The SEEP NETWORK

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Integrating Poverty Assessment into Client Assessment

Abstract

Microfinance institutions can improve performance by collecting and analyzing information about the poverty level of their clients. Comparing poverty measures with other client assessment information leads to better marketing, targeting, and assessment of financial products.

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and

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Introduction

Microfinance institutions (MFIs) applying for U.S. Agency for International Development (USAID) funding soon will have to demonstrate that they target the very poor. Such a demonstration will require MFIs to perform poverty assessments, classifying the poverty level of their clients and monitoring changes in their poverty status.

Beyond this requirement, however, information about the poverty status of clients has many other uses. It should serve as a vital part of overall client assessment. Although gathering and analyzing the poverty information may present new challenges to staff, integrating poverty assessment into client assessment can help MFIs better market and target their financial products, assess the impact of programs, and solicit donor funds and social investment.

Background

The Microenterprise for Self-Reliance Act, as amended in 2003, mandates that at least 50 percent of all resources granted by USAID for microenterprise and microfinance be targeted to the *very poor*. The Act defines the very poor as either (1) those living in the bottom 50 percent of those below the national poverty line established by the national government of the country in which those individuals live, or (2) those living on the equivalent of less than $1 per day (adjusted for purchasing power parities).

To monitor whether USAID is meeting this requirement, Congress requires the agency to report on the poverty levels of the clients reached by MFIs receiving USAID funding support. In compliance with this requirement, over the next two years USAID will fund and support action research to develop, test, and validate tools for assessing the poverty levels of current or prospective MFI clients. By October 1, 2004, USAID will certify no fewer than two poverty assessment tools. By October 1, 2005, USAID will require that all organizations applying to it for microenterprise assistance demonstrate their poverty outreach using one of the certified poverty assessment tools. The Microenterprise for Self-Reliance Act and the USAID poverty assessment initiative exist for the narrow purpose of assessing the poverty status of clients for demonstrating poverty outreach as a precondition of receiving USAID funding support. Poverty assessment within the legislatively mandated language of the USAID poverty assessment initiative will identify *only whether* and *to what extent* very poor people are

participating in microfinance programs. This objective, however, does not investigate whether microfinance programs produce the desired socioeconomic benefits to the very poor. If MFIs adopting USAID-certified poverty assessment tools limit their use to such a narrow purpose, the industry will have missed a unique opportunity to move the practice of client assessment significantly ahead.

Poverty Assessment as Sound Practice

For MFIs with a mission of poverty alleviation, poverty assessment constitutes *sound* microfinance practice on at least three grounds. First, poverty assessment is sound marketing. Good marketers clearly define, measure, and target their core market segments. Next, they monitor their targeting effectiveness and the extent to which the products or services meet the needs and wants of their core market segments. Good marketers also understand that markets are dynamic and that effective targeting and continued value creation require constant, or at least periodic, vigilance.

Second, poverty assessment is an integral component of sound impact assessment for poverty-focused MFIs. Many impact indicators (such as household income, household expenditures, asset acquisition, enterprise returns, or female empowerment) are intended as proxies for poverty.[1] The lack of validation studies on the different poverty proxies, however, casts doubt on the extent to which the proxies actually capture the levels and changes in poverty. If it were possible to capture levels and changes in poverty using empirically validated *and* cost-effective methods, then MFIs should choose these over nonvalidated methods.

Third, many MFIs solicit donor funds or social investment with the explicit claim that their programs target very poor borrowers and that the funds will alleviate poverty among this socioeconomic group. By taking the money of donors for the express purpose of reaching the very poor, the MFI is obligated to provide an honest and open accounting of its accomplishments.

Using Information on Clients' Poverty Status

How can MFIs use information on clients' poverty status to pursue other objectives? We see three principal uses for this information:

1. **Client Targeting**. This process identifies and selects very poor people from the whole population to receive microfinance services. This proactive method of marketing to very poor people focuses on cases in which MFIs seek to reach high levels of market penetration among the very poor.
2. **Client Screening**. This process excludes non-poor people from the program. The screening is akin to a passive form of targeting. Instead of identifying and actively marketing to the target market segment, the program culls the very poor from the non-poor at the point of entry into the program.
3. **Client Assessment**. This process uses poverty information to assess levels and changes in clients' poverty status to measure program impact, monitor organization or client performance, or conduct market research.

Now we will focus on how to integrate information on clients' poverty level within a more general system of client assessment. MFIs must think carefully about how they will use the poverty data; otherwise, they may collect too much data and may not know what to do with the data once collected. A common theme emerging from The SEEP Network's Client Assessment Working Group's (CAWG's) Imp-Act Research Project was project participants struggling with how to analyze and use data.[2]

We contend that, rather than capturing a one-off snapshot of poverty, MFIs should regularly collect information about the poverty status of all their new clients. Such data enables MFIs to measure the effectiveness of their targeting and assess a number of operational questions. We suggest two broad approaches.

1. **Analyze operational and client performance**. This includes poverty as a variable. By including poverty measures in the management information system (MIS) data for all clients, it is possible to analyze patterns across the organization or disaggregate them by factors such as area, branch, loan officer, loan product, or business type. Comparing the poverty measure with other client data (such as age, sex, marital status, business type, loan amount, or savings amount) can provide useful operational information.
2. **Monitor changes in client status**. A client monitoring system would include baseline

information for (a) monitoring changes in client status, and (b) conducting followup surveys or assessments. Although the USAID mandate does not include these objectives, each is critical to making poverty monitoring useful to MFIs.

As an example of the first approach, assume that an MFI has collected the client information found in Table 1. This information can be analyzed to assess numerous operational questions. For example, one of the authors with NIRDHAN (an MFI in Nepal and a participant in the CIWG Imp-Act Project) used client information of the type in Table 1 to analyze the questions in Box 1.

Table 1. Client Information Collected by MFI

Operational Performance	Operational Input Variables	Client Status and Output Variables
• Client dropout • Growth in average loan size • Arrears	• Area • Branch • Loan officer • Loan cycle • Loan size (cumulative loan amounts, increase in loan size) • Loan use • Combinations of loans	• Poverty score • Housing score • Land score • Living standard ranking • Savings (amount, regularity) • Food ranking • Attendance • Age of clients • Household size • Marital status • Education ranking (boys/girls) • Loan use

Box 1. Operational Questions Analyzed by MFI

- Are there differences in performance among branches?
- Are there differences in performance among field assistants?
- Are there differences in performance depending on the time of year a loan is given?
- Are there differences in performance based on the total amount of money dispersed?
- Are there differences in performance based on loan size?
- Are there differences in performance based on combinations of different loans?
- Are there differences in performance based on increases in loan size?
- Are there differences in performance depending on household size?
- Are there differences in performance depending on the client's age?
- Are there differences in performance depending on marital status?
- What are the patterns of client dropout?
- What are the patterns of branches with low arrears?
- What are the patterns of clients who are performing well in terms of financial performance?
- What are the patterns of clients who are performing well in terms of impact?
- What are the patterns of branches or staff that are performing well?

In our experience, operational monitoring of clients' poverty status and clients' ability to do the type of analysis described here is better performed with a client census than with a client sample, particularly once the analysis is broken down at the level of individual loan officers or villages. We recognize that using a census rather than a sample will inevitably raise the complexity and costs of the methodology, and influence which tools are appropriate.[3] On the other hand, a client sample is sufficient for a snapshot or periodic assessment.

As an example of the second approach, Table 2 shows a hypothetical case in which an MFI categorizes clients into three poverty categories: Lower Poverty, Middle Poverty, and Higher Poverty. Staff members classify clients into one of these three groups when the clients

first join the program, at regular periods thereafter, and on leaving. The MFI then monitors the distribution of clients in each category through cross-tabulation against other routinely collected data (such as group, area, name of field officer, branch, gender of client, age of client, age of group, and length of membership of group). The MFI can then generate most useful cross-tabulations routinely and monitor changes over time. The differences between the categories should facilitate thinking about how to match financial products to client characteristics. For example, an organization might emphasize its role in providing either protectional finance (that is, stopping clients falling from A to B, or from B to C) or promotional finance (that is, helping them rise from C to B, or from B to A).

Table 2. Possible Framework for Classifying Clients' Poverty Status

	A. Higher Poverty	B. Middle Poverty	C. Lower Poverty
Labor market participation	Casual and/or unskilled employment; limited formal education	Limited employment, but secure claims on other household members with stable employment	Stable, salaried employment or good employment prospects
Physical assets	Very few—hand-to-mouth existence	Some—including household goods and business capital	Diverse—especially own dwelling
Savings and credit	Unbanked; reliant on informal services	Maybe a savings account; but saving has a high opportunity cost	Direct access to regulated savings and credit services
Social and cultural resources	Dependent on informal sources of patronage as security against shocks, often on exploitative terms	Intermediate—scope for diversification away from dependence on a single patron	Diversified social networks; forms of security against shocks
Vulnerability	Medium/high—but at cost of losing autonomy ("security through servitude")	High—overwhelming fear of falling back into low group (e.g., through separation or illness)	Low—diversified portfolio of resources through which to manage shocks

Table 3 continues the example by showing a mobility matrix comparing changes in client categorization over a one-year period. Table 3, which shows percentages of all clients present in Period 1, reveals the following information:

- Client exit was 12 percent over the year, but new entry was 10 percent of the base-year number. Hence, a small net decrease in breadth of outreach occurred.
- Those leaving and entering were in the Lower and Middle Poverty categories.
- Of those clients in both periods, 56 percent remained in the same poverty category, whereas 25 percent improved and 10 percent moved down one poverty category.

Measuring or monitoring changes in client status does not by itself lead to conclusions about impact. A further step must examine the reasons for these changes.

Table 3. Illustrative Monitoring Report Based on Client Poverty Status

Percent of Clients Present in Period 1		Distribution of Clients by Category in Period 2				
		A. Higher	B. Middle	C. Lower	*Exited*	*Totals*
Distribution of clients by category in Period 1	Higher	15	5	0	0	20
	Middle	15	26	5	4	50
	Lower	0	10	15	5	30
	New	0	6	4	0	10
	Totals	30	47	24	9	110

Caveats

When integrating poverty assessment within a broader system of client assessment using USAID-validated poverty measures, several difficulties may occur.

1. Developing cost-effective poverty assessment tools is a *huge* job in itself. Integrating poverty assessment into a larger system of client assessment might make sense conceptually, but it might create a distraction that could compromise an already difficult project.

2. The purpose of poverty assessment can be different from that of client assessment, especially when the institutional objectives of the MFI do not emphasize poverty alleviation. Only MFIs with poverty alleviation as an explicit institutional objective need to integrate poverty measures into a system of client assessment.

3. MFIs should avoid a "best practice trap" of enshrining a small set of poverty measures at the expense of other poverty measures that might be better suited to an MFI's environmental or institutional context.

4. Poverty measures that satisfy externally imposed standards of "validity" may prove overly complicated for smaller or otherwise constrained MFIs to adopt.

5. Compliance with the poverty measures, if audited, can help reduce the fog, cost, and inconsistency of current performance assessment and resource allocation. If not audited, however, the measures can set up a conflict between better performance and *appearance* of better performance.

Examples of MFIs Successfully Integrating Poverty Assessment with Client Assessment

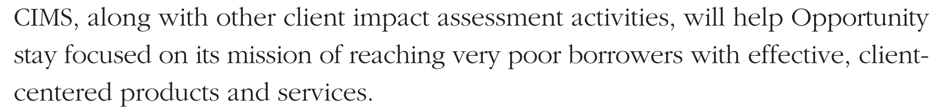
The success stories of several MFIs that have already begun integrating poverty assessment with client assessment follow.

Lift Above Poverty Organization (LAPO) in Nigeria collects information from all new clients in a means test, which gives a poverty score for each client. LAPO then uses the means test as baseline information for followup surveys and for impact monitoring integrated into LAPO's MIS, which in turn computes a poverty score for each client on each loan cycle. The organization can analyze the poverty score through the MIS to look for patterns in institutional and client performance that may correlate to poverty status. It can also use the score to assess changes in client poverty status and impact.

CETZAM, an Opportunity International partner in Zambia, implemented an impact monitoring system from which it learned that new clients were on average poorer and less educated on program entry than were mature clients on program entry. CETZAM conducted a followup survey on a sample of new clients and found that new clients tended to operate smaller businesses and thus had smaller loan absorptive capacity than mature clients when they entered the program. Management consequently improved loan officers' training to improve their ability to determine initial loan sizes and to form groups. This process produced a drop in the initial loan size and a slower growth rate in loan sizes among new clients.

The Bridge Foundation (TBF), an Opportunity International partner in India, started its program by giving loans to individuals in urban areas with a focus on creating job opportunities for the very poor through "labor intensive projects." After reviewing impact data it had collected, TBF found that its borrowers tended to employ skilled people not belonging to the very poor. Consequently, TBF shifted its program focus to raising levels of family income among the very poor through "family projects." Furthermore, TBF moved its program from urban areas to rural areas. Now most of its clients hail from interior villages in the four southern states of India.

Opportunity International has recently embarked on an ambitious project to develop a Common Impact Monitoring System (CIMS) based on its experience with client assessment in Zambia, India, and elsewhere. CIMS, which is to be integrated into Opportunity's network-wide MIS, includes indicators to assess Opportunity's vision of holistic transformation (economic, social, and spiritual), client satisfaction, client retention, and poverty outreach. Opportunity is testing CIMS and refining the system for introduction throughout its network in 2003.


CIMS, along with other client impact assessment activities, will help Opportunity stay focused on its mission of reaching very poor borrowers with effective, client-centered products and services.

Conclusion

Integrating poverty assessment with client assessment takes organizational commitment, money, careful planning and implementation, skill, and an institutional willingness to learn from mistakes. We acknowledge that these attributes exist to a greater degree at some MFIs than at others. For this reason, we emphasize that any MFI deciding to undertake the task begin with a simple system and only increase the system's complexity over time commensurate with changes in the organization's commitment, resources, and skills.

Notes

[1] MFIs use proxies instead of measures of poverty itself because directly measuring poverty according to official definitions and using appropriately rigorous methodologies are, in practice, too difficult and too costly for some MFIs.

[2] The Client Assessment Working Group received funding from Imp-Act to carry out action research examining the dynamic changes over time in the institutionalization of client assessment processes in a sample of 17 microfinance institutions from Latin America, Africa, Asia, Eastern Europe, and the Newly Independent States.

[3] We also recognize that not all MFIs are capable of collecting and analyzing a client census, in which case, a client sample is acceptable. We do not recommend that any MFI undertake assessment activities for which they lack the resources or skills to implement successfully.

Reference

Woller, Gary. 2002. The promise and peril of microfinance commercialization. *Small Enterprise Development Journal* 13 (4): 12–21.

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