central's duty to regulate or small and medium scale organization in the country.

DAY 3 SUMMARY

Post by: Brian Beard

Summary of Postings to Speakers Corner Discussion on Poverty Outreach – Day 3: Using Poverty Tools

Thanks again to all of you who participated in this online forum. We had some very good discussions and, as Sue mentioned in her Day 2 summary, we will certainly continue to discuss these issues moving forward.

Here are some of the main themes that emerged from the discussion during Day 3 (the additional postings on Day 4 will be included in the overall summary):

NEW PPP rates from World Bank and what this means for current poverty tools:
Don Sillers pointed out that the US legislation which led to the creation of the USAID Poverty Assessment Tools (PATs) only mentions that they be able to measure the proportion of beneficiaries/clients under $1 a day PPP. Tools have been created to date using the $1.08 PPP extreme poverty line based on 1993 prices. The World Bank recently released new PPP figures based on 2005 prices, and they are much more accurate. Thus, the US Gov't and USAID are working on incorporating these new poverty lines. The updated very poor/extreme poverty line is $1.25 a day PPP, and the updated poverty line is $2.50 a day PPP.

Instead of having a little under a billion very poor, using the old figures, there are 1.4 billion very poor under the new $1.25 a day PPP figures (25.7% of developing world population), and a total of 2.6 billion people under the new $2.50 a day PPP poverty line (47.6% of developing world population).

AID will follow the lead of the World Bank, and will calibrate new tools against the new line, and will recalibrate existing tools to new line, as time permits.

Rob mentioned that the Microcredit Summit is tracking movement across the $1 a day line as one of their goals, and that if the UN adopts the new WB extreme poverty line of $1.25 a day, then they will adjust their goal to match the updated Millennium Development Goal.

Disadvantage of basing USAID funding decisions on self-reported data:
Don Sillers raised the issue of whether the specific requirements of the US legislation are realistic, given the fact that no USAID implementing partners to date have found that they are reaching more than 50% of the very poor. He also warned of the risk of USAID reallocating funding based on self-reported poverty levels. If organizations know that the results of the PAT implementation will directly affect their level of funding, there will be a much greater incentive to misreport the results. And it would be very difficult for USAID to detect such manipulation of the results without spending vast sums of money on audits.

Targeting clients with poverty tools:
Janet from Trickle Up explained that their goal is to work exclusively with those under $1 a day. They use both the PPI and PAT to measure poverty levels of their clients, but have found that with their small sample sizes, the results are not as reliable as they had hoped and they can only get a "picture of poverty" in the aggregate. They use geographic targeting and the poverty wealth ranking tool (a qualitative, relative poverty tool) methods for client selection, and improve their methods if the percentages are low with the poverty tool. Brian pointed out that the accuracy is significantly lower when using a poverty tool at the individual level, and that he prefers not to risk excluding a deserving client by relying on those levels of accuracy. Instead, simple methods can be used to increase the number of very poor clients (such as those mentioned by Janet), and the poverty tool can be used to accurately assess outreach at the group level. Mark Schreiner believes that, even though the accuracy level is of course lower with a sample of one, that individual-level poverty targeting may still be useful, depending on the purpose, alternatives, and cost/benefits of achieving a certain level of accuracy.

To what extent is microcredit effective in helping the very poor?
Kanai feels that the very poor can never generate enough income to repay loans. Jan pointed out that there are some success stories out there, but the data generated by these new poverty tools to date, with lower-than-expected percentages of very poor being reached by MFIs, shows that they are only reaching some of the very poor on the margins. However, programs that provide transfers, training, savings and other services needed by the poorest have been effective in reaching and helping those who are not ready yet to take on the burden of a loan. Alice Brooks agrees with the comment from Day 2 that microfinance is not sufficient to enable the majority of the very poor to improve their situation. But it is important to identify which groups of the very poor can benefit from microfinance programs. Otherwise, some might be lured into taking a loan when they can't make effective use of it.

Importance and effectiveness of savings-led approaches:
Jeff Ashe and others explained how effective savings-led approaches are in reaching the poorest. Jeff gave an example where only a fifth of villagers could productively use a loan, but all needed a safe, convenient and profitable place to save. Thus, savings-led programs tend to have much greater outreach to the very poor. This agrees with a prevalent opinion from the first couple days that savings are one of the necessary components that need to be offered prior to introducing loans to the very poor.

Importance of demand-driven approaches, groups, and adaptation to local context:
A variety of participants believe that effective approaches for reaching the very poor should be demand-driven and adapted to the local context, while also taking into account successes and best practices learned from other programs. Eva said that we need to find out from the clients what products and services they need, as well as consider what is feasible, before confusing the very poor with something they may not be ready for. Community and stakeholder analysis must also include an assessment of their capacity. With creativity and innovation, there are many ways to provide what the very poor need—and group approaches are the best way to do this.

Anura, Jeff and others also emphasized how much more effective groups are in reaching the poorest, especially when the clients have/feel ownership of the groups. Anura mentioned that helping the very poor create their own farmers organization groups in Sri Lanka has proven to be much more sustainable than the program component which trained local individuals to provide ongoing training to local farmers. Jeff cited examples of a PACT program that found that the self-owned groups they had helped form six years earlier were still thriving on their own, and an Oxfam/Freedom From Hunger project that helps people form their own small groups of savers. He strongly believes that training and group formation is a better model for the very poor than trying to start a microfinance institution.

Thanks again to everyone who has been participating in this Speakers Corner. I learned a great deal from all the examples and opinions expressed by all the practitioners out there, and look forward to continuing the discussion through the SEEP Poverty Outreach Working Group, as well as in other venues.

If you want to learn more about the PAT and PPI poverty measurement tools, please look at the websites listed in the intro to this Speakers Corner. Thanks again for the opportunity to help with this lively and informed discourse, let me know if you have any questions about the PAT, and I hope our paths cross in the near future.

Post by: Andukunnel Alexander

Dear Brian,

Many thanks for giving us the summary of the discussion. It is good to know that USAID has taken $ 1.25 as case of extreme poverty. If only this criteria is taken into consideration by all the International Agencies and take into confidence those organizations working for the real needy people!!!

THANK YOU AND STAY TUNED

Post by: Jan Maes

Dear participants,

The facilitated portion of this Speaker's Corner is now over, but you can continue to post new comments and engage in some related events coming up soon. See below for more information!

First, I want to express my deep gratitude to my three co-facilitators, Thierry Van Bastelaer (Save the Children USA), Sue Dorsey (The Friendship Bridge) and Brian Beard (IRIS), three very knowledgeable POWG members. Their willingness to spend so much time and effort to keep this discussion challenging and relevant is much appreciated.

I also want to thank all 102 participants for your interest in this extremely important topic of reaching out to those who are struggling the most and who are still being reached in disproportionate numbers. Your sharing of new experiences and ideas are testament that there is a strong desire among practitioners and donors alike to keep improving and expanding access to appropriate MED services for very poor people.

How can you stay involved and keep sharing your ideas and experiences? Here are a few ways:

1) Keep posting to this forum. We are keeping it open until Monday morning, if you want to add any new insights or examples of your work. Any new information will still be incorporated in a synthesis document that we will be preparing within the next two weeks and which we will send to all of you.

2)During the upcoming SEEP Network's Annual Conference (November 4-7) a Plenary Session will address "Microenterprise Development vs. Poverty Outreach" from 3 to 5 PM on November 5. Register now: http://www.seepnetwork.org/conference/register.html

3) If you are interested about the issues The SEEP Network's Poverty Outreach Working Group is tackling, please contact me directly. Your contributions to this forum will be used to help us set our agenda for the future.

Best wishes to all of you,

Jan Maes

Facilitator, The SEEP Network Poverty Outreach Working Group

ANSWERS TO QUESTIONS: SHG MODE IN MF

Post by: Anura Widana

Hi Susan, I've tried to answer in the attached note some of the issues you raised with regard to SHGs in your summary for Day 2. The note also includes the relevant issues as raised by Jan and others. Hope it helps you and others!

CLOSING NOTE

Post by: Anna Van der Heijden

Dear Participants,

After a final round of postings over the weekend, this Speaker's Corner has indeed come to a close. The 111 participants in this online dialogue came from 27 countries, and together shared 156 messages on the topic of poverty outreach.

I would like to thank you all for your participation and also especially thank the host and facilitators Jan Maes (facilitator of The SEEP Network Poverty Outreach Working Group), Thierry van Bastelaer (Save the Children), Sue Dorsey (Friendship Bridge), and Brian Beard (IRIS), for working so hard in the forum and behind the scenes to make this the most productive and useful discussion for you.

As Jan mentioned, a synthesis document of this discussion will be shared with you shortly, and we will also have ready next week a compilation document that includes all the messages posted in this event. You can continue to visit the main Speaker's Corner page at www.microlinks.org/sc/povertyoutreach to access the resources shared by the facilitators and participants, including the Group approach to micro finance and poverty reduction document shared over the weekend by Anura Widana.

Please do e-mail me with feedback on this discussion, and stay tuned for future microLINKS events. To receive updates on those, consider joining the monthly Connections newsletter. www.microlinks.org/connections.

Best,
Anna van der Heijden
microLINKS team

Note: The synthesis document from this discussion is available at www.microlinks.org/sc/povertyoutreach.

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