

Part I: Microfinance and Poverty

1. Poverty Reduction and Microfinance – Assessing Performance

Martin Greeley

IDS Bulletin Vol 34 No 4 2003

Introduction

The microfinance industry is now in its third decade of growth. It is a substantial component of development efforts in most developing countries and also now in Central and Eastern Europe and the Newly Independent States (Forster *et al.* 2003) where it is expanding rapidly. During this growth period there has been ever-increasing attention to the modalities through which microfinance service provision seeks to contribute to the achievement of development objectives. Two routes¹ receive most attention. The first is the contribution to poverty reduction through ensuring service delivery to poor households that have the capacity to strengthen their livelihoods, but have lacked the financial resources to realise that potential. This does not usually mean an exclusive focus on targeting households that are poor, though it may, but it does mean active programming to ensure inclusion of the poor. The second is the contribution to the establishment of functional financial markets, particularly in rural areas for households that were previously without proper access to financial services. To simplify, we can refer to the former as the poverty route and the latter as the market route. The core issue facing the industry today is how microfinance organisations (MFOs) can combine these routes. Few within the industry would disagree that both are desirable but the poverty route, through targeting and organisational learning to improve poverty outreach, has financial costs and there is a trade-off between the two courses. Quantifying these costs and the associated welfare benefits is a key industry challenge.

Most MFOs have a mission commitment to the poverty route. However, they are facing increasing pressure to perform as well on the market route. The pressure is threefold: first, they need to grow in order to achieve a scale of outreach that makes a significant difference to poverty;² secondly, only through growing will they achieve the operational scale economies that allow them to be financially sustainable; thirdly, donor money is limited and to grow they need to access commercial funds. The very fact of this pressure of course encourages survival-minded MFOs to pay more attention to the market route.

At present we only have agreed indicators that measure performance on the market route.

Through services such as the *Microbanking Bulletin* and rating systems such as GIRAFE and CAMEL,³ the quality, i.e. the commercial viability, of an MFO portfolio can be assessed. On the poverty route, relatively few MFOs (Sebstad and Cohen 2000) can convincingly demonstrate their poverty-reduction performance through gathering information on household-level selection for, and then impact of, service provision.⁴ However, there is a growing commitment to correct this. Some MFOs, including *Imp-Act* partners, are monitoring both selection and impact. Their experience provides the basis for establishing industry standards on poverty reduction performance. Crucially, such standards must incorporate two central concerns: a measurable and comparable concept of poverty and a clear understanding of how the operational context imposes trade-off costs between market performance and poverty performance.

The adoption of poverty performance standards is necessary if donors and other “double bottom line”⁵ investors are to be confident of fulfilling their mandate on poverty reduction. Performance against such standards should be not assessed as a “pass or fail”. Experience shows that MFOs which are able to perform on the poverty route and be credible with their performance on the market route have gone through a process of learning. The MFOs describing their experience in this section of the *Bulletin* are examples of this learning in very different contexts. Building on such experience, assessment should be based both on performance and on evidence of an organisational culture that promotes improving practice responsive to information about context and clients. This agenda can identify what Zeller and Meyer (2002: 377)⁶ refer to as ‘public goods... institutional prototypes for specific socioeconomic and agroecological settings that can be replicated and adapted by other financial institutions’.

1. Financial sustainability and poverty reduction: two stories about the birth and growth of microfinance

Both the market and poverty routes for MFOs are very widely supported but there are major differences in emphasis between the two amongst different analysts. To a large extent these reflect

difference in perception about the problem that MFOs are seeking to address. These perceptions have historic roots as described in the two “stories” below.

1.1 A story about market failure

The foundations of today’s microfinance industry in developing countries were laid in the analyses of rural financial market failure in the early days of development. This was a commercial supply failure, repeated in many countries, characterised by public provision, subsidy, ineffective targeting and client default. Transactions costs theory and the paradigm of imperfect information (Hoff and Stiglitz 1990) led to the understanding that failure was due to problems of screening potential borrowers, borrower incentives to repay and lender enforcement of contracts.

Students of microfinance will be familiar with this analysis of the failure of rural financial markets. Many more will have read of or heard about the origins of Grameen Bank, the most famous pioneer of microfinance. Professor Yunus, the founder of Grameen Bank, started by lending money to poor women near his university campus. They had skills to produce simple goods and ready markets but insufficient money to buy essential raw materials. The loans he made were useful and were repaid. From these simple origins Grameen grew through a series of project stages to its status today, two and a half decades later, as a commercially solvent lender to over two million predominantly female borrowers in Bangladesh. Many studies have examined the ways in which Grameen’s service design addressed the problems of screening, incentives and enforcement which had led to past failure. The model has been replicated globally. Other, neglected models of service provision – cooperatives, Rolling Savings and Credit Associations (ROSCAs), Self-Help Groups (SHGs), village banks, credit unions – have also multiplied.

This growth of microfinance institutions has been fuelled by international donor support. A key concern in the provision of this support has been the long-term financial sustainability of the institutions supported. Financial standards have been established and they are used to assess performance. A core judgement underlying this approach is the

very reasonable view that donor funds are neither inexhaustible nor free. According to this view, MFOs should aspire to become self-sufficient or to access commercial sources of funds and their success in doing so will itself be evidence of their viability.

As new entrants to the sector provide competition for the pioneers there is more pressure to pay attention to operational efficiency. Countries which have led the way, notably Bolivia and Bangladesh, have the best documented examples of competitive environments and the implications for both borrowers and lenders. This has reinforced the pressure for MFOs to be flexible learning institutions, responsive to the imperatives of financial sustainability. Bankers in particular, understandably, take a fairly robust view of the need to prioritise financial sustainability. The future success of microfinance will depend on commercialisation. There is a second story though.

1.2 A story about poverty reduction

By the 1970s, analysis of poverty was demonstrating that many poor people, especially rural women, had received little benefit from a rural development agenda that has invested heavily in community development, and in agriculture. The results have been at best mixed and the numbers of poor people have increased. The failure has many causes but the inability to provide secure livelihoods at reasonable levels of living has been the most visible and fundamental reason. With the development of microfinance, targeted programmes can resource self-employment and small enterprise development which can enable poor people to provide their own livelihoods. Poor people have skills and a capacity to produce for the market but have lacked access to financial services. They have faced usurious interest rates and have had to deal with interlinked markets in ways which reduce their earnings.

Microfinance is not a panacea but improved access to financial services is a core need for the poor – markets have failed them. Very often though, financial services must be complemented by other forms of service provision and in the absence of these, microfinance may not be as effective as it could otherwise be. Such service provision may include support for markets, both input and output markets related to small and cottage

industries, and support for the development of human and social assets.⁷

The poverty agenda was not supported by much of the theoretical analysis, outlined above, which focused on the financial market dimensions of service provision⁸ and ignored assessment of the need for inclusive programming, targeting instruments or complementary inputs. Essentially, it made the locus of analysis the problem of financial market failure, not failure of poverty reduction policy. Very often there was an implicit presumption that simple correction of market failure would lead to access at least for those deserving of credit: “rural” lending became synonymous with “poverty reduction” lending. Extraordinarily, some commentators would argue (Robinson 2001) that for very poor households credit was not a suitable service. This was based on experience of existing service providers and not on an analysis of poverty-reduction needs for the very poor. Moreover, as many studies have demonstrated, microfinance service provision has impacts at household-level and beyond, other than income benefits to loanees. These issues fall away when the focus is on commercialisation.

In effect, the poverty reduction agenda has been taken over to a large extent by the excessive focus on financial sustainability. Many NGOs turned MFOs have prioritised microfinance operations and have suffered from mission drift, from compassion to capitalism (Greeley 1997), as they seek survival in a commercialising microfinance world.

1.3 A synthesis?

The two stories reflect two different approaches to current analysis of the microfinance industry. The exact contours of this debate have obviously varied according to context, the whims of stakeholders, especially donors, and who is doing the debating. Neither is false or wrong, nobody thinks poverty reduction is not an important objective or that we can ignore financial sustainability of institutions serving the poor. Moreover, advocates of both perspectives do have a shared recognition that supply-led approaches to product design are not likely to be sustainable.⁹ Understanding client needs has become a clarion call in today's industry

and market research tools, capacity for institutional learning and responsiveness to client needs are a shared agenda. The Grameen Bank itself has gone through a process¹⁰ of re-engineering.

Despite such common agendas though, they do reflect rather different positions on the way in which microfinance might or should evolve. Major recent publications, such as *The Commercialization of Microfinance* (Drake and Rhyne 2002) have accepted that commercialisation is the way forward and focus on the implications of that for the industry. On the other side, publications such as *Pathways Out of Poverty* (Daley-Harris 2002) have detailed the achievements of MFOs in reaching the poor sustainably and have addressed what further needs to be done.

These debates within the microfinance industry reflect older and broader, more clearly ideological debates, about the development agenda and the pattern of growth. Dudley Seers, one of the intellectual founding fathers of development studies, wrote a seminal article in 1972 with the title, 'What are we trying to measure?'. He was referring to the relationship between national economic growth and poverty reduction and inquiring into the significance of the specific pattern of growth. Since then we have seen a long period, sometimes referred to as the "lost era" of development, in which market-based solutions were prioritised. The recent debates, associated particularly with an article by Dollar and Kraay (2000), around the evidence on income distribution and growth, testify to the heat of the continuing controversy on development orthodoxy. It has been fuelled by strengthening international public policy commitment to poverty reduction. Today, there is a stronger focus on the direct implications of development policy for poverty reduction.¹¹ We use the term "pro-poor growth" (White and Anderson 2001), not without disagreement on the precise definition, to describe a pattern of economic development that at least benefits poor households as much as any other group. This focus may not be due to some new-found altruism but be based on the need for development of markets and for freedom from conflict. However, it has meant that the poverty-reduction credentials of development interventions are subject to detailed scrutiny. These interventions

are often mobilised around core initiatives such as the Poverty Reduction Strategy papers and the pursuit of the Millennium Development Goals (MDGs). Inevitably, support for microfinance will also be increasingly subject to more stringent criteria on poverty reduction.¹² The key lesson from this broader debate is that the pattern of growth does matter and the microfinance industry must be able to demonstrate that the development benefits it provides actively contribute to poverty reduction.

2. Context and trade-off costs

In an important contribution to the debate on growth and poverty reduction discussed above, Martin Ravallion (2001), has argued for 'looking beyond the averages' when assessing the Dollar and Kraay result that, on global cross-country evidence, income growth of the lowest income quintile moves one to one with average income growth. To point out that these gains are one for one on average hides the fact that in about half the country cases the lowest income quintile grew less than the average, even in countries which scored well on policy reforms. The reasons are not our focus here, but in part, they are to do with inequality in the distribution of human and physical assets. They do, however, drive home a core message for MFOs that, whilst dealing with financial market failure should promote growth, it may not promote poverty reduction. Ravallion's underlying point is that context matters. Understanding how to achieve poverty reduction through growth is properly the subject of country-specific micro-research. Likewise, there is no global prescription for achieving poverty reduction through microfinance service provision.

Specifically, the costs of achieving any level of poverty outreach will have different implications for the achievement of financial sustainability in different contexts. The three case studies in this section illustrate this important point very well and highlight two domains of difference. The nature of poverty in each area is one crucial distinction; the costs of addressing it, given context, are the other. In each case, there is a commitment to organisational learning in order to strengthen impact on poverty. In each case, the analysis led to quite different solutions. What they have in

common is a commitment to improving social performance through the more effective inclusion of the poor.

The BRAC study in Bangladesh describes their analysis of targeting and impact for their main programme with over two million members and describes a new programme for reaching the ultra-poor. BRAC was already operating a sustainable programme that was fairly effectively targeted on those in absolute poverty but, as is also reported widely elsewhere in the industry, was not initially¹³ very effective in reaching the ultra-poor. BRAC studies have a sophisticated analysis of poverty (Halder and Husain 2001), developing around ten different categories of poor households *beneath* the poverty line. It is clear that they have been very successful in reaching many poor people sustainably but for some groups special measures are required and a new programme was developed – Challenging the Frontiers of Poverty Reduction. This programme operates independently of the main microfinance programme and beneficiaries from it may graduate to membership of the main programme. In addition, BRAC has several other programmes in health, education and the productive and financial sectors which allow it to address multiple dimensions of poverty as well as different categories of poor people. BRAC is large and has a complex structure but the core lesson from its operations is the innovative way it has responded to knowledge gained from analysis of different experiences and dimensions of poverty, and its continual review of its programme impact.

In Bosnia and Herzegovina, Prizma focused on three areas – leadership, culture and incentives – to develop a structure that was able to offer products more suitable to the needs of poor borrowers. They uncovered that reasons for limited inclusion of the poor and their high drop-out rate were linked to high initial loan size, the institutional incentives to promote larger repeat loans and the too stringent collateral requirements. By addressing these concerns they reduced both programme exclusion and self-exclusion of the poor. The change in incentives also involved a relaxation of loan delinquency measures used in staff incentive systems, and the promotion of client assessment by branch staff to determine underlying reasons for drop-out and for delinquency. These changes,

apparently involving higher costs, were in fact accommodated without loss of financial sustainability. The key steps to achieving this were the changes in incentives that promoted efficient performance by branch staff in ways that benefited the poor and, crucially, a reduction in drop-out rates which were very costly for profitable financial performance.

In the case of the Small Enterprise Foundation (SEF)¹⁴ in South Africa, the development of a new programme targeted exclusively to the poorest was based on analysis of exclusion associated with their main microcredit programme. They had found that small loan size did not deter non-poor borrowers and that there was a strong sense for the very poor that the main programme, with such membership, was not for them. SEF started a new programme that targeted exclusively in order to overcome these problems. In addition to targeting, they provided staff support for motivation, business planning and on-going business support.

These were three quite different responses: one involved a new programme aimed at graduating potential microfinance members, one incorporated stronger social performance through organisational change and one involved a parallel programme. In all three cases, there was some real or potential sacrifice on financial performance. With BRAC it was radical, involving the development of a new grant-based programme. With Prizma, it involved a series of organisational changes, including a relaxation of delinquency criteria allowing better access to the poor. In the case of SEF, a parallel more staff-intensive programme was developed that used targeting instruments to exclude all but the poorest; it has a longer time period before self-sufficiency can be achieved, compared to SEF's original microcredit programme. In each case, the development was based on detailed local analysis of poverty and the needs of poor people. In all three cases, the programmes have an enviable international reputation for commitment to poverty reduction and for professionalism in managing their operations. They all recognise that financial sustainability is only of instrumental worth given their core values on social performance and poverty reduction. They also recognise that they must have a commitment to institutional efficiency and a growth agenda which

will allow their members eventually to be part of a sustainable microfinance programme. They represent “institutional prototypes” that set industry markers for MFOs seeking to perform on the poverty reduction agenda.

The case studies confirm that any form of targeting involves additional cost.¹⁵ The trade-off issue is real. For an MFO that is working towards sustainability and also wants to target the very poor, it is inevitable that the cost recovery interest rate will be higher, in an accounting sense at least. To the very poor, the cost of money is higher. Reflecting on the nature of these costs, two distinct categories can be identified. First there are the direct financial market costs. These financial costs may be as a result of smaller loan sizes, or a riskier portfolio. They may also be through reputational costs in the money market if financial viability or profits are perceived to be a second order priority.

There is a second set of costs that relate to identification and operational costs.¹⁶ These are distinct in the sense that they apply to targeting *per se*, rather than to targeting of financial services. Perhaps the most authoritative analysis of such targeting costs is that of Amartya Sen. He identifies five types of costs:

- Informational distortion: individuals present themselves as fulfilling the target criteria;
- Incentive distortion: individuals behave differently, e.g. reduce their economic activity, in order to qualify;
- Disutility and stigma: labeling people as poor undermines self-respect;
- Administrative and invasive losses: at a collection cost to bureaucracies, individuals have to provide confidential information;
- Political sustainability and quality: targeting excludes and the excluded may undermine programme sustainability through challenging the basis for targeting. The severity of these costs is context specific and is a second important route through which context determines the nature of the trade-off between financial sustainability and poverty outreach.

The case studies referred to and presented in the articles below illustrate how organisational commitment to learning and efficiency in the context of poverty performance can greatly reduce these targeting costs, even to the point where, in the case of Prizma and BRAC's main programme, they are profitable operations. But this will not always be the case and something else needs to be done if the programme is to operate. A “market” response of addressing these two sets of costs through higher interest rates is an imperfect solution. First, it is not correct to assume that poor people's demand for loans is price elastic; higher interest rates will exclude some potential borrowers. Secondly, competition, regulation or adverse publicity may prevent adoption of a profitable rate. There are three solutions: cross-subsidisation from other lending programmes, grants, or the adoption of performance standards that value social performance and, specifically here, performance on poverty reduction. The first two are essentially short-term. The adoption of performance standards that allow MFOs to deliver on their poverty reduction agenda is the real need today. Such a measure needs to be able to evaluate two things:

- Poverty performance: to what extent does an organisation reach the poor and what impact does it have on their incomes?
- Organisational performance: given context, to what extent is an organisation cost-effective in delivering on poverty reduction?

The issue of organisational performance is reviewed in more detail in the next section of this *Bulletin*. The remainder of this article makes some observations on the difficulties faced by the industry in developing poverty performance standards and proposes a way forward.

3. A framework for poverty impact assessment

Donors and service providers alike have of course always said that microfinance is for poverty reduction. In some cases they have proved this through detailed impact assessment (IA) studies. More frequently, the claims have not had an evidence base. There are three main reasons why

we do not already have a suitable poverty performance standard.

First, many people are, quite reasonably, confused over what is meant by the term *poverty*. This confusion has deepened as dissatisfaction with income-based measures has hardened and multidimensional definitions have become more or less universally adopted. The UN Millennium Summit's adoption of the Millennium Development Goals (MDGs) has specifically identified several other dimensions as agreed targets.¹⁷ Secondly, there is a perception that accurately measuring outreach is difficult, expensive and time-consuming to do. Thirdly, there has been little incentive to assess poverty outreach meaningfully as it has not been a condition of funding.

To deal with the first, conceptual problem, in the *Imp-Act* programme, we identify three main dimensions in which poverty is addressed. In examining the poverty “credentials” of clients at entry and subsequent poverty reduction impact on clients and their families, we distinguish between income poverty and all other dimensions affecting clients. The latter are put together under the heading of social impacts. These would include health, education and empowerment benefits, crucial to the MDGs, as well as other direct welfare impacts on clients. There is a third dimension of impact. Recognising that, as the scale of microfinance programmes grows, there are wider economic and social impacts, we also need to be concerned with these wider impacts and their effects on poverty for both clients and non-clients. These can be both economic, largely through market effects, and social, through the influence of microfinance groups on values, relationships and practices within communities. In practice, it is difficult for MFOs, or anybody else, to provide a rigorous assessment of these wider impacts but in some circumstance they can be very significant.¹⁸

The broader term, “social performance”, can be used here, and increasingly is being used rather than “poverty”, to refer to these aspects of MFO performance.¹⁹ This framework provides three dimensions to social performance: income poverty, other social impacts on clients, and wider impacts. By separating out income poverty from social and wider impacts this framework has the key

advantage that MFOs could reasonably hope that they do have a positive income effect on their clients but not all would expect to score in the two other dimensions of poverty.

Income poverty is objectively measurable and comparable. These are important characteristics of a social performance standard. Analysis of other social impacts and wider impacts can then be used to address all the other dimensions of poverty as part of a more context-specific assessment of organisational performance. In other words when we refer to poverty performance as a standard we are adopting a definition that will allow comparable measurement of performance. However, we note that this performance is subject to context and that the context will also determine what other dimensions of poverty matter as well as the costs of achieving them. To take an example, in some contexts, e.g. Bosnia and Herzegovina, education is not a significant obstacle to livelihood development especially for the “new poor”, largely those suffering displacement from the public sector and having low incomes but possessing assets and education. In other contexts, e.g. Bangladesh, absence of education may be a fundamental obstacle to poor female enterprise development. Clearly, an MFO that incurred additional costs in Bangladesh on literacy or numeracy programmes that allowed borrowers to use loans more effectively would be adding important “social value” in that context. This would not be relevant for the “new poor” of Bosnia and Herzegovina. Nonetheless, in both cases we would want to know whether the beneficiaries are poor by *some* comparable measure. The measure we propose is an income measure, and as outlined below, this would have both a relative and an absolute dimension. This would be a constant and relevant for all assessments of poverty and social performance. Performance on this measure depends on context and the two types of trade-off or targeting cost distinguished above. In assessing the effectiveness of MFO performance in meeting these costs, their contribution on the two other dimensions of poverty are incorporated. Necessarily, the latter two domains are potentially very diverse and not really amenable to a comprehensive *ex ante* categorisation since there will always be the unanticipated consequences of service delivery to accommodate.

Some service providers will be sensitive to their effects in all three poverty domains. But most service providers have little knowledge of their impact in any of these domains. This *Bulletin* examines some of the ways in which MFOs can develop knowledge of their impact in these dimensions. This knowledge has to be useful knowledge. It has to be able to serve the organisational learning needs of service providers. In developing this agenda, the *Bulletin* addresses the second reason why poverty outreach assessments have been neglected by showing that, with proper structures and incentives, it need not be difficult, expensive or time-consuming to provide this knowledge. Such knowledge also has to be accessible to and verifiable by donors and others engaged in the industry.²⁰ Only then can it function as an industry benchmark to allow comparative assessment of MFO performance. Once this hurdle is crossed then MFOs can be given incentives, in the form of performance against benchmarks, to perform on poverty. Of course, some MFOs will feel threatened by new standards but it is really only an attempt to codify what most claim to be doing anyway. MFOs that choose to ignore such standards may instead pursue purely commercial routes for funding and we are likely to see a division of this sort emerging.

The framework addresses the problem of 'Comparing Apples to Oranges' as Nègre and Maguire (2002) so aptly put it in discussing the use of financial ratings to assess MFOs with: different accounting standards; different funding sources (costs); different scales linked to their relative age; differing environmental factors (they identify seven dimensions); and different target clientele. It does so by being explicit about context-specific opportunities and costs in delivering on all dimensions of poverty. By explicitly allowing for poverty reduction performance in each of these three dimensions the framework can for example accommodate programmes which work with poor communities, without targeting, and focus on the second dimension primarily. Likewise, MFOs with mixed or non-targeted clientele may perform well on wider impacts, e.g. through employment generation, and use that domain to demonstrate poverty reduction performance. Performance on these dimensions is used to assess the context-specific cost-effectiveness of a service provider.

Acknowledging but separating out these different dimensions allows us to be more specific about some of the differences between advocates of financial sustainability and advocates of poverty focus. It provides two focal points: one which explicitly assesses the welfare effects of direct financial benefits to financial service provision; the second which assesses other welfare effects and the overall cost-effectiveness of the organisation.

The income-poverty measure is used for assessing both outreach and impact. It is objective and has two components.

- A relative measure: Poverty outreach should be assessed on coverage relative to the distribution of poverty in the geographic area of programme coverage and not on the MFO portfolio alone. Failure to adopt this approach means we know nothing about who is excluded.
- An absolute measure: Poverty outreach must be assessed in ways which are nationally and internationally comparable. This requires comparison with national poverty lines and the international measure of \$1 a day. Once you can make the domestic comparison, the international comparison is possible through secondary data. It is expensive to reproduce national poverty estimates based on income or consumption and very expensive to do well. Instead, we should use poverty correlates. These will vary nationally and locally but food insecurity, occupation, wages or asset measures such as housing quality may be relevant in specific circumstances. Consultative Group to Assist the Poorest (CGAP) has worked with *Imp-Act* partners and others and has widely tested a relative poverty tool. The work with *Imp-Act* partners is now focused on developing correlates (sometimes called proxies) from this analysis that allow comparisons with absolute poverty measures.

The organisational performance measure is a context-specific impact tool and incorporates both performance on social and wider impacts and cost-effectiveness in addressing these and the income-poverty criterion. It examines the extent to which an organisational poverty embraces culture reduction and financial sustainability as core

values. Recognising that there is a trade-off, MFOs need to be able to demonstrate that their leadership, their structure and their incentives are driven by these joint concerns. What we need is a financial measure – we have plenty – combined with an efficiency measure that assesses how well an organisation translates these twin goals into effective service delivery. Whilst there will be a subjective element to this assessment, the tools to provide a degree of rigour are partially available from the social policy and the management literature and are being applied by MFOs, as Parts II and III of this *Bulletin* describe.

4. Conclusion: setting standards

In 1998, one of the foremost authorities on the microfinance industry wrote of the ‘continuing split between those in the poverty camp and those in the sustainability camp’ (Rhyne 1998). The conflict then centred on the legitimacy of a development agenda that focused on financial sustainability *but* did so in the name of poverty reduction.

Five years on, a great deal has changed. Consonant with the increasing focus on effective use of International Development Assistance for poverty reduction, the microfinance industry is under pressure to prove its focus on reaching the poor.

Microfinance networks such as ACCION,²¹ CASHPOR,²² Opportunity International, PlaNet Finance and SEEP²³ are now paying attention to the assessment of poverty outreach. Major international partners such as Freedom From Hunger (FFH) and Plan International are working on the development of impact assessment tools that address specific dimensions of poverty outreach. CGAP has developed and implemented a relative poverty-targeting tool and is now synthesising this approach with absolute poverty measures. The second Microcredit Summit (New York, November 2002) renewed the focus on poverty outreach in its flagship publication (Daley-Harris 2002). CGAP has been involved in developing social performance indicators linked to the MDGs to reflect the double bottom line in microfinance. Building on these initiatives, the strategic task for the industry now is to develop a common practical basis for accurately assessing poverty outreach performance of microfinance service providers.

This article has reviewed these developments and proposed that this assessment has two components – poverty performance and organisational performance. Global development objectives determine the former; differences in local context require the latter.

Notes

1. Microfinance also has a key social protection function in many settings where it helps meet immediate consumption needs. It has a core role in specific sectoral settings, such as small enterprise development, and sometimes has been part of a broader development agenda focused on social mobilisation.
2. Though we should note evidence from Woller and Schreiner (2003) that programme scale was not linked to financial sustainability of village banks they studied and that, as other studies had shown, interest rates and relative salary levels were the only significant determinants of financial sustainability.
3. GIRAFE (Governance, Information, Risk, Funding, and Efficiency) is the acronym of a rating system developed by PlaNet Finance; CAMEL (Capital adequacy, Asset quality, Management, Earnings, and Liquidity management) is an acronym of a rating system developed by ACCION (CGAP 2001).
4. Hulme (2000) presents an overview of the methodological problems faced in assessing impact and why it is difficult to infer attribution.
5. The “double bottom line” accounts for both financial and social value; there are variants around this including “triple bottom line” accounting which (normally) adds environmental costs and benefits as well.
6. These authors also emphasise the importance of public policy and public investment in creating an appropriate environment for such public goods to emerge. See Lapenu 2002: 297–320 on the role of the state.
7. Dunford (2002) provides an informed discussion of linked, parallel and unified models of service provision and the “economies of scope”.
8. For example, analysis of how social collateral, peer monitoring and joint-liability can simultaneously address the problems respectively, of screening, incentives and enforcement.
9. In particular, the identification of a need for insurance and savings products as well as different loan products has been a significant development from this demand-led perspective.

10. See the description of the Grameen Generalised system and the processes that led to it (Yunus 2002).
11. Development ministries and agencies are being asked for evidence of their delivery against poverty reduction objectives such as ministries supporting services such as health and education in the developed countries have to demonstrate value for money against agreed objectives.
12. The US President signed legislation on 17 June 2003 mandating at least half of US support for microenterprise development to be targeted to the very poor; i.e. those living on below \$1 a day purchasing power parity income or below half of the national poverty line income.
13. According to Khandker (2003) there has been a measured increase in participation of the ultra-poor in BRAC's main programme and other Bangladesh MFOs from 33% in 1991–2 to 58% in 1998–9.
14. See also van de Ruit and May (article 2, this *Bulletin*) and Roper (article 7, this *Bulletin*) on organisational performance.
15. Though, it is very important to note also that methods of targeting, e.g. participatory wealth ranking, may result in additional knowledge, for borrowers and lenders, which result in better products, ease of start-up etc. The net effect may well be cost-savings.
16. These of course are also financial costs but they are distinct from financial market costs in that they do not relate directly to portfolio performance or access to capital.
17. CGAP are in the process of developing social performance indicators for MFOs that assess progress to the MDGs. The framework proposed here is entirely consistent with that initiative.
18. For example, it seems reasonable to conjecture that the eight million plus borrowers from MFOs in Bangladesh have indeed had some collective social and economic impact on markets or values or other dimensions affecting well-being.
19. Social performance is used more loosely in other contexts to refer to any aspect of social impact not just that on poverty
20. It is anticipated that donors or other social or double bottom line investors planning substantial investment would support the development of MFO capability on these standards in ways that serve organisational learning. There is already a great deal known in developing countries about income poverty measurement and advocates of double bottom line assessment, largely US in origin, have a great deal to learn from this expertise.
21. ACCION is a non-profit organisation that fights poverty through micro-lending. ACCION partners with MFOs throughout Latin America, Africa and the USA.
22. CASHPOR (Credit and Savings for the Hard-Core Poor of Asia-Pacific) is an association of Grameen bank replications in Asia.
23. SEEP (Small Enterprise Education and Promotion Network), based in Washington, is an association of more than 51 North American private and voluntary organisations which support micro and small enterprise programmes in the developing world. Its mission is to advance the practice of these organisations.

References

- CGAP, 2001, 'Resource guide to Microfinance Assessments', *CGAP Focus Note* 22, November, Washington DC
- Chiteji, N.S., 2002, 'Promises kept: enforcement and the role of rotating savings and credit associations in an economy', *Journal of International Development*, Vol 14 No 4
- Daley-Harris, S. (ed.), 2002, *Pathways Out of Poverty: Innovations in Microfinance for the Poorest Families*, Bloomfield: Kumarian Press
- Dollar, D. and Kraay, A., 2000, 'Growth is good for the poor', mimeo, Washington DC: World Bank
- Drake, D. and Rhyne, E. (eds), 2002, *The Commercialization of Microfinance: Balancing Business and Development*, Bloomfield: Kumarian Press
- Dunford, C., 2002, 'Building Better Lives: Sustainable Integration of Microfinance with Education in Child Survival, Reproductive Health, and HIV/AIDS Prevention for the Poorest Entrepreneurs', in S. Daley-Harris (ed.), *Pathways Out of Poverty: Innovations in Microfinance for the Poorest Families*, Bloomfield: Kumarian Press
- Forster, S., Green, S. and Pytkowska, J., with contributions from Goodwin, R., Guzowski, J., Holtmann, M., Lauer, K., Lyman, T., Nagarajan, G. and Winkler, A., 2003, *The State of Microfinance in Central and Eastern Europe and the New Independent States*, CGAP, May
- Greeley, M., 1997, 'Poverty and Well-Being: Policies for Poverty Reduction and the Role of Credit', in G.D. Wood and I.A. Sharif (eds), *Who Needs Credit?*

- Poverty and Finance in Bangladesh*, Dhaka: The University Press Ltd
- Halder, S. and Husain, A.M.M., 2001, *The Poorest and Their Development Needs: Results of an Exploratory Study*, Dhaka: BRAC
- Hoff, K. and Stiglitz, J.E., 1990, 'Introduction: Imperfect information and rural credit markets – puzzles and policy perspectives', *The World Bank Economic Review*, September 1990, Vol 4 No 3
- Hulme, D., 2000, 'Impact assessment methodologies for microfinance: theory, experience and better practice', *World Development*, Vol 28 No 1
- Khandker, S.R., 2003, 'Microfinance and poverty: evidence using panel data from Bangladesh', *World Bank Policy Research Working Paper 2945*, January, Washington DC: World Bank
- Lapenu, C., 2002, 'The Microfinance Revolution: Implications for the Role of the State', in M. Zeller and R.L. Meyer (eds), *The Triangle of Microfinance: Financial Sustainability, Outreach and Impact*, Baltimore: Johns Hopkins University Press, and London: The International Food Policy Research Institute
- Lennon, B. and Richardson D.C., 2002, 'Teaching Old Dogs New Tricks: The Commercialization of Credit Unions', in D. Drake and E. Rhyne (eds), *The Commercialization of Microfinance: Balancing Business and Development*, Bloomfield: Kumarian Press
- Nègre, A. and Maguire, K., 2002, 'Comparing apples to oranges: using MFI ratings', *MicroBanking Bulletin*, November 2002
- Ravallion, M., 2001, 'Growth, inequality and poverty: looking beyond the averages', mimeo, Washington DC: World Bank
- Rhyne, E., 1998, 'The yin and yang of microfinance: reaching the poor and sustainability', *MicroBanking Bulletin*, July
- Robinson, M., 2001, *The Microfinance Revolution: Sustainable Finance for the Poor*, Washington DC: World Bank
- Schreiner, M., 2002, 'Aspects of outreach: a framework for discussion of the social benefits of microfinance', *Journal of International Development*, Vol 14
- Sebstad, J. and Cohen, M., 2000, 'Microfinance, risk management, and poverty', *AIMS Paper*, Washington DC: Management Systems International
- Seers, D., 1972, 'What are we trying to measure?', *The Journal of Development Studies*, Vol 8 No 3
- Tankha, A., 2002, 'Self-help groups as financial intermediaries in India: cost of promotion, sustainability and impact', a study prepared for ICCO and Cordaid, The Netherlands, August
- Tulchin, D., 2002, 'Microfinance's double bottom line', *Working Paper to Develop New Sources of Capital*, MicroCapital Institute
- White, H. and Anderson, E., 2001, 'Growth versus distribution: does the pattern of growth matter?', *Development Policy Review*, Vol 19 No 3
- Woller, G. and Schreiner, M., 2003, 'Poverty lending, financial self-sufficiency, and the six aspects of outreach', mimeo
- Yunus, M., 2002, 'Grameen Bank II: designed to open new possibilities', *Grameen Dialogue*, September
- Zeller, M. and Meyer, R.L. (eds), 2002, *The Triangle of Microfinance: Financial Sustainability, Outreach and Impact*, Baltimore: Johns Hopkins University Press, and London: The International Food Policy Research Institute