

# **Imp-Act**



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

***Action Research  
Programme***

Microfinance and Poverty:  
***Developing systems for monitoring depth of  
poverty outreach and impact***

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***Imp-Act***

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

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**Edited by:**  
Georgina Blanco-Mancilla  
Katherine E. Knotts

## Introduction

*Imp-Act* is a three-year action-research programme, supported by the Ford Foundation, that aims to improve the quality of microfinance services and their impact on poverty through the development of credible and useful impact assessment systems which reflect the priorities of the institutions and their clients. *Imp-Act* brings together 30 Microfinance Institutions (MFIs) in 20 countries around the world, international NGOs, policy-makers, donors, and a team of academics from three British universities: the Institute of Development Studies at the University of Sussex, the University of Bath and the University of Sheffield.

The *Imp-Act* programme has three main objectives:

- To develop reliable and useful impact assessment systems based on the priorities of microfinance organisations and their stakeholders;
- To broaden the scope of impact assessment to include wider poverty impacts; and,
- To influence thinking and practice relating to the role of microfinance in poverty reduction.

Although the alleviation of poverty is a concern for the whole programme, one thematic group is working specifically on the issue of microfinance for the very poor. This group builds on the experience of poverty-focused partner MFIs from around the world to develop systems for measuring, monitoring and reporting on depth of poverty outreach and poverty impact. The concerns are two-fold:

- To assist MFIs in developing credible internal information systems to allow for the design of effective products and services, and for strategic decisions to be based on both financial and social performance data; and,
- To develop internationally comparable benchmarks on poverty outreach and impact that can be used to inform allocation of public funds supporting microfinance organisations.<sup>1</sup>

The 'Microfinance for the Very Poor' seminar, upon which this report is based, brought together *Imp-Act* partners and other key actors in poverty-focused microfinance to discuss current debates regarding poverty outreach, impact and social performance monitoring and assessment. Participants drew from their experiences in order to examine how to strengthen the measurement tools available to them, as well as how to improve transparency and effectiveness in the poverty outreach and impact of microfinance.

Building on the range of approaches being used by different MFIs and international organisations, part of the agenda was to develop simple, cost-effective, verifiable procedures for assessing poverty outreach and social performance and to ensure credibility and international comparability.

This report represents work-in-progress for *Imp-Act* and its partners, presenting the learning that has occurred through the action-research process until May 2003. Most information in this report was taken from the 'Microfinance for the Very Poor' seminar participants' presentations. In other cases, the source is referenced. Final analysis of findings and publication of the work of *Imp-Act*, including its work on microfinance and poverty, will take place in the second half of 2004.

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<sup>1</sup> Greeley, Martin (2002) 'Sustainability and poverty outreach: trade-off issues.'

## I. Background

The significant role of microfinance for development efforts around the world, particularly poverty reduction efforts, is undeniable. Where delivered appropriately, microfinance enables clients to protect, diversify, and increase their income, as well as to accumulate assets, reducing their vulnerability to income and consumption shocks. Thus, microfinance is an important component in strategies towards the achievement of the Millennium Development Goal (MDG) of halving absolute poverty by 2015.<sup>2</sup>

Furthermore, evidence demonstrates that microfinance has the potential to contribute to the achievement of many of the other MDGs. The availability of financial services has proved to be a critical factor in reducing poverty and its effects, revealing positive results on nutrition, education, health, gender equity, and the environment.<sup>3</sup> For example, it is reported that education is commonly one of the first investments microfinance clients make with increased income, raising enrolment rates and duration of schooling. Other impact assessments report that client households have better nutrition and health practices, thus improving health outcomes for women and children. Microfinance, particularly group-based methodologies, have the potential to increase the confidence of poor people (especially women), empowering them to more effectively confront inequities. This is particularly the case where this is pursued as an active strategy by the MFI. Microfinance clients report enhanced confidence and self-esteem at the individual level, as well as more political and legal awareness, resulting in greater political participation and collective bargaining power.

In addition to direct impacts on clients, there are potentially non-client beneficiaries of microfinance. Increasing access to financial services can have impacts on the wider structures that affect poverty. Microfinance interventions can be seen to reduce capital market distortions, reduce vulnerability and open access to other markets, increasing the economic welfare of poor people.

While these positive direct and indirect impacts have been demonstrated, there is still the need for a concerted effort by practitioners, donors and policy-makers to build on existing opportunities to achieve more consistent and significant impacts on poverty.<sup>4</sup> Outreach and impact do not occur by chance but must be addressed through carefully-designed interventions. Organisations that wish to reach out to the poorest, empower women or achieve other social objectives must design deliberate strategies to do so. Key to developing these strategies is the use of market research and impact assessment. Processes for understanding the characteristics and the needs of specific groups of clients should be activated in parallel with a continuous monitoring of changes in client status, as well as more in-depth research to understand the nature of, and causality behind, these changes. This will ensure that the MFI is achieving its desired outcomes and contributing to its strategic vision.

There is burgeoning diversity in the microfinance movement which is reflected in the increasing focus on developing appropriate models and approaches that speak to not only the objectives of the MFI, but the needs of their target client group. In order to ensure that outreach strategies are being met, the client monitoring and impact assessment that supports them must also relate to the context of the MFI and its clients. To that end, the 'Microfinance for the Very Poor' seminar addressed the need for flexible and consistent measurement tools that can be adapted by the different MFIs to suit their needs and aims, while also producing information that is reliable and comparable enough to be reported to external stakeholders.

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<sup>2</sup> Simanowitz, Anton (2003) 'Ensuring impact: demonstrating poverty outreach and impact'

<sup>3</sup> For further information see Littlefield, E., Morduch, J., Hashemi, S. (2003) 'Is microfinance an effective strategy to reach the millennium development goals?'

<sup>4</sup> *Ibid.*

Financial performance measurement is important not only for the organisation's internal service improvement process, but also to ensure the appropriate use of funds intended for poverty alleviation. This becomes significant when considering the North American legislation requiring USAID to demonstrate that half of its microenterprise development funds reach the very poor. Extreme poverty is defined as those living below 1 US\$ per day (adjusted for purchasing power parity) or those in the bottom 50 per cent of those people living below a national poverty line. In order to monitor whether this requirement is being met, USAID (United States Agency for International Development) will have to report on the poverty level of clients reached by its partners. While in the past loan size has been used as a proxy for poverty outreach, this since has been shown to be a poor measure of outreach. During the next two years, USAID will develop and implement more rigorous and internationally comparable measures of poverty outreach, and by October 2004 the agency will certify two measuring methods. In response to these changes, many MFIs are now keen to develop improved poverty assessment and measurement tools.

The *Imp-Act* programme aims to contribute to this process by supporting partners in developing poverty outreach measurement/monitoring systems that are based on their specific organisational priorities and context (rather than seeking to adopt generic methods that may not be locally relevant), as well as to ensure that those poverty benchmarks are nationally and internationally comparable.

## **II. Issues on measuring poverty outreach and impact**

### ***A: Poverty assessment, targeting, screening and monitoring***

A number of initiatives are current taking place which aim to increase the understanding of the poverty outreach of microfinance. It is important that some clarity is reached in terms of definitions and the criteria by which each tool will be assessed.

**Poverty assessment** is a one-off process that aims to provide a picture at a single moment in time of the poverty status of an MFI client. Indicators must be selected that are sensitive to the poverty status that is being measured. For example, under the US legislation the goal of the poverty assessment is to provide a picture of clients above or below a single poverty line. The indicators selected to support this must therefore be sensitive at the US\$1/day or bottom 50 per cent of the national poverty line level, they do not need to be sensitive amongst clients who are well below or well above this line.

Other poverty assessments seek to provide a profile of the poverty level of all clients. This is particularly important in market segmentation where an MFI wishes to understand its client profile and develop differing services based on this understanding. In this case indicators selected need to be sensitive to differences in poverty across a spectrum of poverty levels. Often it is not possible for one indicator to be sensitive across this spectrum, therefore a number of indicators need to be selected. In the case of Prizma's Poverty Score Card, for example (see Annex 7), those indicators selected are sensitive across the high poverty, medium poverty and less poverty levels. In particular, food consumption indicators are naturally very sensitive where poverty is high, but as income increases they become quite insensitive to income changes. Household assets such as televisions or stereos are sensitive at the mid-level, while the possession of a car is sensitive at the high income level.

A further important consideration in poverty assessment is whether a profile of the entire clientele of the MFI or just new clients is assessed. Whilst it is certainly true to say that poverty does not change rapidly, some of the sensitive indicators used to determine

extreme poverty may change significantly during the first year or so of programme membership. Increased household cash flows generated by a loan, may for example have a dramatic short-term impact on food consumption. Where ever possible therefore poverty assessment should be conducted with incoming clients.

**Poverty screening:** Many MFIs seek to direct their programme towards a certain group of clients. They therefore use screening tools that assess the poverty level of incoming clients and screen out those who do not qualify. Screening tools essentially set a poverty line and ask a simple question of whether the client is above or below this line. Indicators selected for screening therefore need to be sensitive at this line.

**Poverty targeting:** Screening relies on potential clients taking the initiative to apply for membership of an MFI. Many MFIs (for example the Small Enterprise Foundation in South Africa) feel the need to actively target poorer clients. Their experience shows that the marginalisation and vulnerability of very poor people means that they often do not have the self-confidence to come forward on their own initiative. Poverty targeting is therefore used as a first step towards identifying and motivating very poor people to join the programme. Simple forms of poverty targeting rely on indicators that are sensitive around a poverty line. However, organisations such as SEF use poverty targeting as a tool to segment their market and understand the differing poverty of their clients. This is particularly important in terms of identifying the most marginalised people with whom to start the programme, and therefore create a demonstration effect to other poor people, when they see the success of these clients.

**Poverty monitoring:** A number of *Imp-Act* partners have set up systems for monitoring the changing poverty status of their clients over time. This is an important management tool for tracking improvements in clients lives, and identifying where poverty alleviation strategies are effective or ineffective. Monitoring systems depend on the ability to be able to measure changes in poverty status for individual clients. It is therefore very important that the indicators selected remain sensitive at different levels of poverty so that these changes can be tracked.

### ***B: Reporting standards in poverty assessment***

Nine leading poverty-focused MFIs participating in *Imp-Act* are developing and documenting practical and operational ways of measuring outreach and impact on poverty. They all agree that in order for performance measures to be effective at an industry-based level they must be simple, flexible and consistent.

Yet, a number of barriers to developing reporting standards still exist. First, there is confusion about the concept of poverty, which can be grasped through different dimensions such as income, basic needs, capabilities or social exclusion, and different magnitudes like absolute and relative poverty or depth of poverty. This confusion has deepened since there is more dissatisfaction with income-based measures and multidimensional definitions have become more widely adopted.<sup>5</sup> Secondly, there is a perception that outreach and impact measurement is difficult, time-consuming and costly. Thirdly, there has been little incentive to measure impact and poverty outreach as donors have not, to date, required MFIs to report them.

To develop reliable reporting standards, a consensus has to be reached on what MFIs can and should measure. *Imp-Act* suggests three dimensions to poverty that MFIs can measure:

**(1) Direct income impacts** focus on poverty levels of clients at entry, during the programme and at the time of exit. Measuring poverty outreach by income levels is

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<sup>5</sup> Greeley, Martin (2003) 'Poverty and microfinance – assessing performance'.

clear, easy to use and linked to the MDGs, but its accuracy can be questioned due to changes and instability of income over time.

**(2) Direct social impacts** include a wide range of non-income poverty and welfare indicators like vulnerability, housing, education, health, and empowerment. These indicators are easier to measure and more stable over time.

**(3) Indirect or wider impacts** take into consideration economic and social impacts on non-clients, communities and beyond, such as political mobilisation and labour markets. This dimension is important for MFIs that do not specifically target poor or very poor clients but achieve poverty impacts through indirect mechanisms.

When monitoring social performance, indicators need to be kept relatively simple. As a first step, *Imp-Act* suggests that MFIs should collect data on who they reach, including data on the poverty profile of clients and non-clients, as well as the poverty concentration of the areas where the MFI operates compared to national poverty data. The next step is to analyse how this poverty status data relates to basic client performance data such as loan size, savings, loan use, and satisfaction.

To generate basic information about changes in client status in relation to an MFI's social objectives, a small number of social indicators like education, housing, food, empowerment and poverty score should be monitored and then analysed, disaggregating them by client profile. These indicators can be selected in relation to the MDGs, allowing for useful reporting to external stakeholders.

It should be noted that changes in client status relating to social indicators are not necessarily attributable to the intervention of the MFI, and therefore do not give credible information about impact. However, through the management of social performance in response to these changes or through detailed follow-up research, credible conclusions about impact are possible.

International benchmarks for social performance can be of two types. For the monitoring of depth of poverty outreach it is important to have a fixed income-based poverty line against which MFIs can report. The aim is therefore to promote the generation of poverty outreach data that can be compared to national and international poverty line data. However, as this level of detail would be extremely restrictive if applied to all social performance indicators, *Imp-Act* proposes a much more general framework for social performance auditing as the benchmark. The benchmark would provide a set of questions relating to the MFI's social performance objectives, systems for monitoring client status, and systems for measuring impact. This would then be verified through the use of external auditing, using a format such as the CGAP Poverty Audit,<sup>6</sup> among others.

In addition to the contribution to service design and external accountability, social performance monitoring helps to strengthen an organisational culture of commitment to poverty reduction goals. The internal process of working towards social goals helps focus staff on these objectives and improves the MFI's effectiveness in reaching these goals at all levels.

### **III. Poverty outreach assessment**

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<sup>6</sup> The Consultative Group to Assist the Poorest (CGAP) has an external audit service for MFIs. It is a critical tool to provide a professional and independent opinion on the condition of the organisation.

Efforts for standardising poverty assessment are being made by *Imp-Act* partner MFIs, however, each of them have different approaches according to their context and needs. Building on these experiences, the *Imp-Act* programme aims to contribute towards the development of reliable and comparable industry-level standards for poverty outreach. In this section, partner MFIs' experiences in poverty assessment are explained as well as other organisations' work on developing poverty outreach indicators.

*Imp-Act* is undertaking a three-step process in support of the development of poverty outreach monitoring with its partners.

The first step is to review and strengthen the existing systems that the MFI has for measuring poverty outreach. Each MFI has objectives based on an understanding of poverty in the context within which it works, and thus has developed its own context-specific measures of poverty outreach. This review ideally draws upon existing secondary data, (and in some cases a separate poverty assessment using the CGAP poverty assessment tool<sup>7</sup>), looks at the quality of the indicators being collected in terms of their correlation with locally recognised indicators of poverty, their relationship with the objectives of the MFI, and their sensitivity to changes in poverty over time.

This review also includes discussions about how information is collected and used. Information can be used to provide baseline data for future assessments, to provide information for poverty targeting, to provide continuous data about the profile of the MFI's clients in terms of poverty level, and/or provide monitoring information about the changes in poverty status of the MFI's clients and drop-outs.

Secondly, data collected by the MFI is correlated to national poverty survey data. Using this data, it is often possible to identify indicators that correspond to indicators included in the MFI poverty assessment system.

Finally, once a comparison has been achieved with national poverty data, it is possible to relate the MFI's data to international poverty-line data, which can be achieved using dollar-a-day measures.

### ***A: Approaches to poverty assessment***

**Freedom from Hunger** (FFH) is developing a set of methods that can be used to measure MFIs' poverty outreach, which require a minimum of data collection and non-specialised analysts. But most important is that the indicators measure "absolute" poverty rather than "relative" so that they can be compared to other international standards such as income poverty lines. Existing methods are costly and complex, both in data collection and analysis, and only measure clients' relative poverty, e.g. CGAP Poverty Assessment Tool (PAT)<sup>8</sup> and Participatory Wealth Ranking (PWR).

The food security scale proves to be successful as a universal measure of poverty. Its validity is demonstrated in comparison to household and individual caloric and nutrient intakes, food inventory and economic measures such as household food expenditures and weekly household income. This method is based on specific conditions, experiences and behaviours that consistently characterise the phenomenon of food insecurity and hunger, such as anxiety that food or money may be insufficient, the experience of

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<sup>7</sup> *Imp-Act* is grateful to CGAP in supporting the implementation of poverty assessment with several *Imp-Act* partners.

<sup>8</sup> The PAT is a survey-based poverty assessment methodology developed by CGAP to allow for external assessment of the poverty outreach of MFIs. It provides rigorous data on clients' levels of poverty relative to people within the same community through a poverty index that allows for comparisons between MFIs and across countries. For more information visit [www.microfinancegateway.org](http://www.microfinancegateway.org)

running out of food without money for more, substituting fewer or cheaper foods, and reduced food intake, i.e. fewer and smaller meals.

According to these observations, four classifications are distinguished in the food security scale:

1. *Food secure*, for people that have access at all times to enough food for an active, healthy life;
2. *Food insecure without hunger*, referring to people with anxiety about adequate food, limited variety or quality of foods;
3. *Moderate hunger*, for instances of reduced intake by adults and/or consequences such as physical sensation of hunger; and,
4. *Severe hunger*, including more diverse and frequent instances for adults and instances for children.

FFH is testing the effectiveness of three levels of detail in the food security measure – one, six or 18-item scales (see annex 1). The one-item scale consists of one simple question shown to be closely correlated to more detailed dietary intake information. FFH aims to test the validity of a one-item and six-item food security scale for identifying *poor* and *very poor* households as compared to the international poverty lines, that is, those living on US\$1 and US\$2 per day.

The food security scale is already being used by other organisations. The **Foundation for International Community Assistance** (FINCA) carried out a poverty assessment of eight affiliates in the year 2002 through a survey using thirteen variables. Out of this experience, a redesign of the questionnaire eliminated seven variables and added seven new variables or social performance indicators to include food security (using the FFH scale), health, housing, education, empowerment, social capital, and client satisfaction. This restructured questionnaire was used in a follow-up survey carried out in 2003 in eleven affiliates. The survey covered incoming and current clients, as well as non-clients, from several countries in Latin America and Africa.

Although the problem of attribution needs addressing, this research has yielded evidence of two powerful wealth multipliers resulting from village bank microfinance programmes: investments in education and investments in working capital. Education indicators (such as the number of children in school and the level of education attained) were of high importance in assessing poverty and social performance. As these indicators reflect changes in income capacity over generations, and from the client's perspective, they are seen as an "insurance" issue. Both education and working capital indicators will form a central part of FINCA's future poverty assessment work.

However, it was argued during the seminar that predicting the income generation capacity of clients based on the number of children in education could be problematic. This is because wider economic factors, such as the kinds of jobs available in the local labour market, are influential in how a society views the intrinsic value of education, as well as how decisions about household expenditures are made. Therefore, a direct correlation between children's educational attainment and income generation capacity might not be a valid one. Nevertheless, educational attainment is likely to help in an environment where unemployment is high since it is through education that useful skills to self-employed entrepreneurs are acquired.

**Opportunity International** (OI) and **Sinapi Aba Trust** (SAT) previously used average loan size as percentage of GDP to measure poverty levels of their clients, but eventually found it to be a problematic indicator. In truth, loan "size" is more than just the amount disbursed, hence the need to factor in average balance, term, etc. Thus, this indicator

often says more about the MFI in terms of loan sizes, limited portfolio and types of products, rather than the client's actual depth of poverty.

SAT previously collected information on a number of poverty indicators through a "means test" form completed for all new clients. This was used as baseline information to include a poverty assessment dimension as part of an impact assessment conducted in 2002, using the SEEP/AIMS tools. The use of the means test was discontinued in late 2001 due to complaints that it took too much time, and that clients were uncomfortable with the sensitivity of some questions. A fragment of the questionnaire used can be seen in annex 2a.

SAT applied poverty comparisons both cross-sectionally and longitudinally. It was found, despite an average of 34 months of programme membership, including five loan cycles, that there was no significant difference between current mature clients and incoming clients. However, when comparing mature clients at entry with their status two years later, there was a significant difference (see annex 2b). Some possible explanations for these results are the continued effects of an economic crisis suffered two years prior to the study, or that SAT is drifting "up-market" as new clients tend to come from the same level as current ones. However, the limitation of this approach of poverty assessment is that it only gives relative changes in poverty status rather than absolute.

The **Small Enterprise Foundation** (SEF) uses participatory methods, such as the Participatory Wealth Ranking (PWR) system, to identify and target the very poor, helping to draw characteristics of poor and very poor people in each village and determine a cut-off line for the very poor, therefore identifying those eligible for its TCP<sup>9</sup> programme which is especially designed for the poorest. This strategy proved to be both necessary and vital to ensuring poverty outreach.

The PWR process, developed by SEF<sup>10</sup>, has different stages. First, mapping the village and listing households is necessary to have a wider perspective and a clear idea of the context. Then, the wealth ranking process is carried out through card sorting, triangulation and scoring by three reference groups that were previously set up in the village for this purpose. Finally, using the PWR system, a cut-off line is defined and the process of selecting the poorest is done by SEF's staff in office. This qualitative method provides a relative measurement of poverty levels in each village, but as explained below, studies have proven that this measurement can be linked to absolute poverty levels, i.e. income poverty lines.

One unique aspect of the PWR is that it includes community as a whole in the process. The system relies upon criteria of poverty and well-being that the communities themselves develop in order to classify poverty and well-being, and subsequently rank household in their community according to the framework. Not only is the process cost-effective, but the participatory focus gives the clients a sense of ownership over the process that is important to the success of the programme.

**PRIZMA**, in the Balkans region, has been working closely with the Microfinance Centre and *Imp-Act* in order to identify strong non-economic proxy indicators to assess clients' poverty status (taking into account the depth and complexity of poverty in Bosnia-Herzegovina) and monitor impact over time on those indicators. Creating a set of non-economic indicators becomes especially important within the context of the post-war and transitional economy, where the characteristics of poverty cannot be captured by traditional indicators. To this end, Prizma has used data from the UNDP's Early Warning System, a recent Living Standards Measurement Survey (LSMS), the CGAP poverty

<sup>9</sup> Tšhomišano Programme, Tšhomišano is a Northern Sotho word meaning "working together".

<sup>10</sup> For more information on the PWR: see

[www.microfinancegateway.org/poverty/target/pwr.html](http://www.microfinancegateway.org/poverty/target/pwr.html).

assessment and a national omnibus survey, as well as focus group research with clients and staff input.

While there is still much to learn, Prizma's research revealed that poverty in Bosnia-Herzegovina is particularly prevalent among ethnic minorities in each community and among certain groups, such as returnees and refugees, women, the elderly (pensioners), and people in rural areas. There is also an ethnic characteristic to poverty. Poverty in the country is very complex, encompassing "new poor" (that is, asset-rich but cash-poor, educated, aging and isolated), as well as "traditional poor" (those with few assets and little or no education). Finally, and perhaps most importantly, the studies have shown that shelter, typically a robust indicator of wealth, does not correlate strongly to poverty levels in the region amongst the "new poor" – those with a broad asset base but limited income.

The first of its kind in the Balkan region, the poverty assessment work takes the form of a scorecard which allows Prizma to accurately and cost-effectively gauge relative poverty levels, as well as track changes in client well-being over time. This system is helping the organisation to achieve three critical objectives. First and foremost, it seeks to determine the relative and absolute poverty levels of clients; second, strengthen the targeting of, and service to, poor and low-income clients; and finally, to measure and improve social impact.

Relying on both qualitative and quantitative methods has allowed the organisation to define poverty in a way that is meaningful in both the traditional and the post-war sense, as well as to gain a more thorough understanding of the complexities of poverty in the region, identifying the areas where poverty is most prevalent. Such information has also been useful in refining its strategic position and re-engineering its performance management system to more insure greater depth of outreach, improved service quality, and the overall financial health of the organisation.

**Professional Assistance for Development Action (PRADAN)** has a very successful poverty assessment system primarily based on detailed geographic targeting, but also including wealth ranking. CGAP poverty assessment data shows that PRADAN reaches all but the poorest 5 per cent and richest 20 per cent of the population (some results of this assessment are presented in annex 3). PRADAN uses national and local data to select the poorest regions, as well as the most marginalised communities within these regions. The geographic targeting system is based on observations such as degradation of natural resources, adherence to traditional technologies and mode of production, low productivity of labour and capital and lack of social and economic infrastructure. To ensure that the poorest people are reached, the organisation has an approach of area saturation, that is, attempting to cover the whole of the poor and very poor populations in the identified "poverty pockets", excluding the visibly better off, mapping needs and opportunities and developing a proposed course of action in each area.

**Lift Above Poverty Organisation (LAPO)** carried out a poverty assessment aiming to compare client and non-client status in the organisation's operational areas, to frame these areas with national standards as well as to compare them with international poverty levels, and to review the participation form developed by LAPO as a tool for poverty screening of potential clients. To improve the reliability of the indicators used in this form, the organisation is comparing the indicators with indicators used and tested in the CGAP poverty assessment (see Annex 4b). Indicators in the participation form are each given a numerical weighting and used to generate an overall poverty score. This will also be fine-tuned based on the strength of each indicator's correlation with the CGAP poverty assessment.

The participation form (see annex 4a) includes indicators such as education, housing conditions, income and food. It is structured to give baseline information about clients'

profiles to be captured on the Management Information System (MIS). This is being used as part of a future survey, as a screening tool, and as part of an ongoing impact monitoring process.

A different approach was taken by **BRAC** in Bangladesh. BRAC carried out a survey in 2001 collecting information from more than 300 NGOs. BRAC found that only 20 per cent of the surveyed NGOs have some programmes for the ultra poor and that these were related to relief, land resettlement, income and employment generation, health, education, social development and other special programmes. BRAC also found that there is no clear definition of the ultra or very poor among NGOs and there is inappropriate targeting due to lack of skills and knowledge on targeting methodologies.

BRAC has developed several programmes targeted at the poorest, including the Income Generation for the Vulnerable Group Development (IGVGD), and the Challenging the Frontiers of Poverty Reduction Programme (CFPRP). The former aims to alleviate the poverty of the poorest women in society – those that are landless and widowed – by providing food distribution, microcredit provision, and skills training. This programme has proven to be successful and cost-effective in reaching the ultra poor. Despite this, a quarter of the women in the programme do not gain any long-term benefits and usually return to destitution after the 24-month food ration cycle; therefore, the CFPRP was developed to enable the ultra poor to provide better and more innovative means for creating sustainable livelihoods.

In this context, BRAC's CFPRP differs from existing NGO programmes. It has provisions for working on multiple fronts of poverty, combining both the protectional and the promotional approaches to entitlement by providing enterprise development training, asset transfers, social development, essential health care and action-research. Beneficiaries of the programme have to meet strict selection criteria such as land ownership, begging, domestic work and child labour, in addition to being capable of getting involved in an income generating activity. After the programme cycle, the women are expected to have achieved a more stable asset base that would allow them to graduate to a more mainstream microfinance programme.

BRAC's targeting methodology for the CFPRP combines aspects of geographical targeting, local knowledge from the community and programmes, as well as the indicator-based targeting using participatory approaches such as the PWR. The methodology was successful in creating reliable targeting indicators and ensuring their application.

**CARD** uses a selection criteria based on income, productive assets and a housing index. The housing index is a proxy measure of poverty based on a score card (see annex 5) where points are allocated for each main component of the house, i.e. size and materials of the roof and walls. Based on this score, the household is classified as not eligible, moderately poor or very poor. CARD gives priority to the very poor in follow-up interviews and motivation.

The scoring is done by field staff who conduct a visual survey of the house in question, without the necessity of interviewing or even meeting the members of the household. Overall, CARD found that this method is both convenient and inconvenient. It can be adapted to the house styles of MFIs in different countries. It provides a quick but crude measure of poverty, making it necessary to follow up by verifications of poverty status (through income and productive assets indicators) of those who pass as eligible.

While housing indicators such as CARD's have proven to be critical indicators of poverty in the developing world, they have only limited applicability in countries like Bosnia-Herzegovina, where housing quality may not indicate the level of poverty of the newly-poor in the post-conflict environment. As PRIZMA's work demonstrates, in this context

poverty and vulnerability are common among those with an important asset base but with very limited and intermittent sources of income.

The degree to which these various approaches to poverty assessment have proved to be useful depends on the MFI and the goals it seeks to achieve, as they are largely context-specific. The challenge, as described later in this paper, then becomes making local poverty assessment relevant to an external audience as well as linking it to international measures of poverty.

### **B: Poverty definitions**

An MFI's understanding of poverty affects its social objectives as well as its strategies for meeting those objectives. The experiences of the *Imp-Act* partners in defining poverty, as well as their methodologies for targeting the poor, are described below.

In **SEF's** experience, the PWR methodology provides in-depth information about poverty. A poverty score can be assigned to each household and a descriptive poverty definition can be detailed for each ranking. Although PWR generates a range of indicators, SEF has found after conducting ranking with more than 100,000 people that the characteristics of poverty can be broadly grouped into four categories. The very poorest group is identified as lacking any form of reliable or consistent income, are food-insecure, rarely purchase clothes and when they do these are second-hand, have few assets, a poor shelter, bad health, low self-esteem and few economic opportunities, among other things. The people in the second category, while very poor, are slightly better off than the poorest, are mainly casual labourers, pensioners with financial responsibilities without sufficient earnings, and generally face problems sending children to school as well as coping with emergencies. The "poor" group includes people that are able to buy basic food and cover other basic needs, have businesses, their children go to school but cannot afford tertiary education, are employed but with low income. The fourth group includes people who are not poor, are better off or are rich; identified as having cars, running businesses, having secure jobs or reliable income sources, their children go to better schools, and others.

**PRIZMA** developed four working categories to classify poverty levels. (1) The *very poor* are those living with less than US\$1 per day and in the bottom half of those below the poverty line. (2) The poor are identified by those living with less than US\$2 per day and are in the top half of those below the poverty line. (3) The vulnerable and low-income are those just above the poverty line. (4) The non-poor are those identified well above the poverty line and not facing significant vulnerability.

**BRAC** defined the extreme poor as those who cannot afford to consume the prescribed 1805 kcal per day. In order to be more accurate, two groups within the extreme poor were differentiated, those consuming less than 1600 kcal are grouped as "EP1" and those consuming between 1600 and 1805 kcal per day are grouped as "EP2". Although the organisation is aware that a single variable is not enough to identify those living in extreme poverty, this indicator has been useful for targeting purposes.

As mentioned above, **LAPO** developed a scale from the means test it uses. Five levels of poverty are identified according to the Poverty Score produced from the participation form: the least poor have a score ranging from 1 to 20, the less poor go from 21 to 40, then average poor from 41 to 60, the poor range from 61 to 80 and the very poor are in between 81 and 100. LAPO's potential clients are identified as having a poverty score of 41 and above, that is, the average poor, the poor and the very poor. (See annex 4a)

Poverty level categorisation provides a profile of target and non-target groups useful to benchmarking and making it easier to link local measures with national and international poverty level standards.

### ***C: Linking local to national and international standards of poverty***

In order to verify poverty outreach, local measures have to be comparable and linked to national and international measurements. Some of the programme partner MFIs, such as SEF, have been successful in achieving this.

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

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

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

Having established that the PWR and PAT methodologies produce a substantially consistent identification of the poorest households, the PAT methodology was applied to the National Income and Expenditure Survey (IES) 2000 in South Africa to examine the likelihood of being poor according to PAT indicators and poor according to a conventional money metric poverty line.<sup>11</sup>

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

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

**PRIZMA** is now developing an impact monitoring system, using a "scorecard" (see annex 7) that enables the institution to report on poverty outreach based on robust and meaningful indicators rather than on average outstanding balance as a percentage of GNP (Gross National Product) per capita, a convention that has proven an easy but inadequate means of gauging an institution's depth of outreach. The scorecard includes indicators such as food security, assets, education and employment. This system provides clients' poverty levels in absolute terms that can be easily linked to the country's poverty line and the one dollar per day measure to determine clients' absolute poverty status in a national and international context.

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<sup>11</sup> Van de Ruit and May (2003) "Triangulating qualitative and quantitative approaches to the measurement of poverty: a study case in the Limpopo Province, South Africa".

As previously explained, **LAPO** conducted a CGAP poverty assessment useful to review the indicators in its participation form. By doing this, the organisation was able to judge the relevance of those indicators in the Nigerian context and the correct weight that each of them should have in the participation form. These indicators are then linked to national poverty levels and the one dollar per day measure enabling LAPO's clients' poverty status to be comparable to international estimates.

#### **IV. Continuous monitoring of client poverty status**

As explained above, the term "social performance" refers to the broad concern with social and economic impacts of microfinance, including non-income poverty dimensions.<sup>12</sup>

The microfinance industry is shifting from a predominant emphasis on financial sustainability to a renewed concern with social performance and the "double bottom line". At the same time, MFIs are recognising the need to collect and analyse this data themselves on an on-going basis, instead of relying on external audits, in order to better respond to the needs of their clients and improve their products and services.

Key to the achievement of improved social performance is the generation, by the MFI, of information that is credible and useful, the development of appropriate organisational systems, and a commitment to learn and use the information collected. Client-led microfinance must be responsive not only to the needs of clients evident from market-research, but to a deeper understanding of the underlying social, economic and political processes in which an MFI operates.

Some form of standards or benchmarks will be useful, both to MFIs themselves that have a commitment to their social objectives, and to the industry as a whole in its search to ensure high standards of operation and secure funds. On this issue there is still further work to be done.

An important initiative presented at the Microfinance and Poverty seminar is a move by **CGAP** to develop a set of simple operational indicators, contextualised for different regions and cultures, which would provide general information on the dimensions of social performance that would be integral to any social performance monitoring activity. CGAP is currently trying to build consensus on a set of such indicators to provide the industry with internationally-accepted standards and to demonstrate the contribution of microfinance to the achievement of the Millennium Development Goals. The five sets or dimensions of indicators proposed by CGAP to assess MFIs' social performance are:

1. *Depth of outreach*: MFIs should focus on the very poor in their objectives and programme design through the use of targeting tools, ensuring access to clients living in absolute poverty<sup>13</sup> as well as other excluded groups.
2. *Alleviating poverty and hunger*: This indicator can be measured by observing improvements in housing structure of client households, increases in assets, employment generation, food security and the smoothing of consumption patterns, crisis coping, and access to emergency finances from the institution.
3. *Schooling*: Simple measures to show MFI's impact on education are primary school attendance (percentage of eligible children), secondary school attendance

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<sup>12</sup> See Simanowitz, Anton (2003) "Microfinance, poverty and social performance: overview".

<sup>13</sup> Absolute poverty defined as those living with less than US\$1 per day.

(percentage of eligible children), and institutional products or messages for promoting the practice of schooling for both boys and girls.

4. *Access to health care services*: To monitor this indicator a number of observations should be made such as the access to clean water, percentage of children immunised, percentage of women receiving pre-natal care, use of modern medical facilities (e.g. doctors or modern health care at childbirth), and the institutional information, messages, or referrals on health care.
5. *Women's empowerment / social capital*: These two indicators consider women clients as a percentage of total clients, women's involvement in public sphere activity (e.g. elections or local adjudicating body), as well as legal awareness (divorce, inheritance).

Additionally, a number of *Imp-Act* partners and collaborators are developing their own impact assessment systems that will provide a basis for the reporting of social performance in terms of a number of dimensions of poverty impact, for internal and external use.

**Opportunity International** (OI) and its partner MFI, **Sinapi Aba Trust** (SAT), have been working in the past two years to develop an impact monitoring system incorporating four elements: Poverty measurement, impact measurement, exit rates and client satisfaction level.

The four proposed indicators for a poverty index (which will be validated by testing them against a CGAP poverty assessment) are defined as follows:

1. *Income ratio*: Uses proxies for household income such as business income and household expenditures. This ratio can be related to a national poverty line or to international poverty level standards such as living with less than one or two dollars a day,
2. *Household dependency ratio*: Is calculated by the number of income earners per number of dependents;
3. *Housing status*: Uses a scale from 1 to 4 depending whether it is own house, rental, family compound, or other; and,
4. *Access to utilities*: Also uses a scale from 1 to 4 depending on the services available such as water, electricity, toilet and telephone.

The last three indicators are relative measurements.

SAT is also testing and incorporating indicators (some less directly-measurable) for social and spiritual impact such as savings and assets, education, spirituality, empowerment and decision-making, community involvement and health. Overall, initial indicators for SAT's impact monitoring system have been prioritised as personal cash savings, business income, children's education, religious life, business employment, community involvement, decision-making power and housing quality.

Under the premise that social and institutional performance are mutually re-enforcing goals, **PRIZMA** has focused on three critical objectives: (1) measuring and deepening outreach in an environment of poverty and growing inequality; (2) improving service quality and institutional performance in an environment of growing competition; and (3) measuring and improving social impact. To these ends, the organisation has sought to enhance social performance by institutionalising organisational learning and deepening

poverty outreach, focusing fundamentally on leadership, organisational culture, incentives, and systems.<sup>14</sup>

For example, through the scorecard system described above, PRIZMA is able to measure discrete change in clients' well-being over time, generating useful information for both internal and external stakeholders about the organisation's social performance. Although this system does not fully capture the complex and context-specific nature of poverty in Bosnia-Herzegovina, it does enable the organisation to understand and clearly demonstrate the extent to which it is reaching its target client group, and thus fulfilling its social mission.<sup>15</sup>

**CARD** is now working with FFH to develop a "progress tracking" system to better achieve its objectives of sustainability and positive impacts. Progress tracking refers to an information system embedded in regular programme operations and includes components of financial performance, supervision, service quality and client outcomes including satisfaction. It uses a mixture of qualitative and quantitative methods to provide essential information; furthermore it fosters an institutional culture of learning and client responsiveness.

Previous impact assessments led CARD to identify four core indicators in progress tracking: housing, productive assets, children's education and food security. After analysing the two approaches used in the food security index, CARD field staff felt that the classifications based on a single-item question were less reliable. With the 10-item food security classification each question is scored considering more specific conditions.

In CARD's experience, the food security survey provided more accurate information about the poverty level of its clients than the previously-used means test. It also provided evidence that the organisation is indeed reaching poor people. The food security survey also yielded useful information about operational issues and mission drift.

**BRAC** has carried out three impact assessments in different years using both survey and PRA (participatory rural appraisal) methods to measure individual, household and village impacts. To measure these client changes over time, BRAC looked at changes in income, expenditure and in accumulation of physical assets, and at investment on education.

BRAC's findings proved to be very useful in assessing both performance and mission drift by analysing poverty trends and poverty mobility in those geographic areas in which the organisation works. Discussion have taken place about developing an ongoing monitoring system, but to-date this has not yet been initiated.

**LAPO** is using its poverty score as part of its impact monitoring system. In order to track changes in the clients' poverty status, the organisation uses the same questions as the participation form (see annex 3a) to monitor each client on every loan application. The information is then captured in LAPO's management information system (MIS) to record changes in client status over time.

The monitoring processes described above essentially represent the monitoring of client status over time. Sound client status monitoring systems provide a critical foundation for impact assessment. However, an MFI's awareness of who its clients are, and how their status changes is only a precondition for successful impact assessment, not a substitute.

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<sup>14</sup> Kline, S. (2003) 'Sustaining social performance; institutionalising organizational learning and poverty outreach at Prizma'.

<sup>15</sup> *Ibid.*

This is due to the fact the monitoring process will only reveal changes in poverty status, but not the causality that lies behind those changes.<sup>16</sup>

Related to this is the concern raised by many of the MFIs during the 'Microfinance for the Very Poor' seminar: *how might an institution be sure that the impacts they witness can be attributed to a particular microfinance intervention?* Indeed, it is impossible to be completely certain in attributing financial and social impact to microfinance programmes; nevertheless, identifying tendencies and trends within society is useful for the organisational learning process, and crucial to the process of strengthening service provision, meeting institutional goals and improving impact upon clients.

## V. Next steps

The microfinance industry is moving from a predominant emphasis on financial sustainability to a renewed concern with social performance and the 'double bottom line.' At the same time, MFIs are recognising the need to collect and analyse this data themselves in order to respond to the needs of their clients, in order to improve their products and services, to better achieve their operational mission, retain their clients and improve operational efficiency. Given the wide range of contexts, objectives, stakeholders, skills, and resources of MFIs, it is essential that each MFI thinks through the impact assessment process for itself. The experience of others should provide guidance and inspiration, but never a blueprint.

This paper outlines progress being made by the *Imp-Act* programme in both conceptualising social performance goals – focusing particularly on assessing poverty outreach and impact – and finding ways to monitor and assess change. Key to the achievement of improved social performance is the generation of information that is credible and useful, appropriate organisational systems, and a commitment to learn and use the information generated. Client-led microfinance must be responsive not only to the needs of clients evident from market research, but to a deeper understanding of the underlying social, economic and political processes in which an MFI operates.

Finally, some form of standards or benchmarks will be useful, both to MFIs themselves that have a commitment to their social objectives, and to the industry as whole in its search to ensure high standards of operation and secure subsidised funds. These benchmarks need to balance the need for MFIs to develop contextualised systems that serve their specific objectives with the need for externally credible information that will allow for comparisons to be made between organisations and contexts. On this issue there is still further work to do be done.

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<sup>16</sup> Copestake, J. (2003) 'Simple standards or burgeoning benchmarks? Institutionalising social performance monitoring, assessment and auditing of microfinance.'

## VI. Presenters, Organisations and Contact Information

Aniceta Alip	CARD	<a href="mailto:aralip@yahoo.com">aralip@yahoo.com</a>
Ted Baumann	Community Microfinance Networks	<a href="mailto:tedb@iafrica.com">tedb@iafrica.com</a>
Brian Beard	Opportunity International	<a href="mailto:bbeard@opportunity.net">bbeard@opportunity.net</a>
Frank DeGiovanni	Ford Foundation	<a href="mailto:f.degiovanni@fordfound.org">f.degiovanni@fordfound.org</a>
John de Wit	SEF	<a href="mailto:john@sef.co.za">john@sef.co.za</a>
Christopher Dunford	Freedom from Hunger	<a href="mailto:cdunford@freefromhunger.org">cdunford@freefromhunger.org</a>
Stanley Garuba	LAPO	<a href="mailto:laop@infoweb.abs.com">laop@infoweb.abs.com</a>
Maja Gizdic	PRIZMA	<a href="mailto:Maja@prizma.ba">Maja@prizma.ba</a>
Shantana R. Halder	BRAC	<a href="mailto:Imran.m@brac.net">Imran.m@brac.net</a>
Syed Hashemi	CGAP	<a href="mailto:shashemi@worldbank.org">shashemi@worldbank.org</a>
John Hatch	FINCA	<a href="mailto:JHatch@villagebanking.org">JHatch@villagebanking.org</a>
Imran Martin	BRAC	-
Julian May	Natal University	-
Zanele Mbeki	Prime Minister's Office	-
Narendranath	PRADAN	<a href="mailto:pradhanho@ndb.vsnl.net.in">pradhanho@ndb.vsnl.net.in</a>
Lydia Opoku	Sinapi Aba Trust	<a href="mailto:lopuku@sinapiaba.com">lopuku@sinapiaba.com</a>
Anton Simanowitz	IDS	<a href="mailto:a.simanowitz@ids.ac.uk">a.simanowitz@ids.ac.uk</a>
Cathy van de Ruit	Natal University	-
Gary Woller	SEEP	<a href="mailto:gmw@email.byu.edu">gmw@email.byu.edu</a>

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## VIII. Annexes

### Annex 1. Food Security Scales.

#### a. Food sufficiency question, one-item scale

*Which one of the following statements best describes the food eaten in your household?*

- A) Enough and the kinds of food we want to eat
- B) Enough but not always what we want to eat
- C) Sometimes not enough to eat
- D) Often not enough to eat

#### b. Six-item scale

1 . 'The food that (I/we) bought just didn't last, and (I/we) didn't have money to get more.' Was that often, sometimes, or never true for (you/your household) in the last 12 months?

- (1) Often true
- (2) Sometimes true
- (3) Never true
- (D, R) (Don't know or Refused)

2 . '(I/we) couldn't afford to eat balanced meals.' Was that often, sometimes, or never true for (you/your household) in the last 12 months?

- (1) Often true
- (2) Sometimes true
- (3) Never true
- (D, R)

3 . In the last 12 months, since (date 12 months ago) did (you/you or other adults in your household) ever cut the size of your meals or skip meals because there wasn't enough money for food?

- (1) Yes
- (2) No (GO TO 5)
- (D, R) (GO TO 5)

4 . [Ask only if 3 = YES] How often did this happen – almost every month, some months but not every month, or in only 1 or 2 months?

- (1) Almost every month
- (2) Some months but not every month
- (3) Only 1 or 2 months
- (D, R)
- (X) Question not asked because of negative or missing response to question 3

5 . In the last 12 months, did you ever eat less than you felt you should because there wasn't enough money to buy food?

- (1) Yes
- (2) No
- (D, R)

6 . In the last 12 months, were you ever hungry but didn't eat because you couldn't afford enough food?

- (1) Yes
- (2) No
- (D, R)

Source: [www.ers.usda.gov/briefing/foodsecurity/surveytools/FS\\_SHORT.doc](http://www.ers.usda.gov/briefing/foodsecurity/surveytools/FS_SHORT.doc)

**c. 18-item scale**

<b>Household items:</b>
Worried food would run out before (I/we) got money to buy more
Food bought didn't last and (I/we) didn't have money to get more
Couldn't afford to eat balanced meals
<b>Adult items:</b>
Adult(s) cut size of meals or skipped meals
Respondent ate less than felt he/she should
Adult(s) cut size or skipped meals in 3 or more months
Respondent hungry but didn't eat because couldn't afford
Respondent lost weight
Adult(s) did not eat for whole day
Adult(s) did not eat for whole day in 3 or more months
<b>Child items:</b>
Relied on few kinds of low-cost food to feed child(ren)
Couldn't feed child(ren) balanced meals
Child(ren) were not eating enough
Cut size of child(ren)'s meals
Child(ren) were hungry
Child(ren) skipped meals
Child(ren) skipped meals in 3 or more months
Child(ren) did not eat for whole day

Source: [www.louisville.edu/~pplaem01/390/hunger/hungerone.htm](http://www.louisville.edu/~pplaem01/390/hunger/hungerone.htm)

## Annex 2. SAT's poverty assessment.

### a. Means test, discontinued in late 2001 (excerpt)

**63.** What is the construction material of the house where you currently live? Do not ask if you can observe easily.

4\_\_Terrazo; 3\_\_Block; 2\_\_Wooden; 1\_\_Adobe/Bricks; 0\_\_Others

**64.** Do you own or rent your house? Probe. 4\_\_Part or full Owner/has Title;  
3\_\_Inhrt/Title; 2\_\_Caretkr; 1\_\_Rented; 0\_\_Squatting

**65.** What is the current condition of your house? 2\_\_New&Sturdy; 1\_\_Old but Sturdy;  
0\_\_Dilapidated

**66.** Do you have any of the following Utilities inside your house? \_\_\_Water; \_\_\_Elect.;  
\_\_\_Toilet; \_\_\_Telephone

\_\_\_Is your house easily accessible from a road (road, street or good path in front)?

(If all 5 utilities checked = 4pts.; 3 or 4 utilities = 3pts.; 2 = 2 pts.; 1 = 1pt.; 0 = 0pts.)

Points = \_\_\_\_\_

**67.** What type of Cooking Fuel? 4\_\_LPG/Elect; 3\_\_Kerosene; 2\_\_Coal-Pot;  
1\_\_SwithStove; 0\_\_None

**68.** Do you own a Refrigerator? 4\_\_New; 3\_\_Fairly New; 2\_\_Reconditioned;  
1\_\_Old; 0\_\_None

**69.** Television? 4\_\_New Color; 3\_\_Reconditioned Color; 2\_\_New B&W; 1\_\_Recon  
B&W; 0\_\_None

**70.** Do you own a Video Deck? 3\_\_New; 2\_\_Reconditioned/Second hand;  
1\_\_Old; 0\_\_None

**71.** What type of Sound System? 4\_\_NewSoph; 3\_\_RecondSoph; 2\_\_NewModest;  
1\_\_Old; 0\_\_None

**72.** What Type of Bed do you use? 4\_\_King/Queen/Double; 3\_\_Single; 2\_\_Mattress;  
1\_\_Mat; 0\_\_None

**73.** Do you own any of the following Furniture? \_\_\_a. Wardrobe; \_\_\_b. Room Divider;  
\_\_\_c. Sideboard; \_\_\_d. Dressing Mirror; \_\_\_e. Dining set; \_\_\_f. Living Room Set of  
furniture

(5 or 6 items = 4pts.; 4 = 3pts.; 3 = 2pts; 2 = 1pt.; 1 = 0pts.) Furniture Points= \_\_\_\_\_

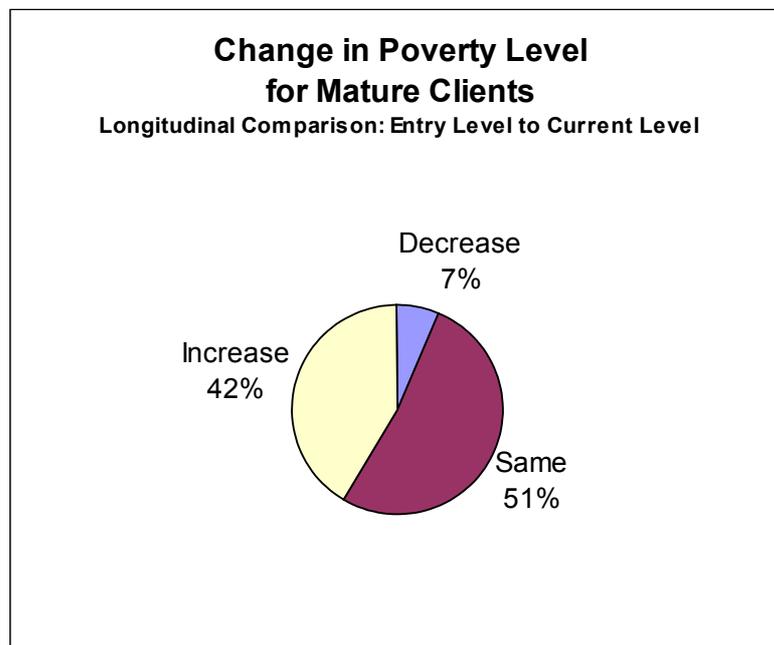
**74.** What form of transportation do you own? 4\_\_New Vehicle; 3\_\_Second Hand  
Vehicle; 2\_\_MotorBike; 1\_\_Bicycle; 0\_\_None

(Interviewer: Skip to #1a - Do NOT fill in #75 and #76)

**75.** Total Points from Questions 63-74: \_\_\_\_\_

**76.** Level: \_\_\_\_\_

### b. Longitudinal comparison of poverty level



### Annex 3. PRADAN's poverty assessment results

#### a. Selected variables for SHG (Self-Help Group) and non-SHG members

	.39	.41
Per capita grain consumed in scarce months	.34	.37
No. of rooms in dwelling	3.06	3.35
Land owned (ha)	1.24	1.21
Land cultivated	1.03	.82
Self employed non-farm	.14	.16
Value of durable goods	1922	2703
Per capita exp on clothes, footwear	527	553
Fraction below official poverty line	.55	.53

#### b. Comparative analysis of indicators

<b>Comparative analysis of indicators</b>			
<b>Indicator</b>	<b>Poorest 5%</b>	<b>Middle 90%</b>	<b>Richest 5%</b>
Meals in past 2 days	3.8	5.5	5.6
No. of days/month not enough food	5.2	3.4	0.4
rooms in dwelling	1.2	3.1	9.2
land owed (Ha)	0.2	0.6	2.9
value of durables, livestock	495	7335	47601
kg/day – grains normal times	0.5	0.65	0.81
kg/day - grains – bad times	0.25	0.36	0.44
per capita annual exp on education	5	68	324
per capita annual exp on footwear/ clothes	243	534	1076

<b>Indicator</b>	<b>Poorest 5%</b>	<b>Middle 90%</b>	<b>Richest 5%</b>
share of children attending school	0.34	0.48	0.61
share of literate adults in household	0.22	0.40	0.66
fraction owning radio	0.07	0.26	0.68
fraction owning bicycle	0.2	0.6	2.9
participation in informal village organisations	1	1.3	1.5
share that has ever approached a govt. officer	0.07	0.27	0.46
share voting in elections	0.93	0.99	1

## Annex 4. LAPO's means tests and poverty assessment

### a. Participation Form (excerpt)

<b>A. APPLICANT DATA</b>	Date: ____ / ____ / _____
1. Clients' name _____	
2. Clients' address _____	
3. Sex ____ 1. Male ____ 2. Female	4. Age ____ 18 - 24 ____ 25 - 34 ____ 35 - 44 ____ 45 - 54 ____ 55 and above

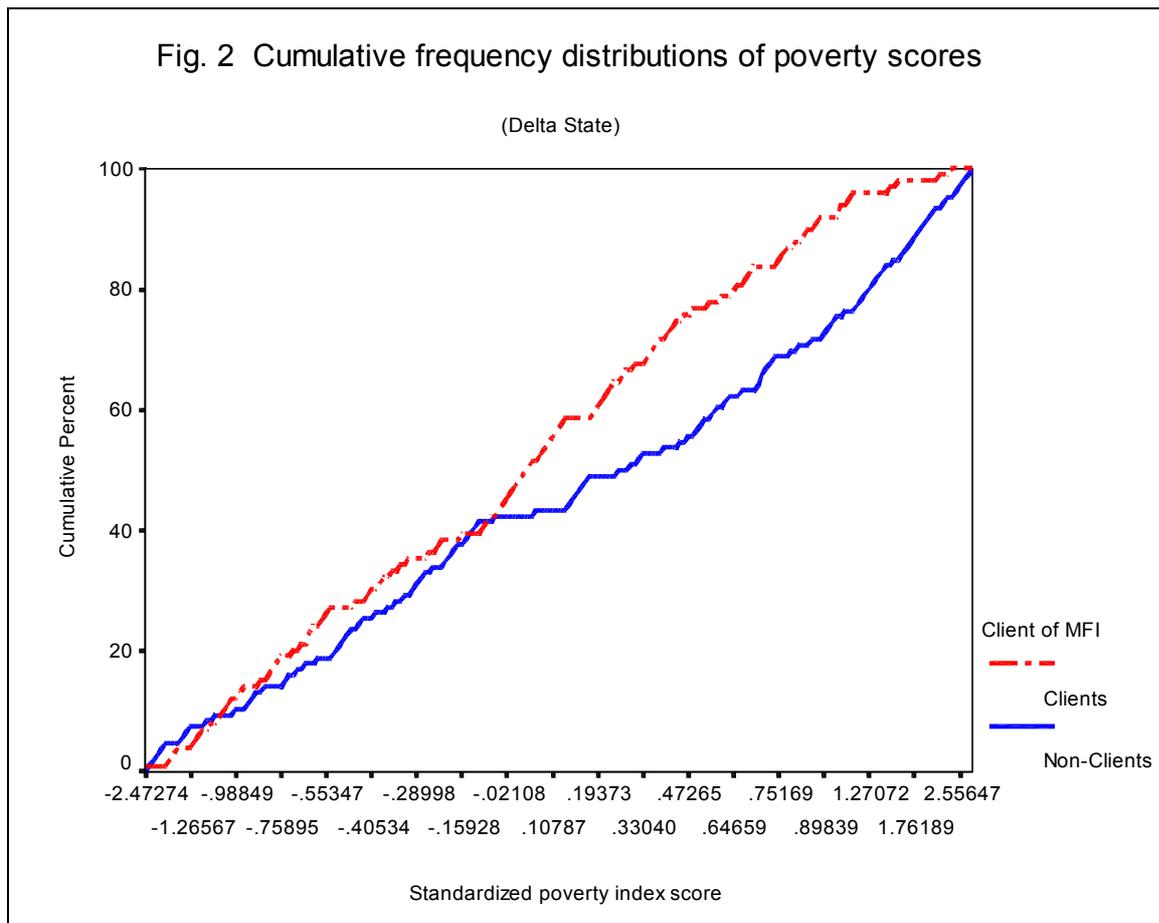
### B. POVERTY LEVEL

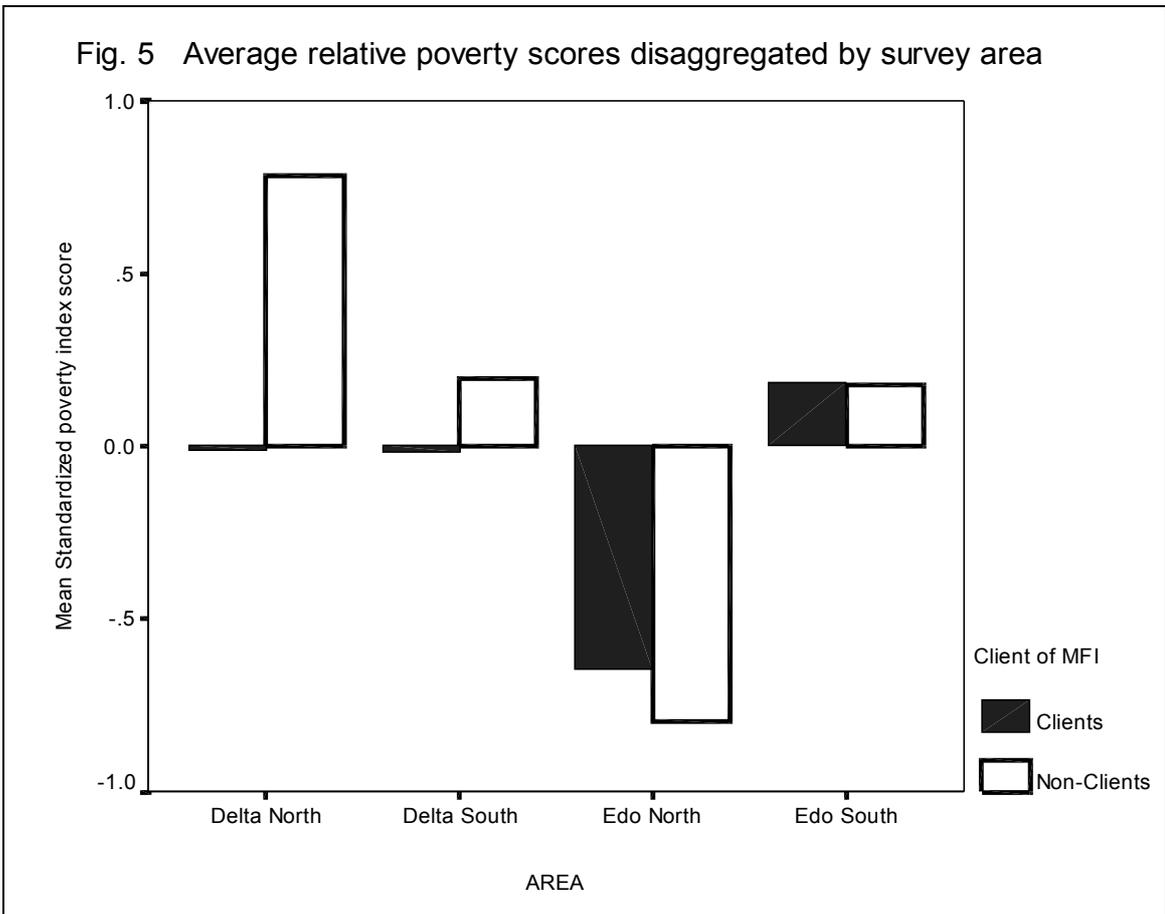
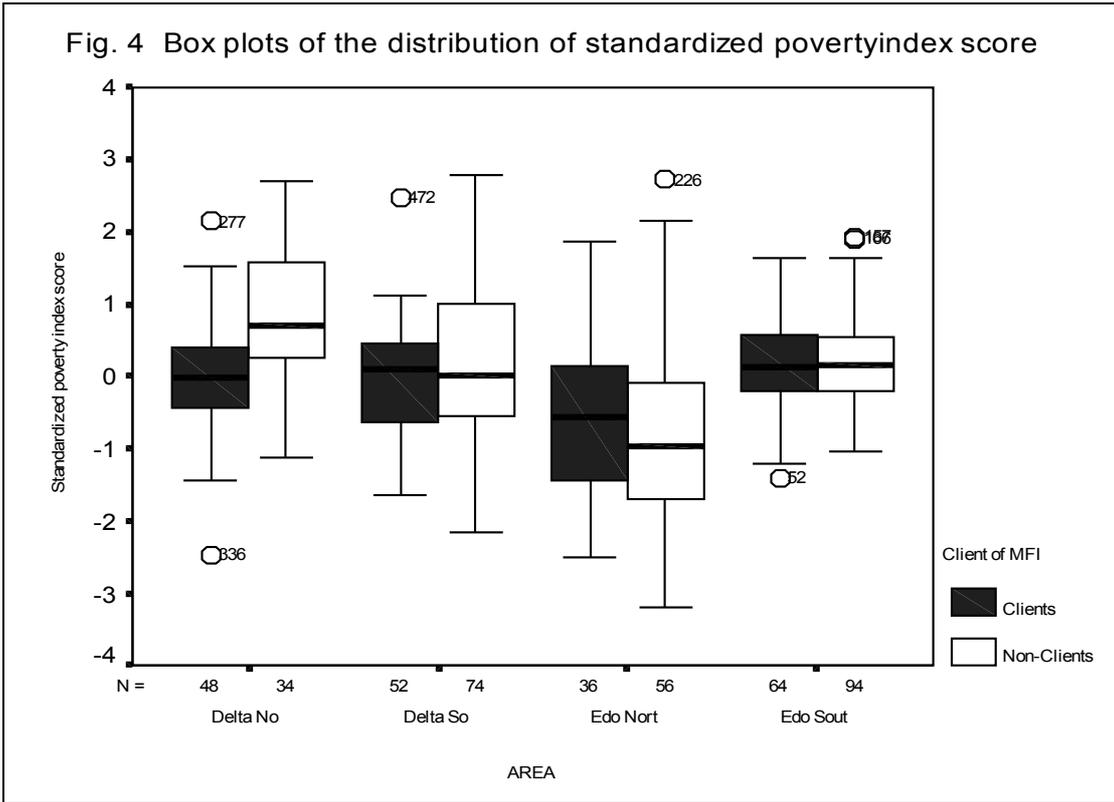
1	What is your marital status?	Score
A	Single = 1	
B	Married living with husband = 4	
C	Married with husband living away = 6	
D	Divorced / Separated = 8	
E	Widow = 12	
<b>2</b>	<b>May I ask about your approximate level of education?</b>	
A	Full secondary / TTC = 2	
B	Half secondary / Modern school = 4	
C	Full primary = 6	
D	Half primary / koranic school = 10	
E	None = 14	
<b>3</b>	<b>What is your occupation?</b>	
A	Employed worker = 2	
B	Services (like food canteen, fashion shop) = 8	
C	Average farmer = 10	
D	Small production / trading (like kiosk, hawking, road side baking, etc) / Small farmer = 14	
	No regular occupation = 20	

(Continued)

<b>4</b>	<b>What is the interior &amp; exterior walls / flooring condition of your dwelling house?</b>	
A	Floored with carpet = 2	
B	Floored with cement and walls painted = 4	
C	Cemented and plastered all round = 6	
D	Floored only with cement but walls not plastered = 8	
E	Not cemented /plastered = 10	
<b>5</b>	<b>What is the sleeping arrangement like in your household?</b>	
A	Only one person sleeps in each room = 1	
B	Two persons to room = 2	
C	Three persons to room = 6	
D	Husband, wife own rooms but children share only one room = 8	
E	All household members live in one room only = 10	
<b>6</b>	<b>How steady is your total household income from month to month</b>	
A	Steady = 1	
B	Somewhat steady = 4	
C	Somewhat unsteady = 10	
D	Unsteady = 12	
E	Very unsteady = 14	
<b>7</b>	<b>How regular is the daily feeding of your household?</b>	
A	Regular = 2	
B	Somewhat regular = 4	
C	Somewhat irregular = 6	
D	Irregular = 10	
E	Very irregular = 14	
<b>8</b>	<b>How often do you cook special food for your household?</b>	
A	When I want = 1	
B	Once in four days = 2	
C	Once in a week = 4	
D	Occasionally = 5	
E	Rarely = 6	
<b>TOTAL</b>		

**b. Poverty assessment results**





**Annex 5. CARD's housing index score card**

<b><u>Philippines House Index</u></b> If there is a big firm house with new GI roofing, do not fill this form.	<b>Points</b>
<b>Size of building</b> – big (4); medium (2); small (0)	
<b>Structural condition</b> – firm (4); medium (2); bad (0)	
<b>Roof material</b> – G.I. new (2); G.I. old (1); Nipa/Lukay (0)	
<b>More than 6 points = Not poor</b> <b>5 to 6 points = Moderately Poor</b> <b>4 points or less = Very poor: First Priority</b>	<u><b>Total</b></u>

## Annex 6. Linking local or regional poverty measures to national and international measurement standards

### a. SEF's findings

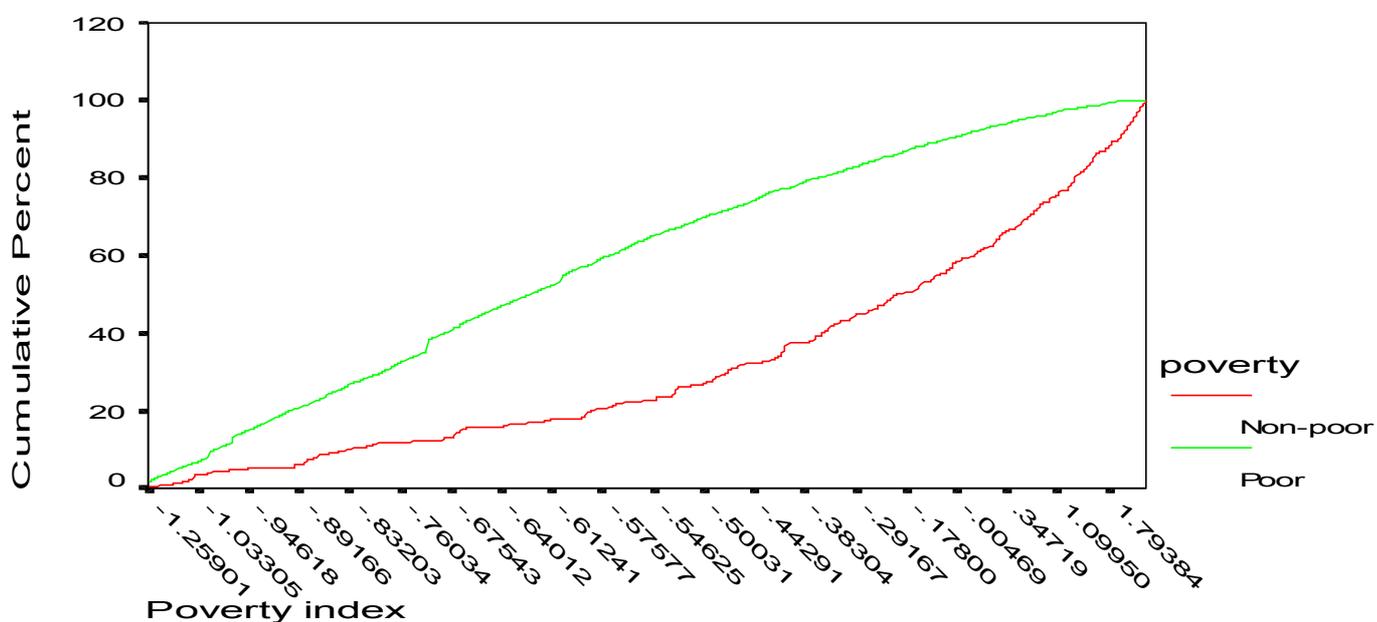
#### Match between the Poverty Assessment (PAT) and the Participatory Wealth Ranking (PWR)

Percent of households considered poor by Poverty Instrument and poor by the PWR	59%	118
Percent of households considered non-poor by Poverty Instrument and non-poor by the PWR	9%	18
Percent of households considered poor by the Poverty Instrument and non-poor by the PWR	21.6	43
Percent of households considered non-poor by the Poverty Instrument and poor by the PWR	10%	20
Total	100%	199

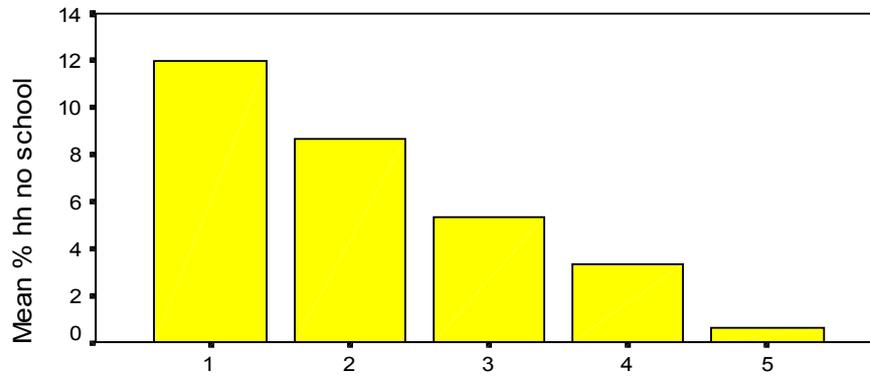
n = 199

#### PAT as a proxy for money metric measures of poverty

Cumulative Frequency Distributions for Poor and Non-Poor cohorts (defined using total household expenditure per capita)



### Annual hh income in quintiles by the % of household members without education

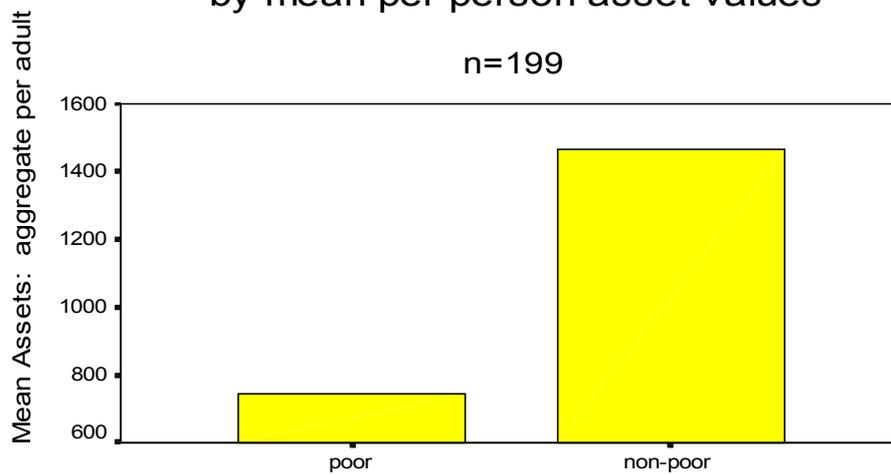


Total household income in quintiles

Weighting using 1996 Census estimates, Simkins, C 2002

Income and expenditure Survey 2000

### PWR poverty Groups by mean per person asset values



PWR Poverty Groups

## Annex 7. Prizma Poverty Scorecard

Developed By Prizma (Bosnia-Herzegovina) and the MFC for CEE-NIS (Poland)

The assessment approach outlined below was conceived and developed by managers of the microfinance institution Prizma. The Microfinance Centre for Newly Independent States and Central and Eastern Europe (MFC) has provided substantial technical assistance under the three-year *Imp-Act* Program funded by the Ford Foundation. Additional technical assistance has been provided by Martin Greeley from the Institute of Development Studies (IDS) at the University of Sussex under *Imp-Act*. Finally, support from the Consultative Group to Assist the Poorest (CGAP) has enabled Prizma to carry out a poverty assessment that has supported development of this work.

In some sections, Prizma's specific approach is provided in italics, to provide a sense as to how the scorecard is being operationalised.

### Summary

The Prizma Scorecard is a composite of eight simple, non-economic indicators identified using recent Living Standards Measurement Survey (LSMS), United Nations Development Program (UNDP), CGAP Poverty Assessment, and focus group data, and represent the most robust poverty proxies available for Bosnia-Herzegovina. In addition to being very strong proxies for poverty status, indicators were chosen because they are (a) simple and easy for field staff to collect in the context of their day-to-day fieldwork and (b) easy for an internal or external auditor (or other party) to verify. These indicators were also selected because they met other criteria that ensured the tool would be cost-effective and supportive of the Institution's broader operational objectives. Finally, a number of the indicators were already being collected, which presented an opportunity to leverage existing data.

The Prizma Poverty Scorecard is a tool developed to serve three critical purposes. First and foremost, it was developed to **assess clients' poverty** status at entry and every loan cycle. Second, the scorecard is used to **monitor discrete changes in clients' status over time**. The scorecard contains four indicators—meat and sweets consumption, and household and transport assets—that are more or less sensitive to discrete change in clients' poverty status over time. While it would not be appropriate to assume attribution based on positive or negative change, tracking change does enable the Institution to monitor clients' poverty status over time and signal areas for the Institution to explore in greater depth in an effort to understand long-term impact. In fact, assessing poverty status and monitoring change over time directly supports the Institution's need to ensure it is reaching who it seeks (and claims) to reach and contributing to improved well-being over time. Third, individual indicators and the overall poverty score can be used to **compliment the Institution's ongoing market research activities**, including strategic positioning, segmentation, drop-out monitoring, product promotion, branding, and institutional projection.

There is no complex or hidden weighting of indicators within the scorecard (provided below). However, because they are such strong proxies the four well-being proxies—meat, sweets, household assets, and transport assets—necessarily reflect a higher importance in the final score. The weighting is evident in the fact that each indicator can potentially contribute three rather than two points to the overall score. This reflects a

common sense decision to capture individual characteristics in the final score that are most strongly indicative of well-being. Scores for all indicators are added to obtain a final score ranging from 0 to 12.<sup>17</sup> The cut-off points for all indicators for client poverty status have been validated using LSMS data.

<b>Prizma Poverty Scorecard</b>						
<b>Very Poor 0 • Poor 1-3 • Vulnerable Non-Poor 4-5 • Non-Poor 6+</b>						
Indicator			<b>0</b>	<b>1</b>	<b>2</b>	
<b>Poverty Risk</b>	<b>Education</b>	What is the education level of female household head/spouse/partner?	<b>≤ Primary</b>	<b>&gt; Primary</b>		
	<b>Residence</b>	Where does family reside?	<b>Rural/Peri</b> ≤ 10,000	Urban >10,000	-	
	<b>Employment Status</b>	What is the employment status of female household head/spouse?	<b>Unemployed</b>	Employed Formal/informal		
	<b>Family Size</b>	What is household size?	<b>≥ 5</b>	<b>&lt; 5</b>		
	<b>Well-being</b>	<b>Consumption: meat</b>	On average, how often does family consume meat each week?	Rarely 0-2 x/wk	Sometimes 3-5 x/wk	Often 6+ x/wk
		<b>Consumption: sweets</b>	On average, how often does family consume sweets with main meal each week?	Rarely 0-2 x/wk	Sometimes 3-5 x/wk	Often 6+ x/wk
		<b>Asset: household</b>	Does family possess a colour TV or stereo/CD player?	None	One	Both
		<b>Asset: transport</b>	Does family possess a transport vehicle?	None	Old >5 years	New ≤ 5 years
<b>Poverty Status Score</b>			<b>0-12</b>			

<sup>17</sup> For all indicators, different measures were tested. Female-based measures turn out to be more powerful than or at least as powerful as aggregated household measures.

### **Step 1: Agree rationale**

It is important to start the design process by engaging staff from different levels and departments of the Institution in discussions about the intent of designing a system to assess poverty, monitor client status over time, and strengthen marketing (and any other objectives the institution has identified for the system).

*Prizma's approach: the mission was the starting point for discussions and initial meetings focused on defining and prioritising institutional needs, assessing capacity, ensuring staff acceptance, identifying ways to minimise cost, maximise value, and leverage existing resources wherever possible.*

### **Step 2: Identify data sources**

Identify a variety of data sources from which a few scorecard indicators will ultimately be selected.

*Prizma's approach: draw from a number of sources to identify and triangulate the most robust proxies for poverty status, including:*

- *The Living Standards Measurement Survey (LSMS)*
- *The Consultative Group to Assist the Poorest (CGAP) Poverty Assessment*
- *The United Nations Development Program (UNDP) country data*
- *Focus groups with poor people and staff (using adapted MicroSave-Africa tools)*
- *Management staff input.*

### **Step 3: Develop pool of poverty indicators**

Define broad pool of indicators correlated with poverty.

### **Step 4: Narrow pool to robust few**

Select a few very robust, context-specific indicators that meet criteria:

#### *Essential*

- Simple and clear
- Strong proxy for risk of being poor
- Easy to collect
- Easy to verify
- Non-economic, indirect
- Universal applicability (rural/urban, north/south, business/non-business clients, etc.)
- Appropriateness affirmed by multiple data sources—qualitative and quantitative
- Sensitive to change
- Can be asked of clients

#### *Desirable*

- Potentially useful for targeting
- Already collected

*Prizma's approach: consider indicators that the Institution is already collecting as well as those that reflect discrete measure of change over time. While targeting was initially envisioned as a useful criterion, meeting this criterion ultimately proved difficult. The benefit of identifying indicators that can be used for targeting is that they are necessarily easy to verify and difficult to misrepresent.*

### Step 5: Define scorecard ranges for each indicator

Using LSMS and other data, define simple ranges for each indicator most reflective of poverty status. For example, primary level education or less is very strongly correlated with an individual’s risk of being poor or very poor in Bosnia-Herzegovina. Thus, a two point range for education was defined using this knowledge. Similarly, while it is intuitive that less meat consumption would signal greater risk of poverty, LSMS data clearly indicated that families who consume meat less than three times a week are most likely to be amongst the poorest families in the population.

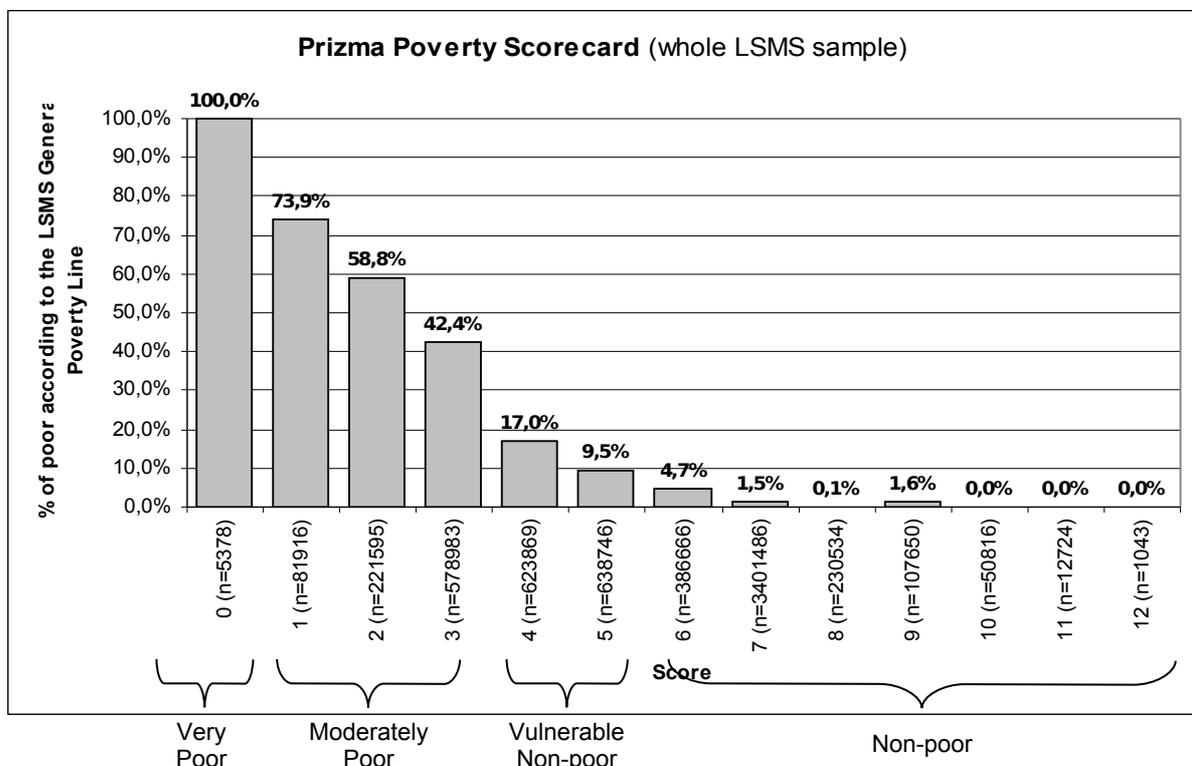
### Step 6: Develop simple scorecard

Consolidate indicators into composite scorecard. Even before any steps are taken to link scorecard scores with the national poverty line or international \$1/day, scores can be used internally as a relative measure of clients’ poverty status. For example, a household that has a score of one is poorer than a household with a score of four.

*Prizma’s approach: management is integrating use of the scorecard into its broader social and economic performance management system, comparing branch profit centre’s depth of outreach across the Country to strengthen geographic targeting, staff training, marketing activities, and annual operational planning.*

### Step 7: Identify cut-off points for poverty status categories

Just as data sources identified above can be used to identify indicators and determine appropriate ranges for each, LSMS or other national datasets, or data generated from a short survey focused on key areas of interest can be used to define cut-off points for absolute poverty status categories. The graph below reflects how relative scores can be transformed into absolute measures by linking score ranges to the LSMS General Poverty Line.<sup>18</sup>



<sup>18</sup> Among those who score 2, 58.8 per cent of households live below the LSMS General Poverty Line.

The value of a simple composite scorecard is that its score becomes stronger with each indicator, enabling an institution to assess the poverty status of any and every individual with a high degree of accuracy.

*Prizma's approach: Prizma parsed score ranges into the following four categories of household poverty status:<sup>19</sup>*

- |                        |  |
|------------------------|--|
| 1) Very Poor           | Score 0—living below 50per cent of LSMS poverty line;          |
| 2) Moderate Poor       | Score 1-3—living between 50-100per cent of LSMS poverty line;  |
| 3) Vulnerable Non-poor | Score 4-5—living between 100-150per cent of LSMS poverty line; |
| 4) Non-poor            | Score 6 +—living beyond 150per cent of LSMS poverty line.      |

*Testing revealed that eight relatively strong indicators yielded a score that was very robust. More or fewer indicators could be employed, but eight effectively balanced cost with accuracy. Given that the Institution was already collecting four of the final 8 scorecard indicators selected, the additional data collection is very modest.*

### **Step 8: Determine means and frequency of collecting scorecard data**

Determine how often to collect data, based on need, cost, and time, and how to collect data simply, with the least bias or possibility of error.

*Prizma's approach: incorporate select indicators into the Institution's simple application paperwork, such that every individual's poverty status can be assessed at entry and again at every loan cycle. To mitigate potential bias, questions were inserted in the application form where they would be most natural to ask (e.g. meat and sweets consumption asked in the context of household cash flow). This approach was tested and has proven effective for reducing clients' sensitivity to questions and mitigating response bias. This modest additional data is captured in the Institution's management information system (MIS) daily, in the same manner as all other data collected to support the underwriting process. In this way, client poverty status can be assessed at any point in time and cross-tabulated with other important variables (e.g. loan cycle, loan size, credit score, drop-out, portfolio at risk, etc.). Capturing this modest additional information in a routine manner ensures that poverty data is not collected simply to meet external stakeholder requirements, but provides a critical, relevant source of management information that strengthens such activities as segmentation, impact monitoring, strategic positioning, and risk management.*

### **Step 9: Develop reporting formats**

Identify means to report aggregate poverty level of institution's clients.

*Prizma's approach: ensure Institution's MIS can report on an individual's poverty status, as well as aggregate poverty levels across the client base. Enabling reporting at the individual level and in aggregate provides greater options to use the data to serve the Institution's broad goals, evolving developmental and institutional management information needs over time.*

### **Step 10: Determine means to verify data quality**

If an institution seeks to assess the poverty level of its clients over time in a systematic manner, it will need to ensure that data collected is accurate. Using aggregate poverty level data simply requires a minimum assurance of data quality. Thus, an approach such as Lot Quality Assurance Sampling could help ensure that quality control is cost-effective.

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<sup>19</sup> These absolute cut-off points were tested by linking indicators to the LSMS for the following differences: Federation vs. RS, rural vs. urban, and Prizma's different outreach areas. For all the above sub-datasets, the scorecard is correlated with LSMS consumption aggregate to the same extent. In all the areas the absolute measures reflect well-known regional differences.

*Prizma's approach: integrate data quality sampling into the routine work of the internal auditor (i.e. formal annual audit plan), to ensure poverty data is collected and verified in a rigorous manner as part of the broader internal audit process.*

## **Requirements**

- 1) Local knowledge of poverty and vulnerability
- 2) National poverty data to inform the selection and cut-off points for non-economic indicators that comprise the scorecard.
- 3) Statistical software (SPSS, Stata, etc.)
- 4) Commitment of senior management to transparent reporting of depth of outreach
- 5) Automated management information system (MIS) or spreadsheet-based system to capture data and manually calculate scores.

## **Strengths**

### **Credible**

Provides credible information on poverty status of clients. Indirect, non-economic indicators tend to be more robust and less prone to bias and error than direct economic consumption or expenditure data collected by institutions prior to a service decision. Thus, the scorecard approach is applicable to any financial or non-financial service institution.

### **Accurate**

The scorecard consolidates robust non-income poverty measures into one aggregated score, which offers many benefits. First, it is widely acknowledged that it is very difficult to collect reliable, high-quality data on income and expenditure of poor households. This is particularly true in the case of microfinance where applicants' perception that their provision of such information may determine whether they receive service or not, and leads to an inherent incentive to underestimate, overestimate, or withhold information. Though the risk of error exists in all data collection, clients are less likely to misrepresent non-income data, especially demographic information and that which is easy to verify. Second, one indicator on its own may not provide a sufficient proxy for poverty status across heterogeneous groups. However, the technique of combining a few strong indicators into one aggregate score mitigates errors rather than compounding them. Thus, the final score offers a more accurate proxy for the poverty level of clients.

### **Verifiable**

Data quality can be easily verified through routine internal audit, external audit, or alternative external verification.

### **Relative and absolute measure**

Enables relative and absolute—national and international—measure of poverty level of clients.

### **Cost-effective**

The cost and time to adopt this scorecard approach is concentrated in the design phase. Implementation of the system represents a very modest cost, as minimal new data is collected in existing application paperwork (or paperless collection method) and captured in the MIS.

#### ***Attuned to and embedded in institution's existing operations***

It is designed to be easily integrated into existing operations—paperwork, procedures, and MIS. Rather than a one-time exercise or a process requiring special surveys, special staff skills and training, or posing an additional opportunity cost to clients, scorecard data is intended to compliment existing management information, providing an institution's internal and external stakeholders a "balance sheet" at any point in time for depth of outreach overall and specific segments of an of the client base (e.g., by drop-out, loan cycle, gender, etc.).

#### ***Complements existing market research capacity and activities***

The scorecard approach can provide timely information to management to support market research activities, including segmentation, dropout analysis, and other areas of operational concern.

#### ***Replicable and adaptable***

This scorecard approach is applicable in any context where there is national poverty level data. Prizma and the MFC sought to design a standardised approach to every stage of the system's development, including design, implementation, verification, and reporting. Thus, while indicators will necessarily vary by region or country, the approach itself should be applicable in any context.

#### ***Allows means to assess change over time***

In addition to providing external stakeholders verifiable information about who the institution is reaching in terms of poverty status, it offers the potential to report on discrete change over time, depending on the indicators employed in the scorecard. This approach does not assume attribution, but recognises the value of capturing data over time that reflects discrete change in clients' poverty status. This information can allow an institution to make inferences about the contribution of its services and, in turn, follow up with more in-depth, periodic inquiries about the cause of change.

#### ***Requires no specialized training of field staff***

The approach does not rely on any additional training or specialised skills among field staff. A few additional questions are simply added to existing operational paperwork where most appropriate and this additional information is captured in an automated MIS.

## **Weaknesses**

### **Limited snapshot of poverty**

A poverty score does not capture a broad array of data that better reflects the dynamic and multi-dimensional nature of poverty. Rather than a substitute for other research activities this approach seeks simply to more accurately capture the poverty status of clients.

### **Requires careful selection of indicators**

The design phase requires careful consideration of indicators and some technical capacity or external technical assistance to ensure scorecard is appropriate and robust.

### **Sensitivity of some questions requires careful consideration**

Though indicators are indirect and non-economic, some may be sensitive to ask and, thus, pose a challenge of respondent bias. Depending on the indicators selected for other regions, this bias may present more or less of a challenge.

### **Composite scorecard requires selection of context-specific indicators**

Rather than a proscription of indicators that may be used in any region of the world, the scorecard must be developed in relation to every individual context in which it is applied.

## **Costs**

### **Develop and Adapt**

Because Prizma developed the system from scratch, it is assumed that the cost to replicate will be significantly less. The whole process to develop and adapt is estimated to be six months:

- 50–80 person days of senior and middle management time, 10–25 person days of field staff time;
- 40–50 days of technical advisor time for statistical analyses, input on indicator selection, and linking the relative score to absolute measures.

### **Implement**

If a relatively flexible automated MIS is in place, the cost of implementation is very low. The largest cost is to develop a limited number of customised reports that serve the needs of internal (including board) and external stakeholders. Additional time should be allocated to rollout the system after a modest test period.

## **For whom is this tool appropriate?**

The scorecard is applicable to any institution, whether providing financial or non-financial services—credit unions, BDS, MFIs, or other service providers. Where an institution supports self-help groups or other less formal “self-providers”, the approach may simply require collecting data periodically through a survey rather than in an ongoing manner (though the need for such an assessment among these groups should be considered carefully).

### **What regions of the world can use this tool?**

This tool is currently being tested in the specific country context of Bosnia-Herzegovina. However, given that it is a framework rather than a prescription of indicators, it promises to be applicable in any region.

## **What level of technical ability is necessary to use this tool?**

A relatively high degree of technical capacity is required during the design phase, to select and test indicators, and define poverty status ranges. Once the scorecard is developed it can be employed immediately as an internal tool to assess the relative poverty level of clients within the institution. Linking the score ranges to the national poverty line and international \$1/day can be done internally, but will likely require

focused technical assistance. There is no technical capacity required of field staff beyond their current activities and knowledge.

The scorecard was developed with the intent to capture data in an institution's automated MIS. If this is the approach an institution takes, then a relatively high level of technical ability is necessary—either among in-house staff or external MIS developer—to develop automated reporting on poverty status.<sup>20</sup> However, after implementation, the technical ability required is minimal. The technical ability required of an institution that uses a manual MIS is very modest, but the time required to use the data may be greater.

## **What are the infrastructure requirements of using this tool?**

This approach requires an automated MIS that captures and reports on individual client data. Alternatively, the scorecard may be employed as a stand-alone manual tool using Excel. Once designed, questions can simply be integrated into the existing data collection process (e.g. application form, etc.). A limited amount of space is required on existing paperwork and some fields are required in an automated MIS to accommodate scorecard questions.

## **Who administers the tool?**

The design phase resembles any other initiative in an organization, more or fewer individuals or teams may be involved, depending on Management's approach and need. Once designed, field staff collect data for the scorecard in application or other operational paperwork. Branch staff input data into the MIS, IT staff or the MIS developer designs poverty outreach assessment reports, and management and board, among others, use the reports for management decision-making or external or internal reporting. Because the scorecard can contain very few indicators and still yield strong results, its integration into existing operations is fairly simple. No specialised staff are required to maintain the system once it is designed.

## **Can this tool be linked to the \$1 day or National Poverty Line?**

The development of the scorecard at Prizma involved two different approaches to poverty measurement. The LSMS General Poverty Line was constructed on the basis of an adjusted yearly consumption aggregate, while Prizma's Poverty Scorecard was designed as a non-income measure of poverty status. Therefore, there arose some differences between the two approaches. Nevertheless, the two approaches yielded comparable results and validated the accuracy of the poverty scorecard. The final step of linking the score ranges to absolute national and international measures is in process now, but based on work thus far, it appears that the poverty scorecard can be linked to national poverty line and \$1/day.

## **Unresolved questions**

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<sup>20</sup> Prizma is currently working with the developer of its MIS, Kredits LTS ([www.KreditsLTS.com](http://www.KreditsLTS.com)) to design custom poverty assessment reports. This system enables an institution to filter any variable, including individual poverty indicators or aggregate poverty score, by any of more than 26 other independent variables, including loan officer, branch, drop out, loan size, product, and portfolio quality.

As indicated, the final step of linking the scorecard to national and international measures is in process. The challenge presently is to identify the clearest and most accurate overlap in the two measures, respecting the need for the scorecard to yield both a relative and an absolute measure of poverty.

The other question that further testing may help to answer, is whether it is even more cost-effective and useful to distil the scorecard to fewer indicators. The benefit of using more indicators is that the scorecard then provides more discrete ranges for poverty status categories. However, further testing may determine that more or fewer indicators are optimal.

Pitfalls/lessons learned in development and/or use of this tool:

- First, due to the conflict of the early to mid-1990s, almost everywhere else in the world has more and better data than Bosnia-Herzegovina, such that research is available to speed the development of a scorecard. Once this approach has been tested further, its replication promises to be much easier.
- Second, Prizma recognises now how important it has been to engage a variety of staff at various levels of the organisation to consider the nature of poverty and vulnerability and, in turn, identify appropriate indicators. This process was greatly enhanced by conducting focus group interviews with poor women in urban and rural areas to understand perceptions of poverty and poor people.
- Third, by approaching poverty assessment as an activity that supports the institution's developmental *and* institutional imperatives, it was easier to gain acceptance among a wide variety of staff at different levels.

#### **A note on selection of indicators**

Given the critical importance of selecting appropriate indicators, it is important to add here a few points on Prizma's approach to the development of its frameworks. First, this approach to poverty assessment assumes that indicators will be contextually adapted. Second, indicators must be universal for different groups of a population<sup>21</sup> across an institution's area of outreach. Third, indicators should have prospects to be good indicators in the future.<sup>22</sup> Last but not least, indicators should be relatively sensitive to change in a clients' poverty status over time, if the approach is to be used for more than a one-time snapshot of depth of outreach.

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<sup>21</sup> For example in some areas with low (or controlled) fertility rates the indicator "children education attainment" may not be universal. It will concern only families with children of schooling age.

<sup>22</sup> For example, Prizma eliminated refugee status as an indicator even though it represents a strong proxy for poverty status because the institution determined that this indicator would be both difficult to capture over time, given the international community and Bosnian Government's changing definition and prioritisation of refugees, and less relevant over time, given the quickly changing environment in Bosnia-Herzegovina.

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## Contact Details

### Michal Matul

Researcher,  
The Microfinance Centre  
ul. Koszykowa 60/62 m. 52  
00-673 Warsaw  
Poland  
Tel: +48.22.622.3465  
Fax: +48.22.622.3485  
michal@mfc.org.pl  
www.mfc.org.pl

### Maja Gizdic

Executive Director  
Prizma  
Alekse Santica 22/II  
88000 Mostar  
Bosnia-Herzegovina  
Tel/Fax (Bosnia):  
+387.36.580.376  
+387.36.557.161  
maja@prizma.ba

### Sean Kline

Prizma Board of Directors  
c/o Prizma  
Alekse Santica 22/II  
88000 Mostar  
Bosnia-Herzegovina  
Tel/Fax (Bosnia):  
+387.36.580.376  
+387.36.557.161  
(United States)  
+510.717.2736  
sean@prizma.ba  
www.prizma.ba