

Targeting the Poorest in Microfinance: Poverty Outreach of BDP Ultra Poor Programme

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FOREWORD

Over a quarter of Bangladesh's people live in extreme poverty, not being able to meet even the barest of the basic needs. They spend most of their meagre, unreliable earnings on food and yet fail to fulfil the minimum calorie intake needed to stave off malnutrition. They are consequently in frequent poor health causing further drain on their meagre resources due to loss of income and health expenses. More often than not, the extreme poor are invisible even in their own communities, living on other peoples' land, having no one to speak up for them or assist them in ensuring their rights. Extreme poverty also has a clear gendered face – they are mostly women who are dispossessed widows, and abandoned.

The extreme poor are thus caught in a vicious trap and the story of denial and injustices tend to continue over generations for a large majority of them. Thus, a vast majority of the extreme poor in Bangladesh are chronically so. The constraints they face in escaping extreme poverty are interlocked in ways that are different from those who are moderately poor. This challenges us to rethink our existing development strategies and interventions for the extreme poor, and come up with better ones that work for them. This is the challenge that drove BRAC to initiate an experimental programme since 2002 called, 'Challenging the Frontiers of Poverty Reduction: Targeting the Ultra Poor' programme. The idea to address the constraints that they face in asset building, in improving their health, in educating their children, in getting their voices heard, in a comprehensive manner so that they too can aspire, plan, and inch their way out of poverty.

The extreme poor have not only been bypassed by most development programmes, but also by mainstream development research. We need to know much more about their lives, struggles, and lived experiences. We need to understand better why such extreme poverty persists for so many of them for so long, often over generations. Without such knowledge, we cannot stand by their side and help in their struggles to overcome their state.

I am pleased that BRAC's Research and Evaluation Division has taken up the challenge of beginning to address some of these development knowledge gaps through serious research and reflection. In order to share the findings from research on extreme poverty, the 'CFPR/TUP Research Working Paper Series' has been initiated. This is being funded by CIDA through the 'BRAC-Aga Khan Foundation Canada Learning Partnership for CFPR/TUP' project. I thank CIDA and AKFC for supporting the dissemination of our research on extreme poverty.

I hope this working paper series will benefit development academics, researchers, and practitioners in not only gaining more knowledge but also in inspiring actions against extreme poverty in Bangladesh and elsewhere.

Fazle Hasan Abed
Chairperson, BRAC

Targeting the Poorest in Microfinance: Poverty Outreach of BDP Ultra Poor Programme

ABSTRACT

Despite the general consensus that microfinance does not reach the poorest; recent evidence suggests that nearly 15% of microfinance clients in Bangladesh are among the poorest. It is from the realization that even within the existing microfinance membership of BRAC, there is a significant percentage of the poorest; the CFPR-TUP programme has included a special focus on this segment of the poor what it calls the 'BDP ultra poor'. So, BDP ultra poor are those struggling members of existing village organization (VO) or very poor households in a village who with some additional support can more fully participate and benefit from microfinance services. This study attempts to assess the targeting effectiveness of the BDP ultra poor programme by measuring relative poverty of BDP ultra poor. A total of 1,339 households were surveyed from 30 area offices consisting of BDP ultra poor, VO members and non-VO members. Findings show that 46% of BDP ultra poor households belong to the poorest quartile and most of the remaining BDP ultra poor households belong to moderate poor quartile that suggests the programme is being able to concentrate on the target population. It was also found that the current focus on BDP ultra poor targeting is on the poorer VO members since majority of BDP ultra poor households was selected from existing BRAC microfinance VOs. To improve targeting effectiveness of BDP ultra poor package further, the focus will have to be on the poorest households outside the VOs most of whom have never participated in any microfinance programmes and possessed extremely low poverty score.

INTRODUCTION

The issue of targeting ultra poor in microfinance programme arises because their participation in microfinance has consistently been less than desired. Fruttero and Varun (2003) showed that microfinance institutions (MFI) in Bangladesh have the highest concentration among the second poorest quintile group and the lowest among the bottom quintile. The underlying reasons are that the MFIs have extensively focused on sustainability and the ultra poor have excluded themselves since they did not find the programme suitable for them. That is why some MFIs especially designed their programmes and adopted targeting tools to reach the very poor (Hickson 1997, Wright 2000). Even with targeting practices, there is a possibility of “mission creeping”, the tendency of focusing to the top of the targeted clientele (Morduch and Haley 2001).

There are two approaches to make microfinance meaningful for the very poor – making microfinance more poorest friendly and ladder for the poorest to bring them to microfinance. The approach of reengineering microfinance itself has been predominantly focused on financial products (making them more flexible and risk responsive; and emphasis on savings). In the ladder approach different types of safety net programmes have been designed. Adoption of a particular approach or a mix of approaches has to consider the requirements of the ultra poor. Among the ultra poor of Bangladesh, the participants and never participants in microfinance are qualitatively different groups (Matin 2005). While designing appropriate product might be good enough for a good portion of the unserved ultra poor, the already participant ultra poor would require changes in services to sustain participation. However, people at the very bottom would need livelihood support to make an immediate push and access to appropriate

microfinance services to make that improvement sustainable.

Despite the recognition that the poorest need greater flexibility in the financial services, till date there has not been any such innovation that can successfully address their needs in a large scale. Moreover, greater flexibility increases the operational cost and failure of ‘subsidized microfinance’ has the possibility of generating wastage. Probably the approach of ‘microfinance only’ is not appropriate for the very poor. Over the years, various operational methods of combining the two approaches have emerged (Hashemi and Rosenberg 2006). Some safety net programmes are designed with basic financial service provisions. On the other hand, some MFIs are including services like skill-building and basic healthcare in the financial service package to make it more pro-ultra poor. BDP ultra poor programme of BRAC is one such initiative of the later variety.

Differences in approach for particular groups would have implication on the targeting mechanism and rigorousness of the programme. Measures to reach the poor can be classified in different ways - targeting by *activity* such as primary healthcare and education; targeting by *indicators* such as lack, or size of, ownership of land, form of dwelling, and sex of family head; targeting by *location* or geographical targeting; and targeting by *self-selection* such as employment creation where payment is either cash or kind, subsidization of low quality food stuffs (Weiss 2005). While ‘microfinance with safety net’ programmes would require quite substantial targeting because of their high cost, ‘microfinance packaging’ should be able to use self-targeting if the package is ‘right’.

Empirical evidence shows that the government and MFIs sometimes fail to reach the very poor with certain packages (Weiss, Zeller *et al.* 2002). Targeting failure occurs when non-target households are included and/or target households are excluded. Relying on self-targeting only can be spurious if the programme officials consider them as riskier. Moreover, when the package includes subsidies, some basic targeting mechanism can reduce leakage at substantial amount. Therefore, BRAC uses a simple targeting procedure in its BDP ultra poor programme. The objective of this study is to look at the targeting effectiveness of this programme.

There are three principal methods of measuring targeting efficiency or extent of

poverty outreach, which are i) household expenditure analysis and consumption of a poverty line, ii) rapid appraisal or participatory appraisal methods, and iii) indicator analysis, using an index of relative poverty. Consultative group to assist the poor (CGAP) developed a poverty assessment tool, which is simple and cost effective. Other methods of poverty assessment are not feasible due to too costly, time consuming, cumbersome or poverty assessment cannot be compared regionally, nationally and internationally (Henry *et al.* 2003). In this study, principal component analysis (PCA) method has been applied to measure relative poverty status of the beneficiaries of BDP ultra poor programme.

BDP ULTRA POOR PROGRAMME

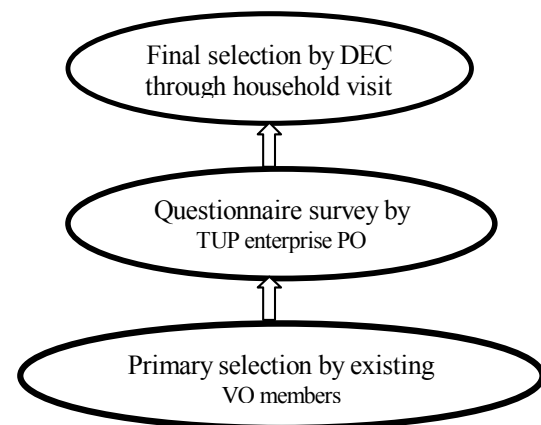
Realizing that even within the existing microfinance membership of BRAC, there is a significant percentage of the poorest; the CFPR-TUP programme has included a special focus on what it calls the 'BDP ultra poor'. The BDP ultra poor are those struggling members of existing village organization (VO) or very poor households in a village who with some additional support can participate more meaningfully and benefit from microfinance services. This initiative draws from the learning that the quality of microfinance participation of the ultra poor and other groups are quite different (Matin 2005). The ultra poor participants are less likely to take credit and more likely to dropout from the programme.

Since the BDP ultra poor women are selected either from within or outside the VO; VO members in general and the VO leader specifically plays crucial role to identify the ultra poor women from her microfinance VO or from the locality. In the second step, some households are screened out by selection criteria. There are five criteria of which at least four have to be met. These are i) households with less than 30 decimal of land, ii) female-headed households, iii) women with disabled husbands, iv) widow, deserted/abandoned, separated or divorced women, and v) households dependent upon seasonal wage employment. The local programme organizers (PO) collect this information using a simple questionnaire on those who are primarily selected by the VO member. Finally, district enterprise coordinator (DEC) selects the BDP ultra poor households through visiting each and every household. A bottom up selection process is followed by the programme may leave scope of community participation and thereby enhance the credibility of the programme. Selection process is shown in Figure 1. It should be mentioned that there are different programmes for the ultra poor being implemented by BRAC simultaneously such as

Income Generation for Vulnerable Group Development (IGVGD) and Specially Targeted Ultra Poor (STUP). Since these programmes use spatial targeting to some extent, the ultra poor from the less poor areas are being excluded. Therefore, areas where the operational size of vulnerable group development (VGD) programme is relatively lower, receive greater emphasis of the BDP ultra poor programme.

Thus, selected BDP ultra poor women participate in the village organizations to receive microfinance service and enterprise training. Credit and training are two key components of the programme as the poorest programme participants are unable to take full advantage of credit services due to lack of confidence, inadequate technical know-how and insufficient knowledge on enterprise operation. To address this problem, the CFPR-TUP programme arranges a range of training programmes for them on livestock rearing and small trading. The programme staff organize three-day enterprise development training and monthly refreshers for the BDP ultra poor. During 2005, 160,000 BDP ultra poor members received skill development training on different enterprises

Figure 1. BDP ultra poor selection process



(BRAC 2006). More than 250,000 BDP ultra poor received skill development training on different income generating activities so far.

In 2006 a major scaling up of the BDP-UP programme will take place and 350,000 BDP ultra poor women (58% of the total target in the 5-year phase of 2002-2006) would be covered from 40 districts through 684 area offices (BRAC 2006a). Moreover, the beneficiaries of 2006 will also receive free medical treatment and free medicine. Since the ultra poor are exceedingly dependent on their labour and very low demand for basic healthcare services, giving some basic curative

health services will reduce their vulnerability of income losses. The BDP ultra poor, therefore, can get medical suggestions from a doctor at the BRAC office premise at BRAC's cost. Since they often cannot afford to purchase medicine and take fewer dosage than prescribed, BRAC would also provide medicine which cost up to Tk. 200. The scaling up and enhanced subsidized component of the programme makes the question of effective targeting an important one. This study attempts to assess the targeting effectiveness of the BDP ultra poor programme measuring the relative poverty of the BDP ultra poor.

METHODOLOGY

BDP ultra poor selection in 2006 started at the same time in all area offices in January. Data were collected during March 2006 in 3 stage stratified sampling procedure. Initially 30 area offices including 12 branches were randomly selected from 684 operating areas. Two VOs were randomly selected from each area or branch office. However, those VOs where programme intervention (i.e. providing training, loan disbursement) was already made were omitted to avoid any spill over programme impact on new BDP ultra poor households. Then a comprehensive list of all households around each

VO was prepared for sampling frame. The listed households were classified into three categories - BDP ultra poor members, VO members and non-VO members. All BDP ultra poor households were surveyed from each VO area. Twice the number of BDP ultra poor were surveyed from general population (VO and non-VO members together). VO and non-VO members were proportionately sampled from each VO for survey. In this way, 445 BDP ultra poor, 310 VO members and 584 non-VO members were surveyed for this study.

COMPARISON BETWEEN HOUSEHOLD CATEGORIES

Before constructing an index of relative poverty, it is useful to have a description of the different types of households. Table 1 shows that BDP ultra poor households were significantly poorer than BRAC VO members and non-VO members. The percentage of female headship was higher in BDP ultra poor households. It is because the programme targets female-headed households, which is one of selection criteria. The percentage of divorced, separated or widowed women was significantly higher in the BDP ultra poor households compared to other two groups suggesting the vulnerability of this group. The number of adult female income earner is more in the BDP ultra poor households compared to the rest two groups suggesting that BDP ultra poor women have to go outside to engage themselves with economic activities. However, higher number of adult female income earner in the BDP ultra poor households does not necessarily mean the higher amount of income due to quality of work and discriminatory wage rate (Saha and Shahabuddin 2006). Moreover, participation of female in wage labour in rural areas is a reflection of lower

socioeconomic status. On other hand, fewer number of adult male income earner was BDP ultra poor households compared to VO households suggesting economic vulnerability of BDP ultra poor households.

Two-third of the BDP ultra poor households own the land of their residence which is higher among the other two groups. No significant difference is observed between BDP ultra poor and VO households in respect of having electricity connection unlike non-VO households that implies a higher status of this group. The size of land owned by the BDP ultra poor households is significantly less than that of remaining two categories, which is also a selection criterion i.e. household with less than 30 decimal of land. The value of asset of BDP ultra poor households is significantly less than VO and non-VO households suggesting asset vulnerability of the BDP ultra poor. Eighty-seven percent of those BDP ultra poor households having current membership with MFIs are engaged with BRAC. Three percent of VO members not participating in MFI are the

Table 1. Profile of different household categories

Variable	BDP ultra	VO	Non-VO	Differences		
	poor [A]	member [B]	members [C]	[A-B]	[A-C]	[B-C]
Female headed household (%)	21	8	6	***	***	
Divorced, separated or widow (%)	23	9	7	***	***	
Average household size	4.19	4.82	4.61	***	***	
Number of adult income earner per household	1.52	1.65	1.47	**		***
No. of adult female income earner per household	0.47	0.31	0.17	***	***	***
Number of adult male income earner per household	1.05	1.34	1.29	***	***	
Number of children per household	1.55	1.79	1.61	**		**
Average size of the main living room (square feet)	195	227	251	***	***	**
Household owning the house of residence (%)	84	88	90		***	
Household owning the land of residence (%)	67	75	80	**	***	
Household having electricity connection (%)	25	31	38		***	**
Average amount of land owned (decimal)	22	34	69	**	***	***
Average value of household asset (Tk.)	7,529	13,667	18,632	***	***	**
Household having current MFI membership (%)	67	97	31	***	***	***

Note: **, *** signifies significance at 5% and 1% level respectively.

members who have dropped out of the programme and are in the process of being officially considered as “inactive”. NGO participation of the non-VO members seems to be underreported because of the combination of expectation and fear that those with microfinance involvement would not qualify for some possible benefits.

Poverty dynamics of different household categories

Poverty dynamics generally refer to the entry and exit out of poverty though there are movements both above and below any poverty line. We included this issue in this study to look at whether the programme is reaching the descending households. Five different trajectories were identified and the households were asked to identify their

own trajectory since the formation of their household (Table 2).

These trajectories give a broad long-term trend in the well-being of the households as perceived by themselves. Sixty-five percent of the BDP ultra poor households reported either worsening or stagnant condition, which is one and half times higher than the other two groups. In contrast, 59% of VO and 55% of non-VO households reported ‘improving’ status. These differences may have emerged because of a) bypassing the descending households by the microfinance programme and b) impact of microfinance participation of the two groups. Relatively lower prevalence of reporting ‘improvement’ among the BDP ultra poor is probably reflecting both of these two patterns.

Table 2. Trajectories of changes in the household status

How has your overall household condition changed since formation?	BDP ultra poor	VO members	Non-VO members	All
Has been improving	56 (13)	86 (28)	140 (24)	282 (21)
Deteriorated but now improving	97 (22)	95 (31)	182 (31)	374 (28)
Remaining the same	116 (26)	63 (20)	140 (24)	319 (24)
Improved but now worsening	87 (19)	50 (16)	84 (14)	221 (16)
Has been worsening	89 (20)	16 (5)	38 (7)	143 (11)

Note: Figures in the parentheses are the percentages of each column.

CONSTRUCTING A POVERTY INDEX

In the previous section we have seen the BDP ultra poor households are poorer and more disadvantaged than general population (VO and non-VO households) in terms of their poverty profile. But it does not clearly express whether the programme reaches the poorest or the extent of poverty outreach. Developing a poverty index is important for two reasons. Firstly, individual indicator is neither necessary nor sufficient for a household being the poorest. Secondly and more importantly, disadvantage at two or more spaces is not equivalent to disadvantage in one space (Sulaiman and Matin 2006). Therefore, the CGAP tool has been used for constructing a poverty index in this study.

Benchmark indicator

Construction of a poverty index as designed by CGAP starts with screening the wide range of indicators based on their correlation with a benchmark indicator. Per capita expenditure on clothing and footwear has been used as the benchmark indicator to construct the poverty index. It is a proxy for the total household expenditure and thereby poverty status of the households used in different other studies. The evidence also shows that the correlation between per capita clothing and footwear expenditure, and total consumption expenditure per month by per capita is exponentially high (0.932) derived from Household Income and Expenditure Survey of Bangladesh (Sulaiman and Matin 2006). Therefore, per capita expenditure on clothing and footwear as a benchmark indicator is acceptable for constructing a poverty index.

Selection of indicators for the poverty index

A large number of indicators were initially considered aimed to construct a poverty index. These indicators include demographic characteri-

stics, health and education status, housing condition, ownership of different household assets, ownership of land, extent of food security, expenditure pattern on clothing and footwear. Self-perception of poverty was used to examine the reliability of poverty index. The indicators with significant relationships with the benchmark are reported in Annex 1. It is recommended that 10 to 20 variables be used to create the poverty index (Henry *et al.* 2003). The linear correlation coefficient is the primary means of filtering indicators based on degree of association of variables with the benchmark. It also suggests their reliability and consistency as poverty indicators.

In the demographic characteristics, number of children has the highest inverse association with the benchmark indicator (per capita expenditure on clothing and footwear) suggesting households with higher dependents are poor. Significant inverse relationship between number of household member and the benchmark also indicates that the larger households are relatively poor. Education of household head has significant positive association with the benchmark, which is relevant to poverty. Number of adult income earner is negatively correlated with the benchmark. This can also be fact that that households with more earning members are the ones where members are involved in low-skilled low-return work and a larger portion of income may be spent on food items. The material of the main living room has the highest association with the benchmark among housing characteristics. Overall housing condition observed by the interviewer is also highly correlated with the benchmark. Ownership of land of residence is more important indicator than owning residence even though the homestead land is not their own. Because rural people tend to own the land of residence. Per capita expenditure on clothing and footwear has a stronger relationship

with the amount of cultivable land than homestead land. It suggests that productive land is more important than non-productive land to the vulnerable poor people in the rural area. Among the different kinds of household assets, monetary value of furniture (dominated by chair, table and cot) has strong relationship with the benchmark. The value of livestock including poultry birds has relatively weaker relationship with the benchmark indicator suggesting that households tend to rear livestock irrespective of their poverty status.

The benchmark indicator has a stronger relationship with the value of television than other electronic goods. It might be due to lack of or a few ownership of these luxury products i.e. only 14% of total households. The value of rickshaw and van has weaker and inverse relationship with the benchmark indicator that does not exhibit the real picture as only 14% own rickshaws/vans. In the food security related issues, sufficiency of food intake all the year round and seasonal food insecurity have strong association with the per capita clothing and footwear expenditure. Among luxury food items, frequency of intake of egg has the highest association with the benchmark. Clothing and footwear security has relatively greater extent of association with benchmark indicator. In the financial stability issues, crisis coping ability of the households is more important indicator than self perceived annual financial position of the household.

Using principal component analysis to formulate an index

Four steps have been followed for constructing a poverty index using the Principal Component Analysis (PCA) model. These are a) selection of a screened group of variables highly correlated with the benchmark indicator, b) running a test model, c) revision the model following trial and error until meet the performance requirements, and d) creating poverty index for each and every household from the final model. Different combinations of items from all the household attributes such as demography, housing, ownership of land, food consumption and financial strength have been included in the trial version so that the final poverty index does not bias towards any particular aspects of household well-being. The trial version included only the general population, which includes both BRAC VO members and non-VO members. Around 20-25 indicators that are highly associated with the benchmark have been used in the trial versions. Omissions and inclusions of the indicators were done to improve explanation power and consistency of the poverty index. The final model includes 14 indicators from different household poverty attribute domains though food consumption has slightly higher representation in the model (Table 3). Two components have been extracted. Other components have been omitted, as minimum Eigen value of 1 is used as the cut-off for the component to be considered represen-

Table 3. Component loadings of the indicators in the final PCA

Poverty attributes	Indicators	Components	
		1	2
Demographic	Education of household head	0.534	0.326
Housing	Housing condition (4=very good.....1=very bad)	0.602	-0.044
Land ownership	Own cultivable land (decimal)	0.480	0.436
Household assets	Value of furniture (Tk.)	0.555	0.512
	Value of operational items (Tk.)	0.441	0.550
Food consumption	Sufficiency in food intake over the year	0.708	-0.353
	Number of days egg served in the last week	0.545	0.182
	Number of days took only rice in the last week	-0.656	0.395
	Seasonality in food intake	0.736	-0.229
Clothing and footwear	Having at least one set of good cloths	0.732	-0.312
	Having shoed/sandals	0.563	-0.392
	Per capita expenditure on clothing and footwear (Tk.)	0.500	0.400
Financial strength	Self perceived financial status (3=surplus1=deficit)	0.801	-0.231
	Crisis coping ability (3=can cope easily1=never cope)	0.726	0.217

Note: Two components extracted.

tative (Henry *et al.* 2003). Now we should explore which component is a relative poverty index on the basis of size of absolute value of all component loadings and sign on the coefficient. Improvement in relative poverty status should be positively related with education of household head, housing condition, ownership of land and household assets, greater food security, better clothing, and better financial position. Increased values in all the indicators except one (number of days in the last week household member took only rice) of Table 3 mean better poverty status. Correlation coefficients of all the indicators with the first component give the expected signs indicating that component 1 is the relative poverty index. The second component in the model does not appear to consistently capture variance related to relative poverty since only household assets, amount of own land, education and clothing expenditure have expected signs and magnitudes.

We should also look at the strength of poverty component. Absolute values of the factor coefficients should be more than 0.300 to be considered significant at 1% level (Henry *et al.* 2003). The lowest absolute value of the indicators has been found 0.441, which demonstrate the relevance of all the indicators in the model. In addition, poverty component explains 39% of total variations in all the poverty indicators among the households, which is three times higher than second component. Finally, the Kaiser-Meyer-Olkin measure of sampling adequacy for the model is 0.920 suggesting very high degree of appropriateness of the model. Thus, the index that has been constructed to assign a value of relative poverty for each and every household is robust.

EVIDENCE OF REACHING THE POOREST

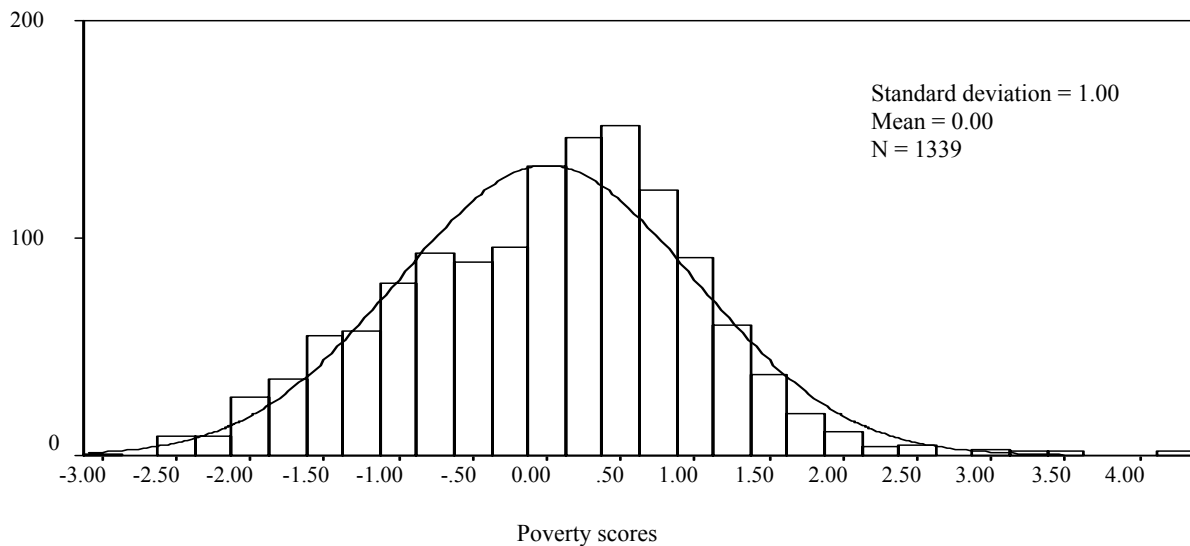
The PCA gives poverty score for each of the households. Standardizing a variable strips away the units in which a variable is measured. The poverty scores are standardized with mean of zero and standard deviation of one. The index represents the relative poverty situation of the households such as lower score reflects more severe poverty and higher score reflects less poverty. Though the diagnosis of the PCA model suggests robustness of the poverty scores, it is useful to check the consistency with alternative assessments of poverty. For this purpose, the poverty scores were compared with households' own perception about their poverty status and interviewers' perception about the households status by the looks of things. The estimated poverty index is highly associated with both self-perception of poverty (0.817) and interviewer's perception (0.769) of poverty suggesting reliability of poverty index. Figure 2 shows the distribution of poverty scores in standardized form. Poverty scores shown in the graph range from -

3.00 to 4.00. Approximately three-fourths of households fall in the range between -1.00 and 1.00.

Very few outlier households (< 1%) were found who were either extremely well-off (score ≥ 2.50) or extremely worse-off (score ≤ -2.50). Box plot of BDP ultra poor, VO members and non-VO members according to their poverty scores shows these extreme cases. The medians of poverty scores marked by black lines of the boxes are different for three groups (Fig. 3a). Clearly, the BDP ultra poor households, in general, are poorer than both VO members and non-VO members. Median poverty score of the non-VO group is the highest and dispersion among this group is also relatively on the higher side.

We also looked at the relative poverty status of the three groups from within and outside of *paurashava* area as a proxy for towns. Poverty range is more in *paurashava* area compared to

Figure 2. Histogram of poverty index



rural area for all categories of households (Fig. 3b). Heterogeneity of urban population and small portion (12%) of households from *paorashava* area in the sample could be reason for this wider variation.

Besides median and dispersion, classifying the households into different poverty groups (e.g. tercile, quartile) is useful to explore the concentration of the programme across these groups. For this purpose, general households have been categorized into four equal poverty groups (poverty quartiles) based on their relative poverty scores. Since there are 895 general households including VO members, each quartile contain

around 224 households. Bottom 25% of general households represents the poorest quartile and top 25% of general households represents the least poor quartile. The cutoff scores for each quartile define the limits of each poverty group. Figure 4 shows the use of cut-off scores i.e. -0.46, 0.30, 0.83 to create poverty quartiles from general households. Using these cut off marks, the use of cut-off scores i.e. -0.46, 0.30, 0.83 to create poverty quartiles from general households. Using these cut off marks, the poverty quartiles of the BDP ultra poor households were determined. Therefore, all BDP ultra poor households with scores between 0.31 and 0.83 would belong to 3rd poverty quartile (Fig. 4).

Figure 3a. Poverty scores by household groups

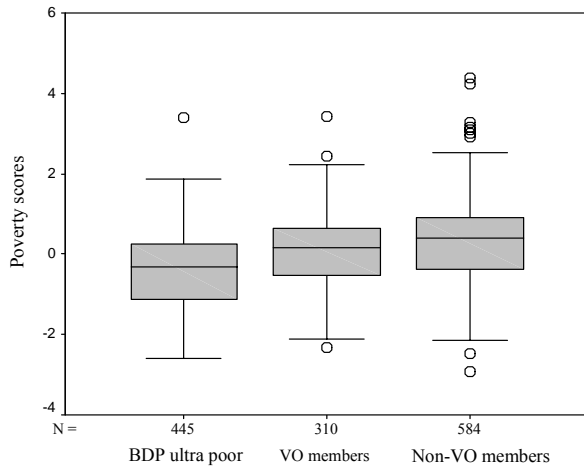


Figure 3b. Poverty scores by HH groups and *paorashava*

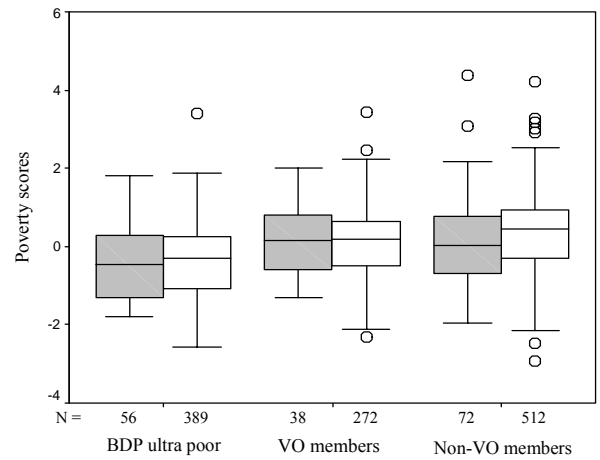


Figure 4. Constructing poverty groups

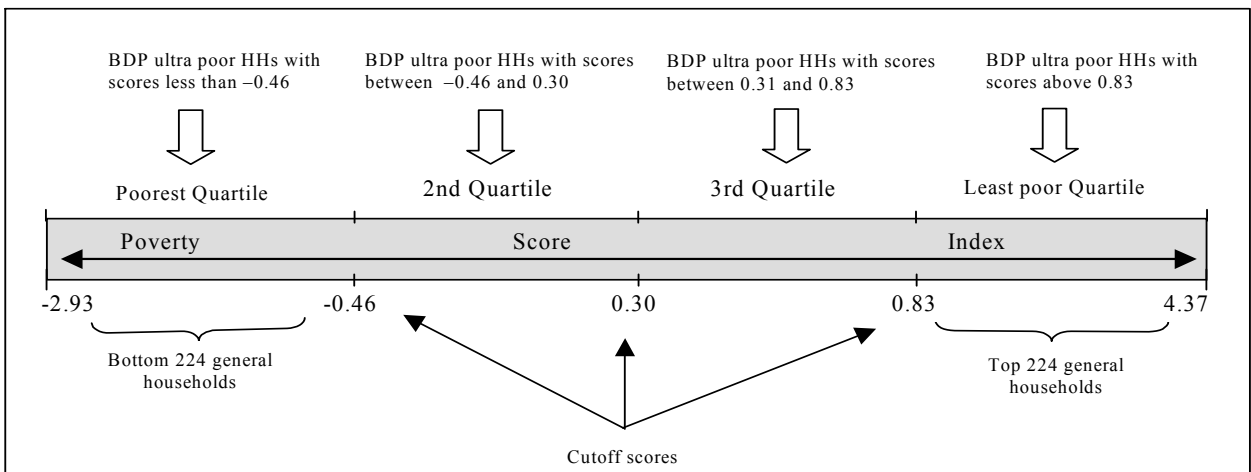


Figure 5 shows the quartile distribution of BDP ultra poor households belonged to the bottom 25% group in terms of poverty score which is shown the poorest group in the graph. Most of the remaining BDP ultra poor households belonged to the second 25% group. Only 6% of BDP ultra poor households belonged to the top 25% group which is called the least poor group. All these suggest that the programme is being able to concentrate on the poorest of the poor in the scale up phase. This is a very good achievement considering the simple targeting mechanism adopted and relatively low costs incurred in the selection process. The level of “optimal ignorance” for the programme is relatively high. In other words, since the amount of subsidy (or subsidy equivalent) involved in this programme is not very high, the additional benefits from more rigorous targeting may not be worth incurring the additional costs.

Given the satisfactory level of success in targeting by the BDP ultra poor programme, here we explore how the general VO members differ from both BDP ultra poor and non-VO groups of the households. Only the non-VO members were taken as reference population to see the distribution of both BDP ultra poor and VO members households against the distribution of

non-VO members. Therefore, non-VO households were divided into four groups in the similar fashion (Annex 2). We found that around 50% of BDP ultra poor households belonged to the bottom 25% group i.e. in the poorest group (Fig. 6). Most of the remaining BDP ultra poor households belonged to the second 25% group. Only 5% of BDP ultra poor households belonged to the top 25% group i.e. in the least poor group. So, over representation of the BDP ultra poor households in the poorest group suggests success of the programme in targeting the poor people. The graph also shows that one-third of the VO households belonged in the second quartile suggesting that most of the VO members are moderate poor. Among the general population (both VO member and other), microfinance participation is the highest in the second bottom quartile and lowest in the highest quartile. These corroborate the general understanding that participants of usual microfinance operations are mostly moderate poor or vulnerable non-poor.

Cumulative distribution function (CDF) of the poverty scores also shows that at any particular poverty cut-off mark, greater share of the BDP ultra poor beneficiaries would be classified as poor compared to the other two groups. For example, over 60% of the BDP ultra poor

Figure 5. Comparison between BDP ultra poor and general population

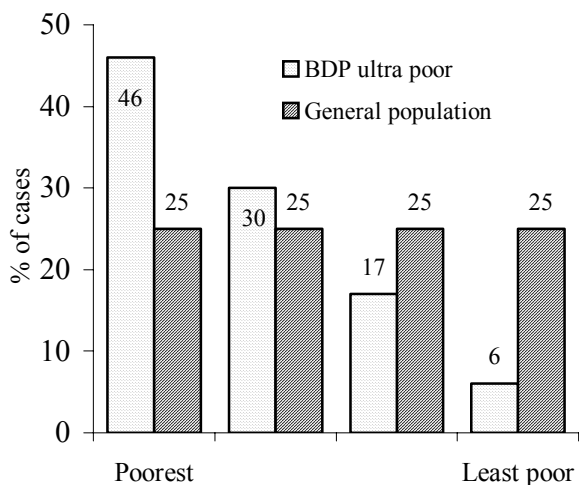
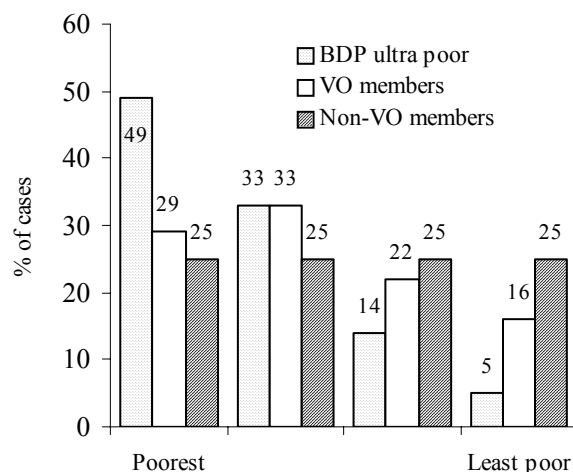


Figure 6. Comparison between BDP ultra poor, VO and non-VO members



households belonged below the reference lines at mean compared to 35% of the VO-member group (Fig. 7). The comparative figure for the non-VO group is even lower though there is a crossing between the VO and non-VO groups at the very lower end.

It is important to look at whether the households that are going through a bad patch (based on change in household condition over the last one year) have been covered by the programme to prevent further descend and/or to facilitate their effort to bounce back to the earlier stage. In fact, 28% of the BDP ultra poor households have reported downfall in their condition in the last one-year as opposed to only

10% of VO members and 12% of non-VO members.

A quarter of the BDP ultra poor reported improvement and the rest observed no change in their well-being (Fig. 8). However, there are remarkable differences among the BDP ultra poor across poverty groups. As expected, deterioration among the BDP ultra poor is largely concentrated at the poorest quartile. While microfinance participation is likely to bring momentum to the already improving households at the poorest quartile, others may need extra care. Without customized credit and savings services, they may not continue with the programme once the cycle of supervision is over.

Figure 7. Cumulative distribution function BDP ultra poor, VO and non-VO members

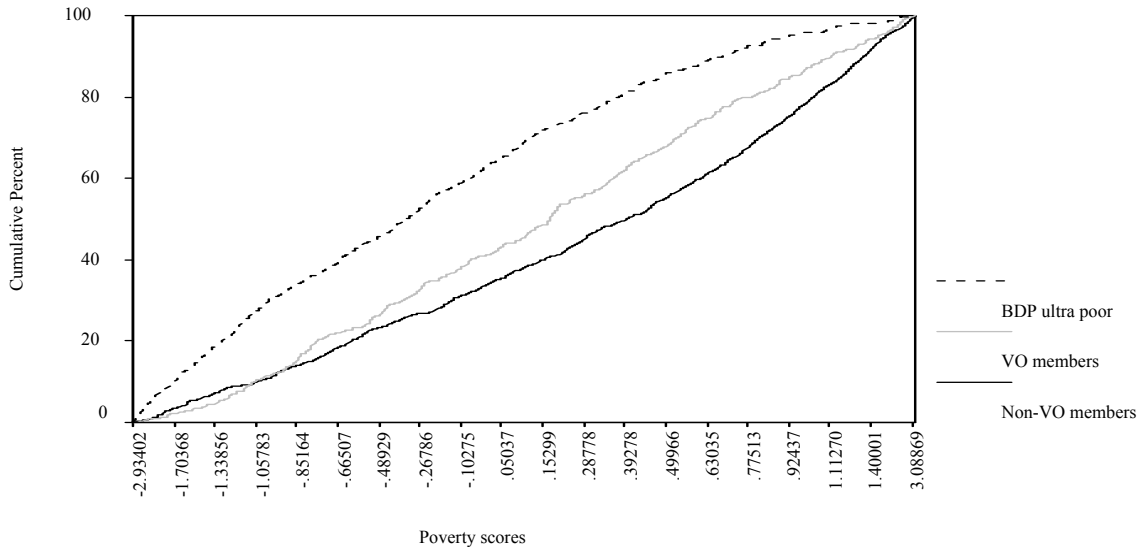
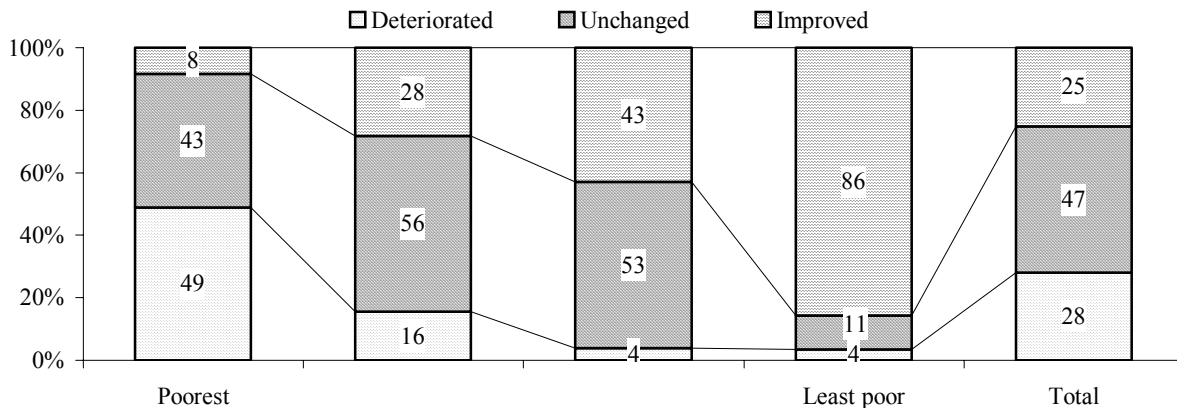


Figure 8. Change in economic condition of BDP ultra poor households over the last one-year



COMPLIANCE WITH SELECTION CRITERIA

Number of selection criteria fulfilled has significant inverse relationship (correlation coefficient -0.447) with the poverty scores of BDP ultra poor households indicating usefulness of the selection criteria. Around 87% of the BDP ultra poor households fulfilled at least one selection criterion while 53% fulfilled exactly one criterion (Table 4).

Land ceiling is the most commonly complied criterion among the five as 85% of the BDP ultra poor households have less than 30 decimal of land. Land distribution has been presented in the Annex 3. Though dependence on seasonal labour is a good indicator of vulnerability, it is not the easiest to define with some level of judgment. The rest three criteria, viz. female headship, husband being disabled, and the woman being widow/disserted/divorced, clearly overlap each other. Though these criteria are certainly assisting to keep the focus on the poorest (Table 5), excessive focus may not be desirable for two reasons. Firstly, this would increase the cost of

election. Secondly, the microfinance service that is being provided is not suitable for the households fulfilling all the selection criteria, which may jeopardize the microfinance activity.

Table 4. Compliance with the selection criteria

No. of criteria complied with	BDP ultra poor
0	56 (13)
1	237 (53)
2	61 (14)
3	81 (18)
4	10 (2)
Total	445 (100)

Figures in the parentheses are the percentages

Table 5. Mean poverty scores of compliance groups

No. of criteria complied with	Mean of poverty scores
0	0.416
1	-0.365
2 and above	-0.843
F value	46***

**** Indicates significance at 1percent level

MICROFINANCE PARTICIPATION OF THE BDP ULTRA POOR HOUSEHOLDS

Despite the general consensus that microfinance does not reach the poorest, recent evidence suggests that close to 15% of microfinance clients in Bangladesh are among the poorest (Matin 2005). Though such an outreach in relative terms is an under representation of the poorest population group which constitutes about 25% of the population, the outreach to the poorest by existing microfinance is quite significant. Such evidence suggests that the real issue relating to microfinance and the poorest is less about the *extent* of microfinance participation and more about *quality* of participation.

About one-third of the BDP ultra poor households were not participating in microfinance at the time of being selected as BDP ultra poor (Fig. 9). However, some of them have reported

discontinuation of their earlier engagement (dropouts). Among the 67% of BDP ultra poor who were already involved are mostly from BRAC's village organizations. As reported earlier in the section on programme brief, the policy is to select both from outside and within the village organizations. While beneficiaries from outside would increase the extent of microfinance participation of ultra poor, improving their quality of participation is fundamental for both the groups.

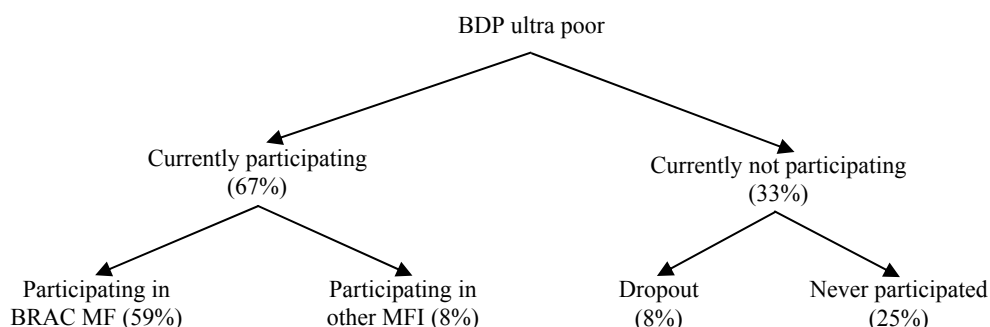
To get some sense of the quality of participation that the BDP ultra poor members had before joining the programme, they have been compared with the other two groups in a few basic dimensions. Table 6 reports the duration of membership, regularity in borrowing and size of

Table 6. Quality of microfinance participation by household categories (currently participating households)

Variable	BDP ultra poor [A]	VO members [B]	Non-VO members [C]	Differences		
				[A-B]	[A-C]	[B-C]
Years of MFI membership (average)	3.16	4.18	4.72	***	***	
Total number of loan taken (average)	1.93	2.67	3.23	***	***	**
Number of loan taken per year (average)	0.54	0.62	0.69	***	***	**
Highest loan size (average in taka)	5,020	7,059	8,291	***	***	**
Size of the last loan (average in taka)	4,708	6,626	7,779	***	***	**

Note: *, **, *** denotes significance at 10, 5 and 1% level respectively.

Figure 9. MF participation of the BDP ultra poor



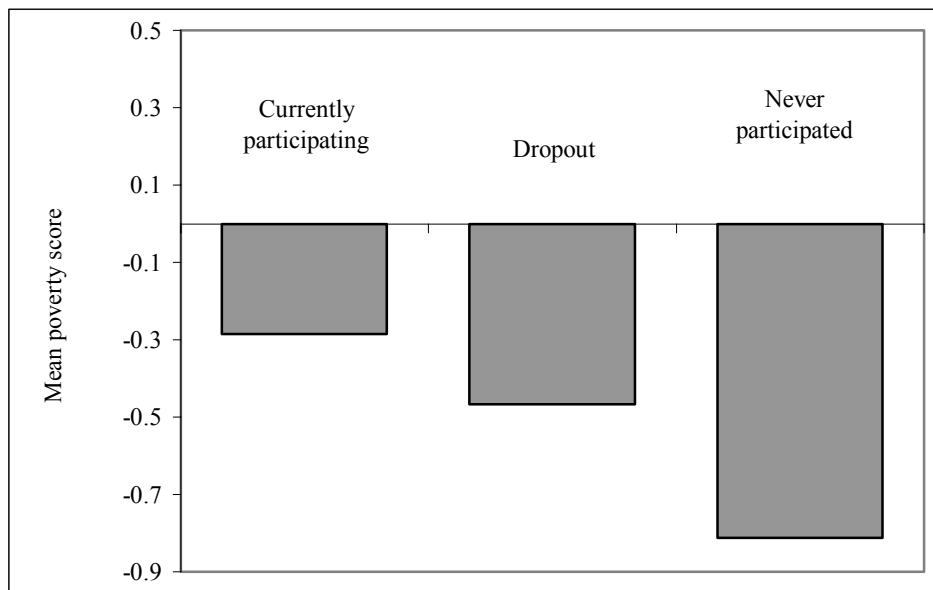
loans for those who were involved in microfinance at the point of the beneficiary selection. The length of membership of the BDP ultra poor is significantly shorter than participants of the other two groups. Instead of having consistent participation, the ultra poor have to make breaks through frequent dropouts and re-entries resulting this lower duration. Besides shorter durations of participation, the BDP ultra poor had a history of greater irregularity in borrowing than the VO and non-VO households. Lower value in average number of loans taken per year for the BDP ultra poor partly reflects this irregularity. On average, the size of loans is also lower among the BDP ultra poor. All these variables undoubtedly show the marginal participation of the BDP ultra poor even if they join microfinance.

Whether there is any relation between relative poverty status and types of microfinance participation among the BDP ultra poor is also a relevant issue. Figure 10 shows that even among the BDP ultra poor, microfinance participation status is an important marker- those who were participating are clearly less poor compared to those who had dropped out, while those who never had any microfinance participation are clearly the poorest.

This differentiation among the BDP ultra poor raises an important policy question. The current focus on the BDP ultra poor targeting is on the poorer members of the VOs (almost 60% according to this survey). In order to improve ‘BDP ultra poor’ targeting effectiveness further, the focus will have to be on the poorest households outside the VOs most of whom have never participated in any microfinance programmes. This group of households, however, is significantly poorer having extremely low poverty score. Existing service package in the BDP ultra poor programme may not be enough for this group since they, perhaps, require bigger push. We have to observe how the nature of microfinance involvement of these three groups of ultra poor evolves before putting extra efforts on improving targeting effectiveness in the next cycles.

Planning around microcredit can give early signals on future differences in credit participation. In fact, 40% of the dropouts and 34% of never participants reported that they did not have plans to take credit in the next few months. The comparable figure for the currently participating group is 23%. Therefore, the present design of one-year supervision is inadequate for a significant portion of the BDP ultra poor coming from outside the VOs.

Figure 10. Mean poverty score by households’ microfinance participation



CONCLUSION

Reaching the poorest of the poor with different service products is one of the preconditions of poverty reduction. Budget constraints and given resources also limit coverage of the poor by the microfinance programme. So, effective targeting is important to avoid the leakage or under coverage of the poor. The BDP ultra poor programme follows a bottom up targeting process with some selection criteria that may give more reliability and transparency to the poor people in the community. We have used CGAP tool to measure targeting effectiveness of the programme. The evidence shows that 46% of the target population belonged to the poorest quartile and most of remaining population belonged to moderate poor quartile. This suggests that the programme is being able to concentrate on the target population in the scaling up phase. It was also found that only 3% of the survey households have VGD membership suggesting that the programme is also getting into those areas where government programme is not yet expanded for benefiting the poor. However, one-third of the BDP ultra poor households are getting involved with microfinance through the programme most of whom (three quarters) never participated in any

microfinance programmes and the remaining were drop outs. Two-third of the BDP ultra poor who were already engaged in microfinance are most likely to be the cases of possible drop out and being assured regular access to microfinance by the programme for getting out of chronic poverty in the long term.

Another concern is relative poverty status and types of microfinance participation among the BDP ultra poor. The BDP ultra poor who had microfinance participation at the time of survey are less poor compared to those who had dropped out, while those who never had any microfinance participation are the poorest. The critical question is whether given such low levels of economic status; the current BDP Ultra Poor package is adequate to deliver impact in terms of improving the quality of microfinance participation of such households. Though this question needs to be explored in future research studies, it could be argued from this research that given the significant differentiation among the BDP ultra poor, more thoughts should be given on designing perhaps a more differentiated package.

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Annex 1

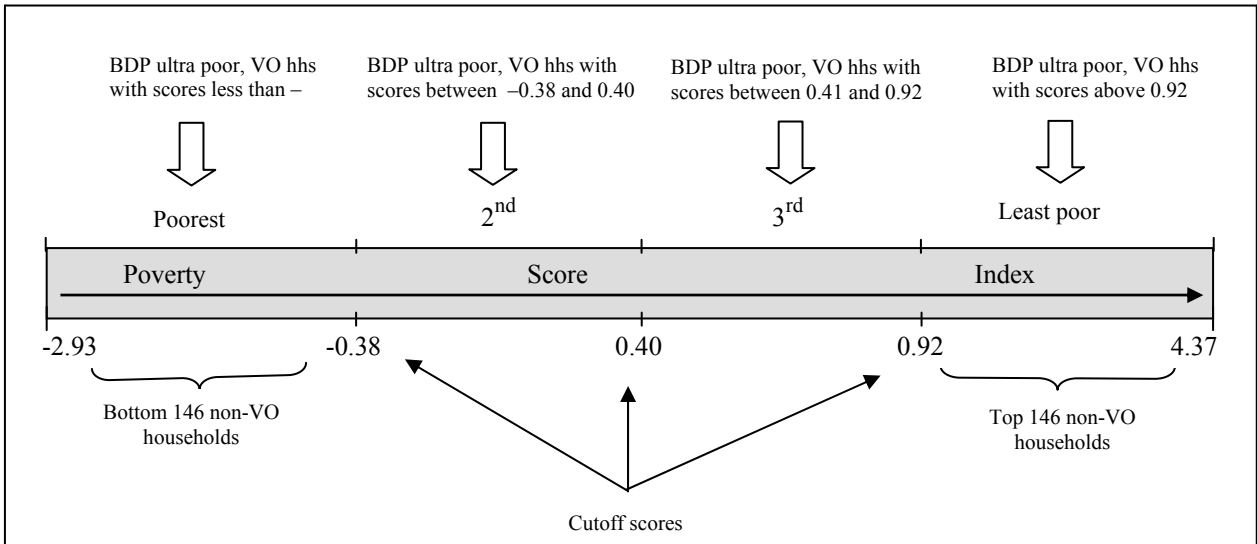
Correlations of poverty indicators with the benchmark

Indicator	Correlation coefficient
Number of adult (> 14 years) male income earner	-0.071***
Number of adult (> 14 years) female income earner	-0.103***
Number of adult income earner	-0.077***
Household size	-0.307***
Number of members per adult income earner	0.177***
Number of children	-0.399***
Education of household head	0.322***
Average score of health of the household members (4= very good,....., 1=very bad)	0.132***
Roof type of housing (corrugated tin, cement, tiles)	0.131***
Material of the wall of main living room	0.241***
Housing condition (opinion of interviewer)	0.228***
Size of the main living room (sq. ft.)	0.158***
Ownership of house of residence (1=yes, 0= otherwise)	-0.092***
Ownership of land of residence (1=yes, 0= otherwise)	0.127***
Alna (Tk.)	0.292***
Almira (Tk.)	0.266***
Value of shallow tube well (Tk.)	0.070**
Value of sewing machine (Tk.)	0.133***
Value of motor cycle and bicycle (Tk.)	0.153***
Value of television (Tk.)	0.313***
Value of rickshaw and van (Tk.)	-0.081***
Showcase (Tk.)	0.274***
Motor/bicycle (Tk.)	0.154***
Chair/table (Tk.)	0.331***
Cot (Tk.)	0.314***
Value of asset (Tk.)	0.242***
Value of furniture (Tk.)	0.369***
Value of electronic goods and operating assets (Tk.)	0.274***
Value of livestock asset (Tk.)	0.061**
Homestead land (decimal)	0.087***
Own cultivable land (decimal)	0.204***
Total land owned (decimal)	0.193***
Whether manage to take enough food at least two meals round the year (1=yes, 0= otherwise)	0.223***
How many days in last week took eggs	0.341***
How many days in last week took fish	0.257***
How many days in last week took meat	0.207***
In last week how many days took only rice	-0.171***
Whether have managed the meal for tonight (1=yes, 0=otherwise)	0.172***
Frequency of insufficient food intake in the last year (1 = often, ..., 3= never)	-0.192***
Food insufficient during Oct-Nov/Kartik-Agrahayan	0.224***
How many days you have to borrow rice in the last one week	-0.193***
Having at least one set of good cloths of HH members (3= all,.....1=none)	0.299***
Dependency of Jakat or donation cloths (3 = never wear, ..., 1= most time)	0.215***
Having shoes/sandals of all household members (3= all,....1= none)	0.284***
Self perception of poverty	0.339***
Changes of household condition over the last year	0.208***
Income and expenditure of one year (4= surplus,....., 1=deficit)	0.265***
Coping with crisis i.e. Tk. 10,000 (3=manageable,, 1= never manage)	0.372***

Note: **, *** signifies coefficient significant at 5% and 1% level respectively.

Annex 2

Constructing poverty groups



Annex 3

Distribution of land of BDP ultra poor

