Preliminary Research

Microfinance and Non-Financial Services For Very Poor People:

Digging Deeper to Find Keys to Success

Poverty Outreach Working Group

The SEEP Network

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Acronyms

ARC	American Refugee Committee
ASA	Activists for Social Alternatives
CFPR/TUP	Challenging the Frontiers of Poverty Reduction/Targeting the Ultra Poor
CRS	Catholic Relief Services
FFH	Freedom From Hunger
GDI	gender-related development index
GDP	gross domestic product
HDI	human development index
IGVGD	Income Generation for Vulnerable Groups Development (a BRAC [Bangladesh] program)
ILO	International Labor Organization
MED	microenterprise development
MFI	microfinance institution
NABARD	National Bank for Agriculture and Rural Development
NGO	non-governmental organization
PPP	purchasing power parity
SEF	Small Enterprise Foundation
SHG	self-help group
TCP	Tšhomišano Credit Program
TUP	Trickle Up Program
USAID	U.S. Agency for International Development
WHO	World Health Organization

Abstract

This paper discusses the results of preliminary research done by the Poverty Outreach Working Group to identify promising approaches for serving very poor people with microfinance and non financial services. The working group identified 10 microfinance institutions (MFIs) and asked them each to submit a case study describing how effective their programs were in reaching their target clients, how they measured their clients' poverty levels, and whether (and how) they could document their effectiveness. From these case studies, the POWG hoped to identify and examine any common elements that made these MFI programs successful and from this recommend areas for further research. As a result, the POWG developed an extensive questionnaire (see annex), for the next stage of research.

The upshot of the POWG's preliminary research shows that servicing very poor people is possible—perhaps more possible than now appears— but that greater success will be dependent on understanding what the critical factors are and addressing them realistically and in ways that produce results that can be documented.

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Introduction and Purpose of Research

In 2000, the U.S. Congress passed the Microenterprise for Self-Reliance Act,[1] which mandates that one-half of all U.S. Agency for International Development (USAID) microenterprise funds must benefit very poor people. The legislation defines the "very poor" as people living on less than US $1/day[2] or those among the bottom 50 percent of people living below a specific country's poverty line. This paper uses the same definition of "very poor," which essentially implies extreme poverty. The law also requires that USAID develop and certify tools for assessing the poverty level of microenterprise beneficiaries so that the agency can determine whether or not its development partners are achieving the mandate of assisting very poor people. The development of these tools is being carried out by the IRIS Center (at the University of Maryland) and USAID.

The U.S. legislation was advanced by pro-poor microfinance advocates who sought transparency concerning who the microfinance industry really reaches. These advocates, and certain microfinance practitioners, viewed the legislation as necessary because most microenterprise development organizations do not reach very poor people, despite mission statements and promotional materials that identified these people as their target clients. The reality is that many microfinance organizations have no idea who they connect with. Most microfinance clients today fall in a band around the poverty line, but the extreme poor are rarely reached. It is thus crucial that policymakers, donors, and development practitioners have reliable information about the poverty levels of the beneficiaries of development services in order to steer investments and programs toward targeted population segments they want to reach.

Although many practitioners and implementers opposed the U.S. legislation as restrictive and costly, it successfully brought the issue of knowing who one's clients are, and how best to serve them, to the forefront of microfinance discussions. Several organizations which created poverty assessment tools and conducted client analyses over the last two years have realized that they do not come close to reaching their intended target market. For some, this resulted in reexamining their missions and, in some cases, realigning their missions. However, to support those organizations that remain committed to serving very poor people, the Poverty Outreach Working Group (POWG) at the SEEP Network has been researching how to evaluate programs that do work with very poor people and attempting to glean good practices to share with other organizations.

This paper discusses the results of preliminary research done by the POWG. The working group identified 10 microfinance institutions (MFIs) and asked them each to submit a 10–15 page paper describing how effective their programs were in reaching their target clients, how they measured their clients' poverty levels, and whether (and how) they could document their effectiveness. From these case studies, the POWG hoped to identify and examine any common elements that made these MFI programs successful and from this recommend areas for further research. What they found, however, was that the information from the MFIs did not go deep enough to elucidate any common ingredients to success. Despite this disappointment, the case studies did indicate what areas should to be plumbed for answers. As a result, the POWG went to work and developed an extensive questionnaire (see annex), driven by the inability of the 10 case studies to provide sufficient information.

The upshot of the POWG's examination of these 10 case studies of MFIs engaged in poverty down reach confirmed why most organizations do not work with very poor people: because it is hard to actually reach them. However, the case studies do show that servicing very poor people is possible—perhaps more possible than now appears— but that greater success will be dependent on understanding what the critical factors are and addressing them realistically and in ways that produce results that can be documented.

It must be emphasized that the in-depth questionnaire in the annex was not used with the 10 MFIs that were examined in this preliminary research. Rather, this questionnaire is central to the next stage of the POWG's research, where it will be used to evaluate more programs (including enterprise development approaches). This initial investigation and resultant questionnaire simply bolster the need for greater in-depth research and provide direction for what information is needed. More importantly, they indicate how deeply research must dig to unearth answers and reveal (or at least help understand) the key ingredients required to truly reach very poor people and service their needs successfully.

1. *Microenterprise for Self-Reliance and International Anti-Corruption Act of 2000,* H.R. 1143/Public Law 106-309, Oct. 17, 2000. The act was amended in 2003 and 2004. The Amendment to the Microenterprise for Self Reliance and International Corruption Act in 2003 requires that 50 percent of all USAID microenterprise resources benefit very poor people. The legislation was further amended in 2004. See *Microenterprise Results and Accountability Act of 2004*, HR 3818/Public Law 108-484, December 23, 2004.

2. Equal to US $1.08/day in purchasing power parity (PPP) at 1993 prices.

Definition and Status of Poverty

Traditionally, poverty has been conceptualized in terms of income, with the poor defined as those living below a given income level. But poverty has been increasingly recognized as a multidimensional phenomenon that encompasses not simply low income but also lack of assets, skills, resources, opportunities, services, and the power to influence decisions that affect an individual's daily life.[3] Poverty also frequently overlaps and reinforces other types of social exclusion, such as those based on race, gender, or ethnicity. This more comprehensive understanding of poverty better captures how the poor themselves define their situation.[4]

The complex and multidimensional nature of poverty makes it a challenge to measure. For the sake of simplicity, an income-based measure of poverty is used most widely, as it permits comparisons between regions and countries. The World Bank, for example, defines extreme poverty as an income of less than US $1/day, which is seen as the minimum amount necessary for survival. To calculate extreme poverty in an individual country, the $1/day measure is converted to local currency using the purchasing power parity (PPP) exchange rate, based on relative prices of consumption goods in each country. Based on such calculations, the World Bank estimated that 1.2 billion people were living in extreme poverty in 2003, roughly 23.3 percent of the population of all low- and middle-income countries.[5] While the definition of "very poor" used in this paper is based on income, the programs and approaches explored in the following sections address many aspects of extreme poverty, not income levels alone.

Role of Microfinance in Serving Very Poor People

By providing small loans and savings facilities to people who are excluded from commercial financial services, microfinance has become a strategy for reducing poverty. Access to credit and deposit services is a way to provide poor women and men with opportunities to take an active role in their respective economies through entrepreneurship and building income, bargaining power, and social empowerment.

Although most MFIs aim to reach poor people, it has become increasingly apparent that they rarely serve very poor people. Most MFIs reach the "upper poor" in much greater numbers than the "very poor."[6] The extent to which microfinance programs are able to reach the poorest of the poor remains an open debate.

Certain practitioners argue that it is important to have permanent operations based on a wider geographic outreach, with quality financial products delivered by competitive, efficient microfinance institutions. This approach to breadth of outreach is based on a long-term view of microfinance services and the belief that, in many cases, there is a limit to depth of outreach. This approach thus accepts a trade-off between sustainability and reaching very poor people. Other practitioners argue that microfinance should make reaching very poor people a priority because access to finance is considered a human right in the fight against economic exclusion. This approach requires narrow targeting of very poor people.

Both breadth and depth of services are very important for the microfinance industry. What has become apparent, however, is that very poor people are unlikely to be served by microfinance programs unless programs are intentionally designed to reach them. In order to design products and services for this target market, it is important to better understand the factors that contribute to the dire conditions of very poor people.

Challenges in Serving Very Poor People

The challenges of reaching very poor people with microenterprise development services include physical and economic barriers, self-selection, and self-exclusion, as well as sector risks and the deprivation of extreme poverty itself.

Physical Barriers

In many settings, very poor people live in remote rural areas that have no access to financial services. To reach very poor people in remote rural areas means higher transactions costs for MFIs. Such areas are often characterized by poor infrastructure, relatively low population density, low levels of literacy, and relatively undiversified economies. Many rural economic activities, moreover, have low profitability and are prone to high risk. Even if microfinance programs are present in rural areas, they often lack well-trained professionals and have insufficient support from the head office.

3. Pan-American Health Organization (PAHO)-World Health Organization (WHO), "Reaching the Poor: What Works?" PAHO-WHO, Washington, DC, 2004.

4. World Bank, *World Development Report 2000/2001: Attacking Poverty* (New York: Oxford University Press, 2000); and PAHO-WHO, "Reaching the Poor," 2004.

5. World Bank, *World Development Report: Sustainable Development in a Dynamic Economy* (New York: Oxford University Press, 2003.)

6. Robert Hickson, "Reaching Extreme Poverty: Financial Services for Very Poor People," Office for Development Studies, UN Development Programme, 1999.

Economic Barriers

Many microfinance programs use group-lending methodology where clients attend a weekly or monthly meeting to access credit. The cost of transportation to these meetings, together with the opportunity cost of attendance (i.e., lost income due to time away from work) can present a barrier for very poor people to participate in microfinance programs. Alternatively, many individual lending or savings programs require clients to save a certain amount before they can access loans, a practice that often prevents participation by very poor people.

Self-selection. It is well known that solidarity groups in Grameen-style microfinance programs and village banks reject very poor members because they might be unable to repay their loans and could thus jeopardize the creditworthiness of the entire group.

Self-exclusion. Even when very poor people are not actively excluded by a community, they often opt out of community-related projects because they are intimidated, believing that the services offered by such projects is not suited to their needs.[7]

Sector risk. Very poor people are often dependent on subsistence farming as their main source of livelihood. Given the high risks of agricultural activities and the unique requirements of financing such activities (payback of loans, for instance, can only take place after the production period, which often lasts several months), MFIs usually shy away from lending to this sector.

Impact of chronic poverty. Living in absolute poverty for a prolonged time strongly affects people's dignity and hope for the future, as well as their ability to take initiative and overcome stigma. Moreover, poor health (especially chronic diseases such as malaria and HIV/AIDS) presents a major obstacle for conducting successful microenterprise activities.

Overview of Existing Poverty-Focused Microfinance Approaches

Despite the high risk, high transaction costs, and other challenges described above, a number of microfinance organizations, NGOs, and multilateral agencies are already specifically targeting microfinance services at very poor people. Other microfinance programs, realizing that they are not reaching very poor people, are interested in finding new approaches. To date, there has not been adequate exploration of financial products and low-cost service delivery mechanisms that would allow MFIs to serve extremely poor households without compromising sustainability objectives.[8] This paper hoped to address this by documenting successful experiences in reaching very poor people and recommending promising approaches for further exploration. The findings are based on 10 case studies (see table 1) and information reported by the implementing organizations themselves. They should be considered preliminary because they have not been independently verified or evaluated according to a common set of criteria related to impact, poverty outreach, and cost.[9] While the examples in the case studies are only a small sample of poverty-focused initiatives, they represent a broad spectrum of approaches currently being employed by different organizations in microfinance.

Table 1 below gives a snapshot of key features of selected microfinance programs that explicitly target very poor people. Descriptions of clients' poverty levels in the case studies are, for the most part, qualitative and are not based on actual poverty measurements by means of a universal and reasonably reliable poverty tool (whether based on income or expenditures), such as that currently being tested by USAID. On the other hand, several factors (e.g., targeting methodology and selection of certain vulnerable groups, such as bonded laborers, *Dalits,*[10] and people living with HIV/AIDS, for instance) suggest that most of these initiatives do indeed target very poor people.

The examples of successful downreach highlighted in table 1 include both MFIs that aim for financial sustainability, as well as multidisciplinary organizations other than MFIs. The two MFIs featured in this paper, Small Enterprise Foundation (SEF) in South Africa and Activists for Social Alternatives (ASA) in India, use a Grameen model to provide loans to solidarity groups of poor and very poor women.

In order to more effectively reach very poor people, SEF established a separate program, the "Tšhomišano Credit Program" (TCP), designed to reach people living in the bottom 30 percent below the national poverty line. Freedom From Hunger (FFH) uses another group-based lending approach—village banking—which it offers as a new product line to existing rural banks and credit unions, enabling them to reach poorer clients. What sets these three organizations apart from "mainstream" microfinance providers is that their programs offer non-financial services in addition to financial products. These additional services include education, skill training, and confidence building.

The remaining case studies in table 1 relate to organizations and projects that typically share a broader mission of poverty alleviation and offer services that include microfinance or microenterprise development among many other activities. Since these

7. Anton Simanowitz, with Alice Walter, "Ensuring Impact: Reaching the Poorest while Building Financially Self-sufficient Institutions, and Showing Improvement in the Lives of the Poorest Families," in *Pathways Out of Poverty: Innovations in Microfinance for the Poorest Families*, ed. Sam Daley-Harris (Bloomfield, CT: Kumarian Press, 2002).

8. Hickson, *Reaching Extreme Poverty,* 1999.

9. At the writing of this Technical Note, several SEEP members have started to develop case studies of their approaches for reaching very poor people by completing a standardized case study questionnaire. (See the survey questionnaire in the annex at the end of this note.)

10. People born into India's "untouchable" caste.

Table 1. **Examples of Microfinance Approaches Serving Very Poor People**

Organization/ Project Name	Target Group	Targeting Method	Financial Services	Non-financial Services
ARC, West Africa Three Step IG Program	Very poor refugees and returnees	Vulnerability assessment	Grants followed by loans to solidarity groups	- Business skill development - Ongoing business support - Refugee relief services (nutrition, health, education)
ASA, India Grama Vidiyal Microcredit Program	Poor and very poor women, Dalits	Participatory wealth ranking and housing index	Group-based microcredit (Grameen replication); savings, pension, and insurance products	- Business development services - Gender sensitization - Capacity building - Advocacy and local governance
BRAC, Bangladesh 1. IGVGD 2. CFPR/TUP	Very poor women	Active targeting based on poverty indicators	1. Individual loans 2. Business asset grants	- Food grain assistance - Skill training in income generating activities - Healthcare services - Social empowerment
FFH, Africa, Asia, Latin America Village banking	Poor and very poor women	Geographic targeting	Linkages with credit unions and rural banks; group-based lending (village banking)	- Education: health, nutrition - Self-confidence - Enterprise and financial management
ILO, South Asia South Asian program against debt bondage	Very poor bonded laborers	Poverty indicators and vulnerability to bondage	Group-based savings and credit	- Social empowerment - Functional literacy - Healthcare services - Skill training in income generating activities
SEF, South Africa Tšhomišano Credit Program	Very poor women	Participatory wealth ranking	Group-based microcredit (Grameen replication)	- Business skill development - Ongoing business support
TUP, Cambodia W.O.M.E.N.	Very poor people with HIV/AIDS	Active targeting based on poverty indicators	Individual business seed-capital grants; savings match	- Business skill development / learning conversations - Healthcare services - Health and sanitation awareness
PACT, OXFAM, FFH, CARE, CRS, NABARD Asia and Africa	Poor and very poor women	Geographic targeting	Savings-led MF; Savings and lending self-help groups; bank/MFI credit to SHGs	- Basic literacy - Business skill development/learning conversations - Social empowerment - Gender sensitization

organizations use an integrated approach to poverty alleviation—microfinance is just one of a package of services—their activities are less bound by the rigid financial sustainability criteria that govern most MFIs. BRAC, a large, multi-faceted development organization in Bangladesh, for example, operates its broad rural credit program in addition to two microenterprise programs that specifically target very poor people. Its "Income Generation for Vulnerable Groups Development" (IGVGD) program provides food subsidies and intensive skills training to vulnerable women, as well as a standard package of microcredit, healthcare, and social services. BRAC's more recent program, "Challenging the Frontiers of Poverty Reduction/Targeting the Ultra Poor" (CFPR/TUP), abandons loans altogether and offers enterprise asset grants instead to the same target group. "Trickle Up Program" (TUP), an international development organization, also assists very poor people with grants, in this case, to start or expand microenterprise activities. The organization also offers business training, relying on local partner agencies to provide other development services, such as education, healthcare, and social empowerment.

The "South Asian Project against Debt Bondage" of the International Labor Organization (ILO) and the American Refugee Committee's (ARC) programs in West Africa both target uniquely vulnerable groups: bonded laborers (ILO) and refugees in the Mano River basin (ARC). These programs also employ a combination of financial and non-financial services to lift extremely vulnerable people out of poverty through microentrepreneurial activities.

Finally, many organizations worldwide increasingly endorse savings (rather than credit-led microfinance) and the formation of small community groups to promote self-managed microfinance services by the poor and very poor, especially in rural areas. In terms of how many people each of these distinct approaches have reached, savings-led microfinance comes out ahead of the other approaches without a doubt. These small savings and lending groups, sometimes known as self-help groups (SHGs), also serve as an "entry point" for non-financial poverty alleviation programs.

To Target or Not to Target

Research studies have shown that most poor people have benefited from microfinance programs, but that narrow targeting is not necessarily a condition for reaching very poor people. Some large-scale, non-targeted schemes have, in fact, proven capable of reaching very poor people.[11] Nevertheless, most initiatives that successfully serve very poor people actively target this segment of the population. At a minimum, such programs tend to concentrate their programs in geographic areas where there is a high incidence of poverty. FFH's introduction of village banking to existing credit unions and rural banks, as well as most savings-led microfinance initiatives, reach very poor people simply by working in poor rural areas. Rather than exclusively reaching very poor people, geographic poverty targeting, which is also employed by ASA, tends to reach both poor and very poor clients.

Other initiatives utilize a more meticulous targeting method. SEF, for instance, introduced a visual poverty-indicator test to identify very poor people, after it realized that its original microcredit program did not effectively include such customers. SEF went on to create participatory wealth ranking (PWR), a poverty assessment technique that has community members help identify the poorest among them. BRAC went through a similar evolution. Its IGVGD program first used a rather passive targeting method, extending services to food-insecure women who were selected by local elected representatives. Its CFPR/TUP program later used geographic targeting, PWR, and surveys to identify the extreme poor.

The Trickle Up Program employs a poverty assessment tool in the form of a five-question survey, which scores the poverty level of potential program participants according to locally determined criteria. In addition to using this tool, its Cambodian partner agency, W.O.M.E.N, works exclusively with extremely vulnerable people living with HIV/AIDS in the slums of Phnom Penh, the capital. Similarly, ILO (South Asia) and ARC (West Africa) also employ active targeting tools to ensure that the poorest of the poor are included in their programs.

The actual degree to which very poor people are reached by these programs is still unknown, in part because universal (or universally accepted) poverty assessment tools do not yet exist. However, those organizations that have conducted their own internal poverty assessments or commissioned external ones have found that only a portion of their clientele, often less than 50 percent, is very poor. Reaching very poor people exclusively, whether desirable or not, remains a challenge.

Products and Services

When it comes to providing very poor people with relevant and useful services, designing the right product is as important as with any other market segment for the microfinance industry. The case studies show a wide variety of financial services available to very poor people. In some cases, the same products are offered to poor and very poor clients alike. In such cases, an active targeting strategy is often necessary, as SEF learned from experience: only after it began implementing an active targeting method did it manage to reach the poorest sections of the communities it served. Especially when clients have multiple options to choose from, the loan size, type of financial service, as well as the delivery system can all affect to some degree the poverty level of the most likely users. *Safe*Save in Bangladesh, for instance, manages to attract extremely poor households by allowing them to deposit small, variable sums of cash frequently, which is very relevant to the needs of this population.[12]

Similarly, mandatory group meetings might be a price that only very poor people might find worth paying to access savings or lending services. Both SEF and ASA use a solidarity group lending approach based on the Grameen model. They argue that very poor people can pay back loans just like the better-off middle poor. Instead of modifying their core microcredit model for their poorest clients, both organizations opted to provide very poor people with additional services to help improve their livelihoods as well as their ability to pay back small loans. In fact, all case studies appear to offer, each in a different degree, a range of non-financial services (discussed in more detail in the next section).

11. Hickson, *Reaching Extreme Poverty,* 1999.

12. Imran Matin, Stuart Rutherford, and Md Maniruzzaman, *Exploring Client Preferences in Microfinance: Some Observations from* Safe*Save*, CGAP Focus Note, no. 18 (Washington, DC: CGAP, 2000).

Other credit approaches build in repayment flexibility for loans extended to very poor people. Grameen Bank in Bangladesh, for instance, started a zero-interest credit program for beggars with a flexible repayment schedule. Repayment rates have not been published yet, but are said to be encouraging. In July 2005, half of the loan capital disbursed to almost 50,000 struggling members (as Grameen Bank prefers to call them instead of beggars) had already been paid back. Almost 1,000 borrowers had quit begging to devote their time to business instead.[13] Taking into account the vulnerability and irregular cash flow of people at risk of debt bondage, ILO's Social Finance Unit strongly promotes savings and, in the cases of loans, advocates for a flexible repayment mechanism that takes the vulnerability of this target group in account. Repayment remains a strict requirement, but in addition to sticks, borrowers are offered carrots to pay back the loan as well, including timely repayment refunds, repayment holidays, and tailored repayment schedules.[14] Even within a target group as vulnerable and poor as these freed laborers, preliminary (mostly anecdotal) findings showed a positive impact on business income and materialization of long-term projects.

The savings-led approach, promoted in large scale by NABARD, CARE, PACT, OXFAM, and others, stipulates that savings services are more important for very poor clients than credit facilities. In their models, members of savings groups pool their individual savings into a group fund, from which individual members can take loans at an interest rate set by group members themselves. Some savings-led models, such as the NABARD-promoted SHG-linkage model in India, for example, facilitate access to bank loans for strongly performing groups in order to expand the rather limited funds of such groups.

Finally, organizations like ARC and TUP offer program participants seed capital grants, which, although extended with certain conditions, do not have to be repaid. The outreach of these programs is limited by available funds, but there are strong indications that grant recipients are able to build productive assets and to increase their income through expansion or diversification of income-generating activities.[15] After the initial grant, ARC provides qualifying groups access to loans. TUP does not provide a follow-up stage itself, but the majority of its local partner agencies facilitate savings, while some allow successful TUP grantees to "graduate" to a loan program. In Cambodia, TUP partner agency W.O.M.E.N encourages regular savings after an initial grant by matching the savings of program participants (households living with HIV/AIDS) for one year, up to a maximum of US $25.

The majority of the programs examined by this paper deliver financial services to groups rather than individuals. SEF, for instance, utilizes Grameen Bank–inspired solidarity groups, while FFH promotes village banking. Most savings-led approaches also facilitate savings services through member-owned groups. Finally, ARC in West Africa offers enterprise grants and loans to groups of varying size, and the ILO project in South Asia delivers a range of financial services to groups of bonded laborers. Trickle Up and BRAC's IGVGD and CFPR/TUP programs on the other hand opt for direct service delivery to individuals. *Safe*Save in Bangladesh also targets individuals with flexible savings and loan products, based on the belief that clients, no matter how poor they are, usually prefer individual service.[16] Individual service delivery may be more appropriate, moreover, for clients who find it difficult to attend meetings or whose vulnerability makes them subject to too much stress from group pressure. On the other hand, the advantages of a group approach include reduced transaction costs, as well as a certain degree of social pressure that helps manage and allocate funds effectively. The benefits of group membership—including improved self-confidence and negotiation power—can also be extremely important for the most vulnerable community members.

Non-financial Development Interventions

Few approaches to assisting very poor people rely on microfinance services alone. In addition to the financial services, most poverty-focused organizations organize, by themselves or through strategic partnership with other institutions, non-financial interventions to strengthen the livelihoods of very poor people. Almost all such organizations seem to believe that this target group lacks the experience to manage a microenterprise and therefore offer some type of entrepreneurial and/or vocational skill development in addition to their core financial service. BRAC, for instance, promotes certain income-generating activities, such as poultry rearing, and teaches members relevant technical skills. Since it promotes certain business activities on a large scale, the IGVGD program also establishes appropriate marketing links for processing or selling products. Such specialized market development services, however, are rarely offered by most other microenterprise development programs that target very poor people.

More common than market development services is the provision of a social safety net to very poor people, such as food grain subsidies and basic healthcare services offered by BRAC's IGVGD program. Improved food security is often the most important change in the life of households that manage to increase their incomes. Very poor people also frequently suffer from chronic poor health. BRAC, ARC, the ILO bonded-labor project, and Trickle Up partner W.O.M.E.N. all provide healthcare services

13. See http://www.grameen-info.org/bank/BeggerProgram.html

14. Craig Churchill and Isabelle Guérin, *Microfinance-Led Strategies to Eliminate Bonded Labor*, independent paper, November 2004.

15. Jan Maes and Malika Basu, "Building Economic Self-Reliance: Trickle Up's Microenterprise Seed Capital for the Extreme Poor in Rural India," *Economic Self Reliance Review* 7, no. 2 (Winter 2005).

16. Stuart Rutherford, "Helping Mickles Make Muckles: Designing Suitable Swaps for the Poor," paper presented at the Banker's Institute for Rural Development, Workshop on Kick-Starting Microfinance, Lucknow, India, 2004.

as an important part of the safety nets through which they assist the poorest members of a community. When a breadwinner becomes sick, very poor households risk a rapid loss of assets because they face new expenses and may lose part (or all) of their income. Village bank members of Freedom from Hunger's "Credit with Education" program similarly receive awareness training and education on nutrition, sanitation, and health issues in addition to credit. Comparable health and nutrition education is often delivered via savings groups and self-help groups, assisted by organizations that promote savings-led microfinance models.

Social safety nets, skill training, healthcare, awareness-raising, and empowerment are not common ingredients in minimalist microfinance, which limits service provision strictly to credit and other financial products. The more vulnerable and poorer the target group, however, the more such non-financial services seem to take a more prominent place in what Hickson calls a *comprehensive* approach to poverty alleviation.[17] This approach is based on the belief that "very poor households are essentially incapable of effectively managing small businesses and therefore are unable to use financial services without first participating in awareness and capacity-building programs."[18] However, not all microfinance initiatives that target very poor people include comprehensive non-financial services. *Safe*Save, for example, sticks to financial services only "on the grounds that even extremely poor clients are able to make good use of properly tailored financial services without other support, and that provision of non-financial services is costly and of questionable benefit."[19]

The issue of how, and by whom, to deliver non-financial services is as important as the nature of these services. To understand the various poverty alleviation approaches that integrate microfinance into service delivery for the poor, it is important to understand the institutional framework of each organization that deals directly with very poor people. SEF, ASA, and BRAC, for example, are all locally established institutions with a strong social mission, broad outreach, solid capacity, and good access to donor funding. These organizations are strongly motivated to assist very poor people with an appropriate service package and have the capacity to deliver all aspects of an integrated package by themselves. Freedom from Hunger's alliance with local financial institutions results in a different task division. FFH partners (rural banks and credit unions) agree to add a new financial product (village banking) and adopt FFH's Credit with Education approach, which combines financial with non-financial services. Without a social mission or the capacity to provide non-financial services, these banks must create and train a new cadre of field staff and adopt new management systems to effectively do business with very poor women. In some cases, FFH consultants provide assistance with this.

The majority of organizations in the remaining cases studies are relatively small, local non-governmental agencies that generally use an integrated approach to development in small-scale projects. Typically, they rely on partnerships with international organizations or national donors, who only rarely provide them with the support required to provide an integrated package of financial and social services to their most vulnerable target groups. TUP, for instance, provides its partner agency, W.O.M.E.N., with funds for seed-capital grants, savings matches, and overhead, while W.O.M.E.N. relies on another donor to fund its home healthcare and education programs. Similarly, most savings-promoting agencies tend to focus primarily on building sustainable savings and loans groups, while counting on local partner organizations to deliver essential services that very poor people need to take full advantage of financial programs.

All initiatives examined in the study indicate that very poor people often lack confidence to engage in microenterprises or to cope with the responsibilities that come with a loan. Lack of self-confidence is often the reason why very poor people exclude themselves from microfinance programs in the first place. Even when there is no loan to be repaid, many poor people, especially women, are often initially afraid of the new responsibilities and new activities that are expected from them. Participating in group meetings, leaving one's house to sell a product, negotiating prices, or managing cash flows can be very intimidating to anyone who has never run a business.

Confidence building and women's empowerment are therefore high on the agenda of microfinance projects that have a strong poverty focus. The staff of the TCP program at SEF, for example, empowers and motivates the poorest community members to join the project, trains and supports them (many have no business experience) throughout the business cycle, and facilitates group learning rather than "teaching." When FFH and CRS jointly developed "Learning Conversations," they likewise sought to provide groups a problem-solving process rather than ready-made solutions. Learning Conversations are simple, 30-minute group discussions about a story or activity that resembles real issues faced by group members. Such conversations enable people to identify issues themselves, reflect on causes and consequences, consider solutions, and commit to action.

The ILO bonded-labor prevention projects, as well as other microfinance initiatives with a strong poverty focus, often educate their clients about human and labor rights. Self-help groups in India typically discuss family planning, women's rights, and domestic violence and often take joint action to improve their situation. In ASA, the group meetings facilitate discussions among members to share their issues and find solutions. Several organizations offer functional literacy and numeracy classes that enable women to understand and sign their own savings and loan passbooks. For example, PACT's original Women's Empowerment Program in Nepal (later improved and replicated in other countries as the WORTH program), concentrates on savings and literacy as the most important ways to empower women and help them build sustainable, self-managed savings groups.

17. Hickson, *Reaching Extreme Poverty,* 1999.

18. Ibid.

19. Ibid.

Organizational Features

Involving very poor people in microfinance programs requires visionary leadership and a commitment of substantial resources. Each of the initiatives featured in this paper resulted from a strong social mission and a willingness on the part of upper management to innovate. While buy-in from top management is essential, this commitment needs to be accompanied by an institutional culture dedicated to providing continued microfinance services to very poor people. In order to reach very poor people and provide them high-quality financial services in a cost-effective way, an organization needs different employee-performance incentives than those that currently guide loan officers, for example. Instead of focusing primarily on repayment rates, incentive schemes should also take outreach and impact into account.

In addition to monitoring financial performance, several microfinance organizations with a social mission have begun to monitor their social performance as well. Social performance management for microfinance organizations that seek to serve very poor people includes monitoring poverty outreach, impact, and cost-effectiveness. SEF in South Africa and ASA in India both have management information systems (MIS) that track financial and social impact, including client poverty, food, housing, and education levels. The information obtained from their monitoring systems is then used, among other purposes, to make operational adjustments and improve financial products for very poor people.[20] Both ASA and SEF report that, at one time, their impact monitoring systems alerted them to the fact that they were not reaching very poor people to the extent intended and consequently adjusted their programs.

Finally, while financial sustainability might not always be attainable, several examples have already demonstrated that reaching very poor people with microfinance services does not preclude an approach from becoming financially self-sufficient. In case of ASA and SEF for example, cross-subsidization through higher profits from lending to a less poor market segment enables outreach to a less profitable, very poor market segment. Other organizations, notably BRAC, TUP, and ARC, cannot achieve financial sustainability because they rely to varying degrees on grants or asset transfers. But, these organizations are increasingly expected to justify their higher costs by demonstrating deeper poverty outreach and/or higher impact on the lives of those they serve. Just like financially self-sustainable institutions, they, too, will need to continuously improve their cost-efficiency through technological innovations and improved delivery methods.

Conclusion

The case studies examined in this paper are testimony to the fact that very poor people can be reached successfully, if microfinance providers make a deliberate attempt to target them and offer services that suit their distinctive needs. The degree to which these approaches have been successful in assisting very poor people to move out of poverty is unclear because the majority of these case studies still lack convincing impact results. Moreover, there is no agreement on the role that microenterprise development should play in assisting very poor people. Should it offer protection (focus on expenditure smoothing, asset protection, and risk management) or have a promotional function (focus on income generation, asset building, and creating viable microenterprises)?

Similarly, the poverty levels of the target groups described in these case studies are often unknown, especially according to universally comparable indicators, such as those in the poverty tools currently being developed by USAID. Moreover, outreach and cost-efficiency data are also unavailable at present for a majority of the featured approaches. In order to evaluate the variety of microenterprise development services targeting very poor people, to extract good practices, and to make recommendations for future research into innovative approaches, it is imperative that promising case studies are analyzed in more depth and that data on outreach (depth and breadth), impact, and cost are verified in the field.

The annex in this note details an extensive case-study questionnaire that is being used for stage 2 of the Poverty Outreach Working Group's research and examination of the elements involved in effective programs that serve very poor people. In addition to the case studies outlined in this paper, more programs are being evaluated, including enterprise development approaches.[21] It is hoped that the stage 2 research and this questionnaire with its much deeper levels of evaluation and investigation will produce sufficient information to produce "hard" data that can elucidate key factors for reaching and providing services successfully to the extreme poor.

Despite the current shortage of "hard" data, some common elements are beginning to emerge. First, most microfinance practitioners seem to agree that financial services are not sufficient—in fact, alone they are often counterproductive—to lift very poor people out of poverty. However, there is less agreement on what kinds of complementary services should be offered to this target group in addition to financial services. Second, in order to successfully serve very poor people, they need to be explicitly targeted in most cases and assisted with products and services specifically tailored to their needs. Market research, therefore, needs to

20. SEF-South Africa, "Summary Sheet," Case Study on Social Performance, *Imp-Act,* Institute of Development Studies, University of Sussex, Brighton, UK, 2005.

21. For a description of the Poverty Outreach Working Group's stage 2 research, contact the facilitator of the POWG at the SEEP Network, Laura Foose at lfoose@alternative-credit.com.

understand the needs of microfinance clients and relate their needs to their different poverty levels. A majority of practitioners seem to agree that savings services respond better to the needs of very poor people, and that credit, if offered, should be made flexible enough to take into account the higher vulnerability of very poor people. But more evidence is needed on how effective such pro-poor financial services are, not only at reaching very poor people, but also at responding to their needs. Thirdly, almost all cases studies mention that building confidence and social capital among very poor people is as important as providing access to financial capital to take advantage of enterprise and market opportunities. Finally, providing effective and sustainable microenterprise development services to very poor people is not an easy challenge. It is hard, but it is possible. It requires persistence, visionary leadership, and a strong commitment across the entire organization through staff incentives, performance measurement, and a willingness to change and adapt. And understanding those factors that have led to success elsewhere can only help bring success.

Resources

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Annex
Case Study Questionnaire

1. Context

1.1. Country Socio-economic and Poverty Data

Table 1.1. Country Statistics

For large countries, if a program is implemented only in a given state or province, then data (if available)at state/province level should be provided as well.

1.1.1. National currency			
		Amount	Year
1.1.2. Population (millions)			
1.1.3. Population density per square kilometre			
1.1.4. Percentage urban / rural population			
1.1.5. Inflation			
1.1.5. Nominal exchange rate (current, X currency per US $1)			
1.1.6. PPP exchange rate			
1.1.7. HDI value			
1.1.8. HDI ranking			
1.1.9. GDP/capita (PPP US$)			
1.1.10. Local currency equivalent of $1/day international poverty line			
1.1.11. Population below national poverty line (%) †			
1.1.12. Population living below $1/day (%)			
1.1.13. Population living below $2/day (%)			
1.1.14. Population living below $2/day (%)			
1.1.15. Population growth rate			
1.1.16. Life expectancy			
1.1.17. HIV prevalence (% ages 15–49)			
1.1.18. Malaria cases (per 100,000 people)			
1.1.19. Population undernourished			
1.1.20. Children underweight			
1.1.21. Adult literacy	Male Female		
1.1.22. Net primary enrolment ratio	Male Female		
1.1.23. Net secondary enrolment ratio	Male Female		
1.1.24. Physicians per 100,000 people			
1.1.25. Health expenditures per capita			
1.1.26. Gender-related development index (GDI) rank			
1.1.27. Gender-related development index (GDI) value			

† Explain how the national poverty line is defined

1.2. Local Context—Target Area

1.2.1. Briefly Describe Local Socioeconomic Conditions

1.2.1.1. Geographic reference of location and size of population

List the area (province, state, district, etc.) where the program is operating and whether this area is predominantly rural, peri-urban, or urban (or mixed), the size of the population in that area, and if possible provide a map of the country which highlights the target area. Try to be as detailed as possible in describing the geographical target area: for instance, if within a given province, only certain districts are targeted, make sure to mention which ones and how they differ from others (remoteness, population density, etc.). Overall poverty data of the geographical target area are to be described in 1.3.1.

1.2.1.2. Local population characteristics

Describe for population in general (not just target group) within the target area, and explain as appropriate how this is different from the country-wide context. Target group characteristics are to be described in Section 3.

1.2.1.2.1. Ethnic groups

List the main ethnic groups within the target area, and mention if significantly different from country's overall ethnic composition.

1.2.1.2.2. Most important economic activities

What are the main economic activities of people living in the target area? Is population within target area mainly involved in agriculture, animal husbandry, fishing, industry, trade, services? Be more specific as needed: for instance, what type of industries, services? Is there significant migration for work to other areas? What types of economic activities are typical for this area when compared to national level? (If agricultural economy, more details can be given under 1.2.1.4.)

1.2.1.2.3. Cultural and religious background

1.2.1.3. Natural resources, economic activities, markets, unemployment

What are the most important natural resources in the target area? What type/size of markets are available and where are they located?

1.2.1.4. For rural areas only

Most important crops and livestock activities, water supply (irrigation, rain fed), seasons and number of harvests, land availability, ownership patterns and contracts. (Also indicate extent of subsistence farming versus commercial farming—cash crops.)

1.2.1.5. Occurrence of droughts, floods, natural disasters or conflicts

1.2.2. Describe Government Policies Aimed at Very Poor People

1.2.2.1. Social protection schemes by the government

These can include basic healthcare and/or health insurance, pension schemes, assistance to people with disabilities, the elderly, etc.

1.2.2.2. Policies aimed to integrate very poor people

(such as anti-discrimination and affirmative action laws)

1.2.2.3. Property and land rights

Are these the same for women and disadvantaged social classes? Is there an inheritance law that provides same rights to women and children? Is the law effective?

1.2.2.4. Local government and non-governmental development programs

Within the geographical target area, what type of development programs are run by local governments? Which are the main international and local NGO players and what type of activities do they support?

1.2.2.5. Other

1.2.3. Brief Profile of Microfinance Environment

1.2.3.1. List microfinance institutions and other financial institutions/services accessible by the poor

(MFIs other than subject of case study). Provide number of clients, if possible.

1.2.3.2. Describe dominant microfinance models and services

Examples are individual or group loans (such as solidarity lending, self-help group lending and village banking), savings (voluntary/mandatory). Traditional (informal) microfinance models can also be listed if they are common.

1.2.3.3. Demand versus supply of microfinance services

What indications exist on demand for financial services? How many clients are currently reached by microfinance and/or financial institutions in general?

1.2.3.4. Depth of microfinance outreach

How poor are the majority of microfinance customers? To what extent are very poor people reached?

1.2.3.5. Existing MF/MED initiatives aimed at very poor people

(other than case study).

1.2.4. Poverty

1.2.4.1. Existing poverty data and geographic areas of the country where extreme poverty is most concentrated

Include both urban and rural areas where extreme poverty dominates most. Include map and/or table with available poverty data (from national census, World Bank or UN surveys, participatory poverty assessments, etc.)

1.2.4.2. Does the target area fall within these extreme poor regions?

To what extent does the MFO target these regions? Show on same map or table, if possible. What factors has MFO considered to decide on its geographical target area? What are plans for future in terms of geographic expansion?

1.2.4.3. If known, what is the proportion of population in the target area living below $1/day and/or within bottom 50% of people living below the national poverty line?

How does this compare to the country overall and to its poorest regions? Include map or table, if available.

1.2.4.4. Main determinants of poverty

Which factors are strongly indicative of level of poverty within target area or country as a whole? Examples include: household size, gender and/or age of head of household, amount of land or animals owned, education level, remoteness, etc.

2. Organizational Framework

2.1. International Organization

2.1.1. Name and Type of the Organization (International NGO, Multilateral Agency, Foundation, Other)

2.1.2. Organizational Background

2.1.2.1. Mission and vision

2.1.2.2. Brief history

2.1.2.3. Type of support: Funding, capacity building, direct service provider, other

2.1.3. Development Intervention Approach

2.1.3.1. Primary target group and development focus

Who is the international organization's main target population (category of people: the poor, women, elderly, children, people with disabilities, refugees, etc.; geographic coverage: rural/urban, regions of the world). What is the international organization's primary development focus? Health, education, agriculture, human rights, economic development, microfinance…)

2.1.3.2. Specialized in MF/MED or multisectoral

Does the international organization employ an exclusive MF/MED approach or does it provide non-financial services as well?

2.1.3.3. MF/MED model

Without providing details (to be provided in later section) explain the main features of the MF/MED model: which service (credit, savings, insurance, enterprise development, etc.), individual or group basis, name (for example: solidarity lending, village banking, self-help groups, credit union, cooperatives…)

2.1.3.4. Other sectors

2.2. Local Organization

Table 2.2. Institutional Background

Issues	Observations
2.2.1.1. Name of the organization or institution	
2.2.1.2. Geographic area of operation	
2.2.1.3. Legal structure	
2.2.1.4. Registration status	
2.2.1.5. Regulation status	
2.2.1.6. Date established	
2.2.1.7. Specialized (MF/MED) or multisectoral	
2.2.1.8. Start of MF/MED activities	
2.2.1.9. Core business (credit, savings, etc.)	
2.2.1.10. Business model	
2.2.1.11. Target market— MF/MED	
2.2.1.12. Number of clients/participants— MF/MED	
2.2.1.13. Number of staff	

2.2.2. Organizational Development

2.2.2.1. Mission and vision

2.2.2.2. Brief history

2.2.2.3. Objectives

2.2.2.4. Organizational culture, leadership, innovation

How strong is vision and mission among staff? How motivated and loyal is staff to the organization? Is leadership top-down or bottom-up? Is innovation encouraged? How? To what extent contribute any of these to reaching very poor people with appropriate services?

2.2.2.5. Organizational structure, roles and responsibilities (diagram may be helpful)

Is the organization centralized or decentralized? Describe main divisions of the organization.

2.2.2.6. General qualifications and profile of field staff

What is job title of typical field staff member (with direct client contact)? What is job description? What are educational and work experience requirements for field staff? Is prior experience working with very poor people required? What is gender, ethnic, linguistic and socio-economic background (compared to clients)?

2.2.2.7. Training/sensitization (of staff, managers, board) on mission and poverty outreach

How is staff trained and sensitized with respect to reaching very poor people?
Is training mandatory? Who receives training? Board? Management? Field staff? How was the training developed and who are the trainers? Is there follow-up training?

2.2.2.8. Incentives for poverty outreach

What are monetary incentives to reach/serve very poor clients? What non-monetary incentives exist? Is there tension between financial and social job performance? How is this tension mitigated?

2.2.2.9. Governance

How is the organization governed? Who sits on the Board? What are the main responsibilities of the Board? If applicable, who are the main shareholders of the organization? Is the organization transparent about its goals and performance with staff, donors, and clients?

2.2.3. MF and MED Services

This section is meant to provide a *brief* overview of MF and MED services overall, not just those targeted at very poor people. If the organization provides customized services/products targeted to very poor people and/or if it targets very poor people exclusively, then these will be described in Section 5.

2.2.3.1. MF model and products/services

For loans, include range of products, average and minimum/maximum loan size, savings requirement, and typical loan terms (interest rate and method, loan duration). For deposit services, include average savings, savings collection mechanism, withdrawal policies, etc.

2.2.3.2. Description of main target group (if not very poor people)

What is the total number of clients, by service (loans/savings), if known? What is poverty level, gender, social status, professional activities and business types, ethnicity, etc. of most clients?

2.2.3.3. Selection and/or eligibility criteria

What are selection criteria? What method is used to verify eligibility?

2.2.3.4. Use of poverty assessment tool

Is poverty of general clients assessed? By what method?

2.2.4. Resources and External Assistance

Brief overview of the organization's balance sheet. What is the value of total assets and how are these covered by external loans, equity, donor grants, client savings? Who are the principal donors, lenders, equity holders? Does the organization generate income? How much? What are the financial efficiency and operational efficiency ratios? Portfolio at risk?

2.2.5. Relationships (Networks, Partnerships, Member Organizations)

3. Description of "Very Poor" Target Group

Focus to the extent possible on statistics for the "very poor" group only. If these data don't exist, clarify for each category whether the data is for overall client group or for very poor clients only. If client data are not available for certain categories, available national data can be used.

3.1. Individual and Household Conditions

3.1.1. Gender

3.1.2. Age

3.1.3. Disability and chronic disease

3.1.4. Culture or religion

3.1.5. Ethnicity

3.1.6. Membership in Socioeconomic Groups

(such as caste and class)

3.1.7. Household Type, Composition, Marital Status

3.1.8. Literacy

If clients are mixed gender, provide by gender if known.

3.1.9. Education

If clients are mixed gender, provide by gender if known.

3.2. Socioeconomic Conditions

3.2.1. Refugee or IDP status

3.2.2. Economic Conditions

3.2.2.1. Underemployment

For those who rely on working for others (laborers, etc.), how many days on average can they find work? What are the main income and/or subsistence sources of very poor clients?

3.2.2.3. Land ownership

Do very poor clients own land or lease land? If so, how much on average? To which degree does own cultivation meet annual household subsistence needs?

3.2.2.4. Asset ownership

What are typical assets (productive and/or household) owned by very poor people?

3.2.2.5. Income level

Provide daily wage levels for labor (male/female) if available. Are data available on household income derived from microenterprise activities?

3.2.3. Geographic Conditions

3.2.3.1. Rural/urban, remoteness from trading centers and roads, population density

3.2.3.2. Access to markets

3.2.3.3. Access to banks

3.2.3.4. Access to doctors and clinics

3.2.3.5. Proneness to natural disasters

Only to be completed in the rare case where very poor people/target group experiences different natural calamities from the rest of the population, because they live in distinct areas where they are more prone to drought, flooding, etc.

3.2.4. Major Vulnerabilities and Risks Encountered by Target Group

What are most common vulnerabilities experienced by very poor people? How do they cope with them traditionally (before becoming clients)?

4. Poverty Targeting and Assessment

4.1. Poverty Measurement Practices

4.1.1. Poverty Data Collection

Are poverty-related indicators are collected on clients?

4.1.1.1. Which poverty indicators are collected?

List poverty indicators collected. Are indicators universal or dependent on other factors, such as regional differences or community feedback and participation?

4.1.1.2. What poverty assessment tool is used?

What is the name of the poverty tool? Are the data collected through a standard survey? Interview and/or observation? Through a participatory process? Other?Include any relevant features of poverty tool.

4.1.1.3. When and how often are poverty data collected?

At "baseline"? Before or after admitting clients? Any repeat measurements during program enrollment, group membership or subsequent loan cycles?

4.1.1.4. Which clients are measured?

All incoming clients? Only a sample? Are non-clients measured too?

4.1.2. Use of Poverty Data

How are poverty data used by the organization?

4.1.2.1. What, if any, are poverty categories distinguished by poverty data?

For example, categories such as non-poor, middle-poor, poor, very poor, etc.

4.1.2.2. How are each of these categories defined?

If poverty data are quantitative, do poverty categories fall within certain score intervals? If so, explain. Does the organization have qualitative definitions for certain poverty categories?

4.1.2.3. How are poverty data used by organization?

4.1.2.3.1. For client monitoring?

Explain procedure and decision factors.

4.1.2.3.2. For client screening?

Explain procedure and decision factors.

4.1.2.3.3. For client targeting?

More details to be provided under "4.3. Poverty Targeting"

4.1.2.3.4. For impact monitoring/assessment?

Also used for product development?

4.1.2.3.5. For other uses?

Such as fundraising, PR, etc.

4.2. Available Poverty Data

4.2.1. Poverty Distribution Results by Internal Poverty Data Collection Method

(Assuming that the organization collects routine poverty data on clients, as would be described in 4.1.1.) Provide results in terms of client proportions for each of the poverty categories defined by the organization in 4.1.2.2.

4.2.2. Poverty Data from a Recent Poverty and/or Impact Assessment Study

If available, provide results in terms of client proportions by poverty categories as defined in the study. Who performed the study? When? Which target area? How big was the sample?

4.2.3. Poverty Data Obtained through Use of USAID Certified Poverty Tool

This will be conducted by external consultant trained in use of USAID certified poverty tools, once these become available. These tools might not be available soon in certain countries.

4.2.3.1. Which USAID certified poverty tool was used?

Which poverty criterion was used: $1 a day or bottom 50% below poverty line?

4.2.3.2. Provide details on poverty assessment exercise

Time conducted, sample size and selection

4.2.3.3. Poverty results

Proportion of very poor clients versus poor clients

4.2.4. Interpretation of Poverty Data

4.2.4.1. Comparison between internal and USAID poverty tool data

4.2.4.2. Organization's own interpretation of poverty outreach

Is poverty outreach satisfactory? What explains poverty outreach results?
Is organization planning to maintain or improve poverty outreach? Why? How?

4.3. Poverty Targeting

4.3.1. Does the Organization Use a Poverty Targeting Tool?

Is the poverty assessment tool described above used as poverty targeting tool? What other tools are used? (for instance, geographic targeting, providing products or using procedures that only attract very poor clients)

4.3.2. What Is the Client Poverty Target Level?

Defined by one cut-off level? If so, which one? Or are there different targets for different categories of poverty? Explain.

4.3.3. Staff Use of Poverty Targeting

4.3.3.1. Training/sensitization (of staff, managers, board) related to poverty outreach

How is staff trained in poverty targeting?

4.3.3.2. Staff incentive schemes

What are monetary incentives for poverty targeting? Provide details on how poverty targets are related to monetary incentives. What non-monetary incentives exist? What other job performance goals is staff held accountable for (other than poverty outreach)?

4.3.4. Issues with Poverty Targeting

If organization is using a poverty targeting tool, what issues has it encountered by using the tool?

5. Products and Services

This section explores the various products and services offered to very poor clients. However, since certain organizations do not just target very poor clients and since products/services these are not necessarily different for very poor clients than for less poor clients, make sure to *clarify whether products/services are specifically targeted towards very poor clients, or whether they are on offer for a wider range of clients.* On the other hand, if the organization provides customized products, services, and/or assistance to very poor clients, it might be helpful to briefly compare with what less poor clients are being offered.

5.1. Financial Products

Table 5.1. Microfinance Product Details

Product Features and Policies	
5.1.1. Microcredit	
5.1.1.1. Individual or group product	
5.1.1.2. Loan terms (maturity, interest rate, interest type, flexibility)	
5.1.1.3. Loan source	
5.1.1.4. Loan use	
5.1.1.5. Loan size (first loan, average loan, maximum loan size)	
5.1.1.6. Meeting requirement and frequency	
5.1.1.7. Mandatory savings requirement and amount	
5.1.1.8. Collateral requirement	
5.1.1.9. Other eligibility requirements	
5.1.1.10. Loan default policy	
5.1.1.11. Repayment flexibility	
5.1.1.12. Other	
5.1.2. Microsavings	
5.1.2.1. Individual or group	
5.1.2.2. Savings type	
5.1.2.3. Deposit/collection location	
5.1.2.4. Deposit frequency, amounts, flexibility	
5.1.2.5. Meeting requirement and frequency	
5.1.2.6. Savings terms (interest rate, minimum deposit, etc.)	
5.1.2.7. Withdrawal and savings use policies	
5.1.2.8. Record keeping and accounting	
5.1.2.9. Investment of deposits	
5.1.2.10. Other	
5.1.3. Microinsurance	
5.1.3.1. Microinsurance type	
5.1.3.2. Group or individual product	
5.1.3.3. Term	
5.1.3.4. Eligibility requirements	
5.1.3.5. Renewal requirements	
5.1.3.6. Rejection rate	
5.1.3.7. Voluntary or compulsory	
5.1.3.8. Product coverage (benefits)	
5.1.3.9. Key exclusions	
5.1.3.10. Pricing—premiums	
5.1.3.11. Pricing—co-payments and deductibles	
5.1.3.12. Pricing—other fees	
5.1.4. Micrograms	
5.1.4.1. Individual or group product	
5.1.4.2. Amount (and number of grants)	
5.1.4.3. Eligibility requirements	
5.1.4.4. Grant use and other conditions	
5.1.4.5. Savings requirement or matched savings arrangement	
5.1.4.6. Straight grant, no interest or partial repayment	
5.1.4.7. Other	

Provide any further narrative and details relating to microfinance products that were not captured in the table above.

5.2. Microenterprise Development Services

Table 5.2. MED Service Details

Service Types and Features	
5.2.1. Training	
5.2.1.1. Financial literacy	
5.2.1.2. Business planning and management	
5.2.1.3. Marketing	
5.2.1.4. Recordkeeping and bookkeeping	
5.2.1.5. Skill development	
5.2.1.6. Technical assistance	
5.2.1.7. Training method	
5.2.1.8. Other?	
5.2.1.9. Costs to client	
5.2.2. Business Consultancy and Advisory Services	
5.2.2.1. Individual or group sessions	
5.2.2.2. Frequency	
5.2.2.3. Topics	
5.2.2.4. Confidence Building	
5.2.2.5. Other	
5.2.2.6. Costs to client	
5.2.3. Market Linkages	
5.2.3.1. Input supply	
5.2.3.2. Marketing Assistance	
5.2.3.3. Market Information	
5.2.3.4. Producer organizations	
5.2.3.5. Business linkage promotion	
5.2.3.6. Quality Control	
5.2.3.7. Other	
5.2.3.8. Costs to client	
5.2.4. Other	
5.2.4.1. Employment generation	
5.2.4.2. Technology development	

Provide any further narrative and details relating to microenterprise development services that were not captured in the table above.

5.3. Non-financial Services

In the table below, list services under each of the non-financial categories that are offered to very poor clients of the organization. Mention whether the organization itself provides these services or a partner organization (such as NGO, government, etc.)

Table 5.3. Non-financial Services Details

Service Types and Features	
5.3.1. Nutrition	
5.3.2. Health and Sanitation	
5.3.3. Education	
5.3.4. Social Capital Development	
5.3.5. Other	

Provide any further narrative and details relating to non-financial services that were not captured in the table above.

5.3.6. Empowerment and Confidence Building

What type of activities and programs help build confidence of clients?

To what extent are clients involved in decision related to product and service design, loan terms and use, loan approval, etc. To what extent do clients have more negotiating power in financial and business transactions?

Which challenges remain?

5.4. Design and Product Development

5.4.1. Program Rationale/Theory of Change?

How are the program's services and products (and other outputs) envisioned to create changes?

5.4.1.1. Main issues and challenges of very poor clients which the organization seeks to address

What did the organization learn about client behavior that led to the services and products aimed at very poor people?

5.4.1.2. Intended outcomes and impacts

What are the intended (short-term) outcomes at client, household, microenterprise and community level? What types of impact are expected in the long term?

5.4.1.3. How are products and inputs designed to achieve those intended impacts?

5.4.2. Concept Development

5.4.2.1. Client survey demand/needs assessment

Did the organization conduct client surveys, needs assessment or other research related to issues faced by very poor people? (if not specifically by very poor people, was any such research conducted on poor clients in general?) What types of tools were used? What were the main findings?

5.4.2.2. Competition analysis

Has the organization analyzed its competitors? If so, how has this affected its niche in terms of products/services and costs especially with a focus on very poor clients? Are other organizations working with same type of clients? What is their approach?

5.4.2.3. Self-assessment

Does the organization conduct self-assessments? If so, how are they conducted? Who is involved? What have been lessons learned from such exercises?

5.4.3. Product/Service Design

5.4.3.1. Product/service design process

Explain how the organization decided to provide products/services to very poor clients, how these were designed?

5.4.3.2. New versus modified products/services for very poor clients

Was a new product/service specifically tailored to the needs of very poor clients or was an existing product/service tweaked to meet their needs? What were the cost trade-offs?

5.4.3.2. Risk assessment and product design

What types of risks were identified for working with very poor clients? How did this affect product/service design?

5.4.3.1. Prototype development and testing

How prototypes were eventually developed? Did the organization rely on internal or expertise? Who was involved in development? What type of initial feedback was solicited before pilot testing?

5.4.4. Pilot Testing

Which clients (and how many) were involved in pilot testing of new products/services for very poor clients? What lessons were learned during pilot testing? What product modifications were made?

5.4.5. Rollout

How did the rollout of the new product go? Were any new issues encountered? Modifications within the organization needed?

5.4.5. Product/Service Review and Assessment

How has the organization obtained feedback on its new services/products? Who is involved in collecting this information?

5.4.6. The Product Development Cost

5.4.6.1. Total cost

Any information available on the total cost of developing a new product or service?

5.4.6.2. How were they funded?

Which financial resources make new product development possible?

5.4.6.3. Outsourcing during the development process

Did organization outsource the product development process? If so, to whom? Why?

5.4.7. Feedback Loop

What are the organization's systems of information flow and feedback? What type of essential client information is used to better understand their needs and ultimately guide decision making for product development?

5.5. Implementation Process

5.5.1. Process

Provide a short step-by-step description of the process (and timeline) from targeting a new area or group and selecting/recruiting clients to providing products/services and potentially graduating very poor clients to new services.

5.5.2. Logistics

What are important logistical considerations in reaching and assisting very poor people? Issues can include mobility/distance, selection, training, monitoring/counseling, money transfer, etc.

5.5.3. Information System

How are data obtained, processed, analyzed and used? Who keeps what type of records (and in what form)? Details on type of data can be further explained in 6.1.1.

6. Results

6.1. Method of Measuring Results

6.1.1. Type of Data

What information does management use to track results (effectiveness), performance (efficiency), client feedback and impact?

6.1.2. Data Analysis and Use

How are the data analyzed? How often? How are the data used for day-to-day operations, for strategic planning?

6.2. Impact

Review of existing evidence on outcomes and impact. Compare with 5.4.1.2. Intended Outcomes and Impact.

6.2.1. Poverty Impact

Provide any evidence from internal monitoring or impact assessments as well as from third-party impact studies related to the movement out of poverty of very poor clients, both according to economic and non-economic poverty indicators. If impact data cannot be disaggregated between poor and very poor, provide overall data and clearly identify poverty range. If possible, also provide indications of how long clients have been in program before impact is noted.

6.2.2. Client Satisfaction and Feedback

What have been client satisfaction levels with services provided? What suggestions are made to change products/services?

6.3. Cost Effectiveness and Sustainability

6.3.1. Scale and Replicability

6.3.1.1. Strategy for scale?

What is the organization's strategy for increasing scale? How many very poor clients does the organization want to reach (and when)? What is planned proportion of very poor clients of total clients? What actions and resources are needed to achieve this?

6.3.1.2. Replicability of program or service

How replicable is this program or service under other conditions (other parts of the country, other countries, and other cultural/geographic/socioeconomic conditions? What are essential factors for replication?

6.3.2. Financial and Operational Self-Sufficiency *(if applicable)*

Provide information on following ratios, if applicable. Indicate whether ratios relate to entire client population or to very poor clients only. Explain if other measures are used (for non-credit programs especially).

6.3.2.1. Financial expense ratio

6.3.2.1. Operational expense ratio

6.3.2.1. Cost per client

6.3.2.1. Clients per staff member

6.3.2.1. Average loan balance per borrower

6.3.2.1. Average savings balance per saver

6.3.2.1. Portfolio at risk

6.3.2.1. Tailoring of product/service

If products/services were tailored specifically to the needs of very poor clients, how did this affect cost and efficiency?

6.3.2.1. Other?

6.3.3. Cost-Effectiveness of Non-financial Services?

Distinguish different types of non-financial services and indicate cost and cost recovery.

6.3.4. Strategies to Cover/Reduce Costs?

Why measures were taken to reduce costs and to make products/services financially sustainable. Examples are delivery mechanisms, technological innovation, scale, cross-subsidization, private or public partnerships, etc. Distinguish between financial and non-financial services. If no full cost recovery, what is the strategy for future sustainability?

Note

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Principal Authors

Jan Maes, Independent Consultant, Friend of SEEP
Laura Foose, Alternative Credit Technologies

Contributing Author

Gaamaa Hishigsuren, IDEAS (Institute for Development, Evaluation, Assistance, and Solutions)

Editor

Kristin Hunter

Contact

For additional information or to order additional copies, contact The SEEP Network.
1825 Connecticut Avenue, NW
Washington, DC 20009-5721 USA
Tel: 202.884.8808
Fax: 202.884.8479
E-mail: seep@seepnetwork.org
www.seepnetwork.org

About SEEP

SEEP is an international network of over 70 organizations committed to reducing poverty through microfinance and enterprise development. SEEP members are active in over 140 countries and reach over 25 million microentrepreneurs and their families. SEEP promotes professional standards of practice in microfinance and enterprise development, conducts capacity building activities for its members and other practitioners, creates and disseminates publications for application in the field, and serves as a center for collaboration on a broad range of sector-related issues.

–Dana de Kanter, Executive Director