



## **Assessing the relative poverty level of MFI clients**

**Synthesis report based on four case studies**

**International Food Policy Research Institute (IFPRI)  
for the Consultative Group to Assist the Poorest (CGAP)**

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## **1. Objective**

The microfinance industry promotes the dual objectives of sustainability of services and outreach to the very poor. When deciding to fund specific microfinance institutions (MFIs), donors and other social investors in the sector invest in both objectives, however their relative importance varies among funders. Furthermore, many practitioners, donors, and experts perceive a tradeoff between financial sustainability and depth of outreach, although the exact nature of this tradeoff is not well understood.

In recent years, several tools have emerged to assist donors in their assessment of the institutional performance of MFIs. An example is the *CGAP Appraisal Format*. This latter tool contains practical guidelines and indicators for measuring MFI performance in a range of issues, including: governance, management and leadership, mission and plans, systems, operations, human resource management, products, portfolio quality, and financial analysis. Analysis of these institutional features allows for an appraisal of the potential for institutional viability or sustainability. At the same time, the proliferation of tools such as the *Appraisal Format* has encouraged transparency and the development of standards on the topic of financial sustainability.

Currently, no concrete tool for measuring the poverty level of MFI clients exists. In order to gain more transparency on the depth of poverty outreach, CGAP has collaborated with the International Food Policy Research Institute (IFPRI) to design and test a simple, low-cost operational tool to measure the poverty level of MFI clients relative to non-clients. This tool comprises a companion piece to the *CGAP Appraisal Format* and donors should not use it in isolation from a larger institutional appraisal.

IFPRI developed a survey-based method of assessment and tested it with case studies using random samples of client and non-client households from the operational areas of four CGAP partner MFIs. Not only did these institutions operate in significantly different geographic and socio-economic settings, they also differed in terms of their objectives and institutional design. A sample of 500 households – 200 client households and 300 non-client households -- were drawn in each of the case studies. Results from these case studies helped refine the final product, a practical operational manual.

This report synthesizes the results of these case studies. The rest of the report is organized into four main sections. Section 2 provides a brief background of the four MFIs and a summary of the surveys implemented in the respective operational areas. Section 3 outlines the basic methodology used to generate a poverty index for assessing the relative poverty MFI clients. Section 4 presents the results.

## **2. Case study institutions**

Case studies were conducted for four MFIs worldwide: MFI A (Central America), MFI B (East Africa), MFI C (Southern Africa), and MFI D (South Asia). These MFIs

constituted a heterogeneous group serving a diverse set of clientele and using different approaches to service delivery. A brief background of each MFI is provided in this section and summarized in Table 1.

## **2.1 MFI A (Central America)**

**Background.** Founded in 1989, MFI A is the largest micro-finance institution in this Central American country. By 1999, MFI A counted 11 branches and served around 14,500 clients, mostly in urban and semi-urban locations.

The stated objective of the MFI is to reach all segments of the population that demand financial services for the development of their micro, small, and medium-scale enterprises. To reach this diverse clientele, MFI A offers a range of loan and savings products. Loan sizes range from US\$ 20 to several thousand dollars. Apart from credit services, a number of savings products seek to also address poorer segments of the population. MFI A uses an individual loan methodology and does not directly employ targeting methods to reach poorer clientele.

**Survey implementation.** IFPRI partnered with a private consultant to implement the field research. The MFI provided data on new clients to construct a multi-stage cluster sampling frame. Only clients participating for less than 6 months were considered. A sample of clients was chosen randomly, proportional to the number of new clients in the various branches. Non-clients were randomly chosen from the same towns or rural communities where the selected clients were located. The survey was carried out during November- December 1999 by a team of five experienced enumerators. Field costs totaled approximately US\$14,000.

## **2.2 MFI B (East Africa)**

**Background.** An NGO founded in 1981, MFI B provides loans specifically to women in business. In 1997 MFI B established four regional offices, all located in areas with above average population density and high levels of small business activity and established both urban- and rural-based lending groups. MFI B now provides services to nearly 17,000 women entrepreneurs.

To qualify for MFI B services, prospective clients must organize into groups of approximately 20 members, guarantee one another and save a certain amount each week. In addition, individuals must receive a favorable business assessment from both MFI B and other group members.

**Survey implementation.** IFPRI collaborated with a local research institute to implement the field survey. A random multi-stage cluster sampling design was used, though one more remote region was excluded from the sampling frame for logistical reasons. The survey also excluded several groups located in remote areas. For this reason, the sampled areas may somewhat over-represent localities in high-potential parts of MFI B's

operations. Non-client households were randomly selected within the same local areas where client households were located. The household survey was conducted during November 1999–January 2000 and field costs totaled approximately \$11,000 using six enumerators and two field supervisors.

### **2.3 MFI C (Southern Africa)**

**Background.** MFI C is a credit and savings cooperative founded in 1993. In 1999, MFI C counted 4 branches and 58 local units, serving around 22,000 members, in both urban and rural locations. As a cooperative, MFI C requires its members to purchase shares and save for six months before receiving a loan. MFI C uses no explicit targeting methods and draws members from all segments of the population. MFI C employs an individual loan methodology. Since the beginning of the year 1999, however, MFI C launched a new program that specifically targets poor women. This new program requires the women clients to form solidarity groups of five members and loans are provided without any prerequisite savings.

**Survey implementation.** IFPRI worked with a national research center to implement the field survey. A random, multi-stage cluster sampling design was used to sample clients based on data on new clients provided by the MFI. Twenty-four percent of the selected clients belonged to the women groups and the rest were ordinary share-owning members. Non-clients were randomly chosen within the same towns or rural communities in which the selected clients were located. A team of four experienced enumerators implemented the survey during August-September, 1999 and field costs totaled approximately \$5,000.

### **2.4 MFI D (South Asia)**

**Background.** MFI D, established in 1989, provides credit and saving services to a targeted group of around 31,000 clients, mainly poor rural women, through a network of 19 branch offices in one particular state of the country. Eligibility for the program is tested using a household questionnaire and, following the Grameen Bank methodology, loans are provided without any collateral to clients who form groups of five. Clients are also required to make weekly contributions to a saving account.

**Survey Implementation.** IFPRI collaborated with a national research center to implement the field survey. A random, multi-stage cluster sampling design was used to select MFI clients, based on data provided by the MFI. Eighteen percent of the client households selected turned out to have received no loans from MFI D at the time of the survey. Forty-eight percent had received loans smaller than US\$ 90. The household survey was administered during September-October 1999 using eight trained enumerators. A sample of non-client households was also randomly drawn in each selected cluster. Field costs equaled approximately US\$11, 000.

Table 1: Summary Characteristics of case study MFIs

Case study MFI	MFI characteristics								
	Location	Year of establishment	Stated Mission/goals	Number of branches	Areas served	Methodology	Target clients	Products	No. of clients (1999)
MFI A	Central America	1989	provide services to micro, small and medium enterprises	11 branches	Mostly urban and semi-urban locations	Individual loan contracts	No explicit targeting. Some services specifically tailored to poor.	Loan size varies from \$20 to several thousand; savings products for the poor	14,500
MFI B	East Africa	1981	Provide services to women in business	4 regional branches	Areas with high population density and high levels of business activity	Group guarantee; compulsory savings	Women in business only. Business plan must be approved.	Loan size varies from \$285-429	17,000
MFI C	Southern Africa	1993	Provide services to all segments of population + recently started program for poor women	4 branches and 58 local units	Urban and rural	Shareholders entitled to loan amount four times the amount of saving deposit.  Women's program requires group formation.	No explicit targeting for ordinary share-owning members. A recently initiated program specifically targets poor women.	Loans of \$25 and above for women groups. Share paying members can access loans equal to 4 times the amount saved.	22,000
MFI D	South Asia	1989	Provides services specifically to poor women	19 branch offices	Mostly rural	Loans based on group guarantee; compulsory saving plan.	Specifically targets poor women only	Loan size vary from \$100-300.	31,000

### **3. Case study methodology**

#### **3.1 Study Parameters and choice of an indicator-based methodology**

The immediate objective of the research project directly influenced the assessment method adopted: to develop a tool that could be used by CGAP and other donors to assess the poverty level of microfinance clients. In order for the tool to be effective and practical, the tool needed to have the following features:

- The methodology should be simple enough to remain operational;
- The methodology used should permit comparison between different MFIs and, if possible, across countries; and
- The tool should not be costly to implement and should have a minimum turnaround time without sacrificing too much in terms of credibility of results.

Consideration of these parameters led to the adoption of the indicator-based method. This method involved the following main tasks:

- (1) Identifying a range of indicators that reflect powerfully on poverty levels, and for which credible information can be quickly and inexpensively obtained;
- (2) Designing a survey methodology that facilitates the collection of information on these indicators from households living in the operational area of the MFI; and
- (3) Formulating a single summary index that combines information from the range of indicators and facilitates poverty comparisons between client and non-client households.

Approaches based on intensive households expenditure surveys were ruled out not only because they were too expensive and time-consuming to implement, but also because they necessitated advanced skills in statistical data analysis. On the other hand, participatory or rapid assessment techniques were ruled out mainly because they did not easily allow for objective comparisons between MFIs.

### **3.2 Methodological steps using the indicator-based approach**

The indicator-based approach involved the following methodological steps:

1. Extensive literature review and expert consultation on the general availability and use of poverty indicators
2. Selection of indicators based on an eight-point criteria
3. Development of a generic questionnaire for testing in the four case studies
4. Adaptation of the questionnaire to account for local-level specificities using participatory methods
5. Testing indicators through household surveys
6. Statistical analysis of indicators
7. Review of indicators with MFI and other stakeholders
8. Selection and synthesis of common indicators across countries
9. Development of a generic poverty index
10. Revision and simplification of generic questionnaire

### **3.3 Multiple dimensions of poverty and its implication**

Because of the multi-faceted nature of poverty, reliance on any one dimension or any one type of indicator was not recommended. To capture different dimensions of poverty, IFPRI used the following general classification of indicators in the process of developing the generic questionnaire:

1. Indicators expressing the means to achieve welfare. These reflect the earning potential of households and relate to:
  - Human capital (family size, education, occupation, etc.)
  - Asset ownership

- Social capital of household
2. Indicators related to the fulfillment of basic needs:
    - Health status and access to health services
    - Access to food, shelter and clothing
  3. Indicators related to other aspects of welfare (security, social status, environment)

In many cases, a single indicator may not be fully reliable even to describe one particular dimension of poverty. For example, collecting information on ownership of a TV is not likely to shed complete light on a household's access to consumer assets in general, and needs to be supplemented by other indicators on ownership of kitchen appliances and/or other electronic assets such as radios or electric fans.

### **3.4 Criteria for selection of indicators**

From an exhaustive list of indicators obtained through a literature review, the IFPRI team initially chose to include a smaller subset in the generic questionnaire. The criteria used in their selection include:

- Nationally valid (can be used in different local contexts, urban vs. rural)
- Not too sensitive a question (can be asked openly)
- Practical (can be observed as well as asked)
- Quality of the indicator (discriminates poor households individually)
- Reliability (low risk of falsification/error; also possible to verify)
- Simplicity (direct and easy to answer vs. computed information)
- Universality (can be used in different countries)

### **3.5 Types of indicators included in the generic questionnaire**

Based on extensive analysis of the initial long list, IFPRI included the following types of indicators in the generic questionnaire to test in the four case studies:

- Demographic characteristics of household and members (eg. family size, age and number of children)
- Quality of housing (eg. walls, roofs, access to water)
- Wealth (eg. type, number and value of assets)
- Human capital (eg. level of school education and occupation of household members)
- Food security and vulnerability (eg. hunger episodes in last 30 days/12 months, types of food eaten in last two days)
- Household expenditures for clothing (poverty benchmark)

### **3.6 Purpose of field-testing**

The questionnaire was field tested in each of the four case studies with the following objectives in mind:

1. To further select and/or reduce the number of indicators to include in the recommended final questionnaire by taking the following steps:
  - In each case study, identify indicators that are tightly related to poverty levels;
  - Identify indicators that can be commonly used across the four countries (that is, those that are robust to diverse socio-economic and cultural contexts);
  - Identify indicators suitable for capturing local specificities and evaluate their importance in overall assessment;
  - Catalogue problems and strengths of the survey tool and related analysis through testing in different country and MFI settings; and,
  - Share results with MFIs and other stakeholders to critically evaluate the method.
2. To test and standardize the method to integrate different indicators into a poverty index that allows comparisons between MFIs and countries.
3. To document all procedures involved in (1) and (2) in a user-friendly manual to support future independent assessments.

### **3.7 Indicators in the final recommended questionnaire**

Table 2 lists indicators included in the final recommended questionnaire. (A copy of the final recommended questionnaire is included as Annex 2.) Their selection was based on 1) the ease and accuracy with which information on them could be elicited in a typical household survey, and 2) how well they correlated with the benchmark poverty indicator: per capita expenditure on clothing and footwear. Per capita expenditure on clothing and footwear was chosen as the benchmark indicator since it bears a stable and highly linear relationship with total consumption expenditure, a comprehensive measure of welfare at the household level.

**Table 2. Indicators in the final recommended questionnaire**

Human Resources	Dwelling	Food security and vulnerability	Assets	Others
<ul style="list-style-type: none"> <li>• Age and sex of adult household members</li> <li>• Level of education of adult household members</li> <li>• Occupation of adult of members of household</li> <li>• Number of children below 15 years of age in the household</li> <li>• Annual Clothing/foot-wear expenditure for all household members</li> </ul>	<ul style="list-style-type: none"> <li>• Ownership status</li> <li>• Number of rooms</li> <li>• Type of roofing material</li> <li>• Type of exterior walls</li> <li>• Type of flooring</li> <li>• Observed structural condition of dwelling</li> <li>• Type of electric connection</li> <li>• Type of cooking fuel used</li> <li>• Source of drinking water</li> <li>• Type of latrine</li> </ul>	<ul style="list-style-type: none"> <li>• Number of meals served in the last two days</li> <li>• Serving frequency (weekly) of three luxury foods</li> <li>• Serving frequency (weekly) of one inferior food</li> <li>• Hunger episodes in last one month</li> <li>• Hunger episodes in last 12 months</li> <li>• Frequency of purchase of staple goods</li> <li>• Size of stock of local staple in dwelling</li> <li>• Marginal propensity to consume out of additional income</li> </ul>	<ul style="list-style-type: none"> <li>• Area and value of land owned</li> <li>• Number and value of selected livestock resources</li> <li>• Ownership and value of transportation-related assets</li> <li>• Ownership and value of electric appliances</li> </ul>	<ul style="list-style-type: none"> <li>• Urban/rural indicator</li> <li>• Non-client's assessment of poverty outreach of MFI</li> </ul>

The following indicators were rejected:

- Indicators using child-specific information. Not all households have children; hence using child-related information precluded some households from comparative analysis.
- Indicators of social capital. This is an evolving area of investigation, and measurable and comparable indicators were not easily found.
- Subjective responses. Responses on self-assessment of poverty were considered unreliable to be used in comparisons

- Health related information. Eliciting health-related information requires longer recall periods and more intensive and specialized training of interviewers. In the absence of training provided by health specialists (which is expensive), responses can be highly subjective and misleading.

### **3.8 Using principle component analysis to develop the poverty index**

The use of multiple indicators enables a more complete description of poverty, but it also complicates the task of drawing comparisons. The wide array of indicators have to be summarized in a logical way, underlining the importance of combining information from the different indicators into a single index. The creation of an index requires finding a set of pre-determined weights that can be meaningfully applied to different indicators so as to come to an overall conclusion.

The case studies used the method of PC analysis to accomplish this task. Specifically, PC analysis isolates and measures the poverty component embedded in the various poverty indicators and creates a household-specific poverty score or index. Relative poverty comparisons are then made between client and non-client households based on this index.

PC analysis was originally developed to study the association between student grades in different subjects and the level of intelligence. Student grades were the “indicators” and the level of intelligence, the underlying component. In the present case, information collected from the questionnaires make up the “indicators” and the underlying component that is isolated and measured is “poverty”.

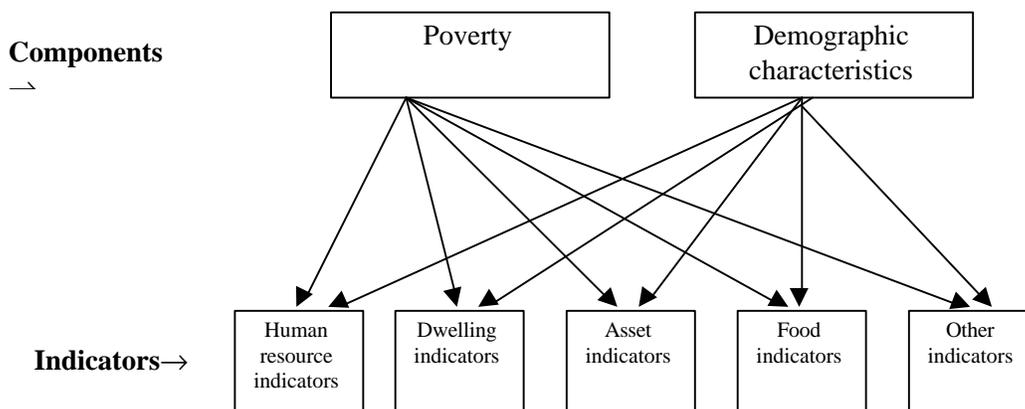
In the example presented in Figure 1, poverty and demographic characteristics constitute the two underlying components affecting the level of all the indicators. Because the indicators are determined by these common underlying components, they are likely to be related to each other. PC analysis uses this information (the co-movement amongst the indicators) to isolate and quantify the underlying common components. PC analysis is also used to compute a series of weights that mark each indicator’s relative contribution to the overall poverty component. Using these weights, a household specific poverty index (or poverty score) can be computed based on each household’s indicator values.<sup>1</sup>

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<sup>1</sup> The principal component technique slices information contained in the set of indicators into several components that have the following characteristics:

1. Each component is constructed as a unique index based on the values of all the indicators. This index has a zero mean and standard deviation equal to one,
2. The first principal component accounts for the largest proportion of the total variability in the set of indicators used. The second component accounts for the next largest amount of variability not accounted by the first component, and so on for the higher order components. In our case, therefore, the first principal component will be the poverty component.
3. Each component is completely unrelated to the other components; that is, each represents a unique underlying attribute

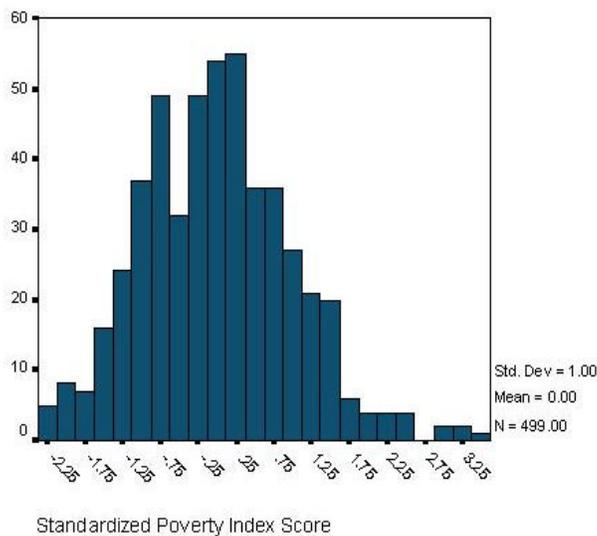
Figure 1. Indicators and underlying components



The indicators in the case studies have been specially chosen to correlate well with poverty, including only those that have significant correlation with per capita clothing expenditure, the benchmark indicator. Hence the poverty component is expected to account for most of movements in the indicators, and will be the “strongest” of all the components. Further, the poverty component is also identified based on the size and consistent signs of the indicators in their contribution to the index. For example, education level should contribute positively – not negatively - to wealth.

The principle component analysis produces a household-level poverty index. Figure 2 gives an example of the distribution of the poverty index across households using MFI B data.

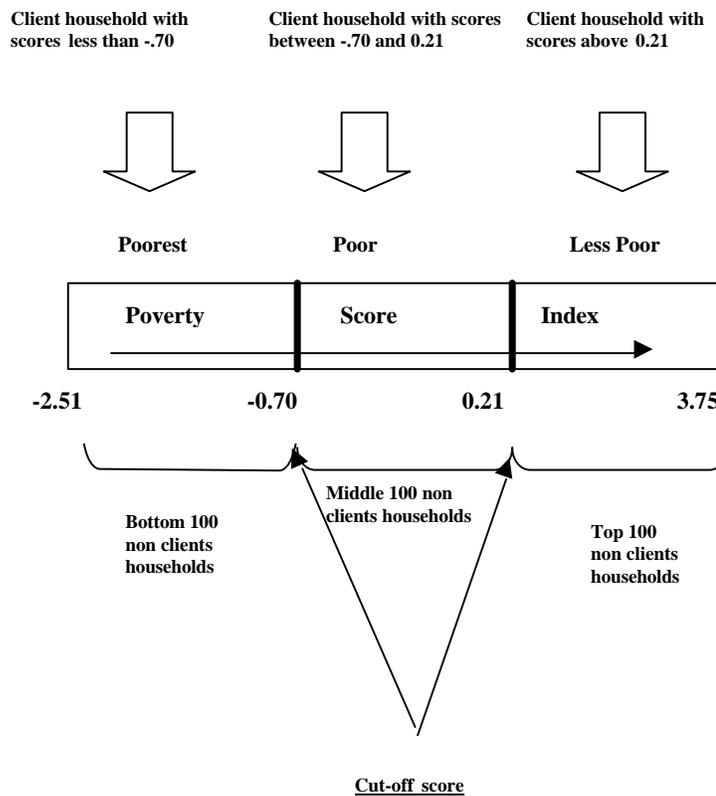
Figure 2. Histogram of the standardized poverty index (MFI B)



### 3.9 Using the poverty index

Each case study includes a random sample of 300 non-client households and 200 client households. To use the poverty index for making comparisons, the non-client sample is first sorted in an ascending order according to its index score. Once sorted, non-client households are divided in terciles based on their index score: the top third of the non-client households are grouped in the “less poor” group, the middle third grouped in the “poor” group and the bottom third in the “poorest” group (Figure 3). Since there are 300 non-clients each group contains 100 households each. The cut-off scores for each tercile defines the limits of each poverty group. Client households are then categorized into the three groups based on their household scores.

Figure 3. Constructing poverty groups



If the pattern of client households’ poverty matches that of the non-client households, client households would divide equally among the three poverty groupings just as the non-client households, with 33% falling in each group. Hence any deviation from this equal proportion signals a difference between the client and the non-client population. For instance, if 60 percent of the client households fall into the first tercile or poorest

category, the MFI reaches a disproportionate number of very poor clients relative to the general population.

## **4. Results**

### **4.1 Indicators used to compute poverty index in the case studies**

Table 3 contains the list of indicators included in computing the index in the four case studies. They were selected based on a first-stage screening that examines correlation with per capita clothing expenditure and a second-stage screening using principle component analysis.<sup>2</sup>

Each of the four case studies uses 15 - 20 indicators. These indicators combine different dimensions of poverty concerning human resources, housing conditions, assets, and food security and vulnerability. **Nine indicators were commonly used in at least three of the case studies.**

**Human resources.** Eight indicators related to human resources are used in the four case studies. These indicators reflect the level of education in the household and the presence of unskilled labor force. The percentage of wage laborers in the household seems to be particularly important in the relatively poorer countries of Southern Africa and South Asia (MFI C and MFI D). The indicator expressing whether the household head achieved secondary school is important in countries with relatively high literacy rates (MFI A and MFI B).

**Dwelling.** Dwelling indicators discriminated among relative poverty levels well. In the case of MFI D in South Asia, 8 out of 20 indicators related to housing quality. The importance of dwelling indicators in South Asia supports the use of the housing index as important indicator of poverty in that region. However, in the African cases (MFI B and MFI C), where housing is relatively homogenous, only four or five housing indicators were used. The presence or quality of latrines appears in all the case studies. House size (number of rooms per person) is used in three countries.

**Assets.** A total of 15 indicators on the number or value of assets are included in the 4 case studies. They are particularly important (five out of 17 indicators) in the Central American country (MFI A), the most well-off country of the sample. The amount of land possessed is important only for MFIs serving rural and agricultural areas, as is the case in MFI D.

**Food security and vulnerability.** These indicators turn out to be very important in explaining differences in relative poverty in all four studies, particularly in the Southern African country (MFI C) which is the poorest. The indicator of chronic hunger (enough to

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<sup>2</sup> Cumulative frequency distribution of per capita clothing and footwear expenditure by client and nonclient households is provided for each of the case studies in Annex 1.

eat in the last 12 months) appears in all four cases. Indicators of short-term hunger (enough to eat in the last 30 days) and of consumption of luxury food during the week appear in three cases.

**Table 3: Indicators selected to represent the poverty index, by countries**

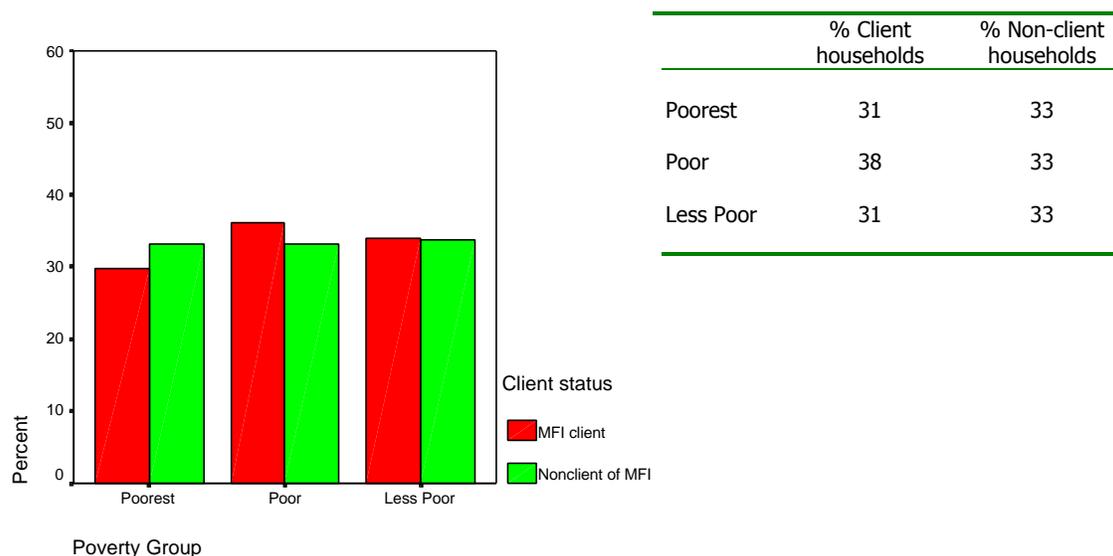
<b>POVERTY INDICATOR</b>	<b>MFI A</b>	<b>MFI B</b>	<b>MFI C</b>	<b>MFI D</b>	<b>#</b>
<b>Human resources</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>8</b>
1. Maximum level of education in HH			x	x	2
2. % of adults who are wage laborers			x	x	2
3. Literacy of HH head				x	1
4. HH head completed secondary school	x	x			2
5. % of literate adults in household		x			1
<b>Dwelling</b>	<b>6</b>	<b>4</b>	<b>5</b>	<b>8</b>	<b>23</b>
1. HH owner of the house	x				1
2. Value of dwelling	x			x	2
3. Roof made of permanent materials			x	x	2
4. Walls made of permanent material		x		x	2
5. Quality of flooring material				x	1
6. Electric connection		x	x	x	3
7. Source of cooking fuel	x			x	2
8. Latrines in the house	x	x	x	x	4
9. # of room per person	x		x	x	3
10. Access to water		x	x		2
11. Structure of the house	x				1
<b>Assets</b>	<b>5</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>15</b>
1. Irrigated land owned				x	1
2. # of TVs	x	x			2
3. # of radios				x	1
4. # of fans			x	x	2
5. # of VCRs	x				1
6. Value of radio		x			1
7. Value of electrical devices	x	x	x		3
8. Value of vehicles	x				1
9. Value of assets per person/adult	x	x	x		3
<b>Food security &amp; vulnerability</b>	<b>4</b>	<b>4</b>	<b>7</b>	<b>6</b>	<b>21</b>
1. # of meals served in last two days				x	1
2. Enough to eat during last 30 days	x	x		x	3
3. Enough to eat in last 12 months	x	x	x	x	4
4. # of days with luxury food 1		x	x	x	3
5. # of days with luxury food 2		x	x	x	3
6. # of days with inferior food			x	x	2
7. Frequency of purchase of basic good	x		x		2
8. Frequency of purchase of basic good			x		1
9. Food stock in house	x				1
10. Use of cooking oil			x		1
<b>Miscellaneous indicators</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>3</b>
1. Per person expenditure on clothing	x	x			2
2. Urban/rural location of residence			x		1
<b>Total number of indicators</b>	<b>17</b>	<b>15</b>	<b>18</b>	<b>20</b>	

## 4.2 MFI-specific results

The results are best summarized by examining the proportion of client households falling into the three poverty groups. If the pattern of client households' poverty were similar to those of the non-client households, client households would divide up equally among the three poverty groupings. Any deviation from this proportion signals a difference between the client and the non-client population.

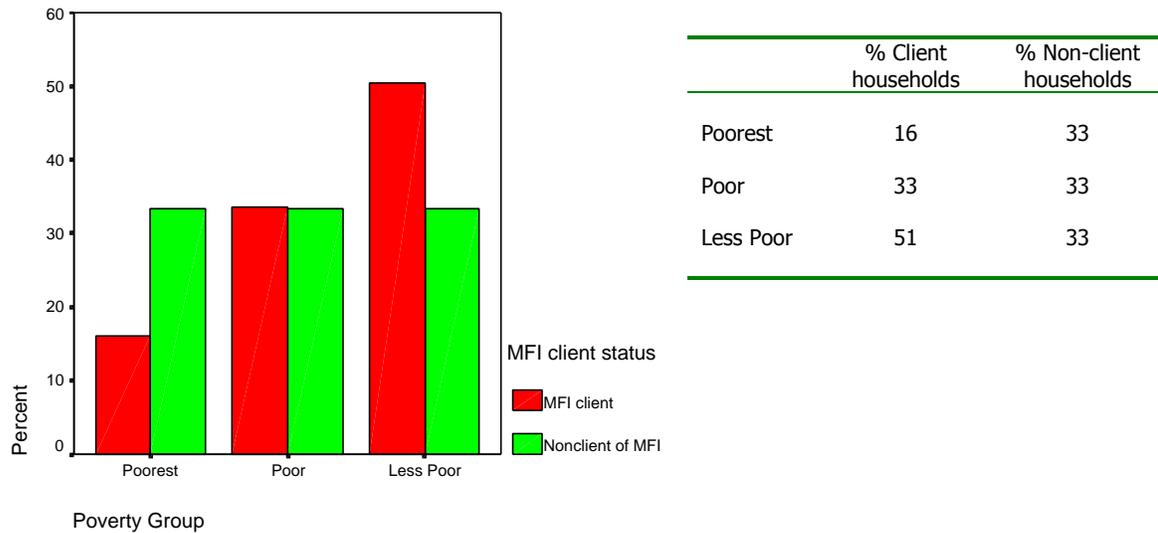
**MFI A.** Figure 4 presents the poverty groups by client and non-client households. The distribution of MFI A's clients across the poverty groups closely mirrors the distribution of non-clients, indicating that MFI A serves a clientele that is quite similar to the general population in its operational area. This result is consistent with MFI A's stated objective of reaching micro, small, and medium enterprises and the diversity in the financial products that it offers.

**Figure 4. MFI A: Distribution of client and non-client households across poverty groups**



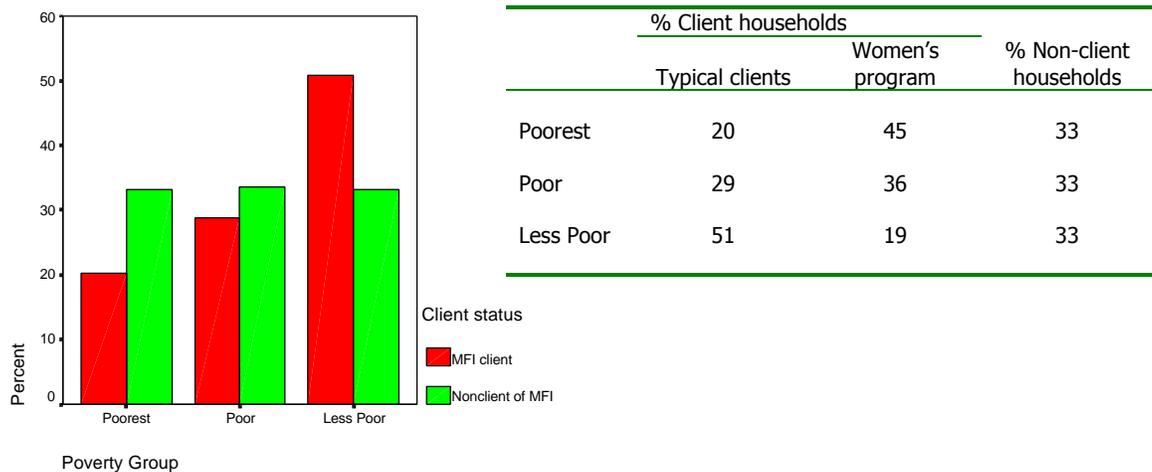
**MFI B.** Figure 5 shows that the poorest households are underrepresented among MFI B clients. However, about one-half of the clients fall into the two poorest categories, which is remarkable considering the mission of the institution (to reach all women in business), the focus of the product (to finance businesses after submitting a business plan), and the lack of overt targeting.

**Figure 5. MFI B: Distribution of client and non-client households across poverty groups**



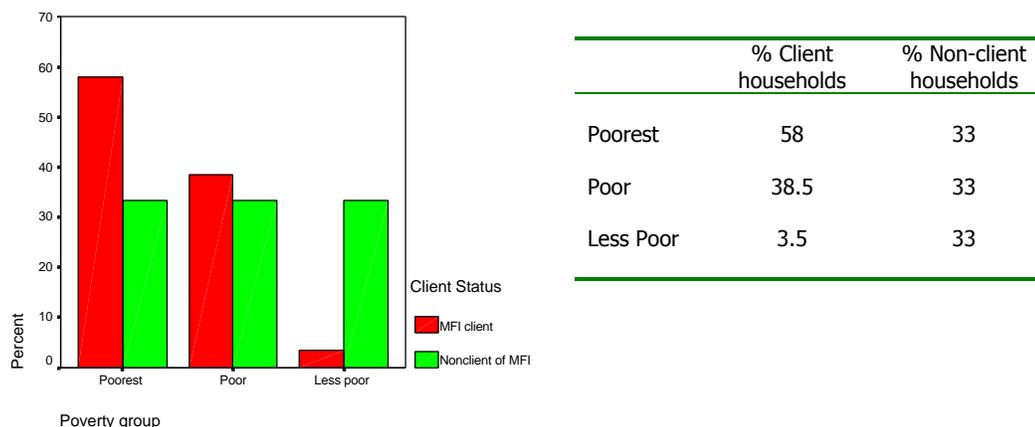
**MFI C.** About half of MFI C’s clients belong to the ‘less poor’ group while they are under-represented in the poorest group (Figure 6). This result reflects the fact that MFI C’s membership is share-based and open to all individuals. However, poverty outreach is significantly higher when considering only clients belonging to the new program for women. Nearly one-half (45.2%) of these clients belonged to the ‘poorest’ group, and only 19% of the new women clients belong to the ‘less poor’ group.

**Figure 6. MFI C: Distribution of client and non-client households across poverty groups**



**MFI D.** Figure 7 indicates quite clearly that the poorest groups are strongly over-represented and that less poor households are under-represented among MFI D’s clients. This result is not only consistent with MFI D’s explicit aim to serve the poorest households in its operational area but also indicates considerable success in its targeting practices.

**Figure 7. MFI D: Distribution of client and non-client households across poverty groups**



### 4.3 Overall comparative results

A comprehensive assessment of an MFI must include an evaluation of how its poverty outreach record reconciles with its mission and program objectives. As the case studies themselves have shown, MFIs differ in terms of geography, their stated mission, the type of market niche they seek, their preference for a specific type of institutional culture, and a host of other factors. Ignoring these considerations or providing incomplete information on institutional details fails to tell a complete story and the method can be easily misused. With this important caveat, a basis for making overall comparisons across MFIs and countries is discussed below.

Table 4 presents three ratios that facilitate comparisons between MFIs. Ratio 1 is computed by dividing the percentage of client households that belong to the poorest group by 33, the percentage of non-client households that belong to this group. The ratio reflects the extent to which the poorest households are represented in the client population.

A ratio of one indicates that the proportion of the poorest households among the MFI’s client equals that of the general population. Ratios higher than one imply that the proportion of the poorest households among the MFI’s clients exceeds that in the general population. On the other hand, ratios less than one imply that the proportion of the poorest households among the MFI’s clients falls below that of the general population.

A similar ratio -- Ratio 2 -- divides the percentage of client households that belong to the less poor group by 33. The ratio reflects the extent to which less poor households are represented in the client population. A ratio above one indicates that, in comparison to the non-client population, a greater proportion of client households fall into the 'less poor' group.

While Ratios 1 and 2 provide relative poverty comparisons in the operational area of the MFI, this information must be supplemented by country-level information using the human development index (HDI) computed by UNDP. All four case study countries fall below the all-developing country average, and the human development index for the Southern African country where MFI C is located equals less than 60% of the average for all developing countries taken together. Therefore, even the 'less poor' clients of MFI C are likely to be very poor according to international standards.

**Table 4. Relative poverty ranking of client vs. non-clients**

<u>Percentage/ Ratio</u>	<b>MFC A</b>	<b>MFC B</b>	<b>MFC C</b>	<b>MFC D</b>
% of client households who are as poor as the poorest 1/3 of the non-client population	30.9%	20.3%	16%	58%
Ratio 1	0.94	0.62	0.48	1.76
% of client households who are as well of as the least poor 1/3 of the non-client population	31.4%	50.8%	51%	3.5%
Ratio 2	.95	1.54	1.55	0.11
Ratio of country HDI to HDI for all developing countries taken together	0.93	0.59	0.81	0.77

#### **4.4 Concluding Remarks**

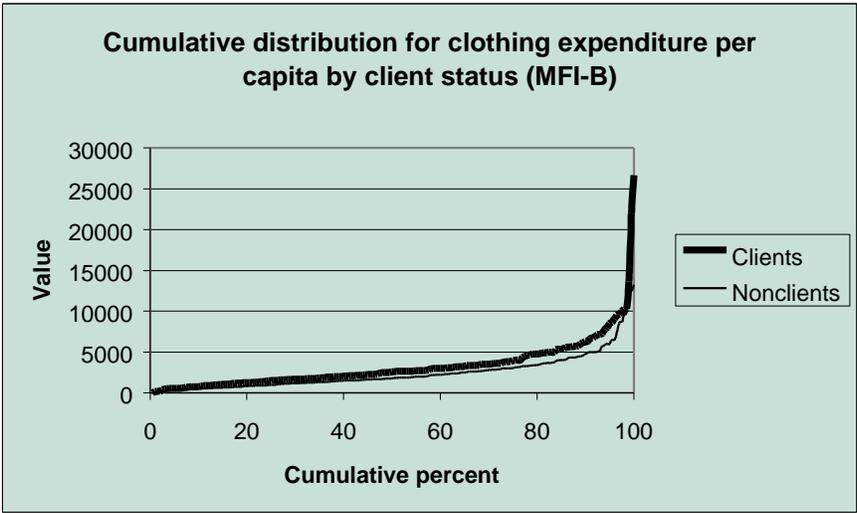
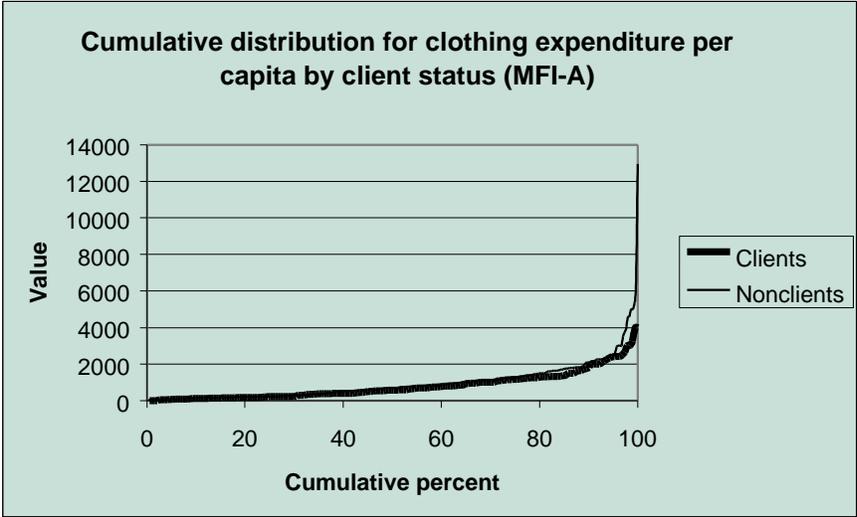
The case studies contribute to the development and testing of a relatively simple tool that can be used to assess the poverty level of MFI clients. The four case study MFI managers unanimously considered the results to be credible and comprehensive for their institutions. The results also are consistent with the mission, priorities, and targeting practices of the case study MFIs. CGAP looks forward to testing the poverty measurement tool with a number of other MFIs over the coming year to further refine and improve the tool.

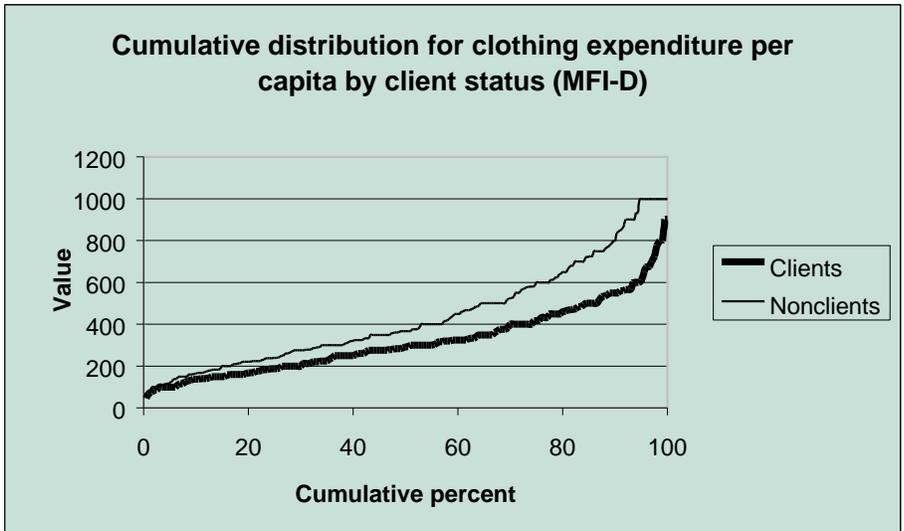
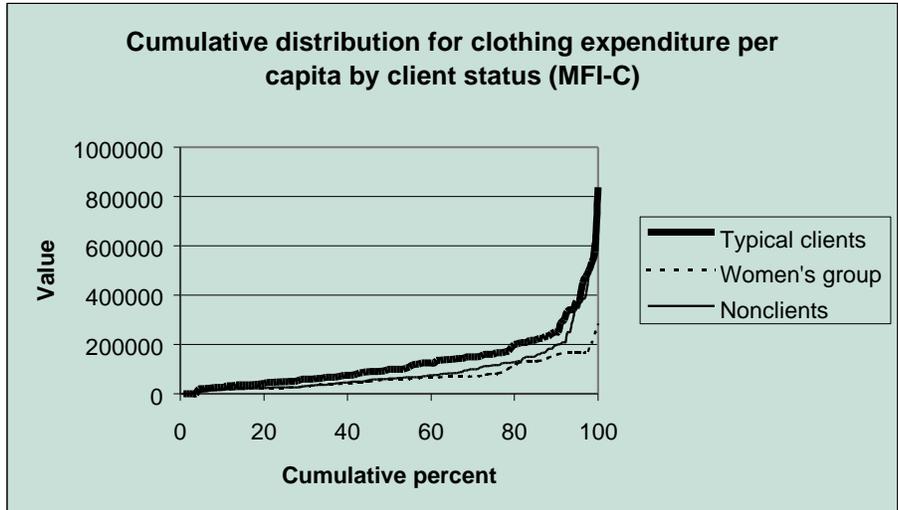
## **ANNEX 1**

### **CUMULATIVE DISTRIBUTION FOR CLOTHING EXPENDITURES PER CAPITA BY MFI AND CLIENT STATUS**

This annex contains cumulative frequency distributions of per capita clothing and footwear expenditure by client and non-client households for each of the case studies. This indicator represents an income proxy and was used to screen other poverty-related indicators in the poverty measurement methodology.

In the case MFI D, the percentage of households who consume below any given level of clothing expenditure is higher for the client population, indicating that client households are worse off at all points of the distribution. The opposite is true in the case of MFI B. The client/non-client distribution pattern is remarkably similar in the case of MFI A, indicating that MFI A's clients represent a good cross-section of the non-client population. In the case of MFI C, a three way split was made: while classical clients were generally better off than non-clients, households belonging to the newly formed women's groups were generally worse off.





# ANNEX 2: RECOMMENDED QUESTIONNAIRE

## Assessing Living Standards of Households

International Food Policy Research Institute

A study sponsored by the Consultative Group to Assist the Poorest (CGAP)

### Section A Household Identification

A1. Date (mm/dd/yyyy): \_\_/\_\_/\_\_\_\_

A2. Division code:

A3. MFI unit code:

A4. Group code:

A5. Group name:

A6. Household code:

A7. Household chosen as (1) client of MFI, or (2) nonclient of MFI?

A8. Is household from replacement list? (0) No (1) Yes

A9. If yes, the original household was (1) not found or (2) unwilling to answer, or (3) client status was wrongly classified:

A10. Name of respondent:

Name of the household head:

Address of the household:

A11. Interviewer code:   A12. Date checked by supervisor (mm/dd/yyyy): \_\_/\_\_/\_\_\_\_

A13. Supervisor signature: \_\_\_\_\_



## Section C. Food-Related Indicators

(Both the head of the household and his or her spouse should be present when answering for this section.)

C1. Did any special event occur in the last two days (for example, family event, guests invited)? (0) No (1) Yes

C2. If no, how many meals were served to the household members *during the last 2 days*?

C3. If yes, how many meals were served to the household members *during the 2 days preceding the special event*?

C4. Were there any special events in the last *seven days* (for example, family event, guests invited)? (0) No (1) Yes

(If “Yes,” the “last seven days” in C5 and C6 should refer to the week preceding the special event.)

C5. During the *last seven days*, for how many *days* were the following foods served in a main meal eaten by the household?

Luxury food	Number of days served
Luxury food 1	
Luxury food 2	
Luxury food 3	

C6. During the *last seven days*, for how many *days* did a main meal consist of an inferior food only?

C7. During the *last 30 days*, for how many days did your household not have enough to eat everyday?

(0) No (1) Yes

C8. During the *last 12 months*, for how many months did your household have at least one day without enough to eat? (0) No (1) Yes

C9. How often do you purchase the following?

Staple	Frequency served
Staple 1	
Staple 2	
Staple 3	

(1) Daily (2) Twice a week (3) Weekly (4) Fortnightly (5) Monthly (6) Less frequently than a month

C10. For how many weeks do you have a stock of *local staples* in your house?

C11. If your household earnings increased by (US\$10–\$20), how much of that would you spend on purchasing additional food? (Estimate amount as 5% of GDP per capita.)

(Note: Does not include alcohol and tobacco.)

## Section D. Dwelling-Related Indicators

(Information should be collected about the dwelling in which the family currently resides.)

D1. What is the ownership status of dwelling? (1) Owned (2) Given by relative or other to use (3) Provided by government (4) Rented

D2. How many rooms does the dwelling have? (Include detached rooms in same compound if same household.)

D3. What type of roofing material is used in main house? (1) Tarpaulin, plastic sheets, or branches and twigs (2) Grass (3) Stone or slate (4) Iron sheets (5) Brick tiles (6) concrete

D4. What type of exterior walls does the dwelling have? (1) Tarpaulin, plastic sheets, or branches and twigs (2) Mud walls (3) Iron sheets (4) Timber (5) Brick or stone with mud (6) Brick or stone with cement plaster

D5. What type of flooring does the dwelling have? (1) Dirt (2) Wood (3) Cement (4) Cement with additional covering

D6. Is the dwelling built on squatter land? (0) No (1) Yes

D7. What is the observed structural condition of main dwelling? (1) Seriously dilapidated (2) Need for major repairs (3) Sound structure

D8. What is the electricity supply? (1) No connection (2) Shared connection (3) Own connection

D9. What type of cooking fuel source primarily is used? (1) Dung (2) Collected wood (3) Purchased wood or sawdust (4) Charcoal (5) Kerosene (6) Gas (7) Electricity

D10. What is the source of drinking water? (1) Rainwater (2) Dam (3) Pond or lake (4) River or stream (5) Spring (6) Public well—open (7) Public well—sealed with pump (9) Well in residence yard (9) Piped public water (10) Bore hole in residence

D11. What type of toilet facility is available? (1) Bush, field, or no facility (2) Shared pit toilet (3) Own pit toilet (4) Shared, ventilated, improved pit latrine (5) Own improved latrine (6) Flush toilet

**E. Other Asset-Based Indicators**

E1. Area of land owned: Agricultural \_\_\_\_\_ Nonagricultural \_\_\_\_\_

Value of land owned: Agricultural \_\_\_\_\_ Nonagricultural \_\_\_\_\_

E2. Number and value of selected assets owned by household. (Ask household to identify any assets purchased with MFI loan and eliminate these from the table below.)

Asset type and code	Number owned	Resale value at current market price
<b>Livestock</b>		
1. Cattle and buffalo		
2. Adult sheep, goats, and pigs		
3. Adult poultry and rabbits		
4. Horses and donkeys		
<b>Transportation</b>		
5. Cars		
6. Motorcycles		
7. Bicycles		
8. Other vehicles		
9. Carts		
<b>Appliances and electronics</b>		
10. Televisions		
11. Video cassette recorders		
12. Refrigerators		
13. Electric or gas cookers		
14. Washing machines		
15. Radios		
16. Fans		

F2. What is your overall assessment of the general wealth levels of MFI clients? (1) Poor (2) Average (3) Rich (4) Don't know MFI